



TAX AMNESTY

The choice between fiscal discipline and economic development

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ECONOMICUS

No. 22/ issue 1, 2023

SCIENTIFIC JOURNAL / FACULTY OF
ECONOMICS, BUSINESS AND DEVELOPMENT

ISSN: 2223-6295

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ISSN: 2223-6295

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

European University of Tirana / Tirana

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

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EUROPEAN UNIVERSITY OF TIRANA / TIRANA

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UETPRESS

Published April (Spring 2023)

Published under the series “ACADEMIC JOURNALS”.

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The journal has been catalogued at the National Library of Albania and the Library of the European University of Tirana, Albania.

(print ISSN: 2223-6295/ online ISSN: 2958-8901)

economicus@uet.edu.al

www.uet.edu.al/economicus



Published by:
EUROPEAN UNIVERSITY OF TIRANA / ALBANIA

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EDITORIAL

The newly proposed tax & criminal amnesty in Albania – A bumpy and dangerous ride!

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EDITOR-IN-CHIEF

Last year, the Albanian Government revisited the idea of undertaking and implemented a tax amnesty, following the previous partial amnesties, conducted during the last decade, but with a significant difference: this time the proposed amnesty is projected to be a comprehensive one, that is a tax & criminal amnesty. This is the first time, since Albania joined the market economy, that such type of amnesty is being proposed and aimed for implementation within the national economy.

Notwithstanding the comprehensive nature, the newly proposed amnesty seems to have positioned the government in front of a solid wall of opposition and disapproval from all other stakeholders, from business community, civil society and international and supranational institutions, like IMF, World Bank and EU delegation. Such disapproval is not accidental, and there is no coordination among “opponents” in this regard. The opposition is built around the most debated issue: the risk of implementing an institutionalized and comprehensive money laundering scheme.

Basically, the newly proposed amnesty is shaped as a very complex and strange undertaking and rather poorly designed in legal terms, and in this way, it will be practically impossible to reach a broad consensus for approval from the entire political spectrum, which would make it even more serious, reliable and easily applicable.

The most awkward point is surely the vast conflict it is positioned with basic organic laws, like: Criminal Code and Civil Code, and also the respective legal

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framework, regulating the prevention and money laundering and the financing of terrorism. On the other hand, it seems that the proposed draft law on the amnesty does not comply with the constitutional principles and concepts of guaranteeing the rule of law and fair competition, along with being a serious moral hazard for the entire fiscal discipline.

Conclusively, it should be emphasized that the undertaking of a tax and criminal amnesty should not be considered a taboo in itself, but it must be drafted in full compliance with the existing legal and regulatory framework, and also designed as a powerful mechanism that supports the long-term economic development, along with its traditional short-term objective of increasing tax income for the government.

The government must always keep in mind the fact that fiscal amnesty is not evil – to be successful, it must be reasonable (Deak 2009)²!

² Deak, D. (2009). Hungary's Halfway Tax Amnesty, Tax Notes International, Vol.53, No.7.



The new tax and investigation (criminal) amnesty in Albania – Some legal and economic considerations in comparison with the Italian case

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Abstract

The Albanian Government intends to undertake a comprehensive tax and criminal amnesty, which is totally different from the two previous ones, which were not only partial and not truly tax amnesties but lacked the criminal component.

This paper tries to shed light on key economic, financial and legal inconsistencies and pitfalls such draft law contains in the proposed form. Notwithstanding its good intentions, going down to practical and legal grounds, the amnesty that is being proposed constitutes in itself a very complex and difficult decision, for the very twilight landscape it depicts. Also, as the legal analysis shows, the proposed fiscal and criminal amnesty creates open conflicts with other organic laws (Criminal Code and Civil Code) and the respective legal framework that regulates the aspects of prevention and money laundering and the financing of terrorism. Furthermore, using a comparative analysis with the Italian fiscal and penal amnesty, it results that in case of the Albanian draft law on the (fiscal & criminal) amnesty, the inconsistency between the entities to which the voluntary declaration can be applied, the general exemption from criminal liability in case of declaration of assets, regardless of the source of their creation, leaves clear space for abuse and leaves a path for this procedure to return to fertile territory for money laundering.

We conclude that, despite the fact that undertaking of a fiscal and criminal amnesty should not be considered a taboo in itself, a successful fiscal and criminal amnesty should be based on an in-depth analysis of the market's needs, it must avoid conflicts with the existing legal framework in Albania, and respect the constitutional principles and the concepts of guaranteeing the rule of law and the fight for the prevention of crime and forms of laundering the products of criminal activity.

Keywords: *tax & investigation amnesty, moral hazard, fiscal policy, fiscal discipline.*

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I. Introduction

Tax amnesty can be defined as a limited – time, one-time offer, addressed to specified groups of taxpayers by public authorities, who ask for a reduced payment in exchange for the remission of previous tax obligations (including interests and penalties), at the same time granting immunity from legal action (Baer & La Borgne, 2008). Also, tax amnesty is a lever and mechanism used by governments, as part of their fiscal policy that allows individuals and companies to declare and pay hidden income, or to settle outstanding liabilities, without being subject to any investigation or criminal penalty for bringing to light previous tax evasion (Meka, 2020).

One of key considerations, the governments put in front of their tax amnesty implementation, is the purpose of reducing the tax & income gap in the mid and long-run, promote tax compliance and fiscal discipline, as well as ensuring additional revenue for government coffers. Moreover, tax amnesty may help to “reset” the system (i.e. reorganize the piling up of tax liability) before a tax reform (Angeli et al. 2023). But on the other side, tax amnesties would, unavoidably, cause substantial moral hazard for regular taxpayers or law-abiding citizens, and therefore undermine not only the credibility of tax systems and government authority, but also fair competition and long-term fiscal discipline. As (Meka 2020) puts it, tax amnesties remain therefore a controversial and disputable mechanism, and inevitably, their main objective is to temporarily increase budget revenues.

But even this “positive” outcome and objective of the amnesty is not completely plausible. As (Stella 1989), puts it, an important issue to note at the outset is the problematic nature of measuring the true yield from an amnesty. It is not equal to the revenue collected during the time the amnesty is in effect. To the extent amnesties reduce current penalty rates relative to future ones, they bring forward in time revenue that would have been collected in any event. Furthermore, as (Alm & Malézieux, 2021) stressed out, tax amnesty has unambiguously negative impacts on tax compliance. On the other hand, 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.

Notwithstanding the drawbacks, the tax and investigation amnesty may have, most economists who conduct thorough studies of tax amnesty programs eventually find tax amnesty a legitimate means of economic policy (Deak, 2009).

II. Literature review

Tax amnesty programs have a long history and remain as popular as ever, across both countries and states. Policymakers often view such programs as an efficient tool that produces both short- and medium-term benefits (Baer & Le Borgne, 2008). As Adams (1993) prescribes, the first documented tax amnesty, dating from over two millennia ago, is found on the Rosetta Stone (200 B.C.) in Egypt (it provided for the release from prison of tax evader).

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 (Meka, 2021). In this regard, and according to their interests and objectives, they may consider one of the key types of amnesty, applied throughout the world, or any combination of them. Çetin Gerger (2012) adds that granting tax amnesties may ground on several reasons, and they can be classified as political, financial, administrative, and technical.

With regard to the types of amnesties, the government may apply, Franzoni (1996) identifies three ways for regulating and types of tax amnesties:

- **Return amnesty** – allowing taxpayers to adjust their tax returns and pay a reduced penalty on the due amount, without preventing subsequent audit and control activities from tax authorities,
- **Investigation amnesty** – offering immunity from administrative actions in change for the payment of a determined amount (amnesty fee),
- **Prosecution amnesty** – granting a total or partial reduction of penalties to already identified tax evaders in the aim of simplifying procedures and putting an end to judicial proceedings before tax authorities.

Despite the type of amnesty, the government may consider implementing according to its economic and political objectives, they do not guarantee any successful tax compliance in the future. 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. 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.

But Baer & Le Borgne (2008) stress that experience, however, reveals that the perceived benefits of tax amnesty programs are at best overstated and often unlikely to exceed the programs' costs, which are rarely measured. Additionally, as Casengra

(2002) puts that even in terms of their short-term revenue objectives, the majority of tax amnesties have failed to fulfill the expectations of increased revenue.

Alternatively, Angelini (1986) Angelini determined that a tax amnesty can be a valuable tool for reducing the size and growth of the underground economy, when used as part of a comprehensive program of tax reform and increased tax enforcement. However, Stella (1989)^b concluded that tax amnesties appear to increase Governmental revenue but indicated that these benefits, in the long-run, are outweighed by negative consequences. Also, Çetin Gerger (2012) affirms that the negative effects of tax amnesties on voluntary compliance are more than the positive effects. Additionally, Stella (1989)^b recommended that tax administration should encourage voluntary compliance through its auditing and penalty mechanisms rather than resorting to tax amnesty programs.

Regarding the costs of tax amnesties, Leonard & Zeckhauser (1986) list three main long-term costs:

- The rise in the perception of unfair tax system in the honest taxpayers,
- Its encouraging the prospective tax disputes,
- The vanish of the thought that tax evasion is a false behavior.

For a tax amnesty to be successful in the long run, must, unavoidably, strive to be intertwined with other indispensable and follow-up reforms. In this way, Angeli et al. (2023) put that, empirical research and surveys highlight how tax amnesties, without additional reforms or legislative-administrative measures aimed at strengthening the tax system, will probably have a negative impact in the long run (Alm & Beck, 1993; Bernasconi & Lapecorella, 2006). The success of any tax amnesty would be conditional under certain circumstances, such as: better future tax administration and tax law enforcement.

Also, is critical for any amnesty to be perceived by the general public and businesses as a one-off event. In this regard, as Bayer et al (2015) conclude, governments should think twice before calling an amnesty as a quick fix for a budgetary shortfall, as it might increase the pressure on future budgets, since taxpayers then anticipate future amnesties.

Conclusively, Alm & Beck (1990) suggest that the case for amnesties is decidedly mixed. Amnesties may sometimes increase compliance and tax collections, especially if the amnesty makes individuals see that paying taxes is the norm and if individuals expect a future amnesty with a tougher enforcement package than the current regime. Finally, Deak (2009) does affirm that tax amnesty is not diabolic — to be successful it must be reasonable.

III. The newly proposed tax & investigation amnesty in Albania: A bumpy and hilly road

During the last decade, two fiscal (tax) 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 (Meka 2020). Notwithstanding the above attempts of partial and minimal forms of amnesties, the newly proposed amnesty seems to be a different story and may be clearly classified as the first truly comprehensive amnesty. Practically, for almost two years, the new tax & investigation amnesty has taken the main stage of the economic and political debate in Albania, following public discussion of the draft law on Tax and Investigation Amnesty, prepared and offered for public discussion, for entities that make a voluntary declaration of assets.

III.1. Economic considerations of the newly proposed tax & investigation amnesty in Albania

From a technical point of view, this seems to be the first real and full amnesty, a tax and investigation (criminal) one, since the two previous amnesties, in 2010 and 2017, were partial and incomplete, to be considered as a “classic amnesty”. Both previous “amnesties” failed to achieve the intended results, because:

- The approved legislation was incomplete for a standard tax and investigation amnesty, as they lacked an investigation component, together with the fact that they were not approved by a qualified majority in Parliament (3/5 of the votes required, in such cases),
- The amnesty of 2010 caused an obvious moral hazard, as it followed previous legal “interventions” related to the tax obligations’ waiver,
- The implementation of such amnesties by the tax administration was slow and even counterproductive,
- The tax amnesty had to be discussed first with various interest groups and accompanied by an information and awareness campaign (such a campaign was never undertaken).

Certainly, carrying out such an amnesty will definitely have its supporters and opponents, and this is for legitimate reasons. However, in principle and practice, amnesties remain a controversial and debatable mechanism.

Inevitably, their main objective is the temporary increase in budget revenues. However, this objective may not be achieved at the expected levels; moreover, it

can create confidence and nurture expectations for other fiscal amnesties in the future, jeopardizing the regular payment of fiscal obligations, after the amnesty. However, as Deak (2009) also says, fiscal amnesty is not evil – to be successful, it must be reasonable!

In parentheses, it should be emphasized that the undertaking of a fiscal and investigation amnesty should not be considered a taboo in itself, due to the very fact that world experience shows numerous cases that many states have carried out not one, but several amnesties. These countries include both developing and developed countries, such as: 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, Philippines).

Going down to practical grounds, the amnesty that is being proposed constitutes in itself a very complex and difficult decision, for the very twilight landscape it depicts, beyond the cost and the political debate, where it will be almost impossible to reach a broad consensus for approval from the entire political spectrum, which would make it even more serious, reliable and easily applicable. Beyond that, it is necessary to shed light on some aspects that deserve a greater importance or focus of discussion.

First, this amnesty is not only addressed to Albanian immigrants who are residents outside of Albania, but to practically every natural and legal person, resident taxpayer in the Republic of Albania, as well as tax resident individuals in the Republic of Albania, regardless of their citizenship. So, in this sense, we cannot simply talk about the repatriation of Albanian immigrants' money, which relativizes the "patriotic" discourse of injecting Albanian capital into Albania. Of course, such funds will be part of this amnesty, but they will not be the only ones.

Second, the large mass of regular immigrants will have little or no reason and "undeclared" wealth to declare, since the vast majority are citizens who do not belong to the wealthy class or affluent society, but even if they have idle funds, they have invested them or they are already investing in a variety of investment alternatives in the world, which are much more profitable and flexible than those in Albania.

Third, the amnesty legal framework seems to favor only public finances, since in addition to direct revenues from the budget (as result of special tax payments), it also favors investments in government securities and instruments. Moreover, in relation to other investors, who have been regular in the repayment of state tax obligations, these persons are given an obvious advantage in taxation, so the risk of moral hazard is enormous.

Fourth, the amnesty does not foresee, or establish, incentive mechanisms to direct these funds or (financial) assets towards productive private investments in

the economy, or in sectors that need to be supported by investments from Albanian entrepreneurs.

Fifth, the international and supranational institutions are hesitant to the Albanian Government's Tax & Investigation Amnesty. As Lvovsky (2022) stressed, in the situation of pro-long existence of a large informal economy, limited enforcement experience, and continued public tolerance of getting things done in informal ways, fiscal amnesty could be a catalyzing step towards a solution. However, Albania faces huge challenges in guaranteeing the elimination of any continuation of informal activities, tax evasion and other forms of non-compliance. Also, according to IMF and EU Delegation in Tirana, the new draft of the law does not contain any provisions to check whether the funds have come from tax evasion or more severe crimes such as drug cultivation or human trafficking. Specifically, EU delegation in Tirana expressed concerns that the draft would weaken controls against money laundering, causing worry for the EU and member states.

As per above, it would be advisable for the amnesty to establish several mandatory mechanisms and requirements, for a part of these funds, to be invested in projects in agriculture, livestock and agroindustry, investments in financial securities of public corporations, which should be mandatory quoted on the Albanian Securities Exchange, vocational schools, etc. In this way, the amnesty would be transformed into an efficient and practical lever, to direct the funds towards the real and sustainable development of the national economy, and not only towards real estate, which simply increase the value of their owners' wealth over time, but not the welfare of the general public in Albania.

Sixth, while the special tax rates are considered reasonable, the application of a 30% tax on legal funds, which are withdrawn before the 5-year term from the date of their deposit, seems to favor the state budget again and not the overall national economy. Based on the demands that certain non-residents may have in Albania for the return of funds to the countries of origin, there is a risk that the funds will leave Albania, paying only the government "tax", but without affecting the economic development, thus removing one of the important components out of the proposed amnesty.

Of course, the amnesties do not have an essential goal of economic development, but:

- the creation of short-term income for the state budget,
- reducing the administrative costs of tax administration,
- the establishment and implementation of a more rigorous fiscal discipline, after its implementation and the increase in the voluntary payment of tax obligations.

However, we do think that channeling these funds towards the real development of the national economy should be the main goal for a successful implementation of such amnesty, which for the time and conditions it is undertaken, could be used not simply to fill the government coffers in the short term, but to make the financial contribution of subjects that are being amnestied, more responsive and related to the fate of the national economy.

Undoubtedly, the challenge, in this case, is greater and more complex, but such chances to the national economy are quite rare and they should be used strategically and not on the ambulatory needs and requests of the government. What the national economy really needs is a thorough therapy and not an emergency treatment, and such an amnesty, if properly designed and implemented, may be a helpful mechanism for this purpose!

III.2. Legal considerations of the newly proposed tax & investigation amnesty in Albania – Comparisons with the Italian case.

III.2.1. Analytical elements of the tax & investigation amnesty

Currently, as above mentioned, the Albanian Government is working on a draft law on the amnesty of a dual investigation (criminal) and fiscal nature. The draft law itself, unlike what was implemented in previous years, takes upon itself the regulation of fiscal positions, not only in terms of the tax framework, but also in the repatriation of capital, which is created in other territories, outside the Republic of Albania, both in form of regular and illegal one, possibly arising from various criminal offenses provided by the legislation in force.

In this sense, the economic – criminal difficulty presented by this draft law is several-fold. Below we will analyze the most sensitive parts of the draft law and their consequences in the criminal framework, which thus directly affects the economic framework explained above.

III.2.2. The proposed legal framework for the “ Tax & Investigation Ambivalent Amnesty” in Albania.

The draft law (Tax & Investigation amnesty) of 2022, which is under the approval phase for 2023, names the amnesty as: “Fiscal and Criminal Amnesty of Subjects Who Make a Voluntary Declaration of Assets”. From the linguistic meaning used, three elements are noticeable:

- a) fiscal amnesty,
- b) criminal amnesty,
- c) voluntary declaration of assets.

So, this draft law seeks to offer a protective connotation to everyone who has undeclared assets, regardless of the social position s/he holds, “whether a natural person or a legal entity”, if they declare their physical assets and/or income that are not part of the regulated system and/or fiscal obligations according to this draft law, will be amnestied. This means that they will be “discharged from criminal liability” in relation to criminal legal consequences provided by the legislation in force, where the only condition that remains is that of paying a percentage fee in the form of mandatory taxation, according to the typology of the property being declared.

The spirit of the draft law is that anyone who keeps money outside the regulated or known economic system, can “legalize” income and/or real estate or movable property, registrable according to the provisions of Civil Code, regardless of the form through which such an income or this property is obtained.

Practically, the article 2, point 1, letter a), prescribes: This law is intended to enable the legalization of undeclared assets, registered or not, in whole or in part, the revaluation of financial statements, as well as tax collection according to the provisions of this law, by way of guaranteeing transparent procedures”. In this sense, the draft law extends the power of protection against legal consequences, by setting out in Article 2, point 1, letter d), that: “This law aims to guarantee the non-initiation of administrative procedures and criminal proceedings against these entities, by relevant institutions, regarding these assets”.

III.2.2.1. The exceptional aspect of entities, subject to the “Tax & Criminal Amnesty”

In order avoid possible legal conflicts between the existing legal framework and functions of the amnesty, the Article 7 stipulates that such amnesty ***will not be applied to subjects***³ who are characterized by certain features, as well as their family

³ The draft Law: “On fiscal and criminal amnesty of entities that make a voluntary declaration of assets”, **Article 7 – Excluded entities.** The following subjects are excluded from the application of this law:

1. Entities that have the legal obligation to declare assets, pursuant to the Law No.9049, dated 10.4.2003: “On declaration and control of assets, financial obligations of elected officials and some public servants”, as amended, as well as the persons included in their family certificate, on the date of entry into force of this law, as follows:

- a) The President of Republic of Albania, members of the Assembly, the Prime Minister, the Deputy Prime Minister, ministers and deputy ministers,
- b) The judge of the Constitutional Court, the Chairman of the High State Audit, the General Prosecutor, the People’s Advocate, the member of the Central Election Commission, the member of the High Judicial Council, the member of the High Council of Prosecution, the High Inspector of Justice and the inspectors of the High Inspectorate of Justice, the General Inspector of the High Inspectorate of Declaration and Control of Assets and Conflict of Interest,
- c) Senior and mid-level management officials, according to the legislation in force for civil servants, with the exception of local self-government bodies,
- ç) Prefects, heads of district councils and mayors,
- d) Directors of directorates and commanders of the Armed Forces, in the Ministry of Defense and in the State Information Service,

members. In principle, the subjective exclusion seems to be correct and fair, but on the other hand, the relationship with subjects, to which such (draft) law extends its effects, raises doubts about its legitimacy.

In the context of high officials who have the obligation to declare assets, it is obviously understood that the pre-criminal situations regulated earlier than assuming the management function may be such as to have severed the civil relationship (determining the family relationship through of the family status certificate), before assuming the management function, thus avoiding the effects of Article 7. In this sense, any illegal transfer of properties or the organization of property purchases by entities that are no longer in the public official's family certificate, as they were removed from it before the high official took office, which has the obligation to declare assets, causes a "bypassing" of the excluding system, specified in the draft law, thus offering possible benefits through the legalization of income and assets that originate from illegal sources and often resulting from

dh) Prosecutors, judges, the General Director of the State Judicial Bailiff Service and heads of enforcement offices, within the jurisdiction of each first instance judicial district,

e) Heads of independent public institutions and members of regulatory bodies,

è) The director and deputy director of the State Police, the general directors of the State Police, the directors of the directorates in General Directorate of the State Police, directors of local directorates of the State Police, the head, investigators and officers of the Judiciary Police of the National Bureau of the Investigation, civil judicial officers in special courts against corruption and organized crime and the administrative staff of the Special Prosecutors Office;

f) The General Director, deputy general directors, directors of directorates, in the center and districts' offices of the General Tax Directorate, the General Customs Directorate and the General Directorate of Prevention of Money Laundering,

g) Managers of all levels of property restitution and compensation, privatization and property registration structures,

gj) Officials, who are elected and appointed by the Assembly, the President of the Republic, the Prime Minister, ministers or persons equal to them,

h) The Bank of Albania's Governor, deputy governor and members of its supervisory council,

i) Heads of public institutions under central institutions at district level,

j) Administrators of joint-stock companies with over 50% state capital participation and with more than 50 employees,

k) The member of the revaluation institution (Independent Qualification Commission, Special Appeals Board and Public Commissioners), the General Secretary, the economic and legal advisors, as well as persons related to them, according to Law No.84/2016: "For the transitional reassessment of judges and prosecutors in the Republic of Albania".

2. Subjects, which have been holders of positions or functions, according to the definition prescribed by point 1 of this article, as well as persons in their family, as of 01.01.2022.

3. Subjects of the Law No.10192, dated 3.12.2009: "On preventing and combating organized crime and trafficking through preventive measures against property", as amended.

4. The declared persons and persons for whom the declared procedure has started, in accordance with the provisions of the Law No.157/2013: "On measures against the financing of terrorism", as amended.

5. Subjects for whom criminal proceedings have been initiated, for tax and customs evasion.

6. Subjects that have been verified in accordance with the provisions of Council of Ministers' normative act No.1, dated 31.1.2020: "On preventive measures, in the framework of strengthening the fight against terrorism, organized crime, serious crimes and consolidation of the order and public safety", approved by the Law No.18/2020.

criminal offenses, such as: corruption or abuse of office (the latter are not always evidenced by judicial bodies).

Also, in the Draft Law, it is noted that the primary purpose is regulating the positions of those subjects who *de facto* hold both cash and have avoided the system by means of false fiscal declarations or a total lack of income declarations, or otherwise possess, through false ownership titles, placed in the name of figureheads, assets that come from illegal sources. Thus, the analysis of the draft law reveals that the objective is to legalize dirty money, by legitimizing money laundering in a pure form.

By combining the Articles 5, 9 and 13⁴ of the draft law, it is clear that the subjects to whom this draft law is addressed have, as a common denominator, wealth sources that have not been declared or could not be declared, as they came from illegal activities. The effect of the amnesty in this sense affects a wide range of subjects, who may also be the ultimate beneficiaries of assets, the so-called “figureheads” who are not the real owners of assets but are simply possessors or fictitious owners, on behalf of entities excluded by the Article 7.

As per above, the distinguishing characteristics are that those subjects are not said to be tax residents, as far as Albanian citizens are concerned, so they can live outside the territory of Albania and live illegally in the countries where they have emigrated and bring money to Albania without having to declare their source. Likewise, even foreign entities, whether they are physical or legal entities, is quite enough, should they have tax residence in Albania. This wide range of individuals increases the possibility of money laundering in Albania exponentially, not only by individuals connected to the Albanian underworld who live inside and outside the territory, but also provide opportunities to representatives of foreign criminal organizations, whereas their citizens, may simply register a NUIS⁵ in Albania,

⁴ Article 5, point 1: “Subjects of this law are individuals who are citizens of the Republic of Albania, regardless of whether they are tax residents or not in the Republic of Albania, natural and legal persons, the taxpayer who is resident in the Republic of Albania, as well as individuals who are tax residents in the Republic of Albania, regardless of their citizenship”.

Article 9: “The subjects of this law may voluntarily declare the assets and elements of the financial statements that they have not been declared before or have been declared in a value smaller than what they should have declared, regardless of whether the assets, in whole or partially, are not registered with competent authorities, or they are located or not in the territory of the Republic of Albania”.

Article 13: “The subjects of this law may voluntarily declare and legalize the source of income used for the creation of movable or immovable property that is needed or has been registered in public registers/sources that were not previously declared.

Assets according to the definition of point 1, which can be declared to the Unit, through the submission of the voluntary declaration form, are:

- a) assets with undeclared sources, registered in public registers,
- b) assets with undeclared resources, but which are under registration process,
- c) assets with undeclared resources, for which sales’ contracts have been concluded, but have not been submitted for registration according to the relevant legislation”.

⁵ Unique Identification Number (NUIS) at the National Business Center.

either as natural persons or as legal persons, and the source of their income, or purchased but unregistered assets, will be legalized.

In the criminal sense, this draft law creates a paradox of organic interdependence, as it *de jure* and *de facto* suspends both the application of Article 287 of the Criminal Code, which punishes the laundering of the proceeds of a criminal offense or criminal activities, as well as the Law No.9917, dated 19.5.2008: “On the Prevention of Money Laundering and the Financing of Terrorism”, as amended, where the Article 1 of it prescribes that: “This law aims to prevent the laundering of money and products originating from criminal offenses, as well as preventing the financing of terrorism”. In case of the draft law, given that its spirit consists in legalizing income, be it in cash or in the form of investment in immovable or movable assets, leaving it in the hands of entities that have an interest according to this draft law to declare the source of income, undoubtedly hinders the functions of prevention and the fight against crime, provided by the criminal legislation in force⁶.

Under a normative comparison, we are faced with an open conflict and an impossible implementation of such form of amnesty since, on one hand, the draft amnesty law excludes the criminal punishment for anyone who declares an income up to EUR 2 million, and on the other hand, we have the punishment for anyone who hides the source of income (etc.), as stipulated in the Criminal Code, Article 287, point 1⁷.

⁶ See Article 3, of the Law. No.9917, dated 19.5.2008: “On the Prevention of Money Laundering and the Financing of Terrorism”.

⁷ Albanian Criminal Code – **Article 287 - Laundering the Proceeds of Criminal Offence or Criminal Activity**
Laundering of the proceeds of a criminal offence or criminal activity, through:

- a) Exchange or transfer of property, for purposes of concealing or disguising its illicit origin, knowing that such property is a proceed of a criminal offence or activity;
- b) Concealing or disguising the real nature, source, location, disposition, relocation, ownership or rights in relation to the property, knowing that such property is a proceed of a criminal offence or activity;
- c) Obtaining ownership, possession or use of property, knowing at the time of its acquisition, that such property is a proceed of a criminal offence or activity; ç) Conducting financial operations or fragmented transactions to avoid reporting, according to the legislation on the prevention of money laundering;
- d) Investing money or items in economic or financial activities, knowing that they are proceeds of a criminal offence or activity;
- dh) Advising, assisting, inciting or making a public call for the commission of any of the offences defined above; shall be punished by imprisonment of five to ten years.

Where that offence has been committed in the exercise of a professional activity, in complicity, or more than once, it shall be punished by imprisonment of seven to fifteen years. Where that offence has caused grave consequences, it shall be punished by imprisonment of no less than fifteen years. The provisions of this Article shall apply where:

- a) The criminal offence, the proceeds of which are laundered, has been committed by a person who cannot be prosecuted as a defendant or who cannot be punished;
- b) Criminal prosecution for the offence the proceeds of which are laundered, has reached the statute of limitations or has been amnestied;
- c) The person who performs laundering of the proceeds is the same person who committed the offence, from which the proceeds have derived;

As it may be noticed, the criminal amnesty overturns the entire penal structure, provided by the Article 287 of the Criminal Code. Particularly, the concept of amnesty, as referred in Article 287, point 2, letter b) of the Criminal Code, does not exempt anyone from punishment for laundering the proceeds of a criminal offense, thus contradicting what is provided in case of the draft law, where the latter, by allowing subjects to voluntarily declare an income worth up to EUR 2 million⁸, or legalizing any real estate acquired with one of the forms provided by the Civil Code, but invested with undeclared sources, which may also be the produce of the criminal activity (tacit tax reference of excluded criminal offences), makes the draft law to *de jure* legitimize money laundering in Albania, thus neutralizing any effect of the Law No.9917, dated 19.5.2008: “On the Prevention of Money Laundering and Financing of Terrorism”.

Particularly, the guarantees the draft law offers to the declaring entities are unconstitutional, to the extent that they affect both the equality of citizens before the law and criminal legal security in relation to punishment, as well as harming the country’s social and economic balance, in particular those related to competition and the free market. Specifically, the Article 20, point 2 of the draft law, prescribes: “Beneficiary subjects according to the provisions of this law, after being issued the certificate of completion of the voluntary declaration process, benefit from the following rights:

1. Exemption from the obligation to provide information to relevant administrative institutions, regarding the time, manner of creation, holding or possession of assets declared in accordance with the provisions of this law (practically it legitimizes that income may be created by any source, even derived from the any criminal offense, contrary to the legislation in force and specifically to the Law No.9917, dated 19.5.2008: “On the Prevention of Money Laundering Money and Financing of Terrorism”).
2. Preserving the secrecy, by definition of this law, in terms of legalizing the declared assets and the declaration of financial statements’ elements, according to the provisions of this law (a provision that leaves room for abuse and create opportunities for the penetration of criminal organizations

c) No criminal prosecution has been initiated, or no punishment has been imposed by a final criminal decision in relation to the criminal offence, from which the proceeds have derived;

d) The offence, the proceeds of which are laundered, has been committed by a person, regardless of his citizenship, outside of the territory of the Republic of Albania, and is also punishable both in the foreign country and Republic of Albania.

Knowledge and intent, under the first paragraph of this Article, shall be derived from objective factual circumstances”.

⁸ See Article 6 of the draft law: “On fiscal and criminal amnesty for subjects who make a voluntary declaration of assets: *“The property that is allowed to be declared voluntarily, according to the provisions of this law, must not exceed the maximum value of EUR 2,000,000 (two million)”.*

or entities with criminal activity (regardless of whether they have been convicted or not) for the purpose of money laundering and the economic implementation of their illegal activities, using the most diverse forms of investment.)

3. Guarantee for subjects who have declared sums in cash, for non-discrimination in the future, regarding the procedures for calculating tax liabilities.
4. Exemption from following investigative and administrative procedures, within the framework of administrative punishment, in relation to assets declared according to the provisions of this law, unless otherwise provided for in this law (i.e. immunity from criminal prosecution, as the property is amnestied within the framework of this law, where the source of income creation is irrelevant and that Article 287 of the Civil Code cannot be applied, unlike the Law No.9917, dated 19.5.2008: “On the Prevention Money Laundering and Financing of Terrorism”, whose effects should be expressly excluded from the application, in case the draft law is approved).
5. Exemption from criminal prosecution and criminal proceedings, within the framework of the criminal law, applicable in the Republic of Albania, for criminal offenses in the tax and customs field, from which the assets declared, under the terms and provisions of this law, originate and are directly or indirectly related (subjects who have voluntarily declared the income or registered or valued movable and immovable assets, are therefore amnestied for the part in which there is fiscal evasion or the income originating from smuggling of goods or other criminal offenses prescribed by Chapter III of the Criminal Code. In other words, the draft law affirms that the source and/or creation of income may be illegal and criminally punishable activities, referring to the tax - customs field. Notwithstanding this, the spirit of the draft law and the content of the reference articles, related to the entities and the possibility of legitimacy of undeclared assets within the value of EUR 2 million, seems to be that of giving the beneficiary entities a shield of impunity). As explained by a practical example: Subject X works in England in the so-called “Weed House”. He is not detained by the competent English authorities and appears uncensored. Subject X manages to enter Albania, passing the customs of intermediate countries. He performs the voluntary declaration of the amount brought illegitimately in Albania (using the fiscal & criminal amnesty) and automatically he launders the product of criminal activity related to the crime provided by article 284 of the Criminal Code: “Cultivation of narcotic plants” and is therefore legitimized in the sense of suspending the effects of the Law No. 9917, dated 19.5.2008: “On the Prevention of Money Laundering and Financing of Terrorism”.

6. Non-application of seizure or confiscation measures against voluntarily declared assets, for reasons arising from the implementation of this law. The Law No.10192, dated 3.12.2009: “On the Prevention and Punishment of Organized Crime, Trafficking and Corruption Through Preventive Measures Against Property”, as well as the Law No.9917, dated 19.5.2008: “On the Prevention of Money Laundering and Financing of Terrorism” are *de jure* suspended, until the end of the amnesty process, although the Article 7, point 3 of the draft Law, defines that: “Subjects of the Law No.10192, dated 3.12. 2009, “On preventing and combating organized crime and trafficking through preventive measures against wealth”, as amended, are excluded from the application of this law. But, when the effects of Article 287 of the Criminal Code are *de facto* suspended, because the draft law amnesties the effects of declaring the source of income, it is understood that the amnesty will be extended to the Law No. 9917, dated 19.5.2008: “On the Prevention of Money Laundering and the Financing of Terrorism”, where in Article 1 it says: “This law aims to prevent the laundering of money and products originating from criminal offenses, as well as the prevention of financing of terrorism” as well as the Law No.10192, dated 3.12.2009: “On the Prevention and Punishment of Organized Crime, Trafficking and Corruption Through Preventive Measures Against Assets”, which in Article 3, point 1, letter ç), reads: “The provisions of this law apply to the assets of persons, on whom there is a reasonable suspicion, based on evidence, of committing crimes for the purpose of obtaining illegal assets, provided for in articles 114/a and 287 of the Criminal Code”.

Let's illustrate it with an example: Subject Y has managed to bring in Albania, through land routes, a sum of EUR 1 million, and with it he purchases 10 apartments, under his name, which he does not register *de jure* in the cadaster, but only with a notarial deed, where the amount is transferred in several installments through the Notary's account or with partial liquidation, outside the notary's doors. Meanwhile, the subject has been involved in drug trafficking, but luckily or by chance, he has never been prosecuted for this criminal offense and appears to be clean or has obtained wealth through fraud, an offense for which he has not been prosecuted or is being prosecuted but no security measure has been applied to seize the real estate that may be in his name or in the name of third parties, and the benefits from the fraud have been stored outside the banking system, and the decision against him has not yet been finalized. In this case, Subject X, through the fiscal & criminal amnesty, may legitimize his position as the apartments' owner or legitimize the money, in the event that there are no security measures applied, while the criminal proceedings are in progress, without falling in the footsteps of

the Article 287 of Criminal Code, since he has not been contested for one reason or another. So, here is one of the ways to launder money legally.

III.2.2.2. The legislative procedure for eventual approval of the draft law

Based upon the fact that the draft law contains elements that conflict with the protective legal logic of the criminal - economic system, it is important to note the way in which the interdependent structure between the criminal code and the criminal amnesty is prescribed to be regulated in the draft law. Thus, the criminal amnesty, provided in the draft law, seems to be totally chaotic, in terms of normative combination.

Also, since its effects impact the Criminal Code, which is an organic law approved by 3/5, and also the Civil Code and the regularity of the procedure for acquiring ownership and other laws, the draft law of the amnesty, in order to be implemented regularly, needs to redefine its limits of application by starting from its approval with 3/5 of votes and by deliberately suspending the articles of the Criminal Code, which are affected by its implementation. The draft law cannot be approved by a simple majority, as its content affects the organic structure and the application of organic law norms, provided by article 81, point 2 of the Constitution of the Republic of Albania, which defines: “Approved by three-fifths of all members of the Assembly: d) codes; ë) amnesty laws”.

In case of this draft law, the protected interests in Article 11, point 1 of the Civil Code are also affected, practically: “The economic system of the Republic of Albania is based on private and public property, as well as on the market economy and on the freedom of economic activity”.

In case of this draft law, this principle of the market economy and competition⁹ would disrupt the social - economic balance and would directly harm the public trust in the State, since, with the tax amnesty, the small entrepreneur, who regularly pays his financial duties, would be penalized, and therefore it would distort the economic balances, in relation to the money flow, which in turn would create an imbalance between the demand and supply, since in relation to inflation and income, even though under an inflationary situation, flooding the market with money, or by legitimizing properties resulting from criminal activity (due to exclusion from criminal liability) would create a fictitious purchasing power and would directly affect the real values and equilibrium prices in the market, especially those pertaining the real estate .

⁹ Law No.9121, dated 28.7.2003: “On the Protection of Competition”, Article 1 reads: “The purpose of this law is the protection of free and effective competition in the market, by defining the rules of conduct of enterprises, as well as the institutions responsible for the protection of competition and their responsibilities”

III.2.3. Fiscal (tax) amnesty in Italy

In an analogous approach, the draft law seems to have been inspired by the Italian Law No.186¹⁰, dated 15.12. 2014, “On the provisions in the field of unearthing and return of capital held abroad, as well as strengthening the fight against fiscal evasion. Provisions in the field of money laundering”. As can be seen from the name of the Italian law, the only point of contact with the Albanian draft law is that related to the return of the capital of entities which, in order to avoid taxes, have transferred their economic capital outside of Italy.

In technical terms, the Italian law of 2014 represents an interest of the Italian legislator related to the return of capital within Italy and the regulation of the position of these entities with the Italian tax authorities and the criminal offenses that are applied in the tax - customs field. Also, The United States of America has a similar approach, which, from time to time, depending on the situations and needs to return and tax companies’ capital, applies the so-called “*Voluntary Disclosure*”¹¹. Such a procedure in particular, assists companies, which as long as they carry out this procedure, are exempted from criminal liability, for those criminal offenses that are applied in the respective tax - customs field.

Back to the Italian case:

- **In the subjective profile**, “Repatriation of capital” applied in Italy in 2014, entering into force in 2015, exclusively provided that: “The procedure applies only to natural persons, non-profit-economic entities, simple limited liability companies and non-governmental entities with the same status as the predecessors, who have fiscal residence in the Italian territory and who have violated their obligations, regarding fiscal monitoring”. So, unlike the Albanian draft law, the subjective scope of action of the 2014 Italian law is very different from the Albanian one, this is also due to the fact that the Italian fiscal system forces all citizens to declare their income, year after year, regardless of whether citizens work in the government, or private sector.
- **In the objective profile:** capital repatriation includes investments and financial activities carried out illegally or held abroad, undeclared income related to these activities (e.g. Subject X has not declared cash income, as a result of not providing invoices and with this undeclared income is a shareholder in a limited liability company in Austria, or has deposited that untaxed income, in San Marino).

¹⁰ www.agenziaentrate.gov.it/portale/documents/20143/298650/Circolare+10E+del+13+marzo+2015_Circolare+10+del+13+marzo+2015_con_allegati.pdf/48cfaea6-def0-977d-4445-b13479e8b077 (accessed 22.03.2023)

¹¹ ECS Voluntary Self Disclosure Policy 2023 (justice.gov) (accessed 22.03.2023)

The investments subject to the procedure are those which the contributor has not declared in the mandatory declaration form¹². These investments can also be in real estate located abroad, regardless of how they were purchased.

The defined time reference is related to the taxation period that is not affected by the prescription and in a quantitative sense, unlike the Albanian draft law, there is no predetermined figure, but the repatriation of capital, according to Italian legislation, is related to the legal contributing power of the entities defined in the law¹³.

In the fiscal aspect, the repatriation of capital presumes their taxation and exemption from criminal liability, exclusively for those criminal offenses in the respective field (fiscal - customs) predetermined by the legislator. In case criminal offense of laundering the criminal proceeds, the exclusion of the legislator was carried out exclusively in relation to the effects produced, as a result of the violation of criminal offenses, defined in a tax manner in the law, where the laundering of the criminal proceeds is a consequence of the non-declaration of income, false statements (not in accordance with reality), fiscal evasion, and tax avoidance. With the so-called “*Voluntary Disclosure*”, the Italian legislator introduced for the first time the figure of the criminal offense of “Self-recycling”, where the criminal offense is related to those cases when the author of the initial criminal offense is only him/her and, eventually, the collaborators who have the exclusivity of carrying out the cleaning of the criminal product. In other words, in the fiscal & criminal amnesty carried out in 2014 in Italy, the legislator took care to discipline, in a criminal sense, those consequences of illegal actions carried out by subjects who committed criminal offenses and they self-launders¹⁴ the product by transferring economic activities (social quotas, money and/or other goods of illegal origin), in order to prevent the identification of the author of the referent criminal offense.

So, in terms of the Italian fiscal system, the law of “repatriation of capital” relates exclusively to those incomes or investments made outside Italy, which have not been taxed by the Italian tax authorities.

In the criminal sense, the cause-and-effect relationship is realized in the exclusion of criminal responsibility only for criminal offenses of self-laundering¹⁵ of the criminal product that is directly related to the criminal offenses legally defined and listed by the legislator, for which the “exemption from criminal responsibility” applies.

¹² www.commercialisti.it/documents/20182/323701/2014_11_20_documento+commissioni+senato+giustizia-finanze+-+scudo+fiscale+e+autoriciclaggio.pdf (accessed 26.03.2023)

¹³ Rientro di capitali con Collaborazione Volontaria “Voluntary Disclosure” - FISCOeTASSE.com (accessed 26.03.2023)

¹⁴ Article 648 – 1 of Italian Criminal Code - www.brocardi.it/codice-penale/libro-secondo/titolo-xiii/capo-ii/art648ter1.html (accessed 26.03.2023)

¹⁵ www.altalex.com/documents/altalexpedia/2017/10/24/autoriciclaggio (accessed 26.03.2023)

In case of the Albanian draft law, the inconsistency between the entities to which the voluntary declaration can be applied, the general exemption from criminal liability in case of declaration of assets, regardless of the source of their creation, leaves clear space for abuse and leaves a path for this procedure to return to fertile territory for money laundering.

Compared to Italy, the framework of the Albanian draft law is unclear and contradicts other laws, thus leaving room for the infiltration of the criminal element in Albania and the laundering of criminal products, thus allowing, on the one hand, the state to fill its coffers through by taxing these capitals, but on the other hand, citizens bear the consequences of reduced purchasing power, the concentration of significant amounts of money in fewer hands or the legalization of more profitable properties with resources not necessarily required to be declared.

IV. Conclusions and Recommendations

1. The proposed fiscal and criminal amnesty displays certain important pitfalls of financial and economic nature, which makes it discriminatory to certain stakeholders, within the Albanian economy and society.
2. It is intended to ensure a temporary increase in the income entering the government coffers but does not focus on channeling these funds towards the real development of the national economy. The implementation of such amnesty does not address the key objective of a comprehensive amnesty, by making the financial contribution of subjects, that are being amnestied, more responsive and related to the fate of the national economy.
3. Drafting a law that guarantees fiscal and criminal amnesty must take into consideration the actual Albanian economic and social conditions, where there is a clear imbalance between those who pay, those who do not pay and those who are unable to pay their own fiscal obligations.
4. The preparation of a law on fiscal amnesty and criminal consequences related to specific offenses in the economic-customs field should be specifically articulated and clarified, clearly determining:
 - criminal offenses that are excluded, as a result of the application of the fiscal amnesty,
 - the time period affecting the amnestied parts, taking into account the prescription of tax - customs obligations,
 - the categories of subjects to which the amnesty is applied, criminal precedents, their typology, in case of final decisions, of potentially amnestiable subjects, inside and outside Albania.
5. Carrying out an amnesty with a dual character, both criminal and fiscal, without precisely clarifying the positions of the stakeholders in the market

conditions, would be destructive for the market economy and its delicate balances, as it would disrupt all economic theories related to with the supply and demand, inflation, and purchasing power.

6. The criminal amnesty appears as an economic undertaking that legitimizes money laundering, fruits of illegal activities, a fact that would undermine Albania's credibility in relation to its economic stability and the European integration process.
7. The criminal amnesty and the legalization of real estate purchased through economic instruments that originate from illegal activities (of a nature other than pure fiscal ones), although in principle it tries to exclude them, by having no clear prohibition framework and the regulation of such a possibility, produces the risk of a money laundering undertaking, which may be clearly present and measurable.
8. The draft law on fiscal amnesty should be based on an in-depth analysis of the market's needs, in order to reduce the burden of obligations for entrepreneurs, or natural persons, who are obliged to declare income, as a result of exercising vital activities, with the exception prescribed by Article 7 of the draft law in concern.
9. The draft law on fiscal and criminal amnesty creates open conflicts with other organic laws and the legal framework that regulates the aspects of prevention and money laundering and the financing of terrorism. In such conditions, this draft law jeopardizes its efficient implementation in practice.
10. Also, the limit of amount of money entering the economic system must be in accordance with the Law No.9917, dated 19.5.2008 "On the Prevention of Money Laundering and Financing of Terrorism"; therefore it must not be determined without a preliminary market research and objective data on the amount of money in circulation, or the value of movable and immovable assets that can be registered.
11. The draft law in itself has a positive intention, but the way it was built and the spirit it carries in does not comply with the constitutional principles and the concepts of guaranteeing the rule of law and the fight for the prevention of crime and forms of laundering the products of criminal activity.

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Tax Amnesty – The choice between fiscal discipline and economic development. The case of Albania

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Abstract

Nowadays, the various problems in the economy are directly affecting the economic development of the countries considering tax abuse as a serious issue in the economy, in overall. The conflict arising in nowadays society seems to be between the demand to increase welfare and consequently the refusal to face tax obligations. Hence, a country's economy cannot upgrade itself without the efficiency of fiscal policies. The scope of this article is to analyze the relationship between fiscal discipline and economic development in Albania. The objectives of this research are to review the literature on tax amnesty program and describe the factors related to tax amnesty, such as: implementations, costs and benefits, participation and the effects of the program and lessons learned from countries around the world to show the connection that exists between tax amnesty and economic development in Albania. For all possible standards in the country, it is very important that the state budget is reimbursed in a timely manner. Undoubtedly, the question that arises on behalf of this paper is whether the tax amnesty would serve as an aid for the reimbursement of the state budget.

Key words: *economic development, taxes, avoiding paying taxes, tax amnesty, reimbursement, state budget, cost, benefits.*

I. Introduction

“Taxes are the price we pay for the opportunity to live in a civilized society”

Oliver Wendell Holmes Sr

Tax Amnesty is an instrument of fiscal policy, which is often applied in countries where fiscal discipline is not widespread. When we talk about tax amnesty, this term refers to a legal initiative undertaken by the government with the aim of forgiving fiscal obligations that have been avoided, hidden, or delayed by economic

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operators of a country. Tax amnesty presents a big debate in the world. For some, it is seen as an unfair policy, disadvantageous to those who have been decent with the law requirements as they will be discouraged to fulfil legal obligations in the future. Others think that the amnesty application will have a positive impact as it will help individuals by forgiving the declaration of previously earned income, forgiving bills, fines, and other fiscal obligations.

This paper addresses the theoretical concepts and methodology of the practical application of tax amnesty. The focus will be the proposal designed for the tax amnesty by the government and its implementation, analyzing in practice all the costs and benefits that this policy will come up with, comparing Albania and Kosovo.

This article aims to deliver a modest contribution in terms of:

- Establishing a fiscal amnesty for a period of 9 month starting from the empowerment of the draft law
- Establishing an efficient tax system by identifying cases of non-declaration of assets and avoiding abuses in the future
- Establishing a stable fiscal system, guaranteeing the compatibility of this policy with the local fiscal legislation
- Guaranteeing transparent procedures in the declaration process as well as protecting the confidentiality of self-declaring subjects
- Guaranteeing the efficient implementation of government commitments in the fight against corruption, money laundering and organized crime

Considering these objectives, this paper further addresses the research question whether tax amnesty affects tax evasion? Hence the hypothesis arising from this question is: “Tax amnesty affects the awareness of taxpayers and increases the budget income of the country”.

II. Theoretical overview on Fiscal Amnesty

“Our new Constitution is now established, and has an appearance that promises permanency, but in this world, nothing can be said to be certain, except death and taxes.

Benjamin Franklin (1817)

“Fiscal amnesty is not diabolical – but to be successful it must be reasonable”. As can be interpreted from this quote, for a fiscal amnesty policy to be efficient, successful and not be the subject of the misinterpretation debate, it must be as proportional, reasonable and in accordance with the needs and socio-economic

context of the country. The term, tax amnesty comes from the Greek “ἀμνηστία” (amnesty), which means ‘forgetfulness’. The first documented tax amnesty, dating from over two millennia ago, can be found on the Rosetta Stone (200 B.C) in Egypt (it provided for the release from prison of tax evaders). This phenomenon, according to (Deak, 2009) is spread to many other countries such as Germany, Italy, France and others. Referring to Ibrahim et al. (2017), an effective tax amnesty requires a careful government approach of non-repetitive amnesty. Further they state that repetitive amnesty affects taxpayers’ behavior. In line with their study, Abdurrahmani & Doğan (2019) tax amnesties can give quite negative effects over the long term through discouraging regular taxpayers’ from their unequal treatment. In contrast of their finding, Luitel and Mahar (2013) state that tax amnesties not only raise higher tax revenues for the state treasury in the short term, but also do not have negative effects on tax compliance in the long term. Duru, and Ogbonnaya (2012) when analyzing Nigeria’s economic state, suggest that amnesty programs can be considered as a tool of poverty and crisis management. This is a not “one size fits all strategy’, but it can be a strategy of dealing with downslides of economic development.

Nowadays, the tax amnesty seems to be developing in many countries and it is expected that the new draft law will be implemented in Albania. Referred to the draft law: i) in point 1 of article 6 of the draft law, it is determined that the maximum total value of assets that can be declared voluntarily cannot exceed the amount of EUR 2 million; ii) point 2 of the same article defines that this value means the total amount of voluntary declarations of “the head of the family or any adult person, based on the data of the family certificate and whereas iii) article 11 of the draft, defines limitations regarding the use of the declared property. According to this provision, cash amounts “...cannot be transferred abroad for a period of 5 years from the moment of their deposit until the end of the voluntary declaration procedure”. The main purpose of this draft law is to address the assets of Albanian citizens, living inside or outside the territory of the Republic of Albania, acquired through their undeclared work. At the same time, these restrictions enable the avoidance of abuses with this amnesty, by individuals or legal entities who have created their wealth through dubious activities.

The first proposal for fiscal amnesty in Albania dates back to 1999, on the initiative of former President Rexhep Meidani, but was not accepted by the government or the opposition of that time. During the last two decades, in Albania there have been at least two initiatives for fiscal amnesty based on voluntary declaration of assets (2011 and 2020) in the sense of the legal approach, but none of the proposals have found the political consensus and the international factor. For this reason, the 2011 proposal was approved as a simple legal initiative, with a simple majority of votes and without the necessary political consensus. While

the 2020 proposal continues to be a project, amended in 2022 and currently under discussion for the agreement of stakeholders and international institutions.

Since Albania, like many other countries, was involved in the Covid-19 pandemic and the state was involved in the decline in the level of income in the economy, it also created the debate on tax amnesty. What about the implementation of the tax amnesty in Albania?

According to Preçi (2022), the idea of fiscal amnesty has been circulating since 1998 and was behind the history of '97, and he connected this fact with the recent situation of the Covid-19 phenomenon, where he sees the implementation of tax amnesty as important for increasing the budget of the state of Albania. Civici (2022), emphasizes: "Fiscal amnesty has been discussed for more than two decades in Albania, and we have simply made fiscal amnesties in some cases, mainly before electoral campaigns, so we have used it electorally, but we have never made a fiscal amnesty in the sense its wide and literal at least according to the examples of many countries including countries like Italy, France, Germany or even other countries that have made fiscal amnesty on a large scale".

While Bushka (2022), emphasizes that: "...it is now the moment for the fiscal amnesty to be acted upon as soon as possible because it has been raised as a concern for years and there is still no legal initiative." Albania had not made sufficient progress in improving anti-money laundering measures. Money laundering in Albania is also a concern for the USA. (Moneyval, 2021) Benjamin Rockwell from the US Embassy in Tirana underlined a few days ago that Albania's ranking on the gray list, regarding money laundering, is a difficult situation for the country. In a report of the International Monetary Fund, published in April 2022, criticism is repeated on the intention of the Albanian government to amnesty the money coming from abroad: "A draft law on tax amnesty published in July 2022, was not supported by the EU, as it did not comply with international good practice for voluntary disclosure schemes.

III. Tax amnesty in Albania & Kosovo and its impact on economic development

This section of the article presents a comparative analysis of the Albanian and Kosovo's tax amnesty.

Tax Amnesty and Economic Development (The case of Albania)

As in many other countries, the implementation of a tax amnesty has been proposed by the government in Albania. The government foresees in its draft that the tax amnesty will last 9 months and to be approved, the draft will go to

the Parliamentary Committees and further to the Assembly of Albania, where it requires approval with 84 votes.

In this draft, the government has proposed that up to EUR 2 million movable and immovable property, cash and valuables may be declared without consequences. The declared limit will not be individual, but on a family basis. This means that only one person in the family will have the opportunity to declare income up to EUR 2 million. In this category there will be people who will benefit from this application and people who will not apply.

The category of people who will benefit are all Albanian immigrants, businesses and foreigners who are taxpayers in Albania. The amnesty exemption scheme includes 34 categories of senior, middle, current and former officials and their family members (judges, police officers, civil servants, governors, board members) politicians and their family members, individuals with criminal records convicted and under investigation (in Albania and Europe), subjects of the “anti - mafia” law verified and unverified subjects of OFL (Force of Law Operation) and persons who are part of the list as financiers of terrorism, but also their family members.

If the self- declaration of assets is made in the first 4 months of the entry into force of the law, a 7% tax is paid and 10% for the second period of 5 months. These self-declared assets cannot be transferred abroad for a period of 5 years from the moment of deposit. The amnesty ends when the interested party hands over money, and during the self-declaration it is discovered that he does not meet the criteria, from this moment the money is seized.

In Albania, tax amnesty has been implemented several times in the past, including:

Tax Amnesty of 2008: This amnesty was introduced to encourage taxpayers to declare their previously undeclared income and assets. It allowed taxpayers to pay their outstanding taxes without penalties or interest, and with reduced fines. The amnesty covered tax debts up to December 31, 2007, and was applicable to individuals and legal entities.

Tax Amnesty of 2013: In 2013 the Albanian government introduced a tax amnesty that provided relief to taxpayers with outstanding tax liabilities. The amnesty allowed taxpayers to pay the taxes without penalties or interest, and with reduced fines. The amnesty covered tax debts up to December 31, 2012, and was applicable to individuals and legal entities.

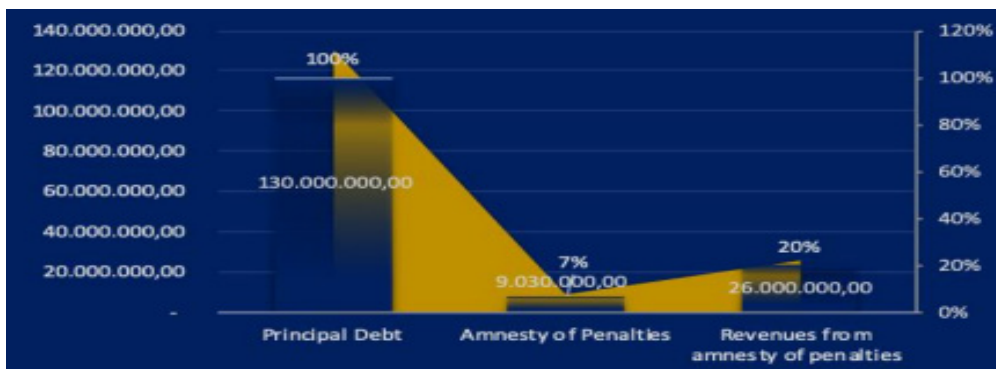
Tax Amnesty 2015: The Albanian government introduced a tax amnesty in 2015 to encourage taxpayers to declare their previously undeclared income and assets. The Amnesty allowed to taxpayers to pay their outstanding taxes without penalties or interest, and with reduced fines. It covered up to December 31, 2014, and was applicable to individuals and legal entities.

Tax Amnesty of 2020: In Response to the economic impact of the COVID-19 pandemic, the Albanian government introduced a tax amnesty in 2020. The Amnesty allowed to taxpayers to pay their outstanding taxes without penalties or interest, and with reduced fines. It covered up to December 31, 2019, and was applicable to individuals and legal entities.

Tax Amnesty and Economic Development (The case of Kosovo)

The tax amnesty in one country is different from other countries. In this section we will compare the tax amnesty of Albania and Kosovo. During the last 10 years, tax amnesty has been applied twice in Kosovo (Arifi, 2013). The first tax amnesty in Kosovo was called in 2008 and the second tax amnesty was called in 2015 as full tax amnesty. Their application in this state has given a positive result. Their application in this state has given a positive result, as it has directly influenced the provision of additional public funds for the government at low cost, being considered as an encouraging indicator of budget revenues (ATK,2015).

THE FIGURE 1: The collected Tax Revenues and the amount of penalties amortized by the first tax amnesty in Kosovo (2008)

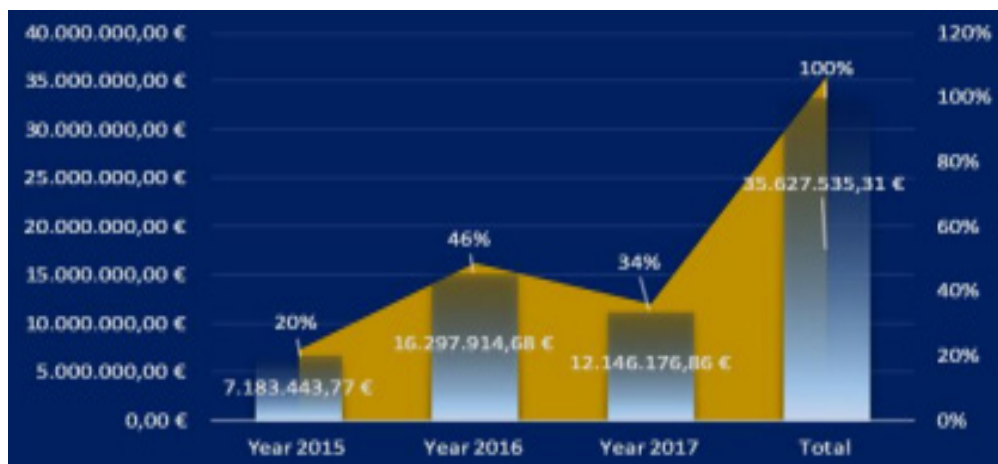


Source: ATK, 2008

The Republic of Kosovo as a new country in Europe has gone through some difficult challenges in its financial and budgetary consolidation. Referring to the chart above, during 2008 the tax administration managed to collect its income. Their total value reaches EUR 26.900.000. If we compare the main unpaid debt with amortized fines and collected income, there is a difference between them. All fines amortized constitute 7% of the principal debt, while the revenue collected from the tax amnesty constitutes 20% of the principal debt. Seven years later, Kosovo decided on the second tax amnesty application in 2015. For all citizens and businesses, the amnesty of debts to state institutions and the determination of all

criteria for amnesty are defined as the main purpose for the application of this law. Considering that the majority of unpaid debts in public enterprises have turned out to be outdated debts, the intervention of the Government of the Republic of Kosovo is considered reasonable. The implementation of the tax amnesty program was considered an appropriate initiative in this situation. These programs have provided numerous facilities in the various works of the institution of justice and tax administration.

Next, **the second figure** shows: The collected Tax Revenues and the amount of penalties amnestied by the first tax amnesty in Kosovo (2015)



Source: ATK, 2015

The tax system of Kosovo is clearly manifested as a whole with tax declarations, assessments, controls, fines and others. If we compare the main unpaid debt with amnestied fines and collected income, there is a difference between 2008 and 2015. In 2015 all fines amnestied constitute 20% of the principal debt, so it was more than the 2008 program. Based on the above data of the graph, it results that the tax revenues in the tax office coffers during 2015, have brought a value of over EUR 35.000.000. From the result it is clear that the tax amnesty program of 2015 turned out to be more effective than the 2008 program with a value difference EUR 8.100.000. Between the years 2015 and 2016, the year 2016 has turned out to be very efficient because the tax administration has managed to collect a value over 46% of the total revenue compared to the year 2017 which managed to collect no more than 34% of the total of income. In Kosovo, the application of the tax amnesty has brought benefits because it has influenced the increase of economic income in the state budget and has influenced the development of the country.

IV. Advantages and disadvantages of tax amnesty

Tax amnesty has its advantages and disadvantages. This article compares the advantages and disadvantages of tax amnesty with surgical interventions during an operation. An operation can never be called easy, even without risk, so the tax amnesty works the same way. The key to success during the operation is to perform it in the right way, bringing improvements and benefits to the patient's health. *Would this minimize the risk of residual cells that could spread the disease further while trying to avoid mass removal of the healthy part? Does the patient trust the surgeon? Will post-operative monitoring, evaluation, and treatment ensure full recovery? Have the causes of the disease been treated in such a way as to avoid an even more painful process in the future? How to improve motivation for healthy behavior?*

Comparing this with the tax amnesty program, its correct implementation will be the key to success in the economy, influencing the economic development of the country. Parallel to this comparative fact of the operations of individuals when they are sick, some questions arise regarding tax amnesty when the country is in a bad state of the economy. The questions are: *Would the tax amnesty minimize the risk of economic problems? Does the individual believe in this application of the tax amnesty program proposed by the government? Monitoring, evaluation and treatment of tax amnesty would contribute to the country's economic development? Does tax - amnesty cure or spread the fiscal discipline disease in the future?*

In this framework, it is essential to carry out- long term forecasts and include prevention instruments. This method is valid to know precisely the roots of the fiscal disease and in order to avoid the need for another painful process in the future. After all, one of the objectives that a tax amnesty must fulfill is closely related to encouraging a healthy behavior from irregular taxpayers and finding an adequate way to improve fiscal incentives for them. Based on this principle, three would be the main issues that would determine the result.

- (i) The first issue is related to complete transparency and reliability of tax amnesty, including the implementation of exemptions for beneficiaries.
- (ii) The second issue is related to actions against those who have hidden their income and will make the declaration during the tax amnesty period. There must be adequate commitment and capacity to demonstrate and send a clear message that non-compliance with the legal framework is not acceptable. The law will be respected in the future for all its violators as well as those who have implemented it correctly.
- (iii) The third issue is related to the fact that the action in the tax amnesty must be fast as the delay will contribute to the appearance of the "moral hazard"

that has accompanied the past amnesties, bringing in the implementation process the reappearance of the same old informal practices.

The other side of the story is that those who are eligible and will seek to be included in order to be amnestied should feel confident in the compactness of the criteria they agree with. The management of moral hazard, which is a notion that accompanies the psychology of the profile of the taxpayer who has been called for amnesty, and this is a battle not yet won. The taxpayer who may wish to be amnestied may not be used to obeying the law and his obligations to the budget. Hence, he should receive the clear indication that it is more beneficial and less likely to be punished. This is a very important issue that deserves great attention by the tax amnesty campaign strategists, as it has been overlooked in all the amnesties that have been announced in Albania. After the approval of the law, they have never used this process to promote exactly the particulars that come only once from the amnesty and have treated it as a routine process of cleaning the debt registers, when in fact this action is the expectation and not the goal of fiscal amnesty.

The table below summarizes a set of advantages and disadvantages of tax amnesty policy.

ADVANTAGES	DISADVANTAGES
1) Higher budget income in a short time	1) Encouraging disobedience of laws
2) Expansion of the taxpayer base	2) It shows the government's weakness in revenue collection
3) Bringing some tax evaders back on the honest path of paying taxes	3) Amnesty is a severe moral but also economic blow to honest taxpayers
4) Tax amnesty offers a soft option for those who have made the mistake of moving from informal to formal status	4) It sends the message that tax evasion is a (minor/ excusable fault)
5) The message is clear that after the amnesty the government will have a clear focus on the fight against evasion	5) Amnesties collect less revenue
6) It reduces the administrative cost of revenue collection	6) Individuals receive a message that they can continue informally
7) Provide in the short term some income that can alleviate losses from the structuring of budget income	7) The moral cost of dishonesty is reduced/justified
8) Improves compliance retention and monitors individuals have previously failed to comply with tax roles	8) Amnesties generate revenue that can be collected even without an amnesty application.

Source: Author

Advantages:

- *Higher budget income in a short time* - This is an advantage that the tax amnesty ensures to collect the income for a short time, bringing benefits to the state budget. For example, in Albania it is provided for 9 months.
- *Expansion of the taxpayer base* - This means that all individuals will be equal before the law and will pay all taxes equally.
- *Bringing some tax evaders back on the honest path of paying taxes* - This refers to the awareness that all taxpayers should have.
- *Tax amnesty offers a soft option for those who have made the mistake of moving from informal to formal status* - It means that taxpayers following the right path can lead the economy towards formal paths and make the country to be developed.
- *The message is clear that after the amnesty the government will have a clear focus on the fight against evasion* - This is a positive message that the economy in implementation of the tax amnesty will be in the right direction.
- *It reduces the administrative cost of revenue collection* - This is because the businesses that will formalize their activity pay them in the form of volunteers.
- *Provide in the short term some income that can alleviate losses from the structuring of budget income* - It means the declaration of all undeclared income under the tax amnesty law.
- *Improves compliance retention and monitors individuals who have previously failed to comply with tax roles* - This is an advantage which has a direct impact on the awareness of all individuals to respect tax payments and the economy after the implementation of the amnesty will have a higher performance since all individuals have participated in paying taxes in regularly.

Disadvantages:

- *Encouraging disobedience of laws* - This is a disadvantage which in a short period of time will encourage non-payment of taxes while waiting for the “forgiveness” of future amnesties.
- *It shows the government’s weakness in revenue collection*- It has a negative impact because it fosters and does not reduce informality.
- *Amnesty is a severe moral but also economic blow to honest taxpayers*- this is a disadvantage because this phenomenon applies not only to people who do not pay taxes but also to individuals who are correct with their payments, which affects everyone’s morale.
- *It sends the message that tax evasion is a (minor/excusable fault)*- This is another

problem that encourages individuals not to pay taxes regularly since the fault is considered small and justifiable.

- *Amnesties collect less revenue*- This is another disadvantage because other experiences show that amnesties collect less revenue compared to the large numbers justifying the necessity and usefulness of fiscal amnesties.
- *Individuals receive a message that they can continue informally*- This phenomenon can also negatively affect the spread of fiscal evasion.
- *The moral cost of dishonesty is reduced/justified*- This issue is characterized as a disadvantage since dishonesty is considered an acceptable evil or something natural.
- *Amnesties generate revenue that can be collected even without an amnesty application*- This is considered a disadvantage because the income can be collected in the form of dirty money and this causes a negative impact on the economy.

Summing up the advantages and disadvantages, it is worth mentioning that, in line with the findings of Popa and Codreanu (2010), considering tax amnesty in Albania should consider several factors among which, legislation stability, regulatory acts to clarify misinterpretations and further increase the efficiency of this process to help economic development of the country.

V. Conclusions and recommendations

- Despite the disadvantages of the tax amnesty, it should be implemented in Albania because it leads to an increase of countries income and further helps economic development, considering the experience of Kosovo.
- Tax Amnesty Programs can generate significant revenue for governments, especially if they are designed to target taxpayers with large tax debts.
- The government should seek to do more in reforming the tax system, encourage fiscal reforms and increase taxpayers' fiscal literacy level. These should be important steps the government must undertake, aiming to strengthen fiscal culture among society.
- Tax laws should be made more easily understandable.
- Taxpayer's awareness should be increased to understand that tax consciousness and morality (tax culture) is a duty of citizenship.
- Tax amnesty must be equipped with new and necessary technology. Strengthening tax administration with information technology will increase the success of tax amnesties.
- Clear communication with taxpayers about the tax amnesty program is crucial for its success.

- Taxpayers should be informed about the eligibility criteria, the benefits and consequences of participation and the deadlines for participation to ensure that the program is effective and achieves its intended goals.

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*Quality of institutions, foreign direct
investments and economic growth:
empirical evidence from
Balkan economies* _____

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Abstract

This paper analyzes the relationship between institutions, foreign direct investment (FDI) and economic growth in the Western Balkans region. We use a difference-in-difference method to evaluate the impact of institutions on attracting FDI and promoting economic growth and we find evidence, which support that quality of institutions is an important policy variable. The research shows that institutions play a key role in determining economic growth and attracting foreign investment. This highlights the importance of creating and maintaining inclusive institutions that promote the rule of law, control of corruption, and regulatory quality, which can lead to increased economic development and investment.

Keywords: *Institutions, Foreign Direct Investment, Economic Growth, Western Balkans, European Union.*

1. Introduction

Foreign Direct Investment (FDI) has become a crucial factor in the development of economies worldwide. With globalization and the intensification of financial market links, the volume of FDI flow has increased significantly, reaching a total of \$1.6 trillion in 2021 (World Investment Report, 2022), of which 837 billion were flowing to developing economies. Developing and transition economies have made attracting FDI a main objective of their domestic policies Mehic, Silajdzic, and Babic-Hodovic (2015) and engaged in a number of reforms to make it easier for foreign companies invest in their countries.

Attracting FDI as a tool to modernize the economy and push the country to a higher growth rate, requires a business environment which is friendly and conducive FDI is influenced by a complex set of variables, ranging from macroeconomic environment, quality of infrastructure, availability of required resources and quality of labor, taxation and bureaucracy, etc. In this paper, we will limit our analysis in exploring the role of institutions. Institutions have become a determining factor explain large country differences in the ability to attract more FDI and improve growth prospects.

The three countries included in this analysis are Albania, North Macedonia, and Croatia, and data ranges from 2000 to 2020. The institutional quality is measured using the institutional indicators designed by the Worldwide Governance Indicators (WGI). The paper follows with a (a) brief review of the existing literature on the topic of our research, (b) impact of EU integration on the quality of institutions of

new member countries; (c) methodology and results of our work. We close with a discussion of the results and some policy implications.

2. Quality of institutions and FDI

Institutions have a significant impact on the attraction of foreign direct investment (FDI), making them a key area of interest for researchers. Numerous studies have been conducted to explore the relationship between institutions and FDI.

Daniele and Marani (2006) conducted a study of FDI inflows in 129 countries and found that the quality of institutions is an important factor in determining the inflow of FDI. This study used six indicators of institutional quality developed by Kaufmann, Kraay, and Mastruzzi (2010), as well as GDP growth and infrastructure, to analyze the relationship between FDI and institutional quality. The results showed that all variables related to institutional quality were significant in attracting FDI.

Quéré, Coupet, and Mayer (2007) conducted a study using data from the Institutional Profiles and the Fraser Institute's database to analyze the influence of institutions, such as bureaucracy, corruption, the banking sector, and legal institutions, on the flow of FDI. The results showed that these institutions, particularly bureaucracy, corruption, and the legal and banking systems, significantly impact the benefits of FDI.

Buchanan, Leb, and Rishi (2012) hypothesized that the poor quality of institutions increases the volatility of FDI inflows, which could harm economic growth. To test this hypothesis, they conducted an econometric analysis of a panel of data from 1996 to 2006 to understand the relationship between the quality of institutions and the volatility of FDI. The results showed that the quality of institutions has a positive and significant impact on FDI, and that a one standard deviation improvement in the quality of institutions could increase FDI by 1.69 times.

Minovic, Stevanovic, and Aleksic (2020) conducted a study of the Western Balkans 6 countries, excluding Kosovo, to analyze the relationship between institutional quality and FDI inflows. Using the VAR method, they found that political stability, control of corruption, and the rule of law were the key factors in attracting FDI. The results showed that a well-designed institutional environment creates a favorable business climate, which positively influences the flow and structure of FDI, while poorly designed laws and lack of transparency can significantly reduce the chances of attracting FDI.

We are interested also in the relationship between quality of institutions and economic growth. Xhepa (2016) finds a strong relationship between some

indicators of economic freedom and economic growth for the Balkan countries. While macroeconomic stability, stable trade and investment regimes, have been positively related to growth and welfare, high levels of corruption and low level of protection of property rights have been key impediments to enhancing growth prospects and welfare for the citizens.

In another paper focused more on the role of institutions and economic growth, Xhepa et al (2022) also find significant nexus between economic growth and good governance, which carries specifics to how the effect runs from the good governance to economic growth that are relevant for the country and time. Improving the control on corruption by 1 point would increase the economic growth rate by 0,06 percentage points; the rule of law and regulatory framework would strengthen the economic growth by respectively 0,004 and 0,07 percentage points, respectively.

In conclusion, numerous studies have confirmed that institutions play a crucial role in attracting FDI and promoting higher growth rates. Factors such as bureaucracy, corruption, the banking sector, legal institutions, political stability, control of corruption, and the rule of law have been found to have a significant impact on the flow of FDI and economic growth.

3. European integration and the impact on Institutional Quality

The general idea that dominates literature is that member states of European Union have high quality institution and therefore it can serve as a driving force for institutional improvements for the new member countries. Since the Treaty of Rome, democracy has been a condition for becoming part of the European Community. In principle, states seeking to become members of the European Community had as a prerequisite the existence of liberal democracies. Then this precondition was formalized with the Copenhagen Criteria which place special importance on the improvement of institutional quality, and compliance with EU institutions and legislation. The authors, Ostojić, Jovanović, and Petrović, (2019) consider the accession process as one of the most important stages in which European integration plays a role in improving institutional quality. According to these authors, referring to the data of the Heritage Foundation of 2018, thanks to the European integration process, the institutional situation in Serbia has improved recently, but to achieve results like those of the member countries, it is necessary to work constantly for their improvement.

Ekiert (2008) examines the impact that the EU accession process has on the consolidation of democracy, as well as the consequences of EU accession on the quality of the new democratic regimes in the Central and Eastern European states that have joined it. By consolidated democracy it means states which are

characterized by “stable political institutions, the rule of law, compatibility and broader protection for political and civil rights, transparency and predictability of political processes” Ekiert (2008). He argues that the prospect of EU membership emerged as a powerful factor in shaping the internal and external policies pursued by political actors in the new European democracies. Consolidating democracy and building a market economy were the means for the candidate states to achieve this goal. On the other hand, the annual reports of the Commission have served to keep the balance of the institutional progress of these states following EU norms.

According to Penev and Marušić (nd), the EU accession process accelerated legislative reforms in the transition states of the Western Balkans, systematically contributing to the creation of a new legal system. As the transition process began in the Western Balkan states, their legal systems inherited from their socialist past were outdated in the provisions and concepts they contained. The implementation of the *Acquis Communautaire* as an important prerequisite for improving the quality of the regulatory environments of these states would aim to increase the competitiveness of their economies. According to these authors, in the last decade, the states of the region achieved significant improvements in the quality of laws, and this improvement was directly influenced by the progress of each of the states of the region in the EU membership process.

Schönfelder and Wagner (2016) also confirm that the prospect of countries joining the EU creates additional incentives for these countries to strengthen their economic and political institutions. The prospect of EU membership has important direct effects on voice and accountability, government effectiveness, and regulatory quality. For these authors, being a candidate country accelerates the development of government effectiveness and membership status contributes positively to voice and accountability. An important question they pose after proving the importance of the integration process in increasing institutional quality is what happens next to the quality of the institutions of these states when they have joined the EU and seek to become part of the eurozone.

Despite considerable heterogeneity among member states, Campos, Paris, and Moretti (2014), assert that there is strong evidence for positive gains in the institutional framework of EU membership. They take a synthetic counterfactual approach to see what would have happened to economic growth if the countries that joined the EU in 1973, 1980, 1995, and 2004 had not become part of it. Their results show that the per capita income in the absence of the process of economic and political integration would have been on average 12% lower today. They report significant and positive increases in GDP per capita after EU membership for all countries that joined the enlargement process except for Greece, which according to their results would have had higher incomes if it had not become a full member in 1981.

In conclusion, the literature provides strong evidence that the European integration process has had a positive impact on institutional quality in EU member states. Through the accession process and the promotion of democracy, the EU has contributed to the improvement of economic, political, and legal institutions in these countries.

4. Data and methodology

The data used in this paper were extracted from the World Bank database. We have extracted a dataset for all three countries, i.e., Albania, North Macedonia, and Croatia. We used the six indicators developed by Kauffman, Kraay, and Mastruzzi (2010), which are: voice and accountability, political stability and absence of violence or terrorism, government effectiveness, regulatory quality, rule of law, control of corruption, as a depend variable we use FDI inflows (% of GDP).

In terms of economic growth, GDP per capita was used for each of these three countries, from 2000 to 2020. GDP per capita was originally downloaded from the World Bank in USD, however, to be consistent, we converted the GDP - per capita of each country into Euros using the average annual USD/Euro exchange rate. Therefore, we used a perfectly balanced data set in our empirical analysis. In our empirical analysis, we will use both continuous and dummy variables.

All variables are normally distributed with some degree of skewness or “kurtosis”. We tried to improve the distribution of such skewed variables by logarithmically transforming them, but this does not help much given the nature of our data. Therefore, we will use our variables in levels and not logarithmically transform them.

We use the difference-in-difference (DiD) method to identify causal effects by comparing the change in outcomes before and after the intervention, for treatment and control groups. The group that underwent the intervention is considered the treatment group, while the group that did not undergo it is considered the control group. This method is mainly used when a new policy is applied, and its effects should be evaluated (Zhao, Rasool, Anwar, Zahra, (2021). The main idea of the DiD is that it evaluates the results separately for the control group and the treated group in the pre-and post-change period. Then, the difference between these two groups will be performed. The difference of difference is the effect produced by the treatment. In our case, as a control group, we have Albania and North Macedonia, and Croatia was taken as the treated group. This method will serve us to evaluate the effects that institutions have on FDI attraction and economic growth.

An important assumption here is that the trends are the same in both groups before the intervention and that the trends would be the same in both groups if

the intervention had not taken part. This is otherwise known as the parallel trend's assumption. This is an effect-identifying assumption, and treatment effects cannot be estimated if this assumption is violated, as DiD would provide biased estimates.

We will estimate two least squares (OLS), multiple linear regression models for panel data in our empirical analysis. We will follow a Difference in Differences approach in both of our models.

The first model is represented mathematically as:

$$\begin{aligned}
 \text{FDIinflowsofGDP}_{it} &= \beta_0 + \beta_1(\text{time}_{it}) + \beta_2(\text{treatment}_{it}) + \beta_3(\text{did}_{it}) \\
 &+ \beta_4(\text{VoiceandAccountability}_{it}) + \beta_5(\text{PoliticalStabilityandAbsence}_{it}) \\
 &+ \beta_6(\text{GovernmentEffectiveness}_{it}) + \beta_7(\text{RegulatoryQuality}_{it}) \\
 &+ \beta_8(\text{RuleofLaw}_{it}) + \beta_9(\text{ControlofCorruption}_{it}) \\
 &+ u_{it} \tag{1}
 \end{aligned}$$

where FDI inflows (% of GDP) are the dependent variable, while voice and accountability, political stability and absence of violence or terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption, i.e., the variables that show the quality of the institutions are the explanatory variables. We have also included the time term, the treatment term, and the difference-in-difference term in our model specification to analyze the difference in differences in FDI inflows (% of GDP) in the three countries after the integration of Croatia into the European Union.

The second model is represented mathematically as:

$$\begin{aligned}
 \text{GDPpercapita}_{it} &= \beta_0 + \beta_1(\text{time}_{it}) + \beta_2(\text{treatment}_{it}) + \beta_3(\text{did}_{it}) \\
 &+ \beta_4(\text{VoiceandAccountability}_{it}) + \beta_5(\text{PoliticalStabilityandAbsence}_{it}) \\
 &+ \beta_6(\text{GovernmentEffectiveness}_{it}) + \beta_7(\text{RegulatoryQuality}_{it}) \\
 &+ \beta_8(\text{RuleofLaw}_{it}) + \beta_9(\text{ControlofCorruption}_{it}) + u_{it} \tag{2}
 \end{aligned}$$

where everything is the same as in model 1, however, our dependent variable in this model specification is GDP per capita. We used the robust standard error pooled across countries to protect our panel data estimates from serial correlation or heteroscedasticity. Furthermore, there does not appear to be any problem with perfect multicollinearity in our data set as no variable can be perfectly predicted using a combination of two or more variables in our data set.

5. Discussion of the results

Table 1 and 2 show the results of the regression using FDI and economic growth as dependent variables and indicators of quality of institutions as independent variables.

TABLE 1: Difference in Differences in FDI Inflows (% of GDP)

FDI Inflows (% of GDP)	Coef.	St. Err.	t-value	p-value	[95% Conf Interval]	Sig	
1 if Croatia included into the European Union, 0 otherwise	-1.738	.802	-2.17	.03	-3.31	-.166	**
1 if Croatia, 0 if Albania or North Macedonia	-5.042	4.206	-1.20	.231	-13.286	3.202	
Difference in Differences term	-.095	.933	-0.10	.919	-1.924	1.735	
Voice and Accountability	.095	.146	0.65	.515	-.19	.38	
Political Stability and Absence of Violence or Terrorism	.1	.065	1.55	.122	-.027	.226	
Government Effectiveness	.078	.089	0.88	.381	-.096	.252	
Regulatory Quality	.062	.076	0.82	.414	-.087	.211	
Rule of Law	-.099	.17	-0.58	.56	-.431	.234	
Control of Corruption	-.062	.049	-1.26	.207	-.159	.035	
Constant	-3.172	11.763	-0.27	.787	-26.228	19.883	
Mean dependent var		4.892	SD dependent var		2.708		
Overall r-squared		0.399	Number of obs.		60		
Chi-square		.	Prob > chi2		.		
R-squared within		0.138	R-squared between		0.992		

Robust standard errors clustered across States

*** $p < .01$, ** $p < .05$, * $p < .1$

TABLE 2: Difference in Differences in GDP per capita (Euros)

GDP per capita (Euros)	Coef.	St. Err.	t-value	p-value	[95% Conf Interval]	Sig	
1 if Croatia included into the European Union, 0 otherwise	-650.3	1478.441	-0.44	.66	-3547.99	2247.39	
1 if Croatia, 0 if Albania or North Macedonia	4602.991	836.514	5.50	.000	2963.454	6242.529	***
Difference in Differences term	2617.709	975.612	2.68	.007	705.544	4529.874	***
Voice and Accountability	-68.89	105.629	-0.65	.514	-275.919	138.138	
Political Stability and Absence of Violence or Terrorism	27.507	40.003	0.69	.492	-50.899	105.912	
Government Effectiveness	-.392	19.786	-0.02	.984	-39.171	38.387	
Regulatory Quality	128.609	26.202	4.91	.000	77.254	179.965	***
Rule of Law	63.136	53.07	1.19	.234	-40.879	167.15	
Control of Corruption	-44.06	39.283	-1.12	.262	-121.053	32.934	
Constant	-2321.838	2675.754	-0.87	.386	-7566.22	2922.544	
Mean dependent var		5589.290	SD dependent var		3564.376		
Overall r-squared		0.960	Number of obs.		60		
Chi-square		.	Prob > chi2		.		
R-squared within		0.766	R-squared between		1.000		

Robust standard errors clustered across States

*** $p < .01$, ** $p < .05$, * $p < .1$

The regression coefficient on the time dummy variable in model 1 is -1.738. This can be interpreted as the FDI inflows (% of GDP) in the 3 countries were 1.738% lower before Croatia's integration into the European Union as compared to after its integration, ceteris paribus. This regression coefficient is statistically significant at the Significance Levels of 5% and 10%, based on a p-value of 0.03.

Out of various indicators of the quality of institutions, the regulatory quality results to play a stronger role in explaining economic growth and attracting FDI.

6. Conclusions

Results of the regression confirm the strong relationship between institutions and economic growth. The regression coefficient for the treatment dummy variable in

the economic growth model is high, confirming the impact of EU integration on the institutional improvements and their role on attracting higher levels of FDI and increase in GDP per capita.

Another important result from our regression analysis is that out of measures used to quality of institutions, Regulatory Quality plays a stronger role. The regression coefficient for this indicator in the economic growth model turns out to be 128. This shows that if the regulatory quality in a country improves by 1 unit, on average, we can expect the GDP per capita in that country to increase by 128 euros.

In terms of the relationship between institutions and foreign direct investment (FDI), the statistically significant coefficient was for the time dummy variable, which was -1.738%. This shows that FDI inflows were 1.738% lower in the three countries before the integration of Croatia into the EU. Although the literature suggests a positive relationship between EU integration and increased FDI, the coefficient for the Difference in Difference term in terms of FDI inflows was -0.095%, indicating that inflows were 0.095% lower in Croatia compared to Albania and North Macedonia. However, this result was not statistically significant at conventional levels of significance, so further research is needed to confirm these findings.

In conclusion, our research shows that institutions play a key role in determining economic growth and attracting foreign investment. This highlights the importance of creating and maintaining inclusive institutions that promote the rule of law, control of corruption, and regulatory quality, which can lead to increased economic development and investment.

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A Literature Review on Entrepreneurial University policies: Definitions, Factors and Theories

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Abstract

The entrepreneurial university model has gained popularity in recent years, as universities seek to increase their impact on the economy and society by promoting innovation and entrepreneurship. Many universities now see entrepreneurship as an important part of their mission and are working to create an entrepreneurial culture that encourages and supports innovation and commercialization of scientific research.

This paper is based on the literature review methodology and highlights the essential points about the entrepreneurial university discourse, provides the formal and informal factors that make possible the transformation of a university into an entrepreneurial one, as well as the theoretical models of entrepreneurial approaches.

Being new to the entrepreneurial concept, the Albanian universities face a variety of challenges. The current status of universities into the modern society requires them to play a dual role in setting high teaching standards and students' competence-oriented learning and, on the other hand, play a boosting role in innovation and economic development of the country. This paper is of interest to Albanian universities that would like to establish and formalize entrepreneurial policies and overcome implementation obstacles.

Keywords: entrepreneurial university; policies, university – industry collaboration, formal and informal factors, theoretical models

I. Introduction

The role and contribution universities play in the society are gradually developed in diverse forms (Etzkowitz et al. 2000). The primary purpose of universities has been the teaching process, as an existing knowledge coming from Philosophy (first generation of universities). The second generation of universities begins with the usage of research activities for acquiring, transmitting, and

companies; Director of the first Community College under the “Harry Fultz” Institute, etc. Author of several publications related to entrepreneurship, entrepreneurship education, leadership in higher education, etc., at home and abroad. She has initiated several projects for UET connection with business, organizing competitions on business plans & ideas, interacted with Chambers of Commerce, creating an entrepreneurial culture within the university, as well as becoming part of European projects on entrepreneurship. During April 2018- March 2019, she has been Head of Management and Marketing Department, UET; April 2019 - November 2020, UET Vice Rector for Institutional Development and Students. Actually, Prof. Qosja is lecturer at “Aleksandër Moisiu” University, Durrës.

integrating knowledge (Salamzadeh et al. 2011). In this generation, research expands among the disciplines with reliable methods, providing scholars with participation in the creation of knowledge (Etzkowitz, 2013). The role of universities in the modern society is the knowledge production, which is very important in the economic growth (Guerrero-Cano et al. 2006). The third generation of universities has an addition in their missions: economic and social development and knowledge transfer (Laredo, 2007). This new mission (Fig. 1) becomes part of the research activities of universities to the external economic and social world (Laredo, 2007), influencing the denomination Entrepreneurial Universities (Etzkowitz, 2004)

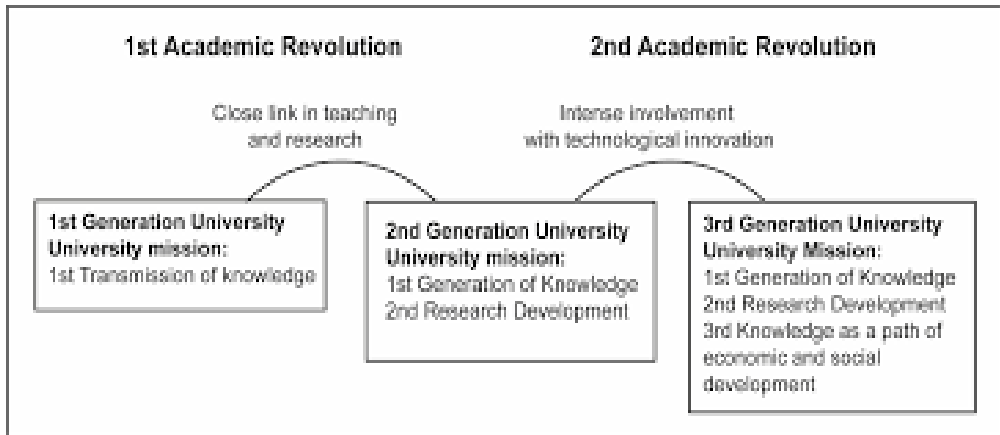
Based on the role universities have, there can be identified five types of universities: *First, the academic university*, focused on teaching students; *second, the classic university*, where research is combined with teaching; *third, the social university*, which takes an active part in the societal discourse, trying to find solution of society's problems. *Fourth, the business university*, where teaching and R&D activities are carried out based on business criteria. *Fifth, the entrepreneurial university*, which has a strong role in the social context within which it operates (Bezanilla et al. 2020).

The entrepreneurial university must fulfil three missions at the same time: teaching, research, and entrepreneurship. The entrepreneurial university needs to become an entrepreneurial organization while its interaction with the environment needs to follow an entrepreneurial approach where the academic staff need to be transformed to academic entrepreneurs (Fig.1).

The Entrepreneurial concept means that the university is one of the main drivers of a social system, for which entrepreneurship can be considered as a process and a result too (Jones-Evans et al. 1999). Other authors define the entrepreneurial university as a centre of development in an innovative society, in a process of transformation, and which, by participating internationally in research and education networks, contributes as an agent of necessary change, but not enough for construction and maintenance of the knowledge society (Hansen & Lehmann, 2006).

The entrepreneurial university means the commercialization of science, the transfer of university technology, licensing, patenting and the creation of start-up / spinoff. In this process, the academic entrepreneurship respects scientific norms and values, in which the academic, in the majority of cases, produces for the university, providing it with intellectual property (Siegel & Wright, 2015).

FIGURE 1. The three generations of universities



(Etzkowitz & Leydesdorff, (1997); (Etzkowitz, (2004)

The entrepreneurial university means offering technology transfer offices and science parks, it provides an emerging perspective that aims to provide a broader social and economic benefit to the university ecosystem, with the creation of entrepreneurial thinking for job generation. These involve students, alumni and entrepreneurs, as they also provide entrepreneurship centres, accelerators, student business plan competitions, collaboration networks with industry and alumni (Siegel & Wright, 2015)

The literature distinguishes between the entrepreneurial university, and entrepreneurial education which is applied at all levels of education. Furthermore, within an entrepreneurial university, two important actors need to be distinguished: the academic entrepreneur and the entrepreneurial academics. Academic entrepreneurs are academics that engage “in formal commercialization activities which often result in patent creation, license sales and or the creation of new ventures and spin out firms”. The entrepreneurial academics participate in a wider range of activities that link the university with other organizations, particularly in industry. (Alexander & Childe, 2013). In this sense, the entrepreneurial university offers opportunities not only to students and professors to connect to the outside world, but also to many stakeholders that benefit from this model. The motivation of entrepreneurial academics plays a particularly important role in connecting different stakeholders (Klein & Pereira, 2020).

Collaboration with industry has become an inevitable part of university funding and the funds from international organizations and business enterprises for R&D in the higher education sector nowadays represent a ‘significant source’ in many countries (Rybnicek & Königsgruber, 2019)

The goal of this paper is to use qualitative literature review methodology as a tool to analyse the concept of the entrepreneurial university, the main theories related to it as well as the factors that determine the existence of entrepreneurial universities.

The research has a particular importance given the stage that Albanian university are developing their entrepreneurial activities, focusing not only on qualitative teaching process but also on internationalization, cooperation with industry and commercialization of research.

Literature review process for this paper has been mainly conducted through platforms such as sciencedirect.com, researchgate.net and academia.eu. The key words used in this article are: entrepreneurial university; university-industry collaboration, knowledge transfer between university and industry. Literature review includes more than 45 articles on the entrepreneurial university policies, and the review of the website of European Commission and OECD.

The research is divided into the following session: Introduction; Definitions of Entrepreneurial Universities; Factors that determine entrepreneurial universities; Models of entrepreneurial universities; Discussions and Conclusions.

The latter sessions of the research paper have a special importance for the stakeholders such universities, academic staff, industry, and policy makers who are focused on establishment similar structures and strategies in Albania.

II. Entrepreneurial University’s Definitions

Researchers have identified several conceptual approaches to the Entrepreneurial University phenomenon, including a series of variables to define this concept. There are some similar characteristics that present the importance of factors which affect universities as follow: activities of academic staff related to entrepreneurship; contribution to the entrepreneurial setting of the society (start-ups, enterprises, etc); internal (re)organization of the university units and decision making.

TABLE 1: Definitions of Entrepreneurial University

Year	Author	Definition
1983	Etzkowitz	Universities that are considering new sources of resources such as patents, research by contract and partnerships with private companies.
	Kirby (2002)	Entrepreneurial Universities have the capacity to innovate, recognize and create opportunities, work as a team, take risks and respond to challenges

1995	Chrisman et al. Dill	The Entrepreneurial University involves the creation of new enterprises by university professors, technicians or students University technology transfer is defined as formal efforts to capitalize upon university research by bringing research outcomes to fruition as commercial ventures. Formal efforts are in turn defined as organizational units with explicit responsibility for promoting technology transfer
1998	Clark Röpke	An Entrepreneurial University, on its own, seeks to innovate in how it goes to business. It seeks to work out a substantial shift in organizational character so as to arrive at a more promising posture for the future. Entrepreneurial universities seek to become “stand-up” universities that are significant actors in their own terms. An entrepreneurial university can mean three things: the university itself, as an organization, becomes entrepreneurial; the members of the university -faculty, students, employees- are turning themselves somehow into Entrepreneur; and the interaction of the university with the environment, the “structural coupling” between university and region, follows entrepreneurial pattern.
1999	Subotzky	The entrepreneurial university is characterized by closer university-business partnerships, by greater faculty responsibility for accessing external sources of funding, and by a managerial ethos in institutional governance, leadership and planning.
2002a	Kirby	As at the heart of any entrepreneurial culture, Entrepreneurial Universities have the ability to innovate, recognize and create opportunities, work in teams, take risks and respond to challenges
2003	Etzkowitz Jacob, Lundqvist, & Hellsmark	The Entrepreneurial University is a natural incubator, providing support structures for professors and students to begin new intellectual and commercial enterprises An Entrepreneurial University is based both on the commercialization of personalized education courses, consultancy services and extension activities and on commoditization (patents or startups).
2006	Guerrero-Cano, Kirby, & Urbano	An Entrepreneurial University is defined as a university that has the capacity to innovate, recognize and create opportunities, as well as working as a team, taking risks and responding to challenges. By itself, it seeks to discover a substantial change in the organizational character to reach a more promising posture for the future
2011	Salamzadeh et al.	A dynamic system that includes special contributions (resources, culture, rules and regulations, structure, mission, business capacities and expectations from society, industry, government and the market); processes (teaching, research, management processes, logistical processes, commercialization, selection, financing and financial processes, networking, multilateral interaction and innovation, research and development activities; outputs (entrepreneurial human resources, effective research according to the needs of the market, innovations and inventions, entrepreneurial networks and entrepreneurial centers) and aims to mobilize all its resources, skills and capacities to fulfil its “third mission”.
2012	Guerrero-Cano, & Urbano Audretsch et al.	An Entrepreneurial University can be defined as a survivor of competitive environments with a common strategy, oriented to be the best in all its activities (for example, having good finances, selecting good students and professors, producing quality research). The role of universities is more than generating technology transfer (patents, spin-offs and start-ups) and, on the contrary, contributing and providing leadership for the creation of entrepreneurial thinking, actions, institutions and entrepreneurial capital.
2013	Urbano & Guerrero-Cano	The Entrepreneurial University needs to become an entrepreneurial organization, its members need to become entrepreneurs and its interaction with the environment needs to follow an entrepreneurial pattern.

2014	Melo Guerrero-Cano, Urbano, Cunningham, & Organ	The concept of the Entrepreneurial University refers to a proactive position of institutions, in the sense of transforming the knowledge generated, aggregating economic and social value. Thus, the basis for a successful performance is the proactive action to adapt to internal and external changes in an evolving society. The nature of an Entrepreneurial University is such that graduates are seen not only as future job applicants, but also as future job creators, and the organization and content of teaching activities reflect this conception
2015	Cunha & Maculan Tripl, Sinozic, & Smith	Term that characterizes universities in which the dimension of economic and social development gained strength and made them become proactive in seeking applications for their research. The business model claims that universities promote the development of their regions, engaging in patents, licensing and academic activities derived from university disciplines such as engineering, information technology and biotechnology in which the knowledge produced overlaps more easily with products and processes that industry and market structures can absorb.
2017	Etzkowitz	The Entrepreneurial University integrates the economic development at the university as an academic function along with teaching and research. It is this “knowledge capitalization” that is the heart of a new mission for the university, connecting universities with knowledge users more strongly and establishing the university as an economic actor in itself

Adapted from (Guerrero-Cano, Urbano, & Kirby, 2006); (Klein & Pereira, 2020)

Based on the above definitions, the characteristics of the Entrepreneurial University are: *the contribution to economic development with the creation of new ventures; commercialization of research; the organizational adaptation to environmental changes; the managerial and governance distinctiveness; the new activities oriented to the development of entrepreneurial culture at all levels.* Applying these characteristics, the entrepreneurial university can recognize and create opportunities, take risks, innovate, and respond to challenges (Guerrero & Urbano, 2012); (Kirby, 2002). Therefore, the entrepreneurial university is a hub which boosts economic and social development and provides support for internal and external resources by trying to work out a fundamental change in organizational character to arrive at a more promising attitude for the future.

It should be emphasized that the European Commission (EC) support and inspire actions to improve the entrepreneurial capacity of European citizens and organisations. Through several projects, EC improves and promotes the impact of entrepreneurship education in Europe and defines “An entrepreneurial university is a higher education institution which is committed to a culture of entrepreneurship and the proactive discovery and exploitation of commercial opportunities arising from its research and teaching activities a university that actively promotes and supports the creation of new businesses and commercialization of research and innovation.” (European Commission, 2023).

The European guiding framework for entrepreneurial universities, called “HEInnovate”, is published by the OECD and the European Commission and includes the most important features for self-assessment of higher-education institutions (OECD, 2012).

III. Factors that determine entrepreneurial universities

Most of the research carried out has been based on conceptual frameworks that seek to identify the entrepreneurial universities characteristics. O’Shea et al. (2004) proposed several factors that could strengthen the entrepreneurial university: policies that support and promote the process of academic entrepreneurship, top-down leadership, own funding, technological transfer offices and incubators, an entrepreneurial culture, entrepreneurial attitudes and aptitudes, access to venture capital, infrastructures and technology clusters. The literature is limited on the factors that constitute the entrepreneurial university as a whole; research aims to be focused on proposing theoretical models that are yet to be empirically demonstrated (Guerrero et al. 2011). An area of research interest is in analysing factors based on the creation of university spin-offs, which seeks to identify why some universities are more successful at generating them (Fini et al. 2009).

Based on Institutional economic theory, (Guerrero-Cano, et al. 2006) determined the environmental factors considered as framework for Entrepreneurial Universities (Table 2). *Formal factors* have been grouped into *university organizational structure and university government; support measures to university start-ups and university entrepreneurship education programmes and courses; and informal factors* into an *university attitudes to entrepreneurship; entrepreneurship programmes and subject at the university (how –teaching methodology), and role models and the academic university rewards systems.* (Guerrero-Cano, et al. 2006)

TABLE 2: Entrepreneurial universities’ factors (Guerrero-Cano, Urbano, & Kirby, 2006)

Formal factor	Informal Factor
University organizational structure and university government, Mission, Organizational structures, Strategic Management, Professionalized university manager, Independence, Flexibility. Support measures to university startups Information, consultancy, incubators, centers to new firm creation, science parks, others. University entrepreneurship education programmes Doctoral, master programmes and undergraduate courses (what and where-transversally)	University attitudes to entrepreneurship, Students, faculty members, academic and other university employees. Entrepreneurship subject at university How-teaching methodology. Role models, cases and university rewards systems Success students, faculty members, academic or other university employees. University rewards systems

(OECD, 2013) and the European Commission issued the self-evaluation tool HEInnovate (Higher Education Institutions Innovation). This tool is intended to assess the entrepreneurial and innovative potential of higher education institutions across eight key areas or factors, as follow: *Leadership and Governance; Organisational Capacity: Funding, People and Incentives; Entrepreneurial Teaching and Learning; Preparing and Supporting Entrepreneurs; Digital Transformation and Capability; Knowledge Exchange and Collaboration; The Internationalised Institution and Measuring Impact.*

Errasti et al. (2018) created a model for the measurement of the level of academic entrepreneurship among faculties and universities, based on thirteen factors: *Legal and administrative context; business and organisational context; entrepreneurship funding; training in entrepreneurship for faculty staff; inclusion of professionals from businesses and organisations in the development and delivery of the curriculum; mission and strategy; policies and procedures; support from the management team; organisational design; training and research in entrepreneurship; extra-curricular training; active methodologies; and internationalisation.*

Urbano & Guerrero (2013) based on several studies, that were related to: *Entrepreneurial university's factors that influence academic entrepreneurship; Entrepreneurial university goals; Determinants of the production functions or regional economic growth under the endogenous growth theories; Contributions or impacts of the contemporary universities on the economic growth* (Guerrero & Urbano, (2012); Solow, (1956); Romer, (1986); Coleman, (1988); Audretsch & Keilbach, (2004); Goldstein & Renault, (2004); Bramwell & Wolfe, (2008); Vogel & Keen, (2010); Lendel, (2010) determined the socioeconomic impacts of entrepreneurial universities with internal and environment factors and the potential outcomes associated with them are presented in Table 3.

TABLE 3. Socioeconomic Impacts of Entrepreneurial University and Academic

			Socioeconomic	impacts
Activities	Inputs	Outcomes	Determinants	Impacts
Teaching	<ul style="list-style-type: none"> • Support measures (entrepreneurship education) • Attitudes toward entrepreneurship • Resources (human, physical, and financial) 	<ul style="list-style-type: none"> • Job seekers • Potential entrepreneurs 	<ul style="list-style-type: none"> • Human capital 	<ul style="list-style-type: none"> • Productivity gains • Mobility (attraction of foreign students and exchange of locals) • Employment (labor insertion)

Research	<ul style="list-style-type: none"> • Support measures (knowledge and technology transfer) • Attitudes toward Entrepreneurship • University reward system • Resources (human, physical, and financial) • Capabilities (alliances and networks, status and prestige) 	<ul style="list-style-type: none"> • Research talent • Academic entrepreneurs • Knowledge generation (scientific papers) • Knowledge transfer (patents, licenses, contracts) 	<ul style="list-style-type: none"> • Human capital • Knowledge capital • Social capital 	<ul style="list-style-type: none"> • Productivity gains and Competitive advantage • Mobility (attraction of foreign researchers and exchange of locals) • Citations and visibility of knowledge • Spillover effects with the local industries and economic agents
Entrepreneurial	<ul style="list-style-type: none"> • Organizational structure • Governance structure • Support measures (start-ups) • Role models • Resources (human, physical, and financial) • Capabilities (alliances and networks, status and prestige) 	<ul style="list-style-type: none"> • Entrepreneurial university culture • Intrapreneurs at all university levels 	<ul style="list-style-type: none"> • Entrepreneurship capital • Social capital 	<ul style="list-style-type: none"> • Regional dynamics, networks, identity • Attract inversion • Increase the number of enterprises • GDP • Social benefits

Entrepreneurship (Urbano & Guerrero, 2013)

Although the entrepreneurial Universities play an essential role to economic development in different countries, it should be noted that some critics defend thesis that universities should limit themselves to traditional academy-industry relations such as consultation or the dissemination of researches through scientific publications (Etzkowitz, Webster, Gebhardt, & Cantisano, 2000). These authors think that a donor-dependant and money-seeking university might negatively influence its crucial role of independent critic of society.

IV. Theoretical models

The entrepreneurial university model refers to a type of university that prioritizes innovation, entrepreneurship, and commercialization of research and development. These universities are typically focused on fostering a culture of innovation and encouraging students and faculty to create new businesses and commercialize their research. The model is often characterized by close partnerships between universities and industry, with universities actively seeking out collaborations and partnerships with businesses to commercialize their research and bring new technologies to market. Entrepreneurial universities often have dedicated programs and resources to support entrepreneurship, such as business incubators, entrepreneurship

centers, and startup accelerators. They may also offer entrepreneurship courses and programs to help students learn the skills and knowledge necessary to start their own businesses. The literature provides eight models, which, based on formal and informal factors, describe the Entrepreneurial Universities.

The first model is suggested by Clark in 1998, who provided the entrepreneurial transformation models of 5 European Universities. He identified that a university to become more entrepreneurial when it has an institutional transformation follows five elements or pathways: three associates with formal factors, a strengthened steering core, an expanded developmental periphery, and a diversified funding base; and two with informal factors, an integrated entrepreneurial culture and a stimulated academic heartland (Klein & Pereira, 2020).

Afterwards, Etzkowitz et al. (2000) explained the mechanism and emergent structures to development Entrepreneurial Universities. It can be obtained thought of next formal process: i) internal transformation that includes a revision of existing tasks, ii) trans-institutional impact with projects that help to archive a stabilization, iii) interface process where a centralized institution to became decentralized and iv) recursive effects with the collaboration of trilateral organizations. Etzkowitz et al. (2000)

Interestingly, Sporn (2001) built a model for studying the adaptation of higher education and connect the university structure and environmental forces thought the management, governance and leadership. In conclusion, she shows six formal factors (missions and goals, the structure, the management, governance and leadership), one informal factor (organizational culture) in the adaptation process, and one moderator (environment). (Guerrero & Urbano, 2012)

The following model was proposed by Etzkowitz, 2004, who studied five inter-related propositions derived from his analysis of entrepreneurial universities in USA, Europe and Latin America. This is a guideline for institutional renovation that includes the follows formal factors: capitalization of knowledge, interdependence with the industry and government, independence with another institutional spheres, hybrid organizational forms and renovation in every time (Klein & Pereira, 2020).

And recently, Kirby (2005) offers seven strategic actions intended to promote an enterprise that has been identified as formal factors those strategic actions related with the organization, the endorsement, the incorporation, the implementation and the communication. And as informal factors those actions related with the promotion, the recognition and reward, and the endorsement (Guerrero-Cano et al. 2006).

Table 4 presents the integration of theoretical elements of each model; the majority has identified both formal and formal factors in their studies

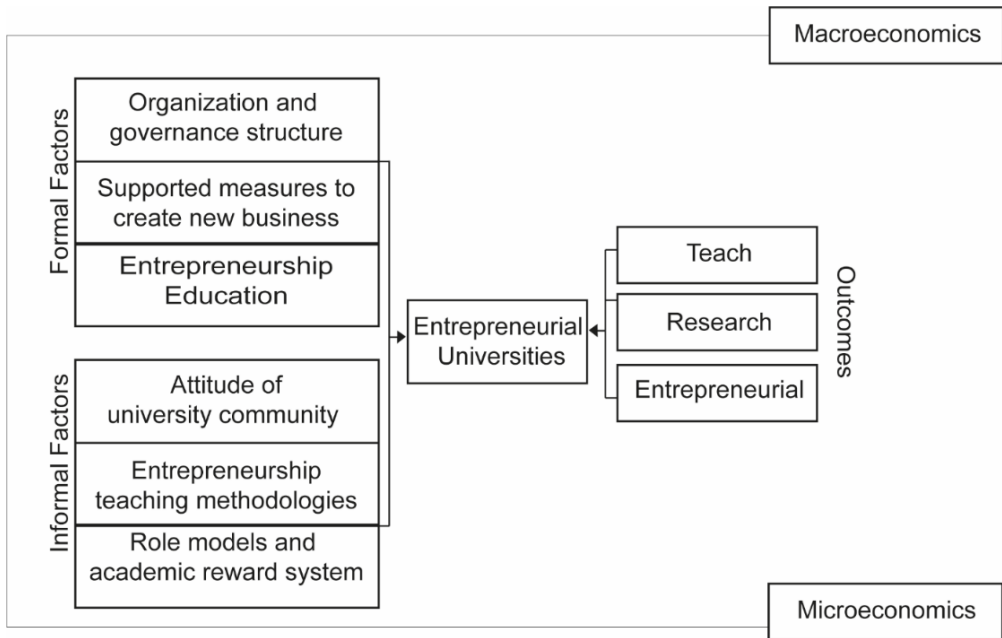
TABLE 4: Theoretical models about Entrepreneurial University

Model	Formal Factors			Informal Factors		Moderators
Clark 1998	A strengthened steering core	An expanded developmental periphery	A diversified funding base	A stimulated academic heartland	An integrated entrepreneurial culture	
Sporn 2001 Model	Mission and goals, Structure, management, governance and leadership		Networks, conglomerates and strategic alliances		Culture	Environment
Etzkowitz 2004 Model	Interdependence with the industry and government and independence with another institutional spheres	Hybrid organizational forms	Capitalization of knowledge		Renovation	
Kirby 2005 Model	Incorporation Implementation Communication Organization.		Encouragement and Support	Recognition and reward.	Endorsement. Promotion	
Guerrero, Urbano, Kirby 2006 Model	University organizational structure and university government	University education Support university start- incubators and entrepreneurial	entrepreneurship programmes measures to ups, university others activities	Teaching methodology and academic reward systems	Institutional values, university attitudes towards entrepreneurship, role models	Macroeconomic and microeconomic influences that affect at higher education

(Guerrero-Cano, Urbano, & Kirby, 2006)

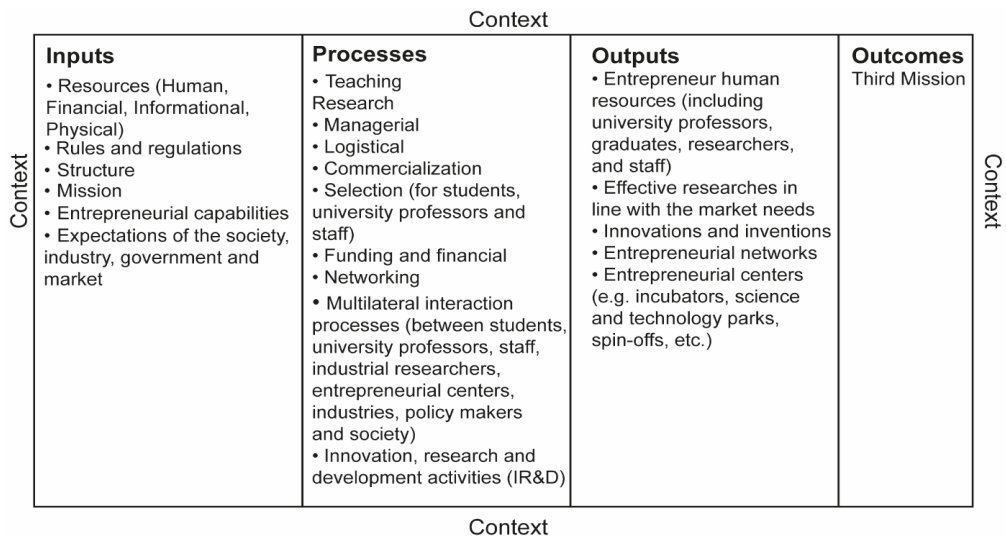
Based on the literature revised and in the light of Institutional Economics, Figure 2 shows the model proposed by Guerrero-Cano et al. (2006) to analyze the factors that affect the creation and development of Entrepreneurial Universities, considering the macroeconomic and microeconomic factors that can influence in this process and finally the outcomes obtained following the three-mission proposed by Etzkowitz.

FIG. 2. Guerrero-Cano, Kirby and Urbano 2006 model



Based on the Systems Theory, Salamzadeh et al. (2011) develop an Entrepreneurial University model, with a systematic approach to the IPOO (Input-Process-Output-Outcomes) model. The model originated from the respective research is presented in Figure 3.

FIGURE 3 - IPOO model (Salamzadeh, Salamzadeh, & Daraei, 2011)



Based on the models of Guerreiro-Cano et al. (2006) and Salamzadeh et al. (2011) (Sooreh, Salamzadeh, Safarzadeh, & Salamzadeh, 2011) develop a new model (Fig4).

FIGURE 4 - Sooreh, Salamzadeh, Safarzadeh e Salamzadeh model

		Environmental Factors		Internal factors
		Formal	Informal	
Input		<ul style="list-style-type: none"> • Entrepreneurial policies and missions of the higher education system • Characteristics of the university manager • Communication channels available • Business courses available • Business programs available 	<ul style="list-style-type: none"> • Potential student intentions • Potential students desire • Feasibility of potential students • Academic intentions • Academic feasibility 	<ul style="list-style-type: none"> • Existing students, academics and staff • Financial resources • Informative resources • Entrepreneurial skills • Expectations of society, government of industry and market • University Entrepreneurial Mission
	Process	<ul style="list-style-type: none"> • Organizational structuring • Systems and procedures • State Autonomy • Determination of hierarchical levels • Expenditure invested in support measures • Expenditures invested in communication channels 	<ul style="list-style-type: none"> • Teaching resources • Training teacher • Rewarding environmental processes 	<ul style="list-style-type: none"> • Rules regulation • Teaching methods • Management methodologies • Logistic methods • Marketing processes • Student selection methods • Financing methods • Networking • Multilateral interaction processes (between students, university professors, employees, industrial researchers, business centers, industries, policy makers and society) • Innovation, research and development activities (IR & D) • Reward systems and compensation processes
	Output	<ul style="list-style-type: none"> • Entrepreneurial network systems • Conglomerates and strategic alliances • Marketing and convention systems 	<ul style="list-style-type: none"> • Custom templates • Corporate culture 	<ul style="list-style-type: none"> • Entrepreneur's human resources (including university professors, graduates, researchers and employees) • Effective researchers in line with market needs • Innovations and inventions • Entrepreneurship centers (for example, incubators, science and technology parks, spin-offs, etc.)

This model uses nine blocks: formal, informal and internal inputs; formal, informal and internal processes; formal, informal and internal outputs. In the “input” block, the environmental factors based in the study by Guerrero-Cano et al. (2006) are categorized, while the “outputs” correspond to the elements referenced at the Entrepreneurial University itself through the result of the authors’ research,

The collaboration of the study by Salamzadeh et al. (2011) focuses on the structure of the model and maintains the emphasis on the “input process-output” method and the elements listed. However, this model is developed based on the Iranian context, and the authors emphasize that this one is suitable for that region (Klein & Pereira, 2020).

V. Discussion & Conclusions

Referring to the Entrepreneurial University’s literature review, there are four areas of research: a) *taxonomy of definitions*; b) *factors that affect the Entrepreneurial University*; c) *effects of entrepreneurial issues on university activity*; d) *measurement of the Entrepreneurial University’s performance*. emphasizing an integration model of learning processes for university innovation (Centobelli, Cerchione, & Esposito, 2019).

From the “Triple Helix Model” approach (Etzkowitz & Leydesdorff, 1997) that investigates the interactions between university-government-enterprise, the literature recognizes the “Quadruple helix model” (Carayannis & Campbell, 2009) that investigates the interactions with civil society and the media. While the “Development Model of an Entrepreneurial University” (Guerrero-Cano & Urbano, 2012) brings as a lens the resources, capacities, structures and attitudes for the development of the Entrepreneurial University (Klein & Pereira, 2020).

Entrepreneurial universities as natural incubators provide an adequate atmosphere in which the academics, students and staff can identify, explore and exploit innovative and creative ideas that could be transformed into new ventures (Kirby DA, Guerrero, & Urbano, 2011). The academic entrepreneurship occurs at the boundaries of different scientific and professional backgrounds. There are critics who doubt that the technical sector is the right place to implement an entrepreneurial university because the concept includes numerous elements of business education and it influences the autonomy of the universities (Krimsky, Ennis, & Weissman, 1991). Furthermore, the entrepreneurial universities phenomenon has gained the attention of academics, governments, and policymakers in developed countries, and the existing literature provides insights about the transformation process of entrepreneurial universities in these countries (O’Shea R. et al, 2005; Guerrero & Urbano, 2012). The literature on entrepreneurial universities is limited for the developing countries (Guerrero, Urbano & Salamzadeh, 2015). In developing countries, the human resources seem to be the most critical element in the entrepreneurial transformation process of the universities, because of the lack of talented staff and low funding from the state (Guerrero, Urbano & Salamzadeh, 2015).

Scholars agree on the high potential of entrepreneurial universities in today's unforeseeable markets. Based on literature review, the steps to go towards the entrepreneurial university are: *Develop the strategic and institutional capacity for U-I cooperation; the formulation of a clear strategy for the U-I cooperation; Develop a culture helpful to thinking and acting entrepreneurially; Increasing entrepreneurial education, appointing the faculty of entrepreneurship faculty; Providing incentives and rewards to academics for entrepreneurship; Incorporate entrepreneurial skills into staff recruitment and promotion; determine goals and measurable actions of different people in the institution; develop a monitoring system; etc* (Ranga, 2020)

It is important to facilitate two-way flows of people, ideas between universities and industries through the participation of business professionals and entrepreneurs in university governance, in teaching and curriculum development; more company placements and internships for students and to develop programmes according to the needs of companies (Kallaste, Poder, Raudsaar, & Venesaar, 2017).

Also, the involvement of policy makers is very important, because the higher education policy should be coordinated with wider economic and social policies. There is also significant opportunity for connecting higher education policy to emerging policies in digitalisation, green transition and industrial transformation (Dinh & Hoang, 2021). The entrepreneurial university cannot be separate from an external environment that promotes innovation and commercialization activities (Din Van Toan, 2020). This environment forms an ecosystem for business development through entrepreneurship support associated with innovation and creativity from academia.

For Albanian Higher Education Institutions context, the entrepreneurial transformation process is still in an initial phase, also different when it comes to public and private owned universities. While private universities have a slightly more developed sense of entrepreneurial activities and autonomous ecosystem, the state owned one still lack the spirit of initiative, creativity, and competitiveness. The overall governance model does not allow much for a systematic model of entrepreneurial universities to develop. Inert alia, the legal and institutional framework should be improved and aligned to promote academic freedom and democratic governance of the three-level governance mechanism (university, faculties, and disciplines). On the other hand, autonomy and accountability of universities is still in a transitional phase, which puts an obstacle into the entrepreneurial university model.

Overall, the above-mentioned challenges should be addressed in a micro and macro level to form an entrepreneurial and autonomous ecosystem for universities as well as foster regional competitiveness.

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“Fear” of the free exchange rate – The case of Albania

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Abstract

The consumer society of nowadays would have struggled to exist in the last century; money, which today carries no intrinsic value (legal tender), used to hold value by being linked with precious metals. The exchange rates of each country's currency were determined by the quantity of precious metals each country possessed in its central bank's coffers. After the collapse of the fixed-rate system, the determinants of exchange rates have been hard to find. Given that the continuous widening of the Albanian trade deficit, as well as the continuous strengthening of ALL against Euro, this study aims to investigate whether fundamental factors affect the ALL-EUR exchange rate, at all. In addition, this study examines whether this exchange rate has been influenced by the Bank of Albania's interventions in the (domestic) foreign exchange market. The study is based on a quantitative analysis, with secondary data obtained from INSTAT and the Bank of Albania. The data are quarterly and have been collected for a period of 14 and a half years, from the first quarter of 2008 to the second quarter of 2022. The graphical analysis and regression results showed that fundamental factors significantly affect the ALL-EUR exchange rate and that the interventions by the Bank of Albania, in the foreign exchange market, have not had a statistically significant impact on the (domestic) exchange rate.

Keywords: Money, exchange rate, fundamental factors, trade deficit, interventions in the foreign exchange market.

I. Introduction

In a small and open economy like Albania, the fundamental factors are those that should guide the supply and demand for currency in the foreign exchange market. The continuous strengthening of ALL² seems to be turning into a “Euro tax” for the average Albanian citizen. Given that Albania has a long history of trade deficit, but on the other hand, a currency that keeps getting stronger, the issue that is raised is what is the key determining factor affecting the ALL-EUR exchange rate. At the same time, Bank of Albania has pursued multiple interventions in the foreign exchange market, with the main purpose of increasing the foreign exchange reserve. Some authors consider those interventions as a “fear” of the free exchange rate and as a distortion of the real supply and demand of the market forces. Thus, the purpose of this study is to assess to what extent the EUR-ALL exchange rate is influenced by fundamental economic factors and if it has been affected by the interventions of the Bank of Albania, itself.

² Albanian currency – LEK - ALL.

The main objectives and goals of this study are:

- Finding out whether the fundamental factors have an impact on the ALL-EUR exchange rate.
- Discovering the direction and strength of the influence of fundamental factors on the exchange rate (exports, imports, FDI, interest rate, inflation, remittances, etc.)
- Examining whether the ALL-EUR exchange rate is affected by the Bank of Albania's interventions in the foreign exchange market.
- Discovering the factors that are causing a continuous strengthening of ALL against the Euro.
- Giving recommendations for an efficient monetary policy.

The research questions of this paper are:

- Do fundamental factors significantly affect the ALL-EUR exchange rate?
- Has the ALL-EUR exchange rate been affected by the Bank of Albania's interventions in the foreign exchange market?

The hypotheses of this paper are:

- Fundamental factors do not significantly affect the ALL-EUR exchange rate.
- The ALL-EUR exchange rate is significantly affected by the Bank of Albania's interventions in the foreign exchange market.

1.1. Methodology

In order to conduct the study, data with quarterly frequencies were collected from secondary sources, for a period of 14 and a half years, from the first quarter of 2008 to the second quarter of 2022, obtaining a total of 58 observations. The data were collected from the websites of Bank of Albania and Institute of Statistics (INSTAT). More specifically, the information from INSTAT was used for inflation, while Time Series Statistics and the Balance of Payments statement from the Bank of Albania were used for the rest of variables. Data for the qualitative binary variable were obtained from quarterly statements of the Bank of Albania, regarding interventions in the money and foreign exchange markets. The relationship of the variables has been examined with a multiple linear regression model, making the relevant tests for the validity of the model. These tests involve testing Gauss-Markov assumptions.

The dependent variable is the ALL-EUR exchange rate and the independent variables are the fundamental economic factors, such as: exports, imports, foreign direct investments, inflation, interest rates, and remittances from immigrants. A binary “dummy” variable is also included as an independent variable, in order to see whether the exchange rate has been affected by the Bank of Albania’s interventions in the foreign exchange market.

II. Literature review

When it comes to floating exchange rate regimes, the answer initially seems simple: supply and demand for the currency also determine its price. This statement is true but complicated. Demand and supply in the foreign exchange market depend on interactions and conditions in other real and financial markets (Hacche, 1983).

II.1. Exchange rate determinants

The first theory that analyzes the determinants of exchange rates is considered that of Purchasing Power Parity (PPP). When the Gold Standard stopped working well and most of the world’s countries were experiencing economic instability from World War I, Gustav Cassel argued that exchange rates between countries should reflect their level of inflation. Countries had to calculate the level of inflation since 1914 and use their inflation differentials to set an exchange rate that would allow purchasing power parity between different currencies (Rogoff, 1996). In its entirety, PPP says that a certain amount of a currency of any country should buy in international markets the same amount of goods that it buys in its own country. Thus, the nominal exchange rate between the two countries should be determined by their price level. Economists see this theory as a good descriptor of the economy in the long run (Taylor & Taylor, 2004). On the other hand, the Mundell-Fleming model, which assumes fixed prices in the short term, asserts that monetary policy is one of the main factors that determine the exchange rate (Mundell, 1963).

Other macroeconomic factors such as: exports, imports, trade balance, inflation, interest rate or even economic growth, are considered theoretically and empirically as main determinants of the exchange rate.³ An increase in exports increases the demand for the domestic currency and causes its appreciation, while an increase in imports increases the supply of the currency and causes its depreciation (Levi, 2005). Interest rates affect investments and inflows and outflows of financing capital (Szulczyk, 2014). If a country has a higher interest rate than other

³ For more empirical studies on exchange rate determinants see: Lane (1998), Clarida & Gali(1994), Chavan & Shafiqhi (2021), Kabi et al., (2014), My & Sayim (2016), Mirchandi (2013), (Tanku & Vika, 2019).

countries, it attracts foreign capital and consequently causes the local currency to strengthen. When the interest rate of a foreign country increases, the demand for the local currency by foreigners decreases and the supply for its sale by the locals also increases. As a result, the local exchange rate against the currency of the country with the highest interest rate depreciates (Madura, 2018). Economic growth leads to increased investments and exports. Exports, on the other hand, bring current account surpluses and pressure to strengthen the real exchange rate. This relationship is known as the Balassa-Samuelson hypothesis, which states that rapid economic growth is associated with the strengthening of the real exchange rate, due to the productivity differential between tradable and non-tradable sectors (Ito et al., 1997). Lane (1998) was of the same opinion. He argued that if the real exchange rate is not constant (as the PPP theory says), then economic growth can affect the real exchange rate and therefore the nominal exchange rate as well.

On the other hand, if we take a look at the historical aspect, we will also notice that monetary policy has always played an important role in determining the supply and demand of the currency in the market. When the Gold Standard was the most widely used monetary system, not all countries followed the so-called “rules of the game”. Great Britain raised its interest rates when faced with current account deficits and coped with the fact that domestic prices would fall, but France and Belgium did not. In addition, many states intervened in the domestic market by buying and selling securities in order to maintain the money supply and the amount of gold in circulation (Bordo, 1981). Even during the Bretton Woods system, the main challenge of the system was maintaining credibility (Bordo, 1992). The following section expands on this point of view.

II.2. Reasons for “fear” of the free exchange rate

Most of the literature on this issue focuses on the differences between different exchange rate regimes. What are the desirable characteristics of fixed and flexible regimes? Fixed regimes provide exchange rate stability and ease of international trade while flexible exchange regimes provide the independence to pursue full employment policies. Both regimes have their downsides. In fixed regimes, the money supply is oriented toward maintaining the balance of trade equilibrium and the local economy is subject to business cycles from other economies. In flexible regimes, countries try to use competitive *beggar-thy-neighbour* devaluation policies (Bordo, 1992). In free floating regimes, countries with higher inflation rates than their trading partners often devalue their currencies to prevent a severe loss of competitiveness (Aziz & Caramazza, 1998). They try to calm market expectations about the exchange rate as expectations are seen as self-fulfilling (Mankiw, 2015). High exchange rate fluctuations motivate speculative behaviors from agents in

the market (Filardo et al., 2011). In addition, countries with high foreign debt do not prefer high fluctuations in the exchange rate, as they limit the ability of the Monetary Authority to be the “lender of last resort” (Calvo & Reinhart, 2000).

This side of the view has received a lot of attention in recent years, especially after the pioneering study of Calvo & Reinhart (2000). According to the authors, countries that claim to follow a floating exchange rate regime do not actually do so. Their main hypothesis was that lack of credibility in the monetary authority causes the monetary authority to fear “free swings” and to stabilize the exchange rate. In addition, the lack of credibility will show other symptoms such as mass dollarization of obligations and in emergency situations this will limit the bank’s ability to act as a “lender of last resort” (Calvo & Reinhart, 2000). The authors examined 39 countries and analyzed monthly data of exchange rates, foreign reserves, monetary aggregates and interest rates. They argued that if countries had this “fear of floating” they would show high volatility of interest rates, foreign reserves or monetary aggregates and in turn, a stable exchange rate. They calculated the probability that the monthly percentage change of the variables would fall within a certain band⁴ and then compared it to countries part of the “G-3”⁵ benchmark.

For example, for the USA there was a 59% probability that the US\$/DM exchange rate would fall in the band +/- 2.5%, while for Bolivia, Canada and India this probability was 94-96%. The probability of other countries averaged 79.27%. The result is very surprising given that developing countries are more prone to economic shocks. The opposite was for the changes in the foreign exchange reserve and the monetary base. In the case of the “G-3” countries, this probability was 62% and 74%, while the average of other countries was 34%. This high volatility means that countries are using these variables in order to stabilize their exchange rate (Calvo & Reinhart, 2000). Other authors have disputed this approach.⁶

III. General analysis for Albania

Albania follows a free - floating exchange rate regime. The value of the local currency against foreign currency is determined by supply and demand in the foreign exchange markets. The Bank of Albania has always held the position that exchange

⁴ The chosen band for the interest rate was +/- 25 basis points and +/- 50 bp. It was considered a narrow band because after the ERM crisis most EU countries set the exchange rate at the +/- 15% band. For the other variables, the chosen bands were +/- 1% and +/- 2.5%.

⁵ USA, Japan, and Germany are chosen as benchmarks since their currency is considered to be close to a “pure float”.

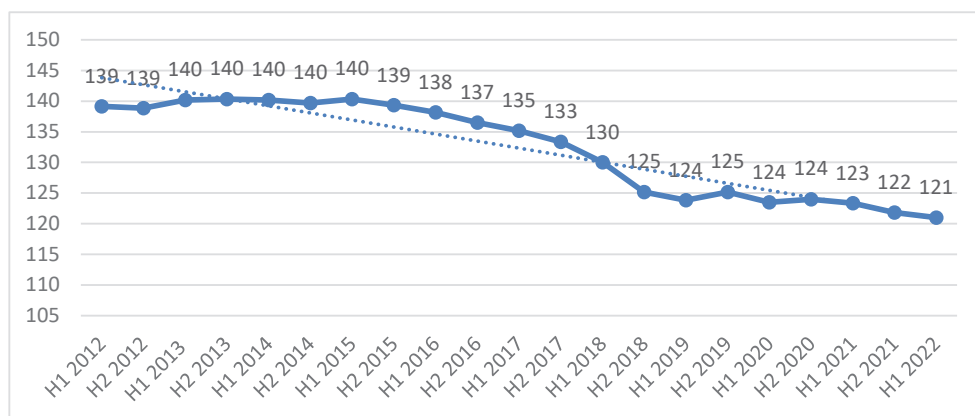
⁶ Ball & Reyes (2004) found that the inflation targeting regime is distinct from fixed, free, managed free regimes or those who fear free floating. Countries with reliable inflation-targeting policies were found to be similar to countries with fluctuating regimes. These results were also found in the case of Turkey in the study of Vasif & Munise (2014).

rate fluctuations reflect the free movement of goods and capital and the financial transactions of Albania with its trading partners. As in any country in the world, the Central Bank is allowed to intervene in the foreign exchange market when it sees fit. The Bank of Albania claims that it intervenes, in order to adjust the exchange rate to the level determined by key macroeconomic factors, avoid disruptions and increase or decrease the foreign currency reserve (Bank of Albania, n.d).

III.1 Progress of the Lek - Euro exchange rate

The ALL-EUR exchange rate has experienced rapid appreciation over the past few years. Figure 3.1 presents the average exchange rate divided into six-month periods for the last 10 years.

FIGURE 3.1 Average ALL-EUR exchange rate



Source: Bank of Albania (2022)

We see that the local currency has strengthened compared to the euro. If we analyze demand and supply we face two options: either the demand for the local currency has increased, or its supply has decreased. The possibilities that the supply has decreased are few, since the country has been experiencing for years a deepening of the trade deficit. This strengthening cannot be fully explained from the demand either, because the trade deficit would have to be a colossal surplus, or primary and secondary incomes in the balance of payments show rapid growth rates, while we will see that they appear statistically normal.

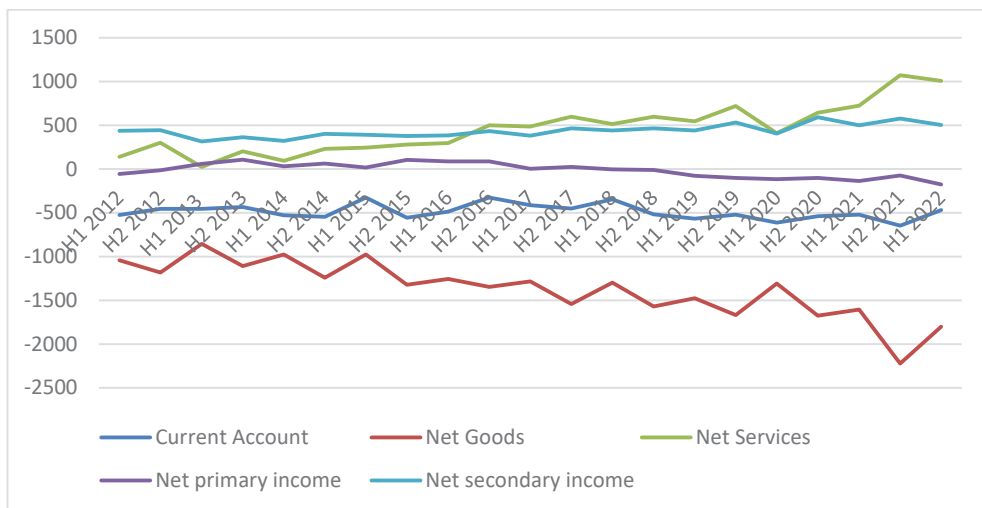
In the graph, we notice that the exchange rate strengthens during the second half of each year. This period summarizes the effect of the summer season and the year-end holidays where many Albanian immigrants come to their homeland. Mainly they come from the EU countries and as a result they bring inflows of euro currency and cause the strengthening of the local currency. From the graph, we see a strong

strengthening of the local currency in 2017. One reason could be the psychological effect that was created in the market when Bank of Albania published the cooperation memorandum for the de-euroization of the economy (Bank of Albania, 2017). The market experienced this decision as a “war” against the euro. (Monitor, 2017).

III.2. Supply, Demand and the ALL-EUR exchange rate.

In the literature review section we mentioned that demand and supply are determined by other real and financial factors. A good part of them should appear in the Balance of Payments accounts. Figure 3.2 gives us a picture of the relationship between the current account of the balance of payments and the performance of the ALL-EUR exchange rate in Albania over the last 10 years. The data are expressed in millions of Euros. The current account line refers to the sum of other subcategories such as: net goods, net services and net income. Net goods refer to the trade balance, while net services include mostly tourist activity. Primary income is mainly income from work, while secondary income is mostly remittances from immigrants (Ruçi, 2006).

FIGURE 3.2 Current account flows



Source: Bank of Albania (2012-2022)

During these 10 years, the current account in Albania has only experienced a deficit, mainly as a result of the massive deficit of trade balance. A high current account deficit indicates that the country is sending more money abroad to buy goods, services or to pay for other countries than it is receiving for sales of its own goods and services. So, in countries with a current account deficit, the supply of the local currency should be high, and thus should exert downward pressure on the exchange rate. The opposite has

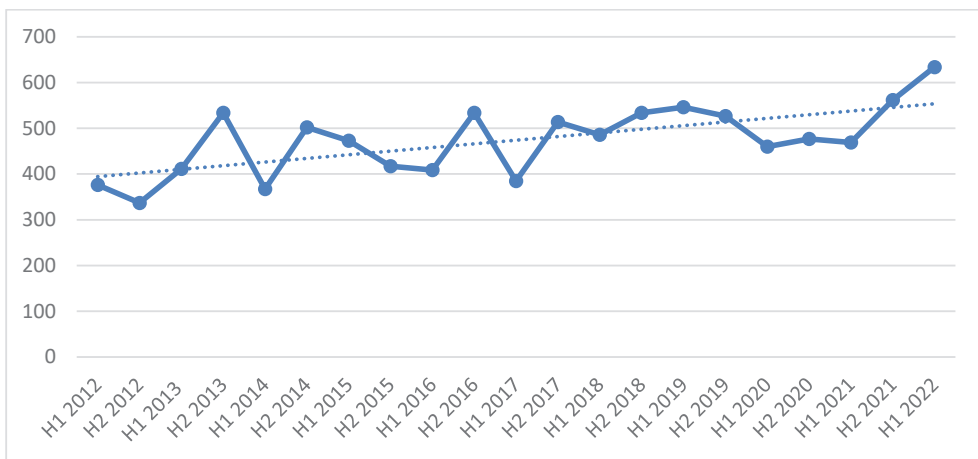
happened in Albania. The current account has been experiencing a negative balance for years, but on the other hand, the currency keeps getting stronger.

The current account curve follows the appropriate form to determine the exchange rate. During the second half of most years when the exchange rate strengthens, the current account deficit decreases. This is in line with the theory. A decrease in the current deficit comes as a result of a decrease in outflows for the purchase of imports, or an increase in inflows from increased exports, both of which strengthen the local currency. On the other hand, the line in its entirety does not explain the continued strengthening of the exchange rate.

The other lines of the chart also show us that the ALL-EUR exchange rate responds to demand and supply. For example, both the net secondary income curve and the net services curve rise during the second half of each year. We see that net services and secondary income have experienced the greatest growth during this decade. Both of these factors increase foreign exchange flows and affect the strengthening of the exchange rate. The net goods line moves in the opposite direction to what the theory says about exchange rates. When the trade deficit deepens, the exchange rate must depreciate, while in the case of Albania it appreciates. This may also be a consequence of the inverse relationship between them, that is, when the exchange rate is appreciated due to other stronger factors, it causes a deepening of the trade deficit.

Another important factor that affects currency flows is Foreign Direct Investment. In Albania, European Union countries account for 40% of the total stock of FDI (ODA, 2022). The figure below shows FDI over the past 10 years. The data are expressed in millions of Euros.

FIGURE 3.3 Foreign direct investments



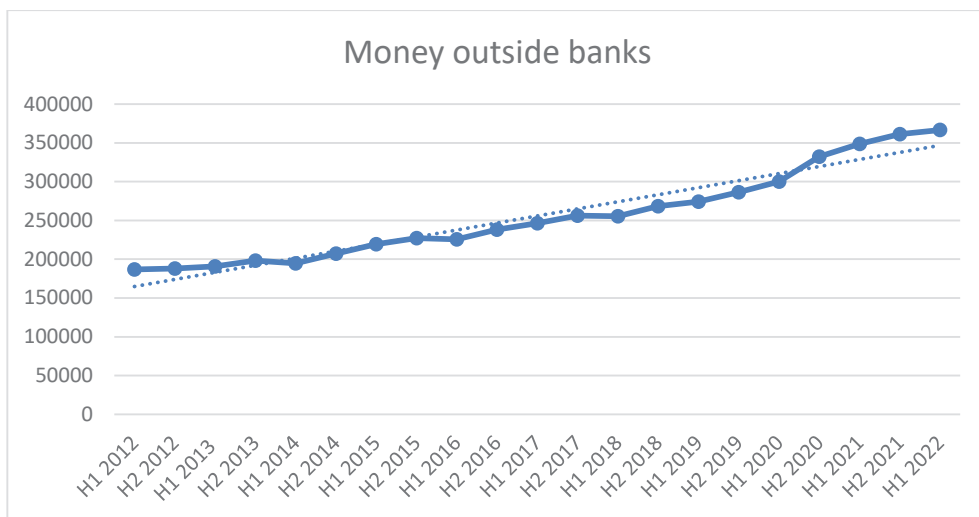
Source: Bank of Albania (2012-2022)

FDI has been increasing, but there have been numerous and deep periods of decline. From H1 2017 onwards we see an increasing trend of FDI. This period coincides with the strengthening of the local currency. The high and low points of the chart appear to follow a statistical trend. FDI reaches its peak during H1 2022, capturing a value of 634 million euros. In this period, the ALL-EUR exchange rate has also reached the minimum level. So this strengthening of the local currency may also have come as a result of the rapid growth of FDI in the first 6 months of 2022.

III.3. Money flows from illegal traffic

Many local economists judge the situation of continuous strengthening of ALL currency, as the cause of money coming from informal routes. Since the fundamental economic indicators cannot fully explain the appreciation of the local currency over the years, even after the purchases of the euro currency at auction by Bank of Albania, the only explanation remains that of informal flows (Zefi, 2021). Because these flows cannot be measured at reliable levels, an analysis can be done by looking at some other important variables. The following charts provide an overview of this issue.

FIGURE 3.4 Money outside banks



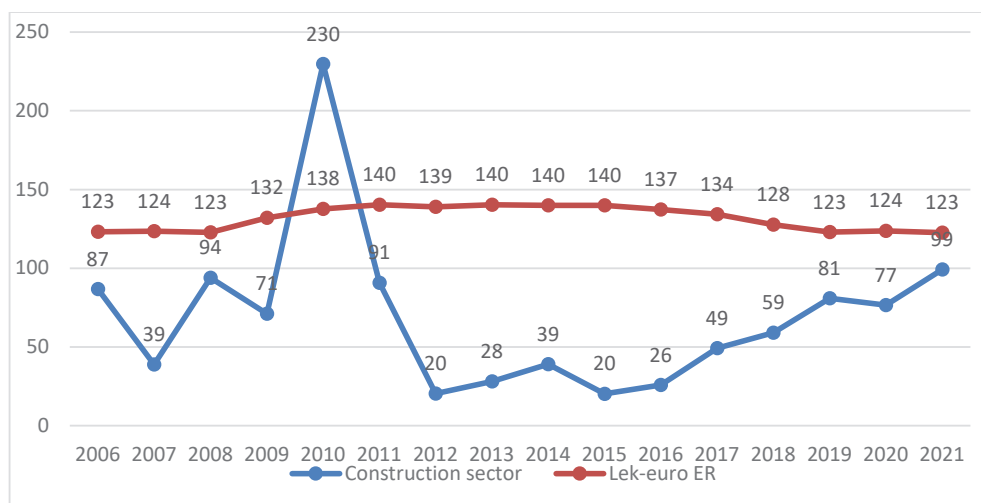
Source: Bank of Albania (2012-2022)

From 2012 to 2014, we see that this indicator has increased slightly, and in some segments, it has even decreased. After 2015, cash experienced relatively rapid growth. Since credit and deposit withdrawals have not shown any large fluctuations, this indicator shows the informal money that enters unmeasured at the border points. According to Xhepa (2020), there are two reasons for this phenomenon. The first theoretical reason

has to do with the fact that the preference to keep cash is great because the cost of keeping money in banks is high. But, according to him, the real reason for the growth of this indicator is more an indicator of the increase in informality and ‘underground’ payments, which includes the money that comes from illegal traffic (Monitor, 2020). From the graph, we see that the upward trend after 2015 coincides with the downward trend of the exchange rate, so the more the money outside banks has increased, the more the lek currency has appreciated compared to the euro.

Money outside banks is not the only indirect indicator of informal money flows. It is believed that this money is invested in real estate. Figure 3.5 provides an overview of this issue. The graph in the figure shows the value of new construction permits and the ALL-EUR exchange rate from 2006 to 2021. The value of construction permits is expressed in billion lek and this variable measures both the number of new permits and the corresponding areas during a year.

FIGURE 3.5 The construction sector and the Lek - Euro exchange rate



Source: INSTAT and Bank of Albania (2006-2021)

First, we see that from 2006 to 2007, building permits in value fall by 55% and the exchange rate depreciates by 0.8%. From 2007 to 2008, building permits increase by 141% and the exchange rate is estimated at 0.8%. From 2008 to 2009 permits are reduced by 24% and the exchange rate depreciates by a whopping 7.3%. This large devaluation may be due to the financial crisis. From 2009 to 2010, building permits increase by 223%, but the exchange rate depreciates. So, this year we cannot explain a logical connection between these two variables. In 2012, several political problems occurred in Albania and construction permits were blocked. We can see that during that period the exchange rate was at its highest levels, so the

Lek was depreciating. In the entirety of the graph, it is observed that since 2010 and later the relationship between the two variables is greatly strengthened. When constructions are at low levels, the exchange rate of the lek against the euro tends to depreciate. From 2010 to 2015, the ALL-EUR exchange rate has been at its highest levels, and construction at its lowest values. Also, from 2016 where we see a very rapid increase in construction, we also see the rapid strengthening of ALL.

In addition to the increase in money outside banks and building permits, we see another important factor. The credit given to the construction sector has the same levels, and in some cases it has even decreased. This situation shows that most constructions are being financed with money outside the banking system, which is not necessarily informal money (Meka, 2019). The table below gives an overview of this issue for the last five years. It presents building permits as number, area and value. It also provides new construction loans and the loan/construction permit value ratio to show the percentage of the construction permit value that is being financed by bank loans.

TABLE 3.1 Construction and construction credit

Period Sum Growth	Construc- tion permits (number)	Construction permits (m2)	Construction permits (billion ALL)	New loans for construction (billion ALL)	Loan/value of permits (%)	Construction loans/ business loans (%)
H1 2017	298	321251	25.2	11.9	47.4	12.1
H2 2017	521	272451	23.9	15.5	65.0	13.8
H1 2018	491	493839	21.6	9.7	44.7	10.8
H2 2018	703	948944	37.3	14.1	37.9	13.6
H1 2019	555	990784	42.0	9.7	23.1	11.4
H2 2019	245	462967	37.3	13.8	37.0	14.1
H1 2020	393	655939	28.2	9.5	33.9	12.7
H2 2020	568	952272	48.4	11.7	24.3	10.8
H1 2021	598	1143573	49.7	13.9	28.1	20.4
H2 2021	789	1108393	49.5	19.2	38.9	18.6
H1 2022	736	1575215	64.9	25.15	38.8	20.1
Sum	5897	8925628	428.0	154.3	-	-
Total Growth (%)	1878	2678	1601	1196	-	-

Source: INSTAT, Bank of Albania and authors' calculations (2017-2022)

In its entirety, the table shows us that from H1 2017 to the H1 2022, the number of new construction permits is 5897 permits. The area and corresponding values for these permits amount to 8,925,628 m² and ALL 428 billion. On the

other hand, the loan for the construction sector for this period is ALL 154.3 billion which means that only 36% of the total value of construction permits is financed by bank loans. In this time frame, the number of construction permits has increased by 1878%, the areas for the respective permits have increased by 2,678% and the value of construction permits has increased by 1,601%. New loans for the construction sector have increased by 1,196%.

What do these data tell us? We can note at least a combination of two other factors, in addition to the increase in money outside banks discussed in Figure 3.4. While construction permits grow quickly, credit for the construction sector grows slowly, so these permits are financed with money outside the banking system. If we look at the year-by-year changes in the table, we will notice that in most of the six-month periods, construction permits increase and construction loans decrease. For example, from H1 2018 to H1 2021, construction permits have increased, while the loan/permit ratio has decreased. This is also the period when the exchange rate experiences a rapid appreciation of 5.4%. Also, during this period Bank of Albania bought about EUR 700 million in the market, where only EUR 428 million were bought in 2018. The exchange rate could have strengthened further in the absence of that purchase. Above all, let's not forget that bank loans cover on average 38% of the value of construction permits and not their total cost, which can be several times higher.

III.4. Foreign exchange reserve and interventions in the foreign exchange market

In recent years the Central Bank of Albania has significantly increased interventions in the foreign exchange market with the aim of increasing the foreign exchange reserve. Foreign exchange reserve is the reserve in foreign currency held by the Central Bank for various reasons. Mainly, the reserve fulfills the demand for currency coming from importers, the needs of the state in cases of repayment of the external debt and enables the intervention of the Bank of Albania in the market, in order to prevent and mitigate strong movements of the exchange rate. The composition of the foreign exchange reserve in 2021 was: USD 17.0%; EUR 66.4%; GBP 2.1%; JPY 1.9%; AUD 1.0%; SDR 6.9%; Gold 2.9%; RMB 1.9% (Bank of Albania, 2021). Given that Albania is a country dependent on imports, a high level of foreign exchange reserves is vital for the economy. The reserve should be big enough to cover at least 4 months of imports. Currently, the foreign exchange reserve of the Bank of Albania covers twice the suggested minimum (Monitor, 2022).

In the study of Calvo & Reinhart (2000), the movements of foreign exchange reserves, interest rates, and monetary aggregates are seen as indirect ways to stabilize or influence the exchange rate. Even though the authors mention themselves that reserve changes are not always caused by the interventions in the market, the variable is still considered important to analyze the “fear” of floating. In this part of the paper, the

progress of the foreign exchange reserve of the Bank of Albania will be looked at in more detail, to understand if there is a connection between its movements, interventions in the market, and the exchange rate. Table 3.2 gives a clearer picture of the Bank of Albania's foreign exchange reserves. The data are expressed in millions of euros.

TABLE 3.2 Progress of the foreign exchange reserve

	Reserve balance at the end of the year	1. Annual increase/decrease	1.1 From actions with MFE	1.2 From actions with banks	1.3 From purchases with banks or others	1.4 From investments	1.5 Loss/gain from fluctuations	1.6 From other outgoing flows
2012	1972.48	64.99	28.64	33.23	15.29	47.02	-40.86	-18.3
2013	2014.99	42.5	49.45	51.95	15.49	36.72	-92.09	-19.02
2014	2192.34	177.35	124.3	-51.17	17.2	31.86	71.54	-16.38
2015	2881.28	688.94	383.13	204.76	25.87	41.33	47.1	-11.3
2016	2944.13	62.85	-139.51	135.54	58	41.83	-18.45	-14.56
2017	2994.28	50.15	48.47	28.72	72.89	38.88	-133.38	-5.44
2018	3395.92	401.64	-15.21	-48.82	427.23	31.34	11.54	-4.44
2019	3359.71	-36.21	-324.23	65.48	157.08	32.51	37.77	-4.82
2020	3945.3	585.59	392.1	173.69	91.53	33.15	-65.41	-39.47
2021	4974.03	1028.73	642.44	42.12	292.01	18.86	45.94	-12.64
Sum	4974.03	3066.53	1189.58	635.5	1172.59	353.5	-136.3	-146.4
Weight on growth			39%	21%	38%	12%	-4%	-5%

Source: Bank of Albania and authors' calculations (2012–2021)

The table shows the balance of the foreign exchange reserve at the end of the year, the annual increase or decrease, and the corresponding actions that have influenced this increase or decrease. We can see that the effect that foreign reserve has on the exchange rate is quite unclear. During these 10 years, the movements of the variables are in the opposite direction from what the theory says. If the reserve had a significant effect on the exchange rate, the rapid growth of the reserve should have caused a depreciation of the local currency.

We can see that during these 10 years, the reserve has increased by EUR 3,066 million. The only reasonable suspicion seems to be that of auction purchases with banks and other institutions. These purchases have caused 38% of the growth of the reserve during this period. These interventions were planned and announced in advance. Direct interventions in the foreign exchange market have been rare. In total, there are four buying periods during 2018, and one selling case in March 2020.

These interventions were made in shock situations. In 2018, the economy was still experiencing the panic of de-euroization and a lot of euro currency was converted. In addition to that, the news of capital conversion from euro to lek of 2 big banks that were changing ownership had spread. In 2018 were converted around EUR 300 million of the capital of two commercial banks, Intesa SanPaolo and Veneto Bank (Telegraf, 2019). Given that the market is relatively small, such conversions are considered shock situations in the currency markets, so the Bank of Albania has been forced to buy euro currency in order to prevent the further strengthening of the local currency. The sale case was during the crisis of the Covid-19 pandemic when citizens increased their demand for goods in order to increase their stock. By doing so they increased the demand for imports, the supply of the local currency and then caused its devaluation. A sales intervention of EUR 20.4 million was enough to calm the situation and bring the currency back to its normal trend (Monitor, 2022).

IV. Empirical analysis

The graphical analysis showed us that the exchange rate responds significantly to the movements of supply and demand. On the other hand, the impact of the interventions of the Bank of Albania on the ALL-EUR exchange rate is still unclear. Thus this study will use the method of least squares to generate an estimated regression equation. The results are presented in the table below.

TABLE 4.1 OLS Results

Dependent Variable: LOG_ER
Method: Least Squares
Date: 03/20/23 Time: 17:26
Sample: 1 58
Included observations: 58

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INTERVENTION_YES	-0.005738	0.004459	-1.286898	0.2041
LOG_REMITANCES	-0.082829	0.038691	-2.140798	0.0372
LOG_IR	0.035028	0.009632	3.636519	0.0007
LOG_INFLATION	-0.002742	0.004685	-0.585146	0.5611
LOG_IMPORTS	-0.116456	0.054777	-2.126012	0.0385
LOG_FDI	-0.001943	0.022488	-0.086422	0.9315
LOG_EXPORTS	0.057358	0.017130	3.348328	0.0016
C	2.513671	0.111501	22.54397	0.0000
R-squared	0.659172	Mean dependent var	2.121513	
Adjusted R-squared	0.611456	S.D. dependent var	0.025010	
S.E. of regression	0.015590	Akaike info criterion	-5.356989	
Sum squared resid	0.012152	Schwarz criterion	-5.072790	
Log likelihood	163.3527	Hannan-Quinn criter.	-5.246287	
F-statistic	13.81450	Durbin-Watson stat	0.808007	
Prob(F-statistic)	0.000000			

Source: Authors (2022)

In this model, R squared is 0.66 (66%), which means that 66% of the variation of the Lek - Euro exchange rate is explained by exports, foreign direct investments, imports, inflation, interest rate, remittances and “intervention_yes”. The rest (34%) is explained by other factors that are not included in the model. We can see that the model passes the overall significance test, as Prob (F-statistics) is lower than the significance level (0.05). The F-test tests the significance of the population parameters and shows the significance of the model, that is if all the variables taken together are statistically significant. Also, the model has passed the Heteroskedasticity, Multicollinearity, and Normality tests. These tests are attached in Appendix 1.

The estimated regression equation in our case is as follows:

$$\begin{aligned} \text{LogER} = & 2.513671 + 0.057358\text{LogExports} - 0.001943\text{LogFDI} - 0.116456\text{LogImports} \\ & - 0.002742\text{LogInflation} + 0.035028\text{LogIR} - 0.082829\text{LogRemittances} \\ & - 0.005738\text{Intervention_Yes} \end{aligned}$$

Intercept or β_0 has a coefficient of 2.513671. This means that in the absence of fundamental factors and the Central Bank’s interventions, the exchange rate of the lek against the euro would be very strong.

Exports have a coefficient of 0.057358. This shows that holding other variables constant, a 1% increase in exports will lead to a depreciation of the exchange rate by 0.057358%. Theoretically, it is expected a negative relationship between exports and the exchange rate. The increase in exports means that there is more demand for the local currency and therefore it should cause it to appreciate. However, this result is not surprising since it was noticed in the graphical analysis that exports move in the opposite direction to what the theory says. The P value of the export variable is less than the significance level, so the variable is statistically significant and therefore the coefficient is significant.

FDI has a coefficient of -0.001943. Holding other variables constant, a 1% increase in FDI will decrease ER by 0.001943%. Although the direction is in line with that of to theory, the p-value of FDI is 0.9315. This means that changes in FDI do not influence changes in ER in our model.

Imports have a coefficient of -0.116456. Holding other variables constant, a 1% increase in imports would decrease the exchange rate by 0.116456%. As in the case of exports, this relationship contradicts the theory. An increase in imports increases the demand for foreign currency, which causes an increase in the supply of the domestic currency and ultimately a depreciation of the domestic currency. In this case, an increase in imports causes an appreciation of the ER. The p-value of imports is 0.0385, so the coefficient of imports is also significant.

Inflation has a coefficient of -0.002742. Keeping other variables constant, a 1% increase in inflation will result in a decrease of ER by 0.002742%. The increase

in inflation should cause a devaluation of the local currency, while in this case, it causes its appreciation. This could also happen because foreign countries may have experienced periods of higher inflation than our country or because other influencing forces of supply and demand have suppressed the effect that inflation could have on the exchange rate. However, the inflation coefficient is not statistically significant as it has a p-value of 0.5611.

The interest rate has a coefficient of 0.035028 and is significant at the 0.05 significance level. Holding other variables constant, a 1% increase in IR will result in a 0.035028% increase in ER. This is not in line with the theory. When the interest rate increases, the exchange rate tends to appreciate, while in this case, it depreciates. This may be a consequence of the euroization of the local economy, making Central Bank's policies ineffective in the market. When the interest rate of lek currency increases, individuals who have deposits in euros will first compare the exchange rate of the euro against the lek at the moment they secured the euro. If the actual exchange rate is much lower than that of the moment when individuals first secured euros, then they may hesitate to convert their euros due to devaluation losses and thus, not respond to the increase in the interest rate. Given that euro has been weakening fast in recent years, individuals do not convert their deposits of euros, hoping that the euro will increase in the future. To summarize, the increase in the interest rate may not have been effective to evaluate the exchange rate, because it has not increased enough compared to how much the euro has depreciated during the last five years.

Remittances have a coefficient of -0.082829 and this coefficient is significant with a p-value of 0.0372. Keeping other variables constant, a 1% increase in remittances will result in a 0.082829% decrease in ER. When remittances increase, the exchange rate appreciates. This result is in line with the theory. Foreign exchange inflows cause the local currency to appreciate. These flows come through the banking system or in cash. The cash remittances are measured by estimation methods so the amount of cash currency that enters the border points might be underestimated.

“Intervention__Yes” has a coefficient of -0.005738. This means that the exchange rate is on average 0.005738% lower in cases where there is intervention, compared to when there was no intervention, holding other variables constant. This “dummy” variable shows us that in the cases when the Bank of Albania intervened in the foreign exchange market, the exchange rate strengthened on average by 0.005738%, compared to when it did not intervene in the foreign exchange market. Thus we can say that the Bank intervened in periods when the lek was being appreciated. However, the p-value of this variable shows that it is not statistically significant.

V. Conclusions and Recommendations

Under a floating exchange rate regime, the exchange rate plays a fundamental role in the performance of the economy. More accurate decisions on monetary and national policy can be made by knowing how and to what extent fundamental factors determine the exchange rate. Thus, the Bank of Albania and the Albanian government should consider the following conclusions and recommendations.

V.1. Conclusions

Based on the analysis, it is concluded that the fundamental factors affect the ALL-EUR exchange rate and that this exchange rate has not been affected by the interventions of the Bank of Albania in the foreign exchange market. **Thus, both hypotheses of the paper are rejected.** In addition to these two conclusions, the study reaches several important findings, which are:

- Remittances are a major determining factor of the ALL-EUR exchange rate.
- Other factors stronger than the fundamental ones are causing the continuous strengthening of the local currency.
- The other fundamental factors influence the ALL-EUR exchange rate, but the direction of that influence is not always in line with the theory.
- In Albania, an increase in exports weakens the exchange rate and an increase in imports strengthens it. This may be due to an inverse relationship between the 2 variables, that the exchange rate strongly affects the balance of trade more than it is affected by it.
- The movements of foreign exchange reserves are not just a result of purchases in the foreign exchange market, but also a result of revaluations, debt inflows, relations with MFE, etc.

V.2. Recommendations

- If the deterioration of the trade balance is caused by the strengthening of the local currency, then the other strong factors that are causing that strengthening must be found and looked at very carefully.
- The Bank of Albania should continue to intervene in the foreign exchange market whenever it deems it appropriate, as these interventions do not affect the general movement of the exchange rate.

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Appendix 1. Regression tests

TABLE 1. Breusch-Pagan test

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

F-statistic	0.809864	Prob. F(7,50)	0.5833
Obs*R-squared	5.906420	Prob. Chi-Square(7)	0.5507
Scaled explained SS	3.736310	Prob. Chi-Square(7)	0.8096

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Date: 03/20/23 Time: 17:28
Sample: 1 58
Included observations: 58

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.001193	0.001996	-0.597975	0.5526
INTERVENTION_YES	5.71E-05	7.98E-05	0.715814	0.4774
LOG_REMITANCES	0.000180	0.000693	0.259408	0.7964
LOG_IR	0.000130	0.000172	0.754347	0.4542
LOG_INFLATION	-2.58E-05	8.39E-05	-0.307423	0.7598
LOG_IMPORTS	0.000553	0.000980	0.564309	0.5751
LOG_FDI	6.63E-05	0.000402	0.164733	0.8698
LOG_EXPORTS	-0.000372	0.000307	-1.213476	0.2306
R-squared	0.101835	Mean dependent var	0.000210	
Adjusted R-squared	-0.023908	S.D. dependent var	0.000276	
S.E. of regression	0.000279	Akaike info criterion	-13.40307	
Sum squared resid	3.89E-06	Schwarz criterion	-13.11887	
Log likelihood	396.6891	Hannan-Quinn criter.	-13.29237	
F-statistic	0.809864	Durbin-Watson stat	1.106686	
Prob(F-statistic)	0.583274			

Hypotheses:

H0: $\alpha_1 = \alpha_2 = \alpha_3 = \alpha_4 = \alpha_5 = \alpha_6 = \alpha_7 = 0$ (homoscedasticity)

Ha: $\alpha_1 \neq \alpha_2 \neq \alpha_3 \neq \alpha_4 \neq \alpha_5 \neq \alpha_6 \neq \alpha_7 \neq 0$ (heteroscedasticity)

Criterion:

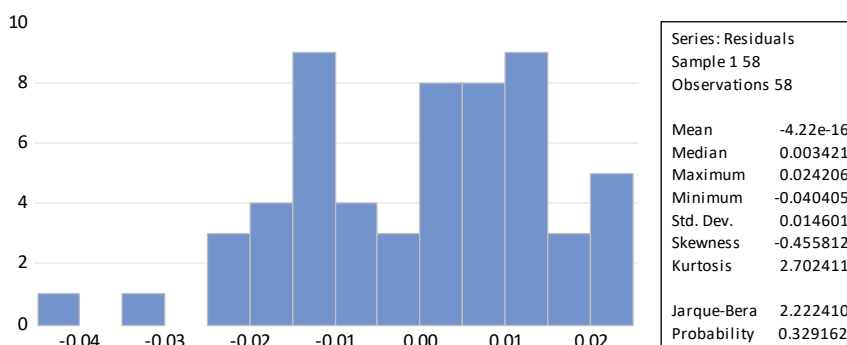
If p value > 0.05, H0 cannot be rejected and therefore it is accepted. So we have homoscedasticity.

If p value \leq 0.05, we cannot accept H0 and consequently Ha is accepted.

Decision:

0.8096 > 0.05, we cannot reject H0 and accept it. This means that we have homoscedasticity or equal variance.

FIGURE 1. Jarque Bera normality test



Source: Authors (2022)

Hypotheses:

H₀: The distribution is normal.

H_a: The distribution is not normal.

Criterion:

If Prob > 0.05, we cannot reject H₀ and it is accepted with a risk of 5%.

If Prob ≤ 0.05, we cannot accept the basic hypothesis and the alternative hypothesis is accepted with a risk of 5%.

Decision: 0.329162 > 0.05, we cannot reject the basic hypothesis. The basic hypothesis is accepted with a risk of 5%. So, we have normality of the residuals. Interpretations made from the regression equation are considered valid.

TABLE 2. Perfect Multicollinearity Testing

	Remittances	IR	Inflation	Imports	FDI	Exports	Intervention Yes
Remittances	1	0.022	-0.001	0.305	0.160	-0.175	0.184
IR	0.022	1	-0.083	-0.761	-0.393	-0.625	-0.116
Inflation	-0.001	-0.083	1	0.136	0.130	-0.048	0.002
Imports	0.305	-0.761	0.136	1	0.522	0.673	0.308
FDI	0.160	-0.393	0.130	0.522	1	0.291	0.152
Exports	-0.175	-0.625	-0.048	0.673	0.291	1	0.184
Intervention Yes	0.184	-0.116	0.002	0.308	0.152	0.184	1

Source: Authors (2022)

Projects' success and respective factors that produce it – The case of Higher Education Institutions in Albania

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Abstract

Organizations and institutions are in a continuous change. What remains unchanged is their need for new and continuous participation in international and national projects, as an incentive to adapt to innovations and to develop cooperation. In order to realize all the set objectives and fulfil initial goals, it goes without saying that a project should be based on a framework of criteria, considered as crucial for a successful implementation and realization of projects.

The paper addresses such framework, criteria and the related issues with a special focus on HEIs in Albania. Through the review of a rich literature, we have worked on the definition of a project, the development phases, as well as some projects undertaken by HEIs. The methodology used consists in utilizing the semi-structured interviews, and the survey analysis will be done in the QDA Miner Lite program, thus drawing final conclusions, thereon.

The study shows that, generally HEIs in Albania have taken solid steps towards developing sustainable and successful projects, being aware of the necessary criteria that drive success and the monitoring of projects during all project's stages.

Keywords: *Project management, project success, project failure, higher education institutions (HEI), mobility, capacity building.*

I. Introduction

According to most of the literature, a project is considered successful with the realization of indicators such as being “on time, according to its specifications, within the budget”. (Bodicha, 2015) with its completion, the success of the product, or the success in achieving business objectives inside and during the project. Over the years, these metrics alone have been seen as insufficient, making it difficult to establish a framework of standards for measuring success (Sauer et al. 2007). Different project members and stakeholders such as the project manager, team members, senior management, functional managers, CEO, directors, suppliers, vendors, customers, as well as third parties have different perspectives on the success of a project. (Ramos, P. A., & Mota, C. M, 2016).

Defining a project success is a critical key to advancing this multidimensional discipline. Most of the previous research in this field are focused on unlocking the factors that drive the success of a project rather than establishing a framework of the criteria to assess whether a project is successful or not (Baccarini, 1999)

In Institutions of Higher Education (HEIs) research projects are usually

written and applied in order to increase the research productivity and achieve the objectives set by the implementing institution. This paper aims to provide a framework of critical and important project factors that can be used especially in HEI-s to guarantee higher effectiveness. The benefits of this research include the application of these factors in projects in order to increase their success rate.

1.1. Aim & Scope

The purpose of this paper is to present research, to analyse the existing factors that lead to the development of a successful project and to identify (if any) other important elements; and besides that; to emphasize the importance of the full (100%) realization and completion of the project. The main focus of this paper are the institutions of higher education, public and not public in Albania, seen as a case study in the field of project management and implementation. The aim of the paper, after the analysing process, is to make efficient recommendations to HEI-s on how to meet and maintain the standards of a successful project.

1.2. Objectives

1. Determining the criteria of a successful project.
2. Providing general information on the influencing factors and main factors in determining the success of a project.
3. Highlighting the current situation regarding the implementation of projects in Albanian institutions of higher education.
4. Producing a qualitative research and a future reference for other studies.

1.3. Hypothesis

Institutions of higher education in Albania have established functional capacities for project management and have established a clear framework of criteria to measure their success as well.

Considering the above purpose and objectives, this paper is built on these Research Questions:

1. What is considered as a successful project by higher education institutions in Albania?
2. What are the main factors determining the success of a project in Albanian HEI-s?
3. Is Data Analytics used by HEIs in Albania?
4. What are some factors that bring about failure of projects carried out in institutions of higher education in Albania?

II. Methodology

In this paper a study and analysis of various literatures for each sub-issue was conducted, ensuring coherence in the validation of the drawn conclusions. Secondary data were also collected and used, serving as additional and necessary information in this regard. The secondary data are collected through different publications, such as: economic magazines, newspapers, information of the internet websites, books in the field of project and finance, education platforms, websites and apps and different connections. Primary data are collected through semi-structured interviews and a focus group. The collected responses were analyzed by means of the QDA Miner Lite program, finalized in an in-depth descriptive analysis. Interviews were designed with the aim of getting information on how the management and development of projects in HEIs in Albania are applied. Specifically, to answer the research questions, we aimed at identifying new project success criteria that practitioners can use in the future. Conducting interviews and organizing focus groups allow researchers to ask people about their motives, intentions, and interpretations. Considering the different survey methods, we further decided to conduct interviews, as well as creating a focus group with experts in the country to answer the stated research questions. In general, it is possible to communicate with interviewees in person, by telephone or by electronic communication (Flick, 2013). Although conducting interviews in person generates higher costs compared to other methods of communication, this method was chosen as the most suitable due to the advantages it presents: high flexibility, the possibility to raise additional questions and personal contact in a familiar environment.

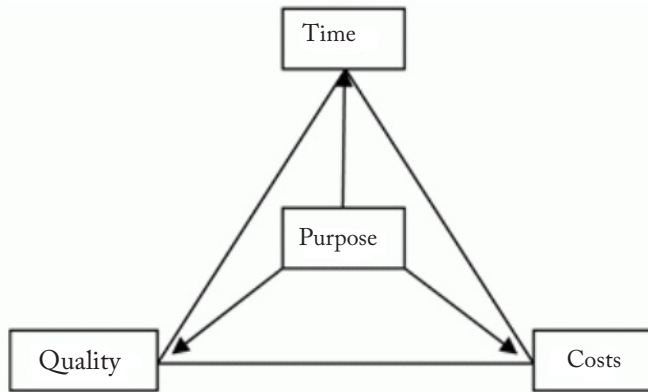
III. Literature Review

III.1. Analyzing the concept of the project and its components.

What does an organization do when it needs to change? It creates a project. The difference between organizations lies in whether they will be able to respond to continuous change in a timely manner and ahead of the competition (Satankar & Jain, 2015).

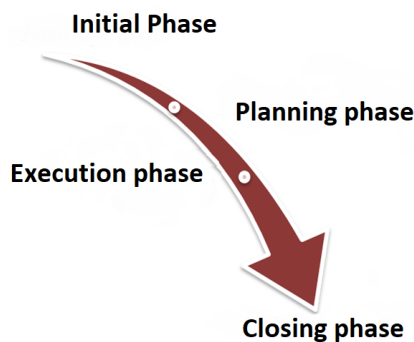
A project is an effort in which human, financial and material resources are organized in a new way to undertake a unique field of work, of given specifications, within cost and time constraints, in order to achieve a meaningful change defined by quantity, quality and objectives. (Turner, 2009). A project is an effort that

involves a series of activities and resources, aimed at achieving a certain result, taking into account constraints such as time, quality and cost, and that often brings about a meaningful change (Lake, 1997). Andersen defines projects from an organizational perspective understanding them as: “A project is a temporary organization, created by the main organization to perform a task on its behalf” (Svejvig & Andersen, 2005).



Source: (Beleiu, I., Crisan, E., & Nistor, R, 2015)

A standard project usually consists of four main phases (each with its own agenda of tasks and issues): initiation, planning, implementation and closure. Taken together, these stages represent the path a project takes from start to finish and are generally referred to as the project’s “life cycle” (Meena, 2019).



III.2. Project management background

The history of project management practice starts in the Egyptian era. However, it was in the mid- 1950s that organizations began to apply formal project

management tools and techniques to complex projects (Haughey, 2010). Modern project management techniques had their origins in two parallel but different problems of project planning and control in the United States. The first case involved the US Navy, which at the time was dealing with the control of contracts for its Polaris missile project.

The second case involved the private sector, namely E.I. The du Pont de Nemours Company, which was planning to build large chemical plants in the USA (Dhopre, 2018). Carayannis et al. (2005) identify four periods in the development of modern project management (Carayannis, 2005):

- Prior 1958 - Defining the system of human relations.
During this time, the evolution of technology, the automobiles and telecommunications one, shortened the project schedule. For example, cars allowed the efficient distribution and mobility of resources, while the telecommunications system increased the speed of communication. Similarly, the work specifications that later became the basis for the development of the Work Breakdown Structure (WBS) was widely used and Henry Gantt invented the Gantt chart.
- 1958 to 1979 - Application of Management Science
Significant technological progress took place between 1958 and 1979, such as the first automatic plain paper copier from Xerox in 1959. Between 1956 and 1958 several major project management tools were introduced, including CPM and PERT. The advancement from the mainframe computer to the minicomputer in the 1970s made computers affordable for medium-sized companies. In 1975, Bill Gates and Paul Allen founded Microsoft. Additionally, the evolution of computer technology encouraged the emergence of several project management software companies, including Artemis and Oracle in 1977 and Scitor Corporation in 1979. In the 1970s, other project management tools such as Material Requirements Planning (MRP) were introduced. Examples of projects undertaken during this period that influenced the development of modern project management as we know it today include:
 - The Polaris missile project initiated in 1956 aimed at delivering submarine-launched nuclear missiles known as the fleet ballistic missile for the US Navy. The first Polaris rocket was successfully launched in 1961.
 - Project Apollo began in 1960 with the goal of sending a man to the moon. E.I.
 - The du Pont de Nemours Chemical Plant Project, which began in 1958, aimed to build large chemical manufacturing plants throughout the United States.

- 1980 to 1994 – Production Centre for Human Resources
The 1980s and 1990s were characterized by revolutionary development in the information management sector with the introduction of the personal computer (PC) and devices connected to computer communication networks. During this period, relatively low-cost PC project management software, which made project management techniques more accessible, became widely available.
- 1995 to present days - Creation of a new environment
This period is dominated by Internet-related developments that dramatically changed business practices in the mid-1990s. Many of today's project management software have an Internet connectivity feature. This allows automatic uploading of data so that anyone around the globe with a standard browser can: Enter the latest status of certain tasks; Find out how the overall project is going; Be informed of any delay or progress in the schedule; Be “in the know” about their project role while working independently in a remote location.

III.3. Realization of a successful project over the years.

While cost and time were the foundations of success in the 1970s, planning and delivery were important in the 1980s, systems and organizations were identified as a success factor in the 1990s, and during the 2000s top management support and communication appeared on the lists of project success factors (Turner, 2009). On the other hand, Kerzner emphasized that the success of the project is the achievement of the objectives, which are accepted by the client, within the planned cost, within the planned time, with the desired quality, with the effective use of resources (Kerzner, 2009). DeLone and McLean (2003) point out that product success is also a very important factor. In her article, Hyväri (2006) points out that critical success factors are closely related to the size of the company and the size of the project. Furthermore, the type of organization and the work experience of project managers has a great effect on success (Hyväri, 2006). The case studies taken as a reference and main indication to carry out this research topic are a questionnaire carried out in Belgium in 2018, a questionnaire in Germany in 2017, Bannerman's paper on the definition of project success, and a study carried out in Australia, where 150 project managers were interviewed based on D. Baccarini's research (Baccarini, 1999).

III.4. Making of a failed project

Morris (2002) gives an example about failure in his article. According to research conducted in the UK and USA in the 1980s, several factors prevented project objectives from being met. These factors are inadequate project management,

technological issues, political or environmental problems, weather conditions, geotechnical difficulties, labour issues (Morris, 2002). Moreover, there is another reason; according to Flyvbjerg, in the evaluation of projects, there is an optimism-bias among evaluators that causes the cost and time to be underestimated while on the other hand the benefits are overestimated (Flyvbjerg, 2009).

Finally, in his article Klaver (2012) provides several quotes from the well-known Ed Merrow, who is the founder of independent Project Analysis and an authority in complex megaprojects. Ed Merrow points out that the important problem is quality and his first message to everyone is ‘slow down and live’, then he states that the real source of failure is business professionals who generally do not understand the need of projects while the managerial level is rarely a reason to bring failure (Klaver, 2012).

IV. Project’s development in Higher Education Institutions in Albania

The purpose of this section is to understand what importance has been given by higher education institutions to the development of national and international projects, their marketing and dissemination in increasing participation, the allocated funds, their management and the feedback they have had in achieving the established objectives. The HEI-s included in the study are part of the interviews and focus group, conducted in this study. These universities are: European University of Tirana (EUT) and Polis University, which represent private education in Albania, as well as two public universities, the University of Tirana and “Aleksander Moisiu” University, Durrës. From the review, the most frequent categories of projects in HEI-s were:

- *HORIZON* (Horizon is the EU’s largest program for Research and Innovation) Horizon Europe - GreenFORCE
- *ERASMUS +* (*Key Action 1, Key Action 2, Key Action 3*)

The Erasmus+ program aims to support actions in the field of Education, Training, Youth and Sport. Erasmus+ replaces seven programs that bring together: the Lifelong Learning Program (Erasmus, Leonardo da Vinci, Comenius, Grundtvig and Jean Monnet), the Youth in Action program, Five international cooperation programs (Erasmus Mundus, Tempus, Alfa, Edulink, program for cooperation with industrialized countries), New sports action.

- *TEMPUS* is the European Union program that supports the modernization of higher education in the area around the EU.

- *CREATIVE EUROPE*; Creative Europe is the main program of the European Commission to support the cultural and audio-visual sectors.
- The Instrument for Pre-Accession (IPA) is a mechanism created by the EU to provide assistance to the Western Balkans and Turkey, as support for the process of membership of these countries in the European family.
- *BILATERAL PROJECTS*

For some HEIs, it has been noticed that the activity on the website is very little updated with the latest news with regard to projects. HEIs make sure that project activities are disseminated more on their social networks, such as: Facebook, Instagram and LinkedIn. Despite the lack of information, it is noted that in most projects (especially those KA2 of Erasmus+), HEIs, whether private or state, are part of several joint consortia. For example, Erasmus + CBHE USIA project brought together HEIs such as UNISHKO, UAMD, UET, UMSH and KPT to develop it further, while Erasmus+ CBHE Engine on the other hand brings together UT, UET, KPT, UAMD and other partners. From this we understand that the spirit of cooperation for increasing capacities, improving teaching curricula, training academic and administrative staff, training students, improving infrastructure among HEIs in Albania is strong and supporting. Another thing worth highlighting is that all HEIs have once or more than once been part of all calls (TEMPUS, HORIZON, ERASMUS +, etc.) In some of the HEIs, a lack of well-qualified writing, application, development and then monitoring staff has been noticed. So, upon the review section, it is strongly recommend and encouraged that the communication offices of these project enterprises in HEI should work more with the training of the management staff and participants in the projects, the project dissemination procedures, with the establishment of inter-university cooperative groups and drafting a framework of criteria that will guarantee the success of the projects being undertaken.

IV.1. Methodology and questionnaire

The purpose of the research is to obtain detailed data and not to compare institutions and their way of evaluating project success. In response to the research questions raised, it was aimed to identify new project success criteria that practitioners want to use in the future. Considering the different survey methods, it was further decided to conduct interviews with experts instead of answering the stated research questions. In general, it is possible to communicate with the interviewees in person, by telephone or by electronic communication (Flick, 2013).

IV.2. Design and development of semi-structured interviews

The research method is directly related to the purpose of the study. Semi-structured interviews create flexibility in “probing” the interviewee while maintaining the basic structure of the interview. The interviews were recorded and notes were taken during their conduct to highlight key points. The climate created during the process was friendly and comfortable. The interviews were recorded and notes were taken to highlight key points. The interview was first piloted in a random institution to see understandability and to see how willing someone would be to answer these questions. The field study was carried out in the period August - September 2022 and was organized in parts as follows:

Part 1 – The perception of the leaders/managers of the HEI project offices in the field of projects on the success of the projects. In this study, leaders/managers of HEI project offices were contacted for semi-structured interviews, one-on-one, regarding the factors that influence the success of projects in higher education in Albania. The interview takes about 30-40 minutes. Using an inductive approach, all interview transcripts were coded.

Part 2 – Perception of senior project specialists in higher education institutions (project writers, managers, financial leaders, etc.) on factors leading to project success. In this study, senior project managers were invited to participate in a focus group related to the factors influencing the success of a project. Using an inductive approach, interview transcripts were coded.

Part 3 – Perceptions of senior project leaders in higher education-focused research centers (project writers, managers, financial managers, etc.) on factors leading to project success. In this study, representatives of two centres, one research and the other training, engaged in projects, became part of semi-structured interviews, one on one, regarding the factors that influence the success of projects in higher education in Albania. Using an inductive approach, interview transcripts were coded.

Part 4 – Focus group with senior and middle level managers in HEI project offices in Albania. This group is different from the group of interviewees. Using an inductive approach, the focus group transcript was coded.

This focus group was developed keeping in mind several advantages of this method, such as: Clarifies and tests preconceived notions and findings; Understands met and unmet needs; It uncovers important ideas and issues that may not have been considered at first; Flexibility is given to dive deeper into issues that arise during the discussion.

IV.3. Data Collection

For the purpose of this research, 9 HEIs and two centers, one research center and the other being a training center that offers also financial services and participates in various projects, have been selected based on their involvement in international projects in higher education. In total, 14 interviews and a focus group were conducted, with participants different from those of the interviews. Participating institutions were 9 HEIs, out of which 5 belong to state university & professional higher education institutions, two private professional higher education institutions, two private higher education institutions, one center (which works with academia, civil society, private and public institutions, in strengthening innovation and scientific research, advocating and supporting the use of evidence for legal and regulatory initiatives, and undertaking capacity-building activities to strengthen public and private institutions, higher education institutions, media and civil society) and a center dealing with financial training, financial services and important projects. Before choosing the interviewees, we developed an analysis of the job positions of each institution and built a profile of the ideal candidates for our interview. After receiving information on the organizational structure of each HEI, we selected the interviewees as follows.

The study managed to cover all categories of higher education in Albania.

TABLE 1. Summary of the number of interviewees

		Number of participants
1	Part 1 – Project leaders/managers and high-level specialists in HEIs.	4
2	Part 2 – Project specialists (project writers, financial managers, etc.)	3
3	Part 3 – Project specialists (project writers, financial managers, etc.)	2
4	Part 4 – Focus group with senior and middle level managers in HEI project offices in Albania	5

TABLE 2. Number of interviewees for each HEI/research center

Nr.	City	Institution category	HEI/Research Centre	The position of the person in the institution	Name Surname
1	Tirana	Research centre	SCiDEV/ThinkTen	CEO, Project manager	B.B
2	Tirana	KPT (Professional College of Tirana)	Professional	Director of Finance/Projects	A.G
3	Tirana	TESS (Tirana Esthetics & Style School)	Professional	Project manager	R.M
4	Tirana	Mediterranean University of Albania	Higher Education Institution	Specialist, project writer, project manager	I.Gj

5	Tirana	UET (European University of Tirana)	Higher Education Institution	Specialist, project writer	D.N
6	Tirana	UBT (Agricultural University of Tirana)	Higher Education Institution	Project specialist	A.K
7	Durrës	Durres University "Aleksandër Moisiu" – UAMD	Higher Education Institution	Project Manager	S.G
8	Shkodër	"Luigj Gurakuqi" University, Shkodër	Higher Education Institution	Project Manager/ Project specialist	B.D
9	Korçë	"Fan S. Noli" University	Higher Education Institution	Project specialist	A.M
10	Tirana	Mediterranean University of Albania	Higher Education Institution	Specialist, project writer	H.H
11	Tirana	KPT (Professional College of Tirana)	Higher Education Institution	Administrator/Project Manager	D.B
12	Tirana	UET (European University of Tirana)	Higher Education Institution	Head of the project office/ Manager/Project writer.	K.Ç
13	Tirana	Kreston Albania Academy	Accounting office, audit/Training Centre	Accounting experts, project experts	N.B
14	Vlorë	"Ismail Qemali", University, Vlorë	Higher Education Institution	Manager, project manager	R.S

The interviewees were initially contacted by an email, in which the research work intended to be developed was explained to them and they were asked if an interview was possible to be conducted. In conclusion, we managed to establish contact with 14 people from the main HEIs all over the country. Nine of them underwent semi-structured interviews and 5 of them became part of the focus group.

IV.4. Data analysis

Analysis of the semi-structured interviews was done using the QDA Miner Lite program. This program can be used for the analysis of textual data such as interviews, field notes, transcripts, open-ended responses, etc. as well as the analysis of still images. First, the placement of 14 interviews was done in the form of variables. After carefully reading the interviews for several times, we drafted the codes that would serve us in obtaining the final results of the interviews. Coding was developed on those questions it could be used based on the answers of 14 semi-structured interviews with a focus on the research answers raised at the beginning of the paper. After the coding of each interview, the set variables were read once and coded to avoid possible errors. After verifying the accuracy of the work performed, the results of each coding were obtained in graphic form. Also, as it was explained at the beginning of this chapter, the methodology, in addition

to conducting semi-structured interviews, we also conducted a focus group with five participants. This focus group lasted 60 minutes with framework of questions the ones used in semi-structured individual interviews, only this time the aim was to deepen the opinions given by the interviewees by getting several clashes of opinions at the same time.

Below we analyze each coding, by explaining their importance and the results obtained.

- a. The interviewees were asked how they would define the success of a project. Although the answers have been in different formats, the coding has identified three main directions; purpose, objectives and criteria. 38.5% of the responses defined a successful project when it realizes and fulfils the predetermined main goal, 53.8% identified success with the fulfilment of objectives and 15.4% with the fulfilment of established criteria.
One of the most representative answers identified during the interviews regarding this question is: “Successful project means that at least the project achieves the objective/goal defined in time, within the defined budget, according to the activities foreseen. This is for success at least. In a broader sense, a project is successful when it has achieved impact, an added value in the field in which it operated, has ensured sustainability and has brought a concrete product that can be used for the benefit of society or the group it has targeted.” – B.B, SCiDEV/ThinkTen.
- b. The interviewees were asked if they are currently participating in a project developed in the institution they represent or in another country. All respondents were currently participating. This question helps us understand how involved our interviewees are.
In response, involvement in projects came as a result of the position that the interviewees had, which made them directly involved in the institution’s projects, others ran companies that initiated projects and managed them.
One of the most representative answers identified during the interviews regarding this question is: “Currently I am a coordinator in an Erasmus+ project, and I have been a member of several Tempus, Erasmus+ projects, etc.” - A.M, University of Korca.
- c. Although you can participate in different projects, you may not have maximum involvement, therefore the interviewees were asked if they felt involved and comfortable in the projects they participated in or are currently participating in. 84.6% expressed that they were fully involved and comfortable in the project, while 7.7% were partially involved.
One of the most representative answers identified during the interviews regarding this question is: “As a project manager, I am 100% involved in the entire implementation cycle.” - D.N, UET

- d. Mere involvement is not enough, participants must willingly participate in the project to ensure that they perform their function in the best possible way. For this reason, the interviewees were asked if they think that the quality of the project depends on the desire to participate. 84.6% answered that the achievement of quality in projects depends on the desire of the participants to participate in the projects and 15.4% answered that there is no dependence between the desire of the participants and the quality of the project.

One of the most representative answers identified during the interviews regarding this question is: “The will, desire, interest, dedication of the individuals who participate is very important, from the project leader to the team he builds and to all the individuals who get engaged. With projects works like with anything else. If individuals are not engaged, if they are not committed, if they do not implement the tasks they undertake, the deadlines, they do not have a proactive approach, they are not open, they are not cooperative, the implementation of the project becomes very difficult.” – B.B, SCiDEV/ThinkTen.

- e. The level of failure of the project is important to see the results of the work developed in the institutions and the quality of the work. 30.8% stated that the level of project failure in their institution was at level 0, thus indicating a maximum success of the project. 30.8% stated that the level of failure is average in the institution they represent, 7.7% answered that it is at high levels of failure and 23.10% did not give an answer in percentage of project failures.
- f. Despite the fact that we may have failure in projects, it is important that the institution acts to prevent future failures. 92.3% stated that the institution they represent takes measures to act against failure and 7.7% stated that no action has been taken in cases of project failure.
- g. The interviewees were asked if they use criteria in measuring the success of a project and which phase is considered the most important in the application of these criteria. 46.2% stated that the measurement of the success of a project is mostly applied in the middle of the project, 38.5% stated that it is applied at the end, 15.4% stated that the measurement of success is applied in all phases of the project, 7.7% stated at the beginning and 7.7% state that no success measurement is done at any stage.

One of the most representative answers identified during the interviews regarding this question is: “In all parts of the project, and throughout all phases of the project cycle (writing, management, reporting).” – K.Ç. UET.

- h. The use of Data Analytics is important for a more complete evaluation of the projects, and in the HEIs interviewed it results as follows. 61.5% stated that it is used, despite the fact that not always or only in projects where this

use was required from the beginning by donors and 33.8% stated that in their knowledge the institution does not use Data Analytics.

One of the most representative answers identified during the interviews regarding this question is: “No, we only care about the maximum % absorption of funds and the realization of objectives.” – A. K. UBT.

- i. It can be thought that quite often the participation in various projects is forced or imposed by the need to be involved in national and international projects to have them as part of the CV, as a requirement of the job position, etc. 46.2% of the interviewees stated that they were and are voluntarily involved in the projects they participated in, 30.8% stated that they were forced by various factors and 15.4% stated that the participation was both forced and voluntary.
- j. To the question, why projects fail to achieve success, the interviewees answered as follows: 38.5% stated that the non-fulfilment of the goal was and is a driving force in the non-realization of the project, 46.2% voted for the lack of team involvement in project, 38.5% poor management, 38.5% lack of communication, 23.1% lack of interest groups and 23.1% have specified that almost all of the above reasons are influential in the failure of a project.
- k. The interviewees were also asked what criteria they considered important in classifying the project as successful. 84.6% stated that the achievement of objectives is important for a successful project, 61.5% involving interest groups, 61.5% having a professional team and 53.8% setting clear goals.

One of the most representative answers identified during the interviews regarding this question is: “Achieving objectives within set time and budget, to achieve stakeholder satisfaction and learning from experience. Clear and clearly articulated goals. Involvement of interest groups. Active support from leaders who share the same vision. A professionally skilled team. A skilled Project Manager with experience in implementing project management best practices. Early risk analysis and ongoing risk management.

All of the above are factors that make a project successful.” – A.K, UBT.

The same results as above were evidenced during the focus group with five participants.

V. Conclusions & Recommendations

V.1. Conclusions

1. In some HEIs part of the study, a lack of well-qualified staff for writing, applying, developing, monitoring and ensuring the retroactive effects of the projects has been noticed. Some of them did not even have a dedicated person, but the academic and administrative staff took over the realization of these processes. Also, a real framework has not yet been drawn up, but the institutions generally adapt to the specific requirements that different donors have. However, there is no lack of efforts.
2. Despite the lack of full access to information about the progress of projects in Albanian HEIs, it is noted that in most projects (especially those KA2 of Erasmus+), HEIs, whether private or public, are part of several joint consortia at home and abroad. From this we understand that the spirit of cooperation for increasing capacities, improving teaching curricula, training academic and administrative staff, training students, improving infrastructure among HEIs in Albania is strong and supportive.
3. It's not enough for a project to complete the golden trio; within time, cost and original purpose. To be considered successful, it must have a visible impact on the target group, satisfy other stakeholders and continue having impact after completion.
4. A large part of the success of the project is also due to the quality of the work done by the staff of experts. If they are satisfied, valued and feel as being an integral part of the work, the quality of their product is better. The desire and goodwill of the staff largely defines the success of the project.
5. The availability, willingness, desire and passion of experts, executive and management staff, implementers, to implement a project is a key element to ensure the safe realization of activities and thus the fulfilment of the project's fundamental objectives and goals.
6. Another very important factor identified as key to success is the application of project success metrics. These metrics should be used neither at the beginning, nor in the middle, nor at the end, but during each phase of its cycle even after the project has been completed.
7. The risk of failure of a project is always there and some of the factors identified in the study such as: unclear, inaccurate, wrong purpose and objectives, unprofessional team, unclear division of work tasks. Poor communication, lack of information, lack of transparency. Lack of experience. Lack of communication of the project and its results. Changes in the organization's strategy. Poor project management. Lack of involvement of relevant interest groups.

8. The success of winning projects starts with the recognition of the project and the allocation/assignment of the people who will be involved in most of it. Sharing information, understanding the project, its results, time and budget are essential. The prioritization of the project agenda according to its milestones is important as well as its follow-up.

V.2. Recommendations

1. HEIs should work more with the training of the management staff and participants in projects, to increase the capacities of the staff in this direction.
2. More work should be done with project dissemination procedures, defining clear procedures and actions regarding the dissemination of concrete project achievements inside and outside the organization with relevant interest groups. Transparency in communication with university staff, project staff, target group, donors is also an element that should be taken more seriously before, during and upon conclusion of projects. In the analysis of the factors that ensure the failure of the project, we have shown that the motto in projects is “Communicate, communicate, communicate!”.
3. Each project should be considered as a follow-up job in terms of impact and sustainability, i.e., providing added value and benefits to the organization even after the completion of the project.
4. In addition to the great importance that the motivation of the participating staff takes in the projects, an even greater importance should be taken by the monitoring, control and evaluation structures of the project, who should be vigilant at every stage to repair the problems that may arise, up to changing the initial objectives which may be ill-defined, difficult to measure, not in accordance with the culture and mission of the implementing organization, poorly communicated, etc. It is suggested they set up inter-university cooperative groups and draw up a framework of criteria that will guarantee the success of the projects undertaken not only within the golden triangle of budget - time - objectives but also in the spirit of quality, dissemination and sustainability of the results.
5. The introduction of data analytics in HEI projects as well as in cases the project does not require it as a mandatory criterion; is a way to facilitate and simplify the identification of various ‘blockages’ that the project may encounter.
6. During the monitoring and control actions, the measures to be taken in some cases may lead to the reallocation of funds, postponement of deadlines or change of the implementing staff.
7. However, a plan B is never redundant or unnecessary if the regulatory steps are not seen as sufficient.

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Annex 1

Interview

“Factors that determine the success of applied projects in higher education in Albania”

Introduction

Hello,

I am doing a study for my master’s thesis, with the topic **Projects’ success and respective factors that produce it – The case of Higher Education Institutions in Albania**

As part of the research, your professional participation is needed.

The collected data will be used only for the purpose of this thesis. The interview will take a maximum of 45 minutes of your time.

Your contribution will be decisive for the qualitative result of this study.

Interview language: Albanian

I assure you that your anonymity and data will be preserved and if you feel uncomfortable during the questionnaire, you can stop the interview at any time. (During the interview process the interviewer is empathetic and an active listener)

The conversation will be recorded electronically and then transcribed.

Conclusions and final recommendations of this study will be sent to you respectively if you are interested.

Thank you for your participation and good luck!

Name and Surname

The higher education institution/research center that you represent

Your role/position in the institution

1. What does the term “successful project” mean according to you?

*You can convey it by means of a definition

2. What are the criteria that make a project successful?

*Below there are some criteria collected from previous studies that you can refer to

- a) Achieving the objectives within the defined time and the predetermined budget, to achieve the satisfaction of the interest groups and learning from the experience.
- b) Clear and clearly articulated goals
- c) Involvement of interest groups.

- d) Active support from leaders and with a common vision
 - e) A professionally skilled team
 - f) A skilled Project Manager with experience in implementing project management best practices
 - g) Early risk analysis and continuous risk management
- 3. Are you currently part of projects in your organization or in other organizations?**
- *For questions 4 and 5, answer if you said yes to the third question
- 4. How comfortable / involved do you feel with the projects you are a part of?**
- 5. Participation in the projects of your institution is voluntary or forced?**
- 6. According your assessment, is the quality of the project determined by the desire of individuals to participate in it?**
- 7. According to your assessment, what % of your institution's projects are not successfully achieved (depending on the criteria you defined)?**
- 8. Why do projects fail?**
- *Below you will find some reasons gathered from previous studies that you can refer to
- a) Ambiguous, inaccurate, wrong purpose and objectives.
 - b) Non-professional team
 - c) Unclear division of work duties
 - d) Poor communication, lack of information, lack of transparency
 - e) Lack of experience
 - f) Lack of communication of the project and its results.
 - g) Changes in the organization's strategy
 - h) Poor project management.
 - i) Lack of involvement of relevant interest groups.
 - j) Other
 - k) [you can choose more than one alternative]
- 9. What do the institutions do to ensure that the project will be successfully implemented? (Measures they take)**
- 10. What criteria do you use to measure the success of a project?**
- 11. In which part of the project cycle do you apply these criteria?**
- 12. Does your organization use data analytics in projects?**
- 13. If your project was realized within the time, budget and reached the predetermined main goal, is it guaranteed that the effect will continue after it?**
- 14. What have been the consequences of not realizing the projects on time and based on the established objectives?**
- 15. What do you think should have been done differently for these cases?**

The tourism of business and conferences – Opening a convention bureau (CVB) in Albania

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Abstract

The tourism of business, conferences and exhibitions is classified as the oldest form of tourism in the history of humanity and an aspect of the tourism industry which has seen a significant increase in recent years. The main purpose of this article is to study the impact of opening a Convention Bureau, in terms of development of tourism of business and congress. To achieve this goal, a survey analysis was conducted, which involved 50 tourist organizations in 3 cities, Tirana, Durrës and Elbasan, with the key objective to highlight the importance of opening a Convention Bureau to develop tourism of business and congress, as well as how to study and obtain results on its impact regarding increasing the productivity of tourism sector services. Consequently, the improvement of communication, coordination of information, development of best marketing and PR practices, also increases the need for investment in more specialized human resources, who must know the functioning processes of the Convention Bureau structures, in function of the development of this tourism sector.

At the end of this study it was concluded that opening of a Convention Bureau causes a greater development of the tourism of business and conferences, and this is confirmed by obtaining data on how this cooperation may produce successful outcomes in this regard.

Keywords: *Convention Bureau, business and congress tourism, information, promotion, tourism subject.*

I. Introduction

The Organization of Tourism of the United Nations World Tourism (UNWTO, 2014) defines tourism as:

A social, cultural and economic phenomenon involving the movement of people to places or places outside their usual environment for personal or business/professional purposes.

These individuals are called visitors (tourists or day-trippers; residents or non-residents) and tourism pertains to their activities, some of which involve tourism expenditures (Bari & Shaheen, 2020). It certainly includes the tourists, but also the wide range of businesses that provide goods and services to the tourist, the governmental and political structure of a destination, and the local residents of the destination community itself. Each of these components is an essential part of a successful tourism destination and operates within the private and public sectors,

the built environment and the natural environment. All these come together to create the processes, activities and outcomes of tourism (Szpilko, 2017). As part of business tourism, one aspect of the tourism industry that has seen significant growth recently is conference and exhibition tourism (Convention Bureau), as conference and exhibition delegates spend more than the average tourist. The impacts on tourism that may result from the development of this form of tourism can be grouped into three main categories: economic, social and environmental.

Considering the impact that the development of tourism has on the economy, this study aims to provide an overview of the impact that the opening of a Convention Bureau will have on the further development of the tourism of business and conferences, as well as trying to give an indication of the evaluation of the factors that influence the relationship between the tourist entity and the Convention Bureau, in order to expand the clientele and improve the service. The study of the importance of opening a Convention Bureau, in terms of the development of the tourism of business and conferences, as well as its impact on increasing the productivity of services in the tourism sector, are set as the main objectives of this study. Also, this study has its limitations as having a limited target group it cannot be generalized but will serve as a starting point for more in-depth studies in subsequent years on the direct or indirect impact of opening a Convention Bureau in Albania, in the development of business and congress tourism. However, through the results obtained, it will be possible to create a more complete panorama for the development aspect of this very important, but also profitable sector for the tourist realities operating in our country. Another factor that can affect the reliability or validity of this paper is the short time available to obtain sufficient data, but also the inclusion of only the managers of tourist organizations in Tirana, Durrës and Elbasan, not providing information on other organizations tourists operating in our country.

II. Literature review

The Tourism of Business. The tourism of business, as the oldest form of tourism in the history of mankind, is defined as the act of people traveling within a commercial arrangement, business meeting and conference. This type of tourism includes all trips related to the traveler's profession or related to his commercial interests. For example, we have the case of managers looking to expand their business to other countries (Tanvir & Baig, 2020). Business tourism was also defined by the WTO (World Tourism Organization) in 2007 as "travel to carry out an activity or event related to commercial interest". The ICCA (International Congress and Convention Association, 2012) defined it as "the provision of facilities and

services to the millions of delegates who attend meetings, conventions, exhibitions, corporate events, incentive travel and corporate hospitality each year”.

The Tourism of Conferences. The Organization of the World Tourism of the United Nations defines (UNWTO, 2008) conference tourism as:

“...a gathering of 10 or more participants for at least four hours in a specified location, more than 50 miles from home. The types of meetings in these cases include conventions, conferences, congresses, fairs and exhibitions, incentive events, corporate meetings, as well as any other type of meeting where the participants do business, exchange ideas or learn from each other”.

International conference and exhibition tourists spent 2 to 3 times more than normal tourists. It is no coincidence that many cities have modernized and facilitated many services trying to attract as many business tourists as possible (Law, 1978).

The Convention Bureau (CVB³). It is a non-profit organization whose objective is to organize a large number of congresses and conferences for a specific destination, but always focusing on protecting the interests of the congress organizers. It is considered a vital communication channel between congress organizers and planners, services, hotels, Congress Bureau centers and other service providers who come to the aid of tourism and tourists themselves (Kovačević, 2017). A large number of companies from different sectors organize one or more meetings, events, congresses, conventions, exhibitions, thus creating more and more congress offices, concentrating their resources on profitable segments for the country (Johnson, 2010). The bureau advises and informs tourists and planners on the best options that will work to learn about a destination while creating an environment conducive to business. The organizers themselves provide the budget of the tourism activities they carry and have a holistic view of the destination, while the destination stakeholders focus on achieving profits for their institutions (Robert, 2008). When a destination is highly attractive to tourists and all services are specifically located to welcome tourists to their businesses, the Convention Bureau helps private and public companies to increase their services and ability to cooperate with each other to welcome tourists (Volgger et al. 2017).

III. Methodology

This study was conducted with the main focus on business and congress tourism, as well as on the impact that the opening of a CVB will have on the development

³ Convention and Visitor Bureau.

of this form of tourism in our country. To accomplish its goals and objectives, it was used analytical and quantitative methods of data processing. Literature review is based on appropriate researches by foreign and Albanian authors, in articles, scientific articles, books, scientific journals, study reports, as well as suggestions from professionals in tourism sectors, such as: hotels, tourist agencies. The target group is comprised of 50 managers (owners), general managers or marketing ones of various tourism entities in 3 main cities: Tirana, Elbasan and Durrës, as representative entities that are the main beneficiaries of a CVB. To achieve the research objectives, the questionnaire with open and semi-open questions was used as a tool for collecting quantitative data. The survey was developed through the google forms platform, while the data was analyzed and restructured through google docs. The quantitative data analysis has made possible not only the numerical description of key results, but also drawing conclusions and providing recommendations on whether the opening of a Convention Bureau has an impact on the development of tourism of business and conferences.

IV. The Survey Analysis

Tourism in Albania developed later than that of other countries and had to promote tourist spots to local and foreign tourists. The successes of tourism development in our country are related to several factors, but an important role was played by tourism marketing, which shows the progress of science and technology. Evidence of marketing success in tourism development is identified through indicators such as: increase in number of tourists who visited Albania, contribution to tourism, employees in tourism (Panajoti et al. 2014). Albania has no tradition in the development of tourism, despite the natural and economic potential it has. It is very important to underline that the economic and political history of Albania is attractive to foreign tourist and this is an advantage for starting the international tourist movement (Avdia, 2021). Recently Albania has begun to be appreciated by international tourists for nature tourism, nature and landscape beauty. Tourism will generally be recognized as the largest industry in the world, and in our country is considered a priority sector by the central and local government of Albania (Çani et al. 2013). But tourism businesses are facing increased competitive pressure from globalization and personalization, so they must meet the growing demand for unique and memorable experiences and provide superior service quality.

Through the analysis of the data obtained from the questionnaire developed in the tourist subjects of Tirana, Elbasan and Durrës, the impact of the opening of a Convention Bureau will be demonstrated once again on the basis of the development of business and congress tourism in our country. Based on the analysis

of demographic data, evaluating the job position of the tourist subject interviewed, it was observed that among the managers of the tourist subjects surveyed, 45% were marketing managers, 40% general managers and only 15% owners of the entities in question.

Regarding the type of tourism entities they managed, 25 of them operated as hotels, 17 event agencies and 8 of them were tourism or service agencies related to this sector. Also, most of them operated in the city of Tirana (27 institutions), followed by Durres with 12 subjects and 11 from Elbasan.

The results of the next question related to the category or type of activity they had, showed that the largest number of hotels tourist boards were in the cities of Tirana and Durres, while in Elbasan there were only 4 participating hotels. About tourist agencies, there were 16 tourist organizations in Elbasan, 24 tourist organizations in Tirana and only 10 such tourist organizations in Durres.

As regards the question whether these companies had requests for business or congress tourism, approximately 58.8% of the participants answered that they had requests from clients for the tourism of business and conferences and 41.2% had no requests for this type of tourism.

To get information on how well known the concept of business and congress tourism was, perceived according to the participants in the study to the extent of 50%, the concept of the tourism of business and conferences is little known by local entrepreneurial actors, while 7% think that this concept is not known, 41% think it is moderately known, while only 2% of them believe that this notion is well - known.

The lack of knowledge on the notion of the Convention Bureau may be due to the fact that some of them do not have much confidence that this type of service can lead to the development and improvement of services provided by tourist organizations, which are interested in providing these tourist services. This is because they also take into account the fact that, in order for this form of tourism service to work, it is important to take into account the collaboration between the tourist entity and the Convention Bureau. If the motivation of both parties does not work, the shackles, through which this system operates, will encounter difficulties and therefore the objectives of the Convention Bureau will not be achieved, as evidenced by the answers received to the following question.

As per the above question, the impact that the knowledge of this notion can have on the promotion of cooperation between the tourist subject and the local enterprise has been evaluated. The tourism subjects included in the survey answered that this cooperation has an average effect of 17.6%, a large effect of 14.7%, while the rest of the respondents rated the promotion of cooperation with local businesses by more than 64.8%, while only 2.9% think that this has no impact.

According to the questionnaires distributed to the subjects, it was observed that 76.5% of the participants was of the opinion that the tourism of business and conferences is a form of tourism that should be developed as it generates a lot of profit, but 23.5% of them stated that it is not very profitable.

The following questions are intended to provide information on whether these tourist organizations have thought of or developed promotion and development mechanisms to further expand this type of tourism in our country. And if so, what were some of these mechanisms? Some 61.8% of participants did not think of setting up mechanisms to promote this type of tourism sector, while 38.2% wanted to set up such a mechanism, as they consider it profitable in the activities they carry on. Here, it should be assessed whether these tourist entities are ready to develop in this sector, including location, accommodation capacities, staff training for the organization of major events, educational or cultural events. In other words, the preparation of human capabilities in taking steps to establish a Convention Bureau, would lead to the achievement of the latter's success and objectives.

In order for employees to adapt more easily to new technologies, managers must create efficient training programs, containing instructions and information necessary for an easier and faster adaptation to the operating methods of a CVB. The adaptation program helps tourism entities to have a clear understanding of the functioning of the cooperation procedures between the Convention Bureau and tourism entities in the shortest possible time. The orientation program should be organized in a short form through various means such as: powerpoint materials, short video clips, or information through brochures, leaflets, marketing procedures, etc. As mechanisms for the development of business and convention tourism, some 40% of respondents answered that they would choose sustainable development, 20% answered that they would develop or undergo training to develop this sector, while the 10% of them would have developed cognitive mechanisms of the process, while 30% of them would have done nothing.

Moving on to the question about the familiarity of these subjects to whom we addressed the questionnaire with the "Convention Bureau" term, some 61.8% of the participants in the study did not know the term at all, while only 38.2% had any information about it. They were also asked if they have any information or statistics regarding the role of conferences, trainings or meetings' development in promoting business tourism and conferences in the country. From the answers obtained, it comes out that 82.4% of the respondents stated that there are no real statistics on the role of conferences or meetings in promoting tourism of business and conferences, while 17.6% believe they have the information.

Around 35% of respondents said that partnerships or even a CVB development concept would be one way they would use to promote the development of tourism of business and conventions, while 30% of them thought they would focus on

promotion and marketing, some 15% thought about promoting the development of this sector through training, while 20% of them said they did not know how to act.

For about 70.6% of the respondents, the development of various conferences, meetings and training courses will significantly influence the increase in the number of business tourists in the country, 26.5% of them believe that it has already greatly influenced, while 2.9% of them believe that their development would have no beneficial impact on the business through the increase in the number of beneficiaries. The opening of a CVB would have many effects on the development of competitive skills in the market, as demonstrated by the results obtained from next question.

According to 50% of respondents, the opening of a CVB would have an impact on promoting competition in the market, with the aim of improving the quality of service and professional development, while 2.3% believe it has a limited impact on promoting competition and improving quality of service, while for 47.7% of them opening a CVB would have a great impact on promoting competition by improving quality of service, professional development and thus bringing about an increase of the number of satisfied customers, to have more and more customers every time. Therefore, at this point of the study, we noticed that the interviewed participants expressed that the opening of a CVB would greatly influence the development of business and congress tourism.

About 34 out of 50 subjects examined, in the subsequent question, expressed that it would be more prospective or profitable for them in various forms to open a CVB for their business, a fact which leads us to believe that this sector deserves to be encouraged towards a further development, whether through the creation of mechanisms, such as the opening of a Convention Bureau, which will offer more promotion, training, meetings and other forms of operation to promote further development of the sector and increase profits of entities offering commercial activities and services of conferences' tourism. Looking closely at a broader perspective, a good development of the business and congress tourism sector also favors the development of cultural events, favors the employment and consequently increases the overall income of the subjects involved, but also of the country in general. The rest did not prefer to answer.

At the end of this study, 95% of the participating tourism subjects stated that the opening of a CVB would be very valuable for their development in this competitive environment, in the further development of the business and congress tourism sector, it would increase the number of internal or external customers who preferred this type of tourism, while 5% considered it not very advantageous for their business.

V. Conclusions and Recommendations

The Tourism of Business and Conferences serves as an engine for overall economic development by generating income, supporting a variety of local and national enterprises that serve as suppliers or service providers for restaurants, hotels, transportation and tour guides throughout the country. The opening of a convention bureau (CVB) is seen as a tool to encourage the development of business and congress tourism as it can also bring positive impulses towards further recognition of this tourism sector.

Opening of a Convention Bureau would have a significant impact on the development of business and convention tourism to a large extent, and this was confirmed by obtaining data on how this cooperation can work to each other to be as successful as possible.

The country needs coherent evaluation and the creation of homogeneous procedures in determining the functioning methods of the relationship between CVB and tourism and conference's, subject, by implementing appropriate mechanisms for interaction and coordination information, promotion and management procedures. These results can be used to identify the current weaknesses of the business and congress tourism sector, finding strategies to better operate in the market. However, the managers of these entities should take into account the philosophy of cooperation and coordinating the appropriate, sufficiently accessible and clear information for tourists interested in this area.

To maximize positive development, it is necessary to take important steps starting from the study of the services offered by the Convention Bureau, from the establishment of a correct information network, from training and hiring of suitable specialists ready to adapt to the new technologies that the market for the tourism of business and conferences offers every day.

The hotel - tourism business relationship can be quite profitable if managed in the right way. Event planners and group organizers should contact a CVB to get a hands-on perspective on the event venue, including area information, links to venues, and useful information about how businesses operate in the area.

Using CVB's marketing assets would be an excellent marketing tool for hotels, such as: CVB's websites, printed brochures with information on local locations, layouts, room capacities, availability, seasonal demand and more. To facilitate their work, hotels and other CVB businesses are advised to: share the latest data of organizers and group organizers who have organized events in a certain tourist location, provide recommendations for other locations to show how much the hotel appreciates the relationship with the CVB, connecting CVBs with people and resources who can help them promote the location as a whole, keeping and coordinating CVBs updated on the ability to carry out marketing campaigns, hotel investment - CVB relationship.

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