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**RE-ENGINEERING REFORMS FOR A NEW MODEL OF  
ECONOMIC GROWTH AND SOCIAL DEVELOPMENT**

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# PANEL 1

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UET - MAJOR RESEARCH PROGRAM / INNOVATIVE ALBANIA 2015-2020

RP / **POLITICS, COMMUNICATION AND SOCIETY**

Prof. Dr. Ferit Duka





# Anti-Political Discourses in the Media and in Politics

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## Introduction

The differentiation of politics as a separate field of activity in post-communist Albania began with the emergence of a free and independent press. Whereas in the beginning of the transition period the papers with the largest circulation and readership were instruments of the political parties, by 1994 the first independent newspaper, *Koha Jone*, became the largest paper in Albania (Borici, 2004). Almost all the media outlets that appeared after 1997, either printed or electronic, were financed by businesses not by political organizations and claimed to be independent of political spectrum. They conceived politics as a differentiated field of activity. This formal separation was set up in February 1995 with the largest independent newspaper at the time, *Koha Jone*, entering political developments under a section called 'Politika' (Gjergji, 2005). By 1998 every major paper had a rubric called '*Politics*' where it entered political developments.

Once politics was defined as a separate sphere of activity, the 'independent' political analysts or commentators were produced. "They are not politically engaged and do not endorse a particular ideology" (Pula, 2007). Therefore, the analysts were determined simply in relation to their distance and lack of bias towards political parties. As a result, the analyst owns a 'special right to elaborating a meta-political discourse'<sup>1</sup>. His very necessity resulted moreover from the fact that 'politics was perceived now as separated from the people' (Kajsiu, 2007). It became therefore necessary to speak on the behalf of the people, to bring the concerns, of "*us, the other Albanians*" to bear on politics (Shekulli, 10 October, 1999). Overall, these developments marked an important transformation of the concept of politics that reflected its new function as the other field against which the people and society were constituted.

Today, politics is blamed for everything that goes wrong and by everyone in Albania. It is depicted as 'the very evil that prevented Albanian society from fully coinciding with itself, from returning to its natural self, Europe' (Kajsiu, 2007). It is politics that is blamed for delaying the EU integration process and for causing economic and social underdevelopment and a lot of suffering to the people. Politics and politicians gradually have become the ultimate evil, pure negativity against which Albanian society is constituted (ibid.). Such evaluations are regularly made by analysts and opinion makers claiming that 'politicians are willing to become deceivers, cheaters, bastards, male whores, bandits, chameleons, clowns, idiots, quarrelers, etc, etc' (Shqip, 10 July 2007). Politics is considered by nature corrupt, or as another editorialist notes, "politics has within her immorality, or as they say, she is a 'whore' (Panorama, 2 July, 2007). This wide-spread anti-political discourse in the Albanian public sphere implies that against such a threat that is politics, society should remain united. As a leading analyst noted "The majority Party in Albania are the Albanians, are those that stay away from this politics, politicians" (Shekulli, 2 October 1999). Finally the anti-political discourse emerges as a political project<sup>2</sup> initiated in the media and embraced by many members of the media corpus, its audiences and political bodies.

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<sup>1</sup> This means that through such discourse the analyst claims to position himself above politics.

<sup>2</sup> Given that such anti-political discourse is recognized as 'essential component of the populist phenomenon', the construction of the leader as someone different than a politician is expected to be underway (Gilbert, 2007: p9; Torres, 2006. op. cit. p8)

## The anti-political discourse of Edi Rama

The anti-political discourse was picked up by the Mayor of Tirana and Leader of the Socialist Party (SP) in Albania, Edi Rama. He has been elected Mayor of Tirana three times while holding such anti-political discourses. Recently he declared '*I am not a politician*'<sup>3</sup> albeit his high political profile as Chairman of the SP (see Shekulli, Panorama, 16 January 2008). From the very beginning, the profile of Edi Rama as a former artist was one of anti-politics. It was the profile of the ardent critic that rises above and against political parties. As he put it: 'We didn't find a place for ourselves within the Democratic Party, the Republicans or the Greens [...]'<sup>4</sup> (Rama, Klosi, 1992:

179,185). In the same vein, several years later he pointed out that '[t]he intellectual choice is by nature incompatible with, and entirely different from, that of the politician' ('Koha Jone', 24 January 1997). Even at the moment when he was preparing to take office as a Minister of the government, he wrote 'All of us in Albania are used to see the politicians with a mixed feeling of envy and fear... All their life, these men have constituted both our damnation and shame...' ('Gazeta Shqiptare', 9 April 1998). After he took office, his critical discourse did not change much: 'It seems that by now people see in each politician's face the thief of their every day food, the person responsible for their economic misery and the one who has taken hostage their prosperous future...' (Klan, No.67, 1998). In a later interview Rama confirmed 'I continue to feel an alien to politics' (Spekter, No.15, 1999).

Once he was elected chairman of the Socialist Party on October 2005, Edi Rama changed his discourse from an attack on politics in general to an attack against the old politics in the name of the new one. 'The old politics of the past has caused much damage to Albania and the Albanians... it has poisoned the blood of Albanian society, it has halted her and her development.' (Edi Rama, 26 May 2007). His *New Politics*, he claims, is everything that the old politics is not: economic development, transparency, EU integration and so on. His politics does not address any social group in particular, but all the citizens in general. "The New Politics brings politics back into the hands of the citizens placing at the centre the human being and their need for more freedom, rights and opportunities" (ibid.). These discourses aim to mobilize society around a political project which is neither left nor right, but rather against an enemy like communism 17 years ago and old politics 17 years later (Kajsiu, 2007). This is why Rama openly declared that 'beyond the left and the right there is Albania' because to him 'the people of this country are Albanians first, rather than socialists or democrats' (Panorama, 12 July 2008). Consequently, his political project is not built on the positivity of a given electorate, and that is why he utilizes vague notions such as '*the human dimension*' which are applicable to any social category.

## A version of populist rhetoric

Some commentators interpret such discourses of *New-Politics* as pure populism. Even though the aim of Edi Rama is to get through a message of *modern politics* and to establish direct links with the people by transcending the political party which has brought him to power, 'he remains at the stage of a populist politician, without even a formal political platform' (Lubonja: Korrieri, 26.01.2008). As analysts argue, it may not be possible for Rama to take off the costume of the politician and avoid the political and economic circles that constitute his capital of power for 'Rama could not oppose the interests of the Socialist Party body, whereas in order to serve the interests of citizens he addresses, he makes us believe he is going to do so...' (Ibid.).

Other commentators<sup>5</sup> take a more positive read on his discourse, suggesting that through his declarations of being a citizen in the first place rather than a politician, he is seeking a unity beyond left and right politics echoing the democratic model of Barack Obama or even that of Ronald Reagan - Rama is advised by Arthur Finkelstein who is the political advisor of the Reagan first presidential campaign - (Zaloshnja: Panorama, 23.01.2008). A few argue from a more critical perspective that the chairman of the SP is an open demagogue as in reality he is contributing to widening the gap between power and citizenship<sup>6</sup>. According to the critics, the claims of Edi Rama are weakened by the fact that he cannot place himself as a citizen by avoiding politics inasmuch as even the citizen is a political category (ibid.).

In the context of a developing country, as already discussed, scholars emphasize the risk of such populist discourse<sup>7</sup> because it poses particular challenges to institution- building and long- term consolidation (Volmer, 2006; Bennett 1998; Hallin and Mancini 2004). Indeed, after being elected chairman of the SP, Rama radically transformed the party structures by weakening the power of representative forums hitherto very influential within the party and by establishing the '*One Member, One Vote*'

<sup>3</sup> During a meeting with young membership of the Socialist Party, just a week after the controversial declaration, Edi Rama explained what he meant: 'Yes, I am a citizen, Yes, I am not a politician. I want politics supplied with as much citizens as possible, from the center to the periphery...' (Panorama, 23 January 2008)

<sup>4</sup> '[...] We reconsider that there is nothing unusual in this [...], for it is probably the very nature of the artist that makes it difficult for him to adhere in a political party' (Rama, Klosi, 1992: 179,185).

<sup>5</sup> However the point is to them as well whether his declarations make Edi Rama more or less politician in reality.

<sup>6</sup> '*We all know that the demagogue comes to identify himself with the people, precisely what is happening with the mediated gatherings of Edi Rama around rural areas in his new campaign 'Dialogue with Albania'*' (Tare: Panorama 26.01.2008).

<sup>7</sup> Through it, institutional channels are avoided and non-institutional linkages made possible while leaders reach the people directly, often by overcoming the structures of the party as it is also the case with Edi Rama.

rule. This way, he concentrated more power into his hands and established direct links with the grassroots level of the party. Opponents accuse him that he has done so 'in order to have the party under control' while 'avoiding establishing checks and balances mechanisms for himself' (Panorama, 17 July 2008). In this respect, the media serves Rama as a means to avoid such institutional channels for he has always given priority to the media when transmitting a message, even when the target was the SP body. Coupled with the fact that he enjoys a broad media appeal, his messages reach the people directly, bypassing the institutional linkages. For more insight in this issue, the populist dimension relative to the media strategies Rama has applied shall be analyzed in the final sections of this paper. The section that follows should look instead at the construction of his political profile through the media.

## Populism Revisited...

It was through such *hegemonic* discourses that Rama had hitherto construed his popular *political* project even though, after all 'his career as Minister of Culture and Mayor of Tirana has been a pure challenge to politics as a profession' (Zogaj, 2005: 102) and for a long time he was perceived as 'extremely unpopular within the national political parties' (Christian Science Monitor, 23.03.2005). He formally joined the Socialist Party on October 2003, announcing his candidacy for the leadership of the party in the same year, and failing. However, by doing so, he managed to project himself as a potential leader of the SP and protagonist of a new style within the party, being at the same time 'the major consumer of the term 'Reform' while claiming to change the rusty mechanism of the party' (Fevziu: Klan, 23 November 2003). Rama's tactics did not work until the Socialist Party lost the general elections in 2005 and the then head of the party, Fatos Nano, resigned. Rama was finally elected head of the Socialist Party by the extraordinary Congress of October 2005.

As a candidate for the leadership, he pledged to lead the Socialists towards victory and succeeded, although the polls and pundits saw him as the outsider who was bound to lose the leadership again. 'He may be loved by the people, but he's hated by his own party' would say the director of an Albanian NGO<sup>8</sup>. It was not the first time that he won against all odds, and it was not going to be the last. He will manage to survive a huge scandal during the campaign for the third term as Mayor of Tirana in 2007 and shall succeed in winning. The popular appeal he enjoys is recognized as decisive for him to win support in both instances. Within the SP he was now seen as the man who would rescue the 'old ship', while in the media land his credits were still sufficient in as much as his popularity was constantly articulated and visible. Now, he has solidified his claim that he is bringing politics back into the hands of the people.

## Populism and media strategy

The media-crafted style of Edi Rama reinforces his strategy as Leader of the Socialist Party: 'As he goes to work in the morning, he thinks about the television station he is going to invite or the newspaper he needs so as to sell a story...' (Klan: 9 December 2005). Amazed by the emergence of such a media-driven political mogul, the socialists have accepted thus the very anti-political leader. 'To me [Rama] the people of this country are in the first place Albanians who share same dreams and troubles, rather than being socialists or democrats' (Panorama, 12 July 2008; p5). This is a regular claim made by Rama with the goal of gathering around his political project the *gray* electorates or as he puts it 'those disappointed by the legacy of 'old politics'. It is also part of his continual and, by now, his tactical discourse through which he is offering himself not as a politician but as a 'disappointed citizen' by Albanian politics.

While Rama has build up his political capital in terms of popularity especially among young generations, now he is making efforts to broaden the spectrum in order to include people from the rural and marginalized areas. This is the reason why since September 2007 he has been leading a country wide tour baptized 'Dialogue with Albania'. This largely *media-event* is conceived as a 'dialogue' not only with the people Rama physically meets, but also the audiences he reaches through the media, especially television (Mapo, 25 August 2007). It is also a political action in so far as Rama is propagating the thesis of *New Politics* in the 'unity' fashion as the theory of *media events* suggests (Dayan and Katz, 1992). Very personalized, the tour looks more like a presidential *media event* concentrated on the Rama personae. 'Dialogue with Albania'<sup>10</sup> has been considered by many as a clear attempt for Rama to market himself nationally.

After a year the tour has produced some *popular* structures officially referred to as 'Comities of Dialogue with Society', which claim to be *apolitical* because their members can be distant from politics and positioned either on the left or on the right of the political spectrum. 'These groups are conceived as bridges between the SP and the communities... in order to inject in the social environment the spirit of New Politics that is politics beyond the left and the right' (Rama in Shekulli, 17 July 2008;

<sup>8</sup> Cited in 'Christian Science Monitor', 23.03.2005

<sup>9</sup> 'Rama is simply trying to import into his new office as chairman of the SP all the publicity arsenal he possesses. It is obvious that he takes care abundantly of camera shots, the retiree he is going to meet a given day [...] As he goes to work in the morning, he thinks about the television station he is going to invite or the newspaper he needs so as to sell a story...' (Baze, Mero in Klan: 9 December 2005).

<sup>10</sup> 'The term dialogue might not be accurate in this case for we have a central figure positioned unevenly among the others in the communication process. Even if there is a dialogue, it comes as a background for the ideas displayed by the initiator of that dialogue who we'd prefer not to be contaminated by populism or revolutionary ideas!' (Pellumbi, Servet in Panorama, 20 July 2008: p.2-3)

p.5). This new version of a depoliticized discourse is emerging as a populist project or a catch-all strategy. While it is difficult to assess the ultimate implication of the Rama's ideology if such a thing exists and the blurring of differences along party lines in Albania, there is some evidence that this kind of discourse underlines an all-embracing strategy for gaining power by wooing the young and the 'gray' electorates. However, this convergence phenomenon is not unusual in post-communist Albania where parties of both camps move progressively toward the centre. The case of Edi Rama is unique because of the generalization level of his claims which reject all existing ideologies as insufficient for the Albanian society. As a consequence, and in true populist terms, the new way emerges as the only viable solution. Borrowing even from radical right, Edi Rama claims that *New Politics* voices the 'true democracy', 'popular grievances systematically ignored by mainstream political groups' while demanding not a mere change of political colors but 'a change in the nature of power' (Rama, Panorama, 12 July 2008).

## Conclusions: Analyzing the Role of the Media

The spectrum of mass media in Albania offers a variety of public attitudes relative to the controversial politics of Edi Rama. There is no lack of critical voices and opposing viewpoints, especially on the part of analysts and commentators. Taken to an extreme, some do however argue that Rama had bought support from media outlets (Lubonja in Korrieri, 26.01.2008). While it is difficult to find empirical evidence so as to support such 'underground' accusations, there exists openly a variety of public attitudes on the part of both elite and radical media with some of them granting him support (i.e. Shekulli, Shqip), others providing balanced coverage and critiques (i.e. Panorama, Gazeta Shqiptare), and a few, from rather radical media being either highly oppositional or endorsing Rama's approach (i.e. ZP, RD, SOT, '55'). Therefore, it would be inappropriate to claim that mass media simply mirror the politics of Edi Rama while, by following their own codes, the Albanian media generate a political 'reality' that is tailored to their own requirements.

Overall, it should not be neglected the phenomenon that exists in Albanian media in the form of simplification and personalization of political reality, also embedded in news production routines. That is to say that a celebrity mayor like Edi Rama gained high visibility due to such media practices. Conceptually, there is some debate over the drift of such phenomena. On the one hand, they receive lots of critiques on the grounds that 'demagogic simplification' prefers to confront individuals instead of confronting their rigorous arguments, opting thus for personalization over debate and creating a Theater of politics<sup>11</sup> (Bourdieu, 1998: 3-4). On the other hand, due to such transformations, the media market becomes more democratic and responsive to audiences as well as more open toward new centers of power. Hence, scholars argue that a 'style-conscious politics' is 'an attractive new medium of democratic representation and effective communication between elector and elected' (Pels, 2003: p49)<sup>12</sup>.

Following the perspective of this paper, it can be suggested that the pluralistic, democratizing argument should be supported minimally at a first stage, and most importantly, for echoing an active and, to some extent, a democratic role of the media institutions as they gave voice to a new and different player in the Albanian political arena. The attention that is given to Edi Rama by the media as a political actor may thus be due to the alleged *popular appeal* he embodies for the mass media in post-communist Albania claim to be *market sensitive*. Yet, it must be recognized that the complex construction of his cult in the media land implies his effective management of a sophisticated communication strategy for gaining popular-appeal. Indeed, the popular stance has constituted his tactical in relation to both political strategy and media performance.

Moreover, the role of the media in relation to the Edi Rama version of populism has to be critically assessed as important concerns may rise for both media and politics. In the interplay between media and populism, the political game might be affected when the mass media operate as active players. It is in this way that institutional channels are avoided and non-institutional linkages made possible. Additionally, the popular stance of media outlets is expected to spark anti-political sentiments and public cynicism, while this might be just the precondition for the rise of populist activists (Mazzoleni et al. 2003). Therefore, the precondition for the rise of the 'anti-political' project which was picked-up by Edi Rama is to be found to some extent in the earlier media discourses. Yet, the assessment of more general effects in this respect needs further research and examination.

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<sup>11</sup> Others observe that they imply moreover a whole process of depolitization as a result of the ascendancy of entertainment and celebrity culture across the airwaves (McRobbie, 2005: 19). Some even argue that national politics is often reduced to amusing and melodramatic 'spectator sport' as a consequence of political banalisation (Carpini and Williams, 2001: 178 and Born, 2004: 400).

<sup>12</sup> Additionally some scholars argue for the pluralization of the public sphere and the democratisation of the media market through competition and the openness of TV codes as such changes 'create new opportunities for nonmainstream political actors to influence the setting and framing of the political agenda' (Carpini and Williams, 2001: 178).



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# Kemalism as an ideology: continuity in development or interruption?

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## Abstract

*Kemalism is the founding ideology of the Republic of Turkey and, as it is implemented by Mustafa Kemal Atatürk, is shaped by political, social, cultural and religious reforms designed to separate the new Turkish state from its Ottoman predecessor and to embrace a Westernized way of living, including – among others things – the establishment of democracy and secularism. There are six fundamental pillars of this ideology: Republicanism, Populism, Nationalism, Secularism, Statism and Reformism. This paper aims to explain this transition from Ottomanism to Kemalism - from the Ottoman Empire to the Turkish Republic, and the methodology used is based on a qualitative approach - analysis of discourse - focused on the operationalization of the core concepts of Kemalism, which are implemented in Turkey, since 1923. To fulfill this purpose, the basic research questions are: How are the Kemalist principles applied in order to have a functional and Western-oriented Turkish republic?; and How is Kemalism - as an discontinuity or continuation of development - impacting today's Turkey? This study will explain the basic concepts enabling the development of Kemalism, and will aim to create a better understanding on how this trend has affected the today's Turkish politics and how the current government - with Islamist roots – is trying to divert its orientation from Kemalism.*

**Keywords:** Kemalism, westernization, modernization, neo-Ottomanism, continuation, discontinuity

## Introduction

Kemalism is the founding ideology of the Republic of Turkey, and it is worth noting that the its leader, Mustafa Kemal Atatürk, has been crucial in implementing political, social, cultural and religious reforms designed to separate the new Turkish state from the Ottoman past. The six pillars of this ideology are: Republicanism, Populism, Nationalism, Ethatism, Secularism, and Revolutionism.

Nowadays, in Turkey, a new course is being followed regarding Turkey's orientation, breaking away from Kemalist principles and entering a new path. On the eve of a popular referendum, the republic established in 1923 is expected to change - a regime that has not changed since then. From parliamentary Kemalist republic, today's Turkish leader Recep Erdoğan intends to turn Turkey into a presidential republic, having more powers for the president's institution. But, to understand the present, we have to analyze the past.

At we are witnessing a transition from Kemalism to a presidential republic, this paper aims to explain the Turkish transition of the 1920s and 1930s - the shift from Ottomanism to Kemalism - from the Ottoman empire to the Turkish republic.

The methodology used is based on a qualitative approach - discourse analysis - focused on the operationalization of essential concepts that explain the Kemalism that was implemented in Turkey, starting in 1923.

In order to fulfill the purpose of the paper, research questions are:

How are the Kemalist principles applied to make a Western-oriented functional republic?

How did standpoints of Kemalism being an interruption or a continuation of development have influenced today's Turkish reality?



Based on these research questions, the basic hypotheses are:

Kemalism has radically influenced the functioning of the Turkish republic.

Kemalist spirit - as interruption or continuation of development - has influenced today's trends in Turkish politics.

In this way, this study will tend to explain the basic concepts that have enabled the development of Kemalism, and will aim to understand more clearly how this current influences present Turkish politics and how the actual government - with Islamic roots - tries to divert as much from this ideology.

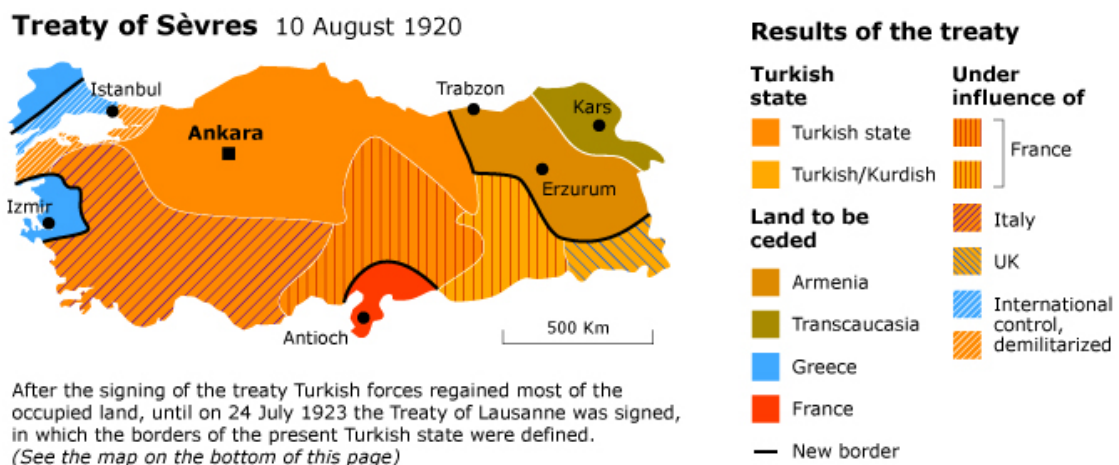
## Beginning of a new chapter for Turkey

The Lausanne Treaty (June 24, 1923) was signed in Lausanne, Switzerland, and defined the boundaries of Anatolia and Eastern Thrace, leading to the final division of the Ottoman Empire and annulling the Severe Treaty (1920) (Shaw&Shaw, 1976). The division of the Ottoman Empire was a political process filled with numerous events that took place after World War I. This period lasted from October 30, 1918 to November 1, 1922. This division implies the dissolution of the Empire in several new nations, and was planned in the early days of the war by the Allies (Entente Powers). The Allies disagreed with Turkish post-war intentions and entered into some bilateral or tripartite agreements. This division led to the creation of the modern Arab world and the Republic of Turkey. The League of Nations attributed France mandates in Syria and Lebanon, while the UK controlled in Mesopotamia and Palestine. Parts of the Ottoman Empire in the Arabian Peninsula became part of today's territory of Saudi Arabia and Yemen (Helmreich, 1975: 186-187).

After the invasion of Istanbul by British and French forces in November 1918, the Ottoman government was finally crashed and consequently, on August 10, 1920, the Severe Treaty was signed. It was a peace treaty between the Ottoman Empire and the Allies (with the exception of Russia and the United States) at the end of World War I. Under the treaty, the Ottoman Empire collapsed and virtually Turkish sovereignty was abolished. Decisions regarding the implementation of the Severe Treaty were taken at the San Remo Conference in April 1920. Turkey closed in Anatolia, but would give autonomy to Kurdistan. Armenia became an independent republic, taking international guarantees. It was decided that Smirna (today's Izmir) and its surroundings would be under Greek administration. In Europe, Turkey abandoned parts of Eastern Thrace; some Aegean islands were given to Greece, 15 islands (Dodecanese) were taken by Italy (including Rhodes and the islands around it). Turkey would keep Constantinople and its surroundings, including the straits' area, but the latter would be internationalized. Also, the Allies would have control over the Turkish economy (Helmreich, 1975: 186-187).

The treaty was accepted by the government of Sultan Muhammad VI in Istanbul, but was rejected by the nationalist parallel government of Kemal Ataturk in Ankara. Ataturk's special treaty with the Soviet Union and its victories against the Greeks forced the Allies to negotiate another treaty.

### Separation of Anatolia and Thrace under the Sevre Treaty



While the Severe Treaty was under discussion, the Turkish national movement under the leadership of Ataturk detached itself from the Istanbul-based monarchy and established the National Assembly in Ankara in April 1920. The Severe Treaty was unacceptable by Ataturk, who launched military offensives. As a consequence, the Turkish government stated that ratification of the Treaty was impossible. This forced the Allies to return to the negotiations. The Allies fell back as a result of Turkish army victories that resisted to Greeks, Armenians and French and secured the territory that constitutes today's Turkey. The leaders of the Turkish national movement played smartly in the international arena after signing the Moscow Treaty with the Soviet Union (March 1921), where Ataturk's Turkey was admitted as a party to talks, establishing thus relations between the two countries, despite the legitimate government was still ruled by the Sultan. Ankara's accord with France (October 1921) ended the conflict with France; The Treaty of Armenia (Dec. 1920) with Armenia ended the war with Armenia; As well as the

Treaty of Kars (Axandropole, 1921), signed with some Soviet Republic, defined the eastern borders of Turkey. These treaties had a great relevance to Turkish revolutionaries, because they were signing important treaties with other states and were internationally recognized as representatives of Turkey (Shaw & Shaw, 1976).

Hostilities with Britain for the Straits Area were avoided in September 1922 with the Canak Incident (where Turkish troops attacked the British and French), which brought about the Mudanian Armistice (Agreement between the National Assembly of Turkey on the one hand and Italy, France and Britain on the other hand), signed in the town of Mudanias, near Bursa. All these Turkish moves forced the Allies to return to the talks. Consequently, the parties gathered in Lausanne where the Severe Treaty was abolished and replaced by the Lausanne Treaty (Shaw & Shaw, 1976).

### Territorial changes of the Ottoman Empire after the Lausanne Treaty



After the Severe Treaty was not recognized by the nationalist government of Mustafa Kemal Atatürk, the Turkish army also marked victory over the Greeks and overturned the Sultan. The Kemalist government took an imposing position to seek a new peace treaty. Following the signing of the Lausanne Treaty in 1923, Turkey regained Eastern Thrace, some of the Aegean islands, a territory along the Syrian border and the Smyrna district; the internationalized area of the straits would remain demilitarized and subject to international conventions. Turkey would have sovereign rights over its territory, and foreign influential areas would be abolished. Outside the straits area no restrictions were imposed on the Turkish government. In return, Turkey undertook to abandon the claims of the former Ottoman territories and would protect the rights of minorities within these borders. A special agreement was signed with Greece for forced exchange of minorities (Shaw & Shaw: 1976).

More importantly, the Lausanne Treaty came as a result of the Turkish War of Independence and led to international recognition of the sovereignty of the new Republic of Turkey as a successor state of the Ottoman Empire. This liberation struggle was undertaken by a nation against the most powerful imperialist states of the time, mainly Britain and France, but also their lesser-known allies, Italy and Greece. Culminated with military victories in the field and diplomatic victories in Lausanne, the Republic of Turkey was internationally recognized. This victory paved the way for Atatürk to implement the Kemalist ideology and give Turkey a Western orientation.

## Kemalist ideology

In the 1920s, in a world faced with a deep social crisis, Atatürk's new philosophy was distinguished for its practical and popular character. It is also regarded as an ideology of the modern Turkish Republic embedded in Atatürk principles, according to which all citizens should be included in it; this confirms the power of a state ideology as an "ideology of all the people" (Cizre, 2008: 148). This ideology also had an important practical character since its principles were not just in theory, but were also put into practice. It also had a popular character since all his efforts aimed at the civilization of the people as a whole. So, Kemalism tried to create bridges between ordinary people and the intellectual class. It was a kind of civilization under which a greater freedom was aimed for the citizens. According to this doctrine, happiness was found in an independent Turkey without submissions of political, social or religious nature. This type of philosophy attacked religious fanaticism that was considered a pathological element embedded by despotism in the human mind. Thus, the religious barriers embedded in the culture of the people were overcome and opened up the path to reform the state. The fundamental principle of Kemalism was the independent existence of the people, demonstrated by a spirit of nationalism (Jung & Piccoli, 2001). According to these two scholars, "only nationalists could defend independence. . .

Also, this kind of nationalism did not prevent the international harmony” (Jung & Piccoli, 2001: 178). In 1927, in the Republican People’s Party Congress, Atatürk declared:

“We are Republicans  
We are Populists  
We are nationalists  
We are Etatists  
We are Laics  
We Are Revolutionaries “ (Atatürk, 1927)

## 1. Republicanism

Republicanism (Turkish: cumhuriyetçilik) was that part of the Kemalist ideology that replaced the absolutism of the monarchy (Ottoman Empire) with the rule of law, popular sovereignty and civil qualities - with a special emphasis on the freedom practiced by the citizens. Kemalist Republicanism defined a constitutional republic, in which the people’s representatives were elected and had to rule under the existing constitutional law restricting the government’s power over the citizens. The head of state and other officials would be democratically elected and would not inherit positions. Their decisions would be subject to the courts. In contrast to the Ottoman state, Kemalism claimed that all the laws of the Republic of Turkey had to be based on the current needs of the country or, as stated by Atatürk “. . . should be inspired by the actual needs here on Earth as an essential fact of national life. . . “ (Atatürk, 1927). Kemalism claimed that only the republican system could best represent the aspirations of the people. This republican Kemalist system was a representative democracy with a parliament elected in general elections, a president as head of state elected by the parliament, serving a certain term, and a prime minister appointed by the president, while ministers were appointed by parliament. Following the principles of representative democracy, the Kemalist state was characterized by division of power between the executive (the president and the council of ministers), the legislature (parliament) and the judiciary (Shaw & Shaw, 1975: 301-4).

At this point, the many analysts affirm (this remains controversial) that this kind of Republicanism was just a façade behind which was hiding the “Kemal dictator”, stating that “everything was decided by the President of the Republic” and that “Kemalism was not compatible with Democracy “ (Blythe, 2000: 1). In fact, Atatürk had historically many critics. On the other hand, Tongas (1939) argues that this is an exaggeration, because Atatürk actually chose collaborators from the parliament that controlled them on behalf of the nation, even though it consisted only of deputies of one party (p. 38). But Kemalism, continues Tonga (1939), “was a democratic regime dedicated to the fulfillment of a program initiated by Kemal Atatürk himself.” The Turkish people believed “Father of the Nation,” and the latter did not rule as despot, but with politics approved by the people, who honored him - as a National Hero. However, Tongas himself admits that “Turkey was an authoritarian republic” (Tongas, 1939: 38).

## 2. Populism

Populism (Turkish: halkçılık) is defined as a social revolution in terms of its content and intentions, and differs from the Western understanding of the term “populism” (the political philosophy under which the adherents claim to be against the elites). This Kemalistic ideology was based on the supreme value of Turkish nationalism. Such a sense of pride associated with nationalism produces psychological incentives for people to be committed and to achieve a sense of unity and national identity (Atatürk, 1927).

Rustow (n, d) considers this sense of national unity and this commitment to populism as mechanisms that enabled Turkey’s gradual peaceful transition from a traditional autocracy to a modern democracy in only two generations (paragraph 1). Although it will be discussed further below, there is a link between nationalism and populism to Atatürk’s political opinion. If we refer to his speech in Ankara on 28 December 1919 (Atatürk 1927), he clearly defines the new realities of foreign policy, bearing in mind the nationalistic imperative. “Today,” he stressed, “nations of the whole world recognize only sovereignty - national sovereignty. A nation must do whatever it takes to preserve its existence . . . “ (Rustow, n, d: paragraph 4). Rustow emphasizes that Atatürk’s populism was essentially an evolutionary concept. By maintaining an outside balance and internal political stability, he addressed “every individual” in “every village and neighborhood” linking their destinies directly with the fates of the nation. However, this vision of populism was not just a slogan (Rustow, d.d., paragraph 5).

Also, the Kemalist revolution was led by an elite with an orientation towards the best public interest. Kemalist reforms brought about a revolutionary change in the status of women. For example, women were given the right to vote since 1934 (Burcak, 1997: paragraph 3). Atatürk (1927) often stated that Turkey’s “rightful rulers” were ordinary citizens, such as peasants and workers (Speech before the Congress). But at that time, in Turkey, this was more of a purpose than a reality.

## 3. Nationalism

Nationalism (Turkish: milliyetçilik) is another principle of Kemalist ideology. The Kemalist Revolution was intended to create the Turkish nation-state from the ruins of the Ottoman Empire. (State-nation is a state that is self-identified with its political

legitimacy, serving as a nation that is a sovereign territorial unit; the state is a political and geopolitical unit, the nation is a cultural and/or ethnic unit. State-nation means that the two notions coincide geographically.) This explanation is given to understand how necessary it was for Turkey to create the state we know today after the constant dangers of disintegration.

Kemalist ideology defined the “Turkish people” as “the protector and promoter of the moral, spiritual, cultural and human values of the Turkish Nation” (Nohl, 2008: 85). Also, the “Turkish nation” is defined as the nation of the Turkish people who always worships family, country and nation, a people who know their duties and responsibilities vis-à-vis the democratic, secular and social state governed by the rule of law. Mustafa Kemal Atatürk himself (1927) defined the Turkish Nation as follows: “The people of the Republic of Turkey are called the Turkish Nation” (paragraph 6). The words “being Turkish” or “Turkish ethnic” were replaced with the “Turkish nation”, a “perceived” nation that consisted of people living within the boundaries of the National Pact (Encyclopedia Britannica, National Pact, 1920).

All the principles of the National Pact were used by Turkey in the Lausanne Treaty of 24 July 1923, where peace was finally settled. According to Mango (2002), Kemalist nationalism is at the core of the Turkish modernization movement (p. 394). This kind of nationalism arose against the political domination of Sheikhs, tribal leaders and Islamism (Islam as a political system). Kemalist nationalism aimed to shift political legitimacy from autocracy (Ottoman dynasty), theocracy (Caliphate) and feudalism (tribal leaders) to an active participation of Turkish citizens in governance. This active participation - or “the will of the people” - was established along with the Republican regime and Turkism (being Turkish). Such a shift was symbolized by the statement made by Atatürk himself: “How happy is he who calls himself Turk!” (Mango, 2002: 394).

Grange (2012) explains that Kemalist nationalism is derived from the social contract theory, particularly from the principles of Jean-Jacques Rousseau and his work “Social Contract” (the theory that addresses the legitimacy and authority of the state over the individual) (p. 5). The Kemalist perception of the social contract was affected by the collapse of the Ottoman Empire, which was perceived as a failure of Ottomanism. Rousseau is used by Kemalist forces to embed the principle of national sovereignty. On December 1, 1921, Atatürk addresses the Assembly with the words: “. . . As you know, among the revolutions, the most important is the French Revolution. . . The philosophy of this revolution is based on the principle of national sovereignty and gives people the opportunity to pursue and demand their rights” (Grange, 2012: 10). That was why Kemalist nationalism appreciated the social contract as “the highest ideal”. Thus, Atatürk stated: “In administering and protecting the Turkish nation, national unity, national consciousness and national culture are our highest ideals” (Atatürk, 1927).

Regarding the expansionism that arises naturally from nationalism (but not that of the Turkish kind), Kemalist nationalism opposed imperialism and aimed to promote “peace” in the country and in the international arena (referring to Atatürk’s postulate: “Peace at Home, peace in the World”). After all, this ideology did not aim at any expansion; it was aimed at guaranteeing current boundaries. In this context, it should be emphasized that Atatürk used nationalism more subtly and effectively at a time when territorial integrity had to be maintained. Tongas (1939) says that “in order to achieve the country’s reorganization, Turkey needed stability and independence” (45). Nationalism was seen as a necessity to turn into a kind of “religion” for the Turkish people - to protect them from foreign influences. A special feature of this nationalism is that there were no imperialistic goals. When someone speaks of “nationalism, it is implied the desire to extend the borders, at a time when Europe was involved in nationalisms that opened thousands of graves. On the other hand, the Kemalists did not want to include these “European” elements. They aimed only at the homogeneity of their country: a closed Turkey in itself, detached from the past, strengthened as much as possible.

#### 4. Statism

Statism (Turkish: *devletçilik*): Atatürk (1927), in his speech to the Assembly, made it clear in his statements that Turkey’s modernization would depend largely on economic and technological development. This principle has been interpreted to reflect that the state serves as a regulator of the country’s economic activities and that the state should engage in areas where private enterprises do not want or hesitate to include - or, most importantly, the state to intervene when national interest is required. In applying the principle of statism, the state appears not only as the main source of economic activity, but also as the “owner or administrator” of the country’s largest industries. (Kemalism, n.d.).

Of course, these reforms had a positive effect on a ruined economy inherited from the Ottomans - more in agriculture than in the industry. That is the reason why the state got involved where private enterprises could not. The Turkish industry initiated the development from a very low point. Therefore, the government focused primarily on purchasing and utilizing natural resources (previously used by foreign companies). These were significant developments, but the world economic crisis of the 1930s added the Kemalist influence for taking control of the state, “which somehow brought about the survival of the Turkish economy” (Soner, 2006: 44). Statism highlighted national interests and the state instrumentality was to be used to exploit these resources to bring about social welfare. Referring to Tongas (1939), it is emphasized that Turkish statism should not be confused with Marxism that defends the thesis that everything should be done by the state and nothing should be left to the individual private initiative (p. 40). Turkish statism simply attaches importance to strengthening state institutions, even though it enters the private domain as a regulator. After all, Turkey needed it at that time. In this context, we can also refer to Morgenthau (1949), which gives vital importance to the exploitation of natural resources as part of national power (p. 94). He stresses that “... another relatively stabilizing factor that exerts an essential influence on the power of a state in relation to other states is natural resources.” (Morgenthau, 1949: 94).



According to Landau (1984), the argument that Kemalist statism had Marxist influences is considered a distortion of history (p. 52). Landau (1984) states: "Apart from confusing the radical modernization with social revolution and the economic statism with totalitarian rule, Turkish Marxist analysts also misunderstood Atatürk's view of modernization and the role of political reforms" (p.53). In this way, Atatürk tried to liberate Turks from the past i.e. from the various social, cultural, economic and psychological constraints of the Ottoman system. Thus, political liberation from the past was always an integral part of Atatürk's long-term vision.

The Kemalist period is distinguished for the way in which the reforms were carried out. Of course, Turkey had difficulties in pursuing a rapid pace of change, but the reforms had a positive effect on the country's progress.

## 5. Secularism

(Turkish: *Laiklik*) of Kemalist ideology aimed at stopping religious interference in government affairs. It was involved in the education system and government, trying to resemble the secularism practiced by France. Kemalist secularism was seen as another mechanism to get closer to Europe and to break away from the Ottoman past. As Tongas (1939) states, "this secularism implies the freedom of thought and the independence of state institutions from the dominance of religious thought" (p. 47). It is a principle that is not against a moderate and apolitical religious belief, but it is against the forces that oppose modernity and democracy.

In Turkey, secularism was incorporated into legislation initially with the amendment of the 1924 Constitution, which abolished the provision that "State religion is Islam". Along with subsequent reforms implemented in accordance with Atatürk's ideology, it was set the right agenda for the creation of a modern, democratic and secular state. The 1982 Constitution does not recognize or promote any official religion (while more than 99% of the population were Muslims) (Hekimoglu: 2010: 30). The attitude of the Turkish state to religion was thoroughly analyzed and evaluated in the "Presidency of Religious Affairs" (ratified on the basis of Article 136 of the constitution as an institution after the abrogation of the Caliphate). The duties of this institution were "the implementation of affairs concerning the beliefs, respect and ethics of Islam, the public awareness of their religion and the administration of sacred places" (Hekimoglu: 2010: 30).

It should be noted, however, that the secularism of the Republic aimed to lower the clergy's influence and create an environment where the individual practiced religious faith without being compelled to follow the strict religious norms. Kemalist secularism did not aim at "abandoning Islam", as many analysts may claim, because the secular program did not oppose religion in itself, but aimed to establish a system of separation from religion (Hekimoglu: 2010). But what should be emphasized is that the education system attacked the obscurantism of the Muslim clergy or the mysticism of religion. People began to realize that civil and administrative matters could be better implemented by government officials than by clergy and, most importantly, it was understood that the doctrines of traditional Islam were not always enough to respond to the needs of contemporary life (Hekimoglu: 2010: 30).

One must understand that Turkish nationalism entered the field of the spiritual domain that once was related to religion (an identity issue). According to Shaw and Shaw (1975), "this kind of nationalism failed to create spiritual harmony provided by Islam (in the context of a state created on the Ottoman ruins) (p. 460). This clash (between nationalism and secularism) occurring on the identity perspective is described by researcher Çarmikli (2011), which states that there are analysts arguing that the emergence of modern Turkey can be summed up as a "transition from a multi-national or multi-cultural empire Otomane to a mono-cultural model of Kemalism" (142). Nationalism, therefore, is considered as the main element of Kemalism in this transition or transformation and, consequently, the relationship between Kemalist nationalism and Western nationalism needs to be analyzed deeper. Of course, it is necessary to determine the extent to which western nationalism influenced the conceptualization of the nation-state as the only political and social formation embraced by Kemalism in order to save the country. Çarmikli (2011) further states that «the main problem with this approach is whether concepts such as ethnicity, nationality, national identity and nationality can be applied in a non-western context in the same way as it may happen in the West (p. 142).

To return to Shaw & Shaw's thesis (1975) for «reconciling nationalism with spiritual needs» in a secular environment, Çarmikli (2011) deepens the explanation of the identity issue in the Ottoman and Turkish case, saying that «identity is developed in ways that are different from what is happening in the West» (p. 142). Ethnic identities, in the latest Ottoman period, were not constructed as Western identities that «have been fixed long ago».

However, it is important to emphasize that secularism played an essential and decisive role in the crystallization of national Turkish identity. In this way, Kemalism tried to redefine what was the meaning of a «Turk» created by the new ideology - a secularism sent on the basis of Ottoman and Islamic tradition.

## 6. Revolutionism

Revolutionism (Turkish: *inkılâpçılık*) is a principle formulated by Atatürk, which implies that the country should replace institutions and traditional concepts with modern institutions and concepts (Kemalism, n, d, paragraph 6). This principle - often proclaimed as a philosophical doctrine - emphasizes the radical social change through the revolution as a strategy for achieving modern society - according to the Kemalist model. The essence of this revolution, in the Kemalist sense, was regarded as a fact accomplished, which «means that there is no way to get back to the old system» (Hamilton, 1995: 69).

According to Shaw & Shaw (1976), this doctrine was intended to change traditional Ottoman society into a contemporary society through the application of radical measures in order to achieve success within a single generation (p. 456). It was applied to protect the country from foreign enemies, as well as to justify measures that were changing Turkish society. It was a realpolitik that included the use of everything necessary to ensure that the Revolution launched in 1919 would fulfill its goals.

The principle of revolutions was that the revolution would consistently continue to strengthen the state. As sociologically explained by Hamilton (1995: 69), this concept can be understood today as «an active modification». (This concept is indirectly explained even when discussing the clash between nationalism and secularism in the above section). In fact, Atatürk tried to combine his six principles into the inherited Ottoman environment. Hence, Hamilton (1995) states that Turkey (and its society), attempting to imitate Western institutions, should have added «Turkish features» to this development and should have adopted them in Turkish culture. Creating these features takes generations of cultural and social experience. (Hamilton 1995: 69).

## Discontinuity or continuity of development?

Much has been said about the Kemalist ideology, which introduced Turkey (what remained from the Ottoman Empire) on a different path. There are scholars who appreciate Atatürk spirit, others criticize. Today's Turkey, approaching the 100th anniversary of the Republic, has been founded on the basis of this ideology. However, in Turkey there is currently a current, which states that «Kemalism was an injection imposed on Turkish society» (Hamilton, 1995: 4). For this reason, naturally the following questions arise: Was Kemalism a discontinuity of development or continuity of development? Was Reformation or Revolution?

If we consider different approaches that analyze the Kemalism, we notice a contradiction. Some analysts point out that Kemalism is an «discontinuity» that brought Turkey's full separation from the Ottoman past. For them, Atatürk reforms have modernized the country, and Kemalism is the greatest success achieved in nearly a century of the modern Turkish state. «The Republican People's Party», according to the synopsis of this Party, «under the leadership of its founder, Mustafa Kemal Atatürk, won the struggle for national liberation, abolished sultanate and caliphate, founded the Turkish Republic, and consolidated national unity. . . The main goals included in the Party program are universal values of contemporary social democracy, especially freedom, equality, solidarity, workers' rights and democracy» (Alaranta, 2011: 16).

However, other voices emphasize «continuity» with the Ottoman past and boundaries of Kemalism (Herbuth, n.d: 241-6). It is underlined that Kemalist reforms were mainly limited to large cities and a limited elite circle; consequently, their effect on the Anatolia was limited. To counter the popularity of Atatürk's cult, this line of thinking underlines that the party led by Atatürk, the Republican People's Party, has not been able to win a single election when free elections were held (ibid).

On the other hand, the Kemalists claim to have changed the course of Turkey's history by creating a nation-state from the ashes of a shattered empire (Herb, n.d. p. 7). They implemented many reforms in a short time and with great efficiency, being voluntarily disconnected from the imperialist Ottoman attitudes. Kemalists also believe that they have created the right course for a new beginning, leaving behind the past. In this regard, the Lausanne Treaty is considered as the opening of a new chapter regarding Turkey's relations with the West. According to the Kemalists' interpretation, the Lausanne Treaty is also the fundamental agreement between the West and Turkey. However, in fact there is a rhetorical political dose, because it is impossible to perceive a new future, completely erasing the historical background. But that is what the Kemalists think. By contrast, Çarmikli (2011) considers this situation «a naive embrace with modernity» (p. 109).

Since the beginning of the implementation of this ideology, the Kemalists were confident that the reforms implemented would radically transform the country to the European level or to meet the standards of Western civilized countries. Kemalism tried to completely eradicate the «negative» aspects of the Ottoman past, and such reforms would be appreciated by the West. Consequently, the Kemalists believed that Turkey would establish relations with European countries without carrying the burden of the past hostilities. Atatürk's motto «Peace at Home, peace in the World» became the cornerstone of foreign policy, in the sense that Turkey tried to avoid as much conflict as possible to contribute to regional and global peace, creating thus an agreeable dimension to the new European allies.

In the current context, AKP supporters are of the opinion that Kemalism was not «discontinuity», but «continuity». Çarmikli (2011) says that «if there were any interruption, it would mean that the Ottoman Empire had not existed» (p.11). So, according to AKP supporters, it is understood that Republic is the product of the empire. Are these radical transformations «discontinuities» or are they «continuities»? In this framework, the way of perceiving the «strategic depth» continues to be a debate for «discontinuity» or «continuity». Çarmikli (2010) states that «it is still early for historians to decide» (p. 12).

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# Albanian Public Service Broadcasting: Challenges towards becoming a Public Service Media

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## Abstract<sup>1</sup>

*Following the collapse of the communist regime in the early 1990s, contemporary Albania has been undergoing a series of economic, social, and political transformations, which have affected the political system and the society in many ways. Such encompassing transformations affect, among other things, the role of media in society and in the democratic processes. Particularly so in the case of the public service broadcasting (PSB), which, in principle, is driven by public interest and thus has the potential to contribute to democratic advancements in post-communist countries. This research paper has been inspired by the on-going debate relating to the role and the transformation of PSB in new democracies such as Albania. The aim of this research is to investigate the current and future developments of the Albanian Radio and Television (rtsh), the public service broadcasting in Albania, by analysing dimensions such as politics, policy and regulation, market and financing models, digitalization and technology development as well as socio-cultural. For rtsh to fulfil its remit as serving the public interest and survive in a fiercely competitive media market, the transformation into a public service media is a viable option, which implies the use of online media tools to embrace the opportunities offered by media convergence. This will enable more transparency, quality of programming; attract audience and being responsive to the future prospects of the Albanian society.*

**Key words:** Public service broadcasting, media, policy, digitalization, and democratization

## Introduction

Following the collapse of the communist regime in the early 1990s, contemporary Albania has been undergoing a series of economic, social, and political transformations, which have affected the political system and the society in many ways. Such encompassing transformations affect, among other things, the role of media in society and in the democratic processes. Particularly so in the case of the public service broadcasting (PSB), which, in principle, is driven by public interest and thus has the potential to contribute to democratic advancements in post-communist countries. The aim of this research is to investigate the current and future developments of the Albanian Radio and Television (rtsh), the public service broadcasting in Albania, by analysing dimensions such as politics, policy and regulation, market and financing models, digitalization and technology development as well as socio-cultural. This research relies on a qualitative methodology of primary and secondary data. Through in-depth interviews with media professionals, scholars and policymakers and the explorations of existing studies, reports and publications on media in Albania, the research analyses the current developments and future challenges of the transformation of the state-owned media, Albanian Radio and Television, into a public service broadcaster.

The transformation of rtsh from a state-owned media to a public service broadcaster has been challenging due to external factors, internal organization of rtsh as well as the current trends of PSB in light of the media convergence and

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<sup>1</sup> This paper presents part of the findings of the study conducted by Blerjana Bino and Besart Kadia for the PSB development in Albania, in the framework of the research project 'The future of the Public Service Media in the Western Balkans', supported by SCOPES, more at <http://www.analitika.ba/en/events/conference-future-public-service-media-western-balkans-never-ending-transition>



digitalization. The research concludes that the transformation of rtsh in a genuine public service media has to be done by taking in consideration the political, economic and socio-cultural context in the country. It is naïve at best to assume that rtsh in Albania can be detached from politics in a country like Albania with a high level of politicization marked by continues all-encompassing confrontation between political parties. It is also not realistic to expect journalists to adhere to the Western European standards on journalistic professionalism in isolation from the conditions in which they work in Albania such as lack of labor contracts, constant political pressures, self-censorship, financial instability, low level of adequate professional development, to mention but a few. Therefore, to provide recommendations for the deep and multifaceted transformation of the PSB in Albania, it is important to understand the complexity of the context.

The structure of the research paper is as follows: the first part offers a theoretical and methodological background by outlining some of the key international debates on the future developments of public service broadcasting with a particular focus on the context of new democracies such as in the Western Balkans. Then the PSB will be explored by looking at history, organization and regulation. The last section will outline the findings of the research by zooming in into the transformation of PSB into public service media followed by discussions in relation to the conceptual framework.

## Contemporary debates on Public Service Broadcasting in new democracies

The main factors that have impacted the transformations of PSB in Europe and elsewhere in the past two decades are: the liberalization of media markets; the proliferation of information and communication technologies (ICTs) and socio-cultural changes in contemporary societies. The liberalization of media markets challenges PSB by prioritizing fair trade, competition, and commercial criteria in the marketplace over PSB core principles and role in society. However, the legitimacy and relevance of PSB has been confirmed both at the national and European level by the European Commission and the Council of Europe. As Born and Prosser put it “*PSB plays a central role in social and cultural development that underlie the general conditions of citizenship and thus PSB is prior to the market, not just part of it*” (Born & Prosser, 2001: 659). The conceptualization of PSB as a public good underpins the primacy of PSB principles and role in society compared to market processes and thus it legitimizes state intervention. Market failure justifies the state intervention in public broadcasting because the market itself does not necessarily provide optimal social value and it may prioritize private interests over public good.

The shift towards PSM and application of multimedia strategies for PSB implies a crucial transformation in the relationship with audiences. Therefore, the legitimate arguments for the transformation of PSB to PSM claim that a new partnership between PSM and the public shall be developed which will allow PSM to acknowledge the role of the public as an active partner, and no longer just passive receiver; to reconnect with the public in ways suited to the 21<sup>st</sup> century and to make public media truly public. Therefore, these shifts from PSB to PSM require “*an international dialogue between creative producers, policy-makers, and academics to develop new perspectives on public value and on the technologies and practices through which such values should be created and facilitated*” (Jakubowicz, 2006: 3). As a result, PSB will need to evolve from public broadcasting to public service media (PSM), which implies taking on multimedia strategies and practices, developing new formats, involving audiences and introducing innovative programming (Nissen, \_\_\_\_:45). In this light, PSM must have a vast reach to the public; provide quality content and services that differ from the commercial media sector, audience-friendly; provide content and services to marginalized communities and specific small groups and expand onto a variety of individualized new media services (Jakubowicz, 2006).

Drawing from the premise that the social and cultural factors have played an even greater role in the media system change in new democracies, media policies have pursued combined elements of the mimetic and atavistic orientation depending on the level democratic consolidation (Jakubowicz, 2004: 53). Scholars have identified three media policy orientations presented in the new media systems in post-communist countries: *idealistic*, *mimetic* and *atavistic* (Jakubowicz, 2006). Scholars (Hausner & Marody, 2004; Jakubowicz, 2004; 2006) argue that the colonization of public life by political parties and lack of a genuine civil society that occurred in new democracies have led to the atavistic orientation of media policy. The analysis of PSB development in WB shall be explored in the light of the combination between the mimetic and atavistic policy orientation. Drawing from the shortcomings of positioning the media systems of new democracies in one of the typology developed for ‘the West’, a new *hybrid media system* has been identified as a normative and empirical framework of analysis. Voltmer (2008) points out that new *hybrid media systems* have emerged in new democracies that blend together liberal ideas of a free and de-regulated press with trajectories of the communist past, contextual local values and the experience of transition and democratization. It is paramount to note that there is no ‘good overall’ model for the new media systems in emerging democracies as their specific configuration depends on the interaction between contextual socio-cultural, economic and political factors. What is more, Sükösd and Bajomi-Lázár argue that there is no final state of media reformation in post-communist countries like an end point of the Western institutional pattern. Similar to democratization itself, the transformation and reformation of media remains an open-ended, normatively oriented attempt (Voltmer, 2008: 23).

The introduction of PSB in post-communist countries is so “*extraordinarily difficult to achieve that it could be regarded as a true test of post-Communist transformation overall, specifically in terms of the consolidation of democracy*” (Jakubowicz, 2004: 65). First, the introduction of PSB came after the commercial stations appeared in most new democracies media system and consequently, PSB was competing in a fierce market while at the same time trying to establish itself. Second, high levels of political parallelism results in politicization of content, management and staff and thus this means that restructuring and managerial reform of PSB

could not in reality be carried through. A key common feature for PSB in new democracies in Western Balkans is “systemic parallelism”, which means that a country’s system of government is translated into a corresponding system of PSB governance (example “politics-over-broadcasting”, “politics-in-broadcasting”) (Jakubowicz, 2008: 108). Third, the newly introduced PSBs did not have appropriate time and conditions for institutional, professional and cultural changes (independence, impartiality, detachment from politics, dedication to public interest, commitment to quality) that would allow PSB to consolidate in the media landscape. In addition, the commercial media sector is not interested in the development of PSB and also the concentration in private markets impacts the media policy. Also, the cost of maintaining PSB in countries with small population and low GNP per capita is high. In this light, in new democracies one of the major themes of discussions about PSB is privatization.

## Contextualising rtsh in the Albanian media landscape

The media market in Albania is weak, small and fragmented, far from being consolidated, and thus in perpetum transformation. In terms of audio-visual media, there is a dual broadcasting system, with the Albanian Radio Television (rtsh) as the public service broadcaster and a thriving private media. The small size of the market hinders media financial sustainability and as result media ownership and transparency of media funding are controversial. Issues such as media’s cross-subsidization from other businesses of their owners, the owners’ relations to politics, allegations of politically allocated state advertising, and the influence of big commercial advertisers have all led to doubts on media standards and editorial independence (Londo, 2013: 53). The major challenge of media in Albania is clientelism, which directly influences media professionalism, its independence and quality of information and thus the role of the media in the society. Political parallelism in Albanian media is primarily evident in the case of media content and bias, media funding and advertising as well as in the career paths for journalists, which are shaped by the political affiliation. The political agenda predominates over standards of media professionalism for news coverage and topics of public interest, also leading to self-censorship.

This symbiotic interrelation between media, politics and businesses is also reflected in delays and deadlocks in media legislation or what is defined as floating laws (Mancini & Zielonka, 2012). The media legal framework and policy in Albania have not paved the way for media development, they have rather responded to existing and fast advancements of media landscape in reality. Professional journalism in Albanian media is not developed at the desirable levels and the impact of civil society for a public interest in media is weak. In addition, media professional associations and trade unions have been recently established and are yet to be consolidated and to serve as actors of their own in media landscape. Although the relatively low level of professionalization of journalism hinders the overall quality of media in Albania, it is very challenging to maintain high standards of professionalism. Journalists and media staff work in inadequate conditions, labour relations are problematic, they have low salaries, jobs are not secure with employment contracts, and the life-work balance or gender mainstreaming are not covered by specific policies or practices.

The transformation of rtsh in Albania has been profoundly affected by the attempts of the political and business elites to influence and control the media, but also by the attitude of media themselves as active and powerful actors seeking financial profits and political influence. In the case of Albania, the colonization of public life by political parties and lack of a genuine civil society have led to the atavistic orientation of media policy and a poorly established PSB in the public realm. However, similar to democratization itself, the transformation and reformation of PSB and the entire media landscape remain an open-ended attempt.

Its relation to political actors hinders the independence of rtsh. This approach is evident in the deadlock regarding the selection of the management bodies of rtsh (Steering Council and Director General) as well as in the functioning of the regulatory authority. rtsh fails short to offer objective, high quality and diverse content, rather it serves the interest of the incumbent government. rtsh does not fulfil its remit and objectives of quality programming, editorial independence, plurality, diversity and universality and therefore it is difficult to argue for its value and relevance for the democratic processes in Albania unless it will transform itself.

**TABLE 1: rtsh transformation in context**

<b>Hybrid media system and in perpetum transformation</b>	
<b>Internal factors</b>	<b>External factors</b>
Legacy and embedded culture in rtsh as serving the government;	Symbiotic media relations with politics and business,
Inefficient management of funds	Floating laws
Human capital and resources	Fuzzy media ownerships
Weak management	Weak civil society
Communication and coordination	Small media markets
Self-censorship	Political unwillingness
Lack of self-regulating mechanisms	No public interest in rtsh
Inadequate dedication to PSB values	No public debate on transformation of rtsh

\*Source: PSB in WB Study: Paper on Albania, Authors

The current funding model, albeit adequate in generating considerable resources for the functioning of rtsh, does not solve the interdependence of rtsh on political actors. So far, the issue of state intervention on rtsh and implications for the media market competition have not been addressed. rtsh is not funded only by the license fee,<sup>2</sup> although that is the biggest share (approximately 70%), but also from public funding from the government which reached a total of 25% of the overall budget of rtsh in 2014 and 2015. Other funding is secured from private sources such as advertising, but to a lower level, not more than 5%. What is more, the biggest concern is the management of the funds and the efficiency of their use. Therefore, more transparency is requested from rtsh and the regulatory authority.

While PSB in Europe is being transformed and its remit has been called into question regarding its relevance in the digital area, this is not the case in Albania. No particular attention has been paid to the transformation of the rtsh remit to embrace the challenges of the digital area. Moreover, rtsh is responding very slowly to the new social and cultural changes that affect media consumption. rtsh need to respond to the new preferences of the audience in light of the digital convergence. rtsh has already expanded online, but without a proper debate and analysis on what it means for rtsh to broadcast online and how does it affect other actors in the media landscape. rtsh does not yet have an integrated multimedia strategy and action plan for the digital area.

Albania has lacked a thorough and constructive debate on the legitimacy, relevance and future development of the PSB. Sporadic and fragmented debates can be identified mainly on media market liberalisation, funding, and media-politics relations and currently on the issue of digital switchover. However, the current debate on PSB in Albania is a reflection of the daily political confrontations and business vested interests, rather than guided by core principles and normative functions.

## From Public Service Broadcasting to Public Service Media: Where does rtsh stand?

One of the central and most challenging reforms of the media system in Albania in the aftermath of Communism and towards the establishment of democracy and European integration has been the reform of state broadcaster to a public service broadcaster. The transformation of rtsh officially started with the approval of the Law No. 8410 on Public and Private Radio and Television of 1998. The Albanian Radio and Television (rtsh) is the oldest audio-visual broadcaster in Albania. The transformation of the PSB in Albania has thus been profoundly affected by the attempts of the political and business elites to influence and control the media, but also by the attitude of media themselves as active and powerful actors seeking financial profits and political influence. This is also combined with social and cultural factors and therefore the results are that media policies have pursued elements of the mimetic and atavistic orientation. In the case of Albania, the colonization of public life by political parties and lack of a genuine civil society have led to the atavistic orientation of media policy and a poorly established PSB in the public realm. However, similar to democratization itself, the transformation and reformation of PSB and the entire media landscape remain an open-ended attempt.

The current debate on PSB in Albania is a reflection of the daily political confrontations and business vested interests, rather than guided by core principles and normative functions. Currently in Albania, although there is no reliable audience measurement, commercial audio-visual media meet the demands of the viewers more so than rtsh, which in turn means that there is no need for public services intervention. However, the debate on state intervention in PSB in Albania has not been informed by the left or right arguments. Rather the debate mirrors the daily confrontations of political parties with no regard to ideological matters on the role of PSB and the state in democracy. Thus, contrary than in Europe, in Albania there has been little criticism of state intervention that relates to arguments about the legitimacy of state intervention in the media system and the distortion of the media market due to the state aid for PSB. The criticism reflects mostly the political interference of political parties in the governing of PSB, despite being left or right wing.

Albania has lacked a thorough and constructive debate on the legitimacy, relevance and future development of the PSB. Sporadic and fragmented debates can be identified mainly on media market liberalisation, funding, and media-politics relations and currently on the issue of digital switchover. Rather than tackling the founding principles and the core issues of the PSB in the contemporary society, such debates have merely been an attempt to catch up with already existing media practices in the country. For instance, digital broadcasting was a reality in Albania for 10 year prior to the media policy and law was introduced. Also, rtsh has already expanded online, but without a proper debate and analysis on what it means for rtsh to broadcast online and how does it affect other actors in the media landscape. The value and relevance of rtsh in Albania has neither been questioned nor been confirmed, it has been taken for granted to continue with the same dual-broadcasting system without dwelling on the implications. For instance, the concept of public interest, contrary to European settings, as the underpinning principle of PSB has not been called into question. This is at odds with the reality whereby rtsh serves the interest of the government, and not the audiences. What is more, the interrelations with audiences still need to be discussed. It is thus necessary to discuss the shift towards PSM and application of multimedia strategies, which for rtsh implies a crucial transformation in the relationship with audiences.

The overall media policy approach in Albania has been a combination of the mimetic and atavistic orientations, highly dependent on the degree of democratization in the country and the Albanian political culture. In Albania in the past twenty-five years, there have been continuous confrontations centred on the media, commercial and PSB, with the media being the victim, the predator or both. This is due to the high level of colonization of public life by political parties and also to the highly

<sup>2</sup> The overall Strategy on Digital Switchover as well as the new law on media, adopted in 2013, confirm the current funding model.

polarized political system in Albania. This is combined with a weak civil society and limited genuine media self-organizations. The policy orientation has attempted to achieve some degree of approximation with the EU Audio-visual Media Directive as shown in the case of the Law No. 97/2013 on Audio-visual Media in the Republic of Albania. The mimetic orientation is combined with the atavistic one in Albania considering that the political elite in Albania has refused to give up control of the media and ability to influence its content and performance. This is shown in the case of the political interference in electing the governing bodies of rtsh and in political pressure on rtsh content and programming. Consequently, the rtsh did not have appropriate time and conditions for institutional, professional and cultural changes (independence, impartiality, detachment from politics, dedication to public interest, commitment to quality) that would allow PSB to consolidate in the media landscape. In addition, the competition is not fair with the commercial media and the costs of maintaining PSB are high for a small market and low middle-income country like Albania.

In terms of media and politics relations, elites in Albania have proclaimed the guarantee for media freedom, but in practice they have retained mechanisms to control the media, thus hindering the independence of the PSB. This control – aiming agenda of political elites is reflected in the processes of transformation of audio-visual media from state to PSB. There is a lack of political will to support PSB and public authorities have not ensured the appropriate operation of PSB. This approach is evident in the deadlock regarding the selection of the management bodies of rtsh (Steering Council and Director General) as well as in the functioning of the regulatory authority. In addition, the research shows that rtsh fails short to offer objective, high quality and diverse content, rather it serves the interest of the incumbent government. This is even more concerning when considering that civil society, media organizations and the public have proven too weak to influence the process and put pressure on the government regarding the role and function of PSB.

While PSB in Europe is being transformed and its remit has been called into question regarding its relevance in the digital area, this is not the case in Albania. The new law on audio-visual media was introduced in 2013 but there was no particular attention paid to the transformation of the PSB remit to embrace the challenges of the information society. Apart from the Digital Switchover Strategy, there is no current significant debate on the future of rtsh regarding the advancements in ICTs. For example, while in Europe there is an emphasis on attaining a fair balance between private commercial broadcasting and public services that is stronger in the face of the multimedia and digital era whereby different broadcasters coexist, this debate is not yet significant in Albania as there is little attention paid to rtsh with no political willingness to support it and weak public advocacy for rtsh. In addition, there are scarce developments in regard to the plurality of communication modalities as well as programme portfolio diversification to appeal to mass audiences by using new media and ICTs. rtsh has its official website, but as analysed above, this is all it offers in terms of multimedia.

The value and relevance of PSB could be questionable in Albania contrary to Europe, if a thorough and constructive debate was held. In Europe, the value and relevance of the PSB cannot be questioned in a democratic society because PSB allows for the provision of quality and trustworthy information, opportunities for access and citizen participation, and the expression of diverse perspectives of various social groups (McQuail, 1992: 44). As analysed above, rtsh does not fulfil its remit and objectives of quality programming, editorial independence, plurality, diversity and universality and therefore it is difficult to argue for its value and relevance for the democratic processes in Albania unless it will transform itself. What is more, rtsh is responding very slowly to the new social and cultural changes that affect media consumption. For instance, in Albania as in Europe media consumption has also changed with the decline of the television viewing and the increase in the use of new media platforms as sources of information, entertainment, and education, particularly by younger generations. The transformation of the rtsh into PSM, as in other media landscapes, encapsulates *“the governing dynamics of contemporary media-society relations...that will ultimately affect everyone to an important degree because media and society are interdependent”* (Bardoel & Lowe, 2007: 21). Therefore, rtsh need to respond to the new preferences of the audience in light of the digital convergence.

The discussion on the transformation of rtsh into PSM requires not only a focus on audiences, but also the necessity to make the public dimension more transparent and explicit as well as the service dimension more efficient while still adhering to the public service remit and its democratic functions in society. The implication here refers to the need for rtsh to focus more and more on its external obligations towards the public (audiences) and to do this in a consistent way. As argued in other studies regarding the transformation of the PSB into PSM, the core challenge is that of *“succeeding in the transition from supply-oriented PSB thinking to demand-oriented PSM thinking”* (Bardoel & Lowe, 2007: 23-25). rtsh is caught between public remit and political clientelism and thus reflects more party politics and personal interests, than the public interest. In this light, the public support for rtsh is relatively low given that rtsh is primarily accountable towards political and economic powers rather than the public or civil society.<sup>3</sup> rtsh need to mobilize public support for the institution and their programme of transformation and therefore acknowledge the public as an active partner rather than supposing a passive receiver. This implies not only that PSM is of the public because they finance it through license fee, but also that it ought to be a service by the public. The implication here is more profound and relates to participatory claims on PSM, that it is a media by the public because it is financed and controlled by the public, but also produced by them. Finally it is a service for the public.

While the formal transformation of the rtsh from state-controlled to public service broadcaster was done by introducing adequate audio-visual media laws, the fulfilment of the public mission of rtsh has been a great challenge and almost an elusive goal (London, 2013: 67). Despite positive developments and on-going pressure and assistance from international

<sup>3</sup> For case studies such as Spain, Italy, Poland see Nowak, Eva. (2014) “Autonomy and Regulatory Frameworks of Public Service Media in the Triangle of Politics, the Public and Economy: A Comparative Approach”, Reuters Institute for the Study of Journalism, Working Paper Series. University of Oxford.



community, numerous challenges remain for PSB in Albania ranging from issues of sustainability, professionalism, political parallelism, governing bodies and management, financial transparency, programme update and audience reach. In order for rtsh to successfully transform from state-owned broadcaster to a public service media, it needs to rebuild social trust and strengthen its relations with audiences. For this to happen, two components are of paramount importance: independence and professional autonomy guaranteed by law and safeguarded by the relevant supervisory and regulatory bodies as well as the public and civil society (for instance the well functioning of the Council of Listeners and Viewers). Media independence in this case can be understood as independence from the state, but also from the market and economic powers as well as other economic powers in society. rtsh lacks *directionality*, i.e. the ability to set directions of change and innovation in the media market for instance in creating or shaping media trends. For the future transformation of rtsh it is thus paramount for it to become set clear directions vis a vis other media stakeholders in the Albanian market and in response to the contemporary developments of the Albanian society.

The potential risks and dilemmas that come with the transformative processes of the rtsh require the establishment of a learning organization, i.e. creating structures and work processes within the rtsh that mitigate risks and create organizational and human capabilities to address challenges in a rapidly changing media landscape. rtsh based on its remit and specific objectives should provide diverse programming for all interests and perspectives. rtsh is the only one audio-visual media offering programmes for minorities such as in Greek, Macedonia and Romani language through its regional centres. It has enriched its programming in the past years covering a wide range of topics and adopting programme formats similar to commercial television, thus risking to fall into the trap of tabloidization in an effort to attract more audience. At present, rtsh fulfils only partially the requirement of the public service broadcaster to be accountable to the public through a board representative of society at large and selected in an independent, open and transparent manner. Although the law allows for a wide range of associations to propose members for the Steering Council, in practice the election of members reflects the political positions and preferences of the key political actors. In addition, this refers to the development of internal capabilities at rtsh to build partnerships with the private sector, other media stakeholders and above all the public (diverse publics). A positive development in this regard has been the introduction of programme portfolio of rtsh and its channels such as art, sports, music etc. What is more the development of a learning organization requires re-organization of the internal procedures and workflow within the rtsh. With the digital services, the media production processes does not start with the development of a single programme, but rather with a concept or idea that is then elaborated into various media formats and platforms.

## Conclusions

This research concludes that the transformation of rtsh in a genuine public service media has to be done by taking in consideration the political, economic and socio-cultural context in the country. It is naïve at best to assume that rtsh in Albania can be detached from politics in a country like Albania with a high level of politicization marked by continuous and all-encompassing confrontation between political parties. It is also not realistic to expect journalists to adhere to the Western European standards on journalistic professionalism in isolation from the conditions in which they work in Albania such as lack of labor contracts, constant political pressures, self-censorship, financial instability, low level of adequate professional development, to mention but a few. Therefore, to provide recommendations for the deep and multifaceted transformation of the PSB in Albania, it is important to understand the complexity of context. As for recommendation in any other area, the principal recommendation for the future development of PSB in Albania is the radical transformation of the political system towards the establishment of genuine and functioning public institutions.

Based on the findings of this research and the limitations mentioned above, future research should use a combined methodology approach of both qualitative and quantitative in order to address the future development of PSB. Future research should focus on the internal functioning of the PSB by looking at the media logic and practice, programming and production, journalism professionalism and culture, investments in technology. Another area of research could be the analysis of the content of PSB and its ability to serve marginalised communities.

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# Texts and Paratexts in Pjetër Bogdani's poetry on Creation

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## Abstract

*The article is focused on the interrelations between Albanian poetry and the poetic of Creation, pointing out precisely the biblical intertextuality, the paratexts (Enuma Elish and the atomic explanation of Empedocles, Ovid's Metamorphosis) and the idea projection, imaginative one, in the illustrative poetry of P. Bogdani. With a focus on Albanian poetry and its nature, it is emphasised that while the beginnings of written Albanian poetry are lately documented than most poetical cultures of Europe, the feature of this Albanian poetry is that Albanian verse writing began in a close interrelation with religious belief. Therefore, the poet is a transmitter and part of the whole and, moreover he/she is a transmitter and mediator of Creation; he is in them as a soul and transmitter of It. Poetry, as a result, has its biblical textuality and its Christianity in thinking. Consequently, we are speaking of a literature of the same feature, of the same rank, attended by biblical culture in Europe, since the beginning: prediction, as that of Apostles, with a religious vocation, syncretism in church ritual, biblical interpretation and translation. Analyzing here the text of Bogdani's poetry "Creation of the Orb" we are focused on texts and paratext, pointing out, the poet status, in front of this paratexts, the traditional impersonality, the interrelation, imaginative suggestions of Bogdani's poetic text, its imaginative nature of Creation and poetical creation in order to view the poetical feature of religious poetry, as an art.*

**Keywords:** poetic of creation, Empedocles, Enuma Elish, biblical texts, Creator, poetical impersonality, poetry, primaeva chaos, ex nihilo.

To the attention given to the poetic text of Pjetër Bogdani, called *Creation of the Orb*, we consider the cultural and textual approach (not just the biblical one), because these texts are meaningful, to understand and distinguish the poet's status as opposed to creation and Creation; in its entirety, the poetry itself, in its imagination of Creation. What are the possible paratexts with which the author could have worked, even culturally? Are we dealing with an authorial text? Researcher Ibrahim Rugova notes that "poetry is instead the function of illustration, argumentation of ideas and different views of the work; it is also being taken as an independent medium in shaping matter of substance." (Rugova, 2007 p. 526) That Bogdani has been one of the most savant people of the time, this is also confirmed by his place as a hierarchy of the church, but this is especially confirmed by his work, which, although having a religious starting point, cannot remain in the sphere of the church preaching needs. It is therefore natural that this illustrative poem should not be seen as a result of a literal illustration of a Bible paratext. In this sense, Bogdani's poetry coincides in itself with several paratexts, which shed light on the author's way of writing, as well as the perception of his poetic vision and the Creation. Thus, the Roman epic, *Metamorphosis* of Ovid, the work, *On the nature* of Empedocles is just as important as the biblical paratext, and even the latter is viewed in its meaning and systematic way, within the cultural tradition that constitutes it, including here the Babylonian epic, *Enuma Elish* also. Functionally Bogdani's poetic-illustrative creation, *Creation of the orb*,<sup>1</sup> (Bogdano, 1685 p. 77) is presented in the signs of an interpretation and elaboration.

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<sup>1</sup> The poem is of illustrative part of the IV lecture of the book, named "*Si e Krijoj Zotynë Qiellnë*" and does not have any title. It has been named as such from the scholar Ibrahim Rugova in his research study on Bogdani's work. See the Introduction of Rugovas' Book of S. Hamiti, pp. 5-8 )

The question of what Bogdani's text approaches to an Ovidian version of the Creation or that of Empedocles or even *Enuma Elish* pose other questions to which a final elaboration would be impossible. But, on the other hand, their elaboration in a comparative approach leads us to recognise the nature of this writing and of this poem, appreciating as important the practice of such religious writings of this period, by content, organisation and stretch.

This implies a comparative approach to the tendency to evaluate such similar texts in other cultures, be they in the Balkans and their integral view, in all constituent parts, not just poetry. What is the nature of such texts in the Christian works of the Roman ritual, but Byzantine rites? The example of P. Bogdani's poetry can be seen also in P. Budis', L. Matranga's, P. Zarishi's, N. Keta's, poetry to observe the tradition, the European poetical tradition of the time, in which poetry with Biblical paratext, that of a metaphysical kind, has also the well-known names. From the comparison of such texts, we can notice Bogdani's innovation in Albanian poetry, as well as his textual and poetic originality.

In fact, toward the text and its authenticity, Ovid, at *Metamorphosis* brought a point of view, that later literature would renew from time to time, either with translations (interpretations) or motifs, or the perspective of contemplating mythological material in it. In approaching the text or event, Ovid himself offers or reveals to us these key issues of literature, originality and authorship in the art, inaugurating a work, *Metamorphosis*, among the most important and most valued in modern literature. Ovid certainly had a more elaborate attention in his epic style than in bringing a truly original subject; he has written the material, trying to distinguish in them a coherent motif, which, functional and central, allows the author to assemble and align mythological stories and myths, with the main progressive principle, *metamorphosis*, without ignoring a reflective view, whose starting point is also from this perspective.

Meanwhile, for *The Band of the Prophets*, although the originality of the writing is generally accepted - the text is not a translation - the very nature of the writing does not exclude such a thing. Further, the originality of the text is not necessarily a necessity. The author himself, Bogdani, does not intend to be a creator, but a writer of a book, and moreover *The Band of the Prophets*, who itself as a content, requires an impersonal author. The cult of Word and that of elaborated language have nothing to do with the literarity, but with its usefulness and its sacred truth. If the readership of the book - the author emphasises such a thing in "*Te primitë përpara leterarit*" (Bogdani, 1940-1943 p. XLIII) - is the intent, reading this text it is not for aesthetic purposes. "*I Write for the benefit of the Holy Faith, not for my honour*", writes the author at "*Al Benigno Lettore*". These data lead us to a poetic text that is functional and, moreover, in response to the illustrative nature of this functionality, it is also impersonal, as opposed to certain textual approaches. Likewise, the textual organisation in scales and the lectures, recalls the practice of preaching and the religious caller versus believers, which Bogdani has as a profession. But this preaching, this lecture, adds to the written word, rather than spoken one, proclaimed in the church; the discourse is bookish and literal. Therefore, the lecture is elaborated and referential. The author, while obeying the laws of the religious preacher, the caller in the faith, writes a text that emphasises not the sound, the oral word of it, but the Book. The sublimation of the book, as reading and text, as readable (not to be spoken), is reinforced even more, not merely by the complexity of the phrases and the syntax, the deep rhythm of its thinking, but also thanks to the plurality of discourses, styles, texts as well as the languages used in it: Albanian, Italian, Latin, Hebrew, Arabic ...

To the question, if there was any first text with which the author has worked or adapted, we can answer "maybe". It is certain that the author, in his lecture, has worked with texts and the entirety of texts to which he refers to support the arguments of lecture/lectures. Now let's go back to Bogdan's poem, (*Creation of the Orb*). In the text it does not have a title, because it comes as an illustration of the above idea of *Come Dio Creò Il Cielo* (How our God Creates the Sky).

Parëse qiellja, dheu, deti e zjarmi  
(T') ishte, kje zjarmi, dheu, qiellja e deti.  
Ma shempton qiellja dhenë, e detin zjarrmi:  
Se, ku ish qiellja, dheu, zjarmi e deti,  
Aty ish dheu, qiellja, deti e zjarmi.  
Dheu qiëllnë (e) mbelon, e zjarminë deti.  
Qiejlja, deti, ende zjarrmi ishte ndë dhët.  
Dheu, zjarmi ende qiellja ishte ndë det.  
Mbe qiell't nuk' ishte as yll, as dielli  
Qi me dritë të vet zbardhen dritë të re;  
As hana (s') delte me dy të rgjana bri,  
As prej qiellshit (s') vite (ndonji) (r)reze për dhe,  
As dheu si sqype nalt (s')qendron e (r)ri,  
As niegullë me shi, as breshen, as rëfe,  
As deti me valë (s')epte të madhe gjamë,  
As lymentatë me breg (nuk) ishin zanë. (Bogdani, 1940 -1943 pp. 36-37)

Looking at only the illustrative-poetic part, we can observe that, like the first book in *Metamorphosis*, Bogdani's poetic text approaches the structure of thought with the epic texts of the *Middle East*. The Bible, of course, is the first, basic text, as paratext. But it is such in spirit of thought and not just as an intertext of poetry. While in the explanatory text, his lecture, the author quotes, translating from the Bible, Vulgate, but does not poeticize the Bible: *Ndë të zanet fill' krijoj Hyji qiëllnë etj.* (Genes.1.), (In the words of God, God creates heaven. (Genes. 1)), (Bogdani, 1940-1943 p. 35) the poetic text does not obey precisely to biblical paratext point of view. Vs:



Bible, Genesis: 1. 1-4	Bogdani, Creation of the Orb
Në fillim Perëndia krijoi qiejt dhe tokën. 2. Toka ishte pa trajtë, e zbrazët dhe errësira mbulonte sipërfaqen e humnerës; dhe Fryma e Perëndisë fluturonte mbi sipërfaqen e ujërave. 3. Pastaj Perëndia tha: "U bëftë drita!". 4. Dhe Perëndia pa që drita ishte e mirë, dhe Perëndia e ndau dritën nga errësira. (BIBLA, 1994 pp. 1, 1-4)	Parëse qiellja , dheu, deti e zjarmi (T')ishte,kje zjarmi, dheu, qiellja e deti. Ma shempton qiellja dhenë, e detin zjarmi: Se, ku ish qiellja, dheu, zjarmi e deti, Aty ish dheu, qiellja, deti e zjarmi. Dheu qiëllnë (e) mbelon, e zjarminë deti. Dheu, zjarmi ende qiellja ishte ndë det. Mbe qiellit' nuk'ishte as yll, as dielli QI me dritte të vet zbardhen dritë të re;
1In principio creavit Deus cælum et terram. 2 Terra autem erat inanis et vacua, et tenebræ erant super faciem abyssi : et spiritus Dei ferebatur super aquas. 3 Dixitque Deus : Fiat lux. Et facta est lux. 4 Et vidit Deus lucem quod esset bona : et divisit lucem a tenebris. (BIBLIA, 2006 p. 1)	
1. In the beginning, God created the heavens and the earth. 2. And the earth was without form and void, and darkness was upon the face of the deep, and the Spirit of God moved upon the face of the waters. 3. And God said, "Let there be light." And there was light. 4. And God saw the light that it was good, and God divided between the light and the darkness. (Holy Bible, 2011 p. 120)	

In the illustrative poetry, we do not go to *the beginning of the beginnings*. The Absolute syntagm: *In the beginning*, here is replaced by "Parëse" and *the beginning of beginning* itself, transmitted as timeless time, is shifted to the results of this *beginning*. While in the Bible, the nature of confession is pursued, by the greatest weight of creative will of God's borne by the creative action of Divinity: *God said*. The explanatory version of Bogdani has the attribute: "*bânftu*" in his illustrative poetry, about Creation this indisputable data, is written in the foregoing (exemplifying) paragraph to be parsed in poetry, from the perspective of the first original viewpoint beginning with, *Parëse: (Prior to) As a dive in the beginning of the beginnings*. Precisely for this, the first verses of poetry resemble those of the Babylonian epic, *Enuma Elish*, before being introduced the creative action of Apsu and Tiamat:

#### Tablet I

1 AabceeKx e-nu-ma e-liš la na-bu-ú šá-ma-mu

2 AabcdeeKM šap-liš am-ma-tum šu-ma la zak-rat (Lambert, 2013 p. 50)

*When skies above were not yet named, /  
nor earth below pronounced by name...* (Dalley, 1989 p. 233)

The textual reading of the first book (Ovidio, 1983 pp. 20-25) of Ovid, which is about the *Creation of the orb*, further reinforces this opinion. What is also noted in Ovid's text "*...is a reflection on creation and less supernatural than the Greek one.*" (Leeming, 2010 p. 233) Moreover, while not casting aside the Hesiodic variant of Creation, the epic variants of the Middle East on Creation, are not that they find no place. Of course, the epic variant of Ovid also has similarities with the Bible.

That Bogdani is familiar with Ovid's work; it is evident in the preface of Bogdani's *Band of the Prophets* (Bogdano, 1985 p. 50) but without finally endorsing our idea or our thesis for an Ovidian paratext of the poetic part. On the other hand, it is also known the nature of the readings and adaptations made to Ovid and his work, *Metamorphosis*, in accordance with Christianity (Lactantius, 2003 p. 66)<sup>2</sup>, which also reinforces the idea of viewing the text of the latter, as not illustrative to the idea of Biblical Creation, in general, at least, as a cultural approach or of the biblical and imaginary projection into the Latin land. Moreover, the creation of Ovid is of *primeval chaos* type, while Bogdani with his biblical approach responds to a Creation of the *ex nihilo* type, with the distinction, in terminology, which in the first case we have transformation, dissipation, metamorphosis and, in the latter case, it is explicated a part of the (Dalley, 1989 p. 233) creative process. Since Bogdani is of the opinion that biblical creation is of *ex nihilo* type, he explained that in the prose text of the lecture:

*"Duhetë me dijtunë se me krijuem nuke do me thane një kafsheje me bâm një tjeterë, (përse ashtu kishin me i thane të lém); po është kur asnjiseni bāhetë gjā kafshë; e silla veperë veçë Tinëzot [i] përket, e kurraj kreatyra nuke mundetë me krijuem: përse ndër të të kjanët e të mos kjanët, është një të largë të pa sosunë kurraj."* (Bogdani, 1940-1943 p. 35) ...See also: (Bogdano, 1985 p. 76)

While the illustrative poetry itself, is intended as an illustrative continuance of the lecture, the similarities must first be sought in Ovid's own work with the Bible. So, the author, a Roman poet of the first century BC, has come into contact with the versions of the Middle Eastern people on Creation and therefore, in his verse has a different approach on it toward the Greek one. By following the first translations of the Bible, we observe that in the order of time, while "*Metamorphosis*" was completed

<sup>2</sup> See, LACTANTIUS. *Divine Institutes*, Translated Texts for Historians, Volume 40, Translated with an introduction and notes by Anthony Bowen and Peter Garsney, Liverpool University Press, Book I, 2003, False religion, p. 66. "13 Ovid too, at the start of his famous poem, acknowledges without any verbal subterfuge that the world was made by god, calling him 'craftsman of the world' and 'workman of it all' [Met. 1.57, 79]."

around the 9<sup>th</sup> year BC <sup>3</sup> (Ovidio, 1983 p. 7) Bible version, Vulgate, Latin translation of St. Jerome was fulfilled around 382-405 BC, <sup>4</sup> (Lacoste, 2005 p. 1599) but the Bible / Torah was translated early in the III century AD in Greek (Pentateuch). <sup>5</sup> (Lacoste, 2005 p. 1598) Therefore, if Ovid has unlikely read the Latin text of the Bible, he must have read it in Greek or should have come into contact with the oral narrations of the rabbis, even with the accounts of Roman soldiers or different merchants, passing in that part of the empire. On the other hand, the comparative view to other three texts, reveal, other similarities, already between *Enuma Elish*, Bogdani's *Creation of the Orb* and Ovid's *Metamorphosis*.

Enuma Elish	Bogdani, Creation of the Orb	Ovid, Metamorphoses
Kur qiejt sipër emëruar s'qenë, As tokë poshtë thirrej me emër, Apsu, i pari, sjellës i tyre dhe krijuesja e tij, Tiamat i lindi të gjithë.  When skies above were not yet named, /nor earth below pronounced by name... (Dalley, 1989 p. 233)	Parëse qiellja , dheu, deti e zjarmi (T') ishte, kje zjarmi, dheu, qiellja e deti. Ma shempton qiellja dhenë, e detin zjarmi: Se, ku ish qiellja, dheu, zjarmi e deti, Aty ish dheu, qiellja, deti e zjarmi.	Para se det' e toka, gjithçka qielli mbulon, /një ishte gjithë fytyra e natyrës në botë. Asaj i thonin Kaos, masë e ashpër, e paard- hur, /asgjë veç e paformë dhe mbledhur në të, e keqilidhur, një grusht farash, gjërash që s'mbijnë. (Ante mare et terras et quod tegit omnia caelum unus erat toto naturae vultus in orbe, quem dixere chaos: rudis indigestaque moles nec quicquam nisi pondus iners congestaque eodem non bene iunctarum discordia semina rerum.) (Ovidio, 1983 pp. 18, vv 5-9)

All three texts have a time marker, as a segment, starting from infinity, chaos to Creation. But the similarity is in perspective and, just temporarily, resembles Bogdani's poetry. In Bogdani's poetry the process of *before, in, during*, Creation, starting with ... "*parëse*" (Prior to) ..., similar to that of "*Enuma Elish*": "*When the skies above ...*" is also seen in the foreknowledge of "*the beginning of the beginnings*" or in the flow of expression of the first creative will, with the difference that, at "*Enuma Elish*", this process appears from the beginning, in the presentation of the creators, Apsu and Tiamat. The Babylonian epic itself, as it begins with: "*When skies above were not yet named, /nor earth below pronounced by name...*" proving, the point of view of the creative process, from the heavenly elevation, places the creative process in water. The primaeval creatures, Apsu and Tiamat, belong to the water depth, namely: the primal Ocean and the Primal Sea. Further comparative reading of Bogdani's poetry with "*Enuma Elish*" does not give us any data to keep going longer, although in this respect Bogdani's *Creation*, as the Bible *Creation* also, does not have a distinct designation of the Creation process. There is no space dimension in the Bible. Hence, the prospect of Biblical views is equally overwhelming. Meanwhile, we cannot say the same to the text, mentioned a little earlier, that of Ovidius. The comparison highlights similarities that interest us. We quote the verses in Latin:

Latin	Albanian
Ante mare et terras et quod tegit omnia caelum unus erat toto naturae vultus in orbe, quem dixere chaos: rudis indigestaque moles nec quicquam nisi pondus iners congestaque eodem non bene iunctarum discordia semina rerum. (Ovidio, 1983 pp. 18, vv 5-9)	Para se det' e toka, gjithçka qielli mbulon një ishte gjithë fytyra e natyrës në botë. Asaj i thonin kaos, masë e ashpër, e paardhur asgjë veç e paformë dhe mbledhur në të e keqilidhur, një grusht farash, gjërash që s'mbijnë. (Author's translation)

<sup>3</sup> OVIDIO, Publio Nasón. *Metamorphoses – Metamorfosis* 1, Traducción: Antonio Ruiz de Elvira, 1.<sup>a</sup> edición bilingüe: setiembre, 1983, Editorial Bruguera, S. A. Camps y Fabrés, 5. Barcelona (España), p. 7. "*La datación de las Metamorfosis de Ovidio es fácil. De las propias declaraciones del autor en los pasajes de las Tristes arriba citados, se deduce con seguridad que la obra estaba prácticamente terminada, aunque no retocada, en las postrimerías del año 9 de nuestra era, momento en que el poeta partió de Roma para su relegación.*"

<sup>4</sup> LACOSTE, Jean-Yves (ed.) *Encyclopedia of Christian theology* / Routledge, London-New York, v.I, 2005, f. 1599. "*In 383, Pope Damasus entrusted the revision of the Latin text of the gospels\* to Jerome. Jerome went on to revise the Psalms\* according to the Greek, creating what is known as the "Roman Psalter." After his arrival in Palestine, he undertook a revision of the Old Testament based on the Greek text of the Hexapla: he had access to a copy of Origen's text in Caesarea. His Psalter from this time is known as the "Gallican Psalter" because it was adopted for liturgical use in Gaul during Charlemagne's reign. Around 390, Jerome abandoned this project and set about a fresh translation of the Old Testament based on the Hebrew text. In 391, he published his translations of the prophets; this was followed, sometime before 395, by Samuel and Kings, the Psalter juxta Hebraeos ("according to the Jews"), Job, and Ezra and Nehemiah. Two years later, 1 and 2 Chronicles appeared, and in 398 the "books of Solomon": Ecclesiastes, Proverbs, and the Song of Songs. Finally, in 405 his translation of the Octateuch (Genesis to Ruth) appeared, along with Esther. In the meantime, Jerome had also translated Tobit and Judith from the Aramaic. The remaining books (Wisdom, Ecclesiasticus, 1 and 2 Maccabees, and Baruch) were incorporated into the Vulgate in the text of the Vetus latina, since Jerome never translated or revised these "deuterocanonical" texts. It is still debated today to what extent Jerome revised or translated the New Testament beyond the gospels. Many scholars think that the translations of Acts, the Epistles, and Revelation are to be attributed to Pelagius or his circle, or to Rufinus the Syrian, one of Jerome's followers. In the New Testament, the Vulgate clearly differs from the Vetus latina.*"

<sup>5</sup> LACOSTE, Jean-Yves (ed.) *Encyclopedia of Christian theology*, Routledge, London-New York, v.I, 2005, p. 1598. "*According to the "Letter of Aristaeas" (probably second century B.C.), the Greek translation of the Pentateuch was due to the request of Philadelphos Ptolemeus (Ptolemy II, reigned 285–246 B.C.) for a copy of the Law\* to be placed in the library at Alexandria; according to tradition, the team of 70 translators worked in seclusion on the island of Pharos. It is much more likely, in fact, that the Septuagint represents translations by the Jews in Egypt for their own use, perhaps as early as the end of the third century B.C.*"

Our comparison does not focus on the perspective of Creation's vision, but especially in the cosmic time segment, in which the two authors try to bring us the imagination on Creation.

Para se det' e toka, gjithçka qielli mbulon një ishte gjithë fytyra e natyrës në botë. Asaj i thonin Kaos, masë e ashpër, e paardhur asgjë veç, e paformë dhe mbledhur në të e keqlidhur, një grusht farash, gjërash që s'mbijnë.	Parëse qiellja, dheu, deti e zjarmi (T')ishte, kje zjarmi, dheu, qiellja e deti. Ma shempton qiellja dhenë, e detin zjarmi: Se, ku ish qiellja, dheu, zjarmi e deti, Aty ish dheu, qiellja, deti e zjarmi.
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Ovidius, yes, starts at "parëse" (prior to) and, like Bogdani, put in the primal chaos or in the introduction of the beginning, still without any beginning, to continue with the transformations in nature, thanks to God's creative will:

Hanc deus et melior litem natura diremit./nam caelo terras et terris abscedit undas/et liquidum spisso secrevit ab aere caelum... (Ovidio, 1983 pp. 18, vv 20-25)	Një perëndi dhe një natyrë më e mirë/ e zhduku këtë luftë, sepse e shkëputi tokën nga qielli dhe, nga toka ujin... (Author's translation : BS)
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Ovidius, yes, starts at the forefront and, like Bogdani, pauses in the precarious chaos or in the introduction of the beginning, still without beginning, to continue with the transformation in nature, thanks to God's creative will:

Here precisely Ovid is for Lactantius, "a pagan poet who believes in one god from which the world is created."<sup>6</sup> (Ovid, 1955 p. 19) At this point, it is the perspective of the view of Creation as a process that is driven by the creative will of the Creator, which is another connection with Bogdani's poetry. To the latter, while poetization/instancing is more dynamic, with a more concise syntax, far from the extravagant nature of Ovid's epic – dactylic hexameter – the creative process itself is given in the following three verses:

*Dheu qiëllnë (e) mbelon, e zjarminë deti.  
Qiellja, deti, ende zjarrmi ishte ndë dhët.  
Dheu, zjarmi ende qiellja ishte ndë det.*

But while in "Metamorphosis", the creative will is the creative force of God, which starts from the good, to put order on the elements – it is light, versus the dark; it is the order, as opposed to chaos – in Bogdani's work, this creative will, as a creative force, is explained in prose and is poetized in the three verses, cited above, which comes as part of scalable metamorphosis scales. In essence, these three verses constitute a climax, aiming one in the second part of poetry, but without reaching it, giving to poetry the intensity and the desired beauty.

Besides, as it occurs at first, Bogdani has chosen to concentrate on the four-element theory and chaos as well as the Creation, to present it through the synecdoche, for which the poetic text gains intensity. On the other hand, Bogdani's poetry exemplified and poetizes Bible Creation, to go beyond this paratext as it focuses on the dynamic poetization of the Biblical condition:

1. In the beginning, God created the heavens and the earth.
2. And the earth was without form and void, and darkness was upon the face of the deep, and the Spirit of God moved upon the face of the waters. (Holy Bible, 2011 p. 120)

In this function, it initially does not intend to present the Creation itself, but only a part of it, the part of the chaos, before Creation has taken shape, as a half straight which begins in indeterminacy to be determined and ordered during the Creation. The action is thus given in scalable scales: in time, action, space and form. (Rugova, 2007 p. 527)

Precisely here, as the author partially avoids the Biblical variant of the narration on Creation, which follows, from the starting point to the creative immensity, without a climax; the approach to the event itself, in Ovidius and Bogdani from ... *Parëse* (Prior to) to the Creation and the return back to the timeless time at Bogdani, creates that intense contrast of ideas and imaginations and a poetic climax. In this regard, as the Bible elaborates on the event, step by step, as a dynamic creative act, Bogdani's poetry poetizes the chaos by reinforcing the image of the Creation, in its absolute quality (*good thing*) similar to the two epics mentioned above *Enuma Elish* and *Metamorphosis*, at a first stage, with the genre distinction of expression and the epic organization, in the first two works, versus lyrical expression, in Bogdani's poetry. The dynamic of this creative process is given in author's poetry through the organisation and metamorphoses of the basic elements of Creation: air, earth, water, fire.

The latter is motivated not only as a poetic choice but also as a mentality on Creation of Bogdani's time, which is still based on the medieval philosophy, in the four-element theory, introduced by Empedocles. (Rugova, 2007 p. 472) Even in his work "On Nature", or on "Purification" too, he is not only a founder of scientific thought for Creation, but he elaborates it poetically, based on primal elements: *earth, water, fire, air*. Now, let's go back to the monographic study of I. Rugova. The author rightly calls the XVII century, "one of the most prosperous and dynamic centuries after the Renaissance," (Rugova, 2007 p. 448) arguing the idea that Bogdani, "for the creation of the world, relies on the theory of the four elements he had received from Empedocle". (Rugova, 2007 p. 472)

Likewise, when we talk about Pjetër Bogdani and the time he lived and wrote, the XVII century, aside from the events, the fighting and the difficulties, on the Albanian land and beyond, we associate it with a dynamic century, which marks, as far as

<sup>6</sup> OVID, *Metamorphoses*, 1955. See Introduction by Mary Innes, p. 19.

philosophy and theological thought, is concerned a significant step towards reason. Contemporaneous with Wilhelm Leibnitz, René Descartes, Baruch Spinoza, Blaise Pascal ... etc., Bogdani can not be regarded either as a theologian disconnected from the philosophical thought of the time nor as a true philosopher who, moreover, as a theologian, is disconnected from theological thought on God. At this time philosophy and theology still coincide with each other, (Rugova, 2007 p. 459) necessarily focusing on the central problems of metaphysics: “*The Essence and The essence of Being, the Lord Creator, The Good Lord of Plato, The Lord-of-Mind of an Aristotle, God-One of a Plotin.*”<sup>7</sup> (Rugova, 2007 p. 459) In these last problems, he is closer to his mission and vocation as a theologian, and for this reason, evolving even in illustrative poetic terms; he seeks more conscientiously with the writings of the church fathers, headed by St. Augustine.

Following the assertion of I. Rugova, we cannot possess, certainly, data for the reading of the text of Empedocles by Bogdani, nor of other authors, elaborating or citing his work. What we know, probably, is that the Middle Ages and the Renaissance had a certain imagination for Creation, and the work of Empedocles itself was translated in 1573. (Empedocles, 1908 pp. 3-4) If Bogdani has read the text of Empedocles or he is acquainted with it through the Greek text as well as through any other author of antiquity, this is unknown. What is certain has to do with the empedoclean imagination of Creation, which is more in favor of a scientific opinion and seeks to evaluate the cause-and-effect relationships. Moreover, it is certain that Bogdani's personality in Albanian culture; his education, his work, suggests the idea that studying and studying in the field of knowledge or knowledge of time has never been shallow and dogmatic. His theological prose, the quality of writing and interpretation, the discussion of the knowledge of the time in *Band of Prophets*, is an indication of such a conclusion. The fact that Bogdani's exemplifying poetry is organised on the basis of a four-element discussion and metamorphoses, and this also coincides with the work of Empedocles, should not surprise us. The question we are asking is at what level of understanding and ideation does this approach work?

Bogdani is a theologian and philosopher, and he has a certain vision of Empedocles theory, just as there is a certain biblical vision of the Creation. The Genesis of the Bible begins with this organisation and ordering of elements, which, as one of the church fathers, St. Augustine explains, should not take *ad literam*; as it is not necessary to *ad adhere* to the Creation of the world for 7 days. (Augustinus, 2004 p. 12) Creation itself is of Creator's Will and is placed in a timeless time because the Creator himself is outside the time. (Augustinus, 2004 p. 12) In this sense and conceptual order, the explication of Creation made by St. Augustine, the order of metamorphoses by Bogdani's and the meant choice and ideas to express through Empedocles's theory, brings us another question: What is the nature of Bogdani's conceptual and textual approach to the theory of the elements of Empedocles and the metaphysical elaboration of Saint Augustine?

In our poetry, the author in the first four verses explicates textually the chaos, in which, however, in the order placed between the elements, there is no shortage of motion (*ishte, kje*). What we notice in Bogdani's poetry is nothing like an amorphous mass, but one in motion and metamorphoses or interchangeableness. If we turn to Empedocles theory of interacting sphere and forces: Love and Hatred, the first two verses of Bogdani suggest this picture.

*Parëse qiellja, dheu, deti e zjarmi*  
(T') *ishte, kje zjarmi, dheu, qiellja e deti.*

The author put in order the first elements in such an ordered sequence that suggests the circular revolutions and the contradictions of the opposites in this movement. Therefore: *Parëse* (prior to) and (T) *ishte, kje* play the main role in this reverberant and interchangeable imagery.

Moreover, Empedocles emphasize the idea of elements as an indestructible and eternal being, whose interaction takes place in approximate proportions and has nothing to do with transformation. (Empedocles, 1908 p. 54) This does not preclude the possibility of transformation within the same matter, but avoids the metaphysical passage of interchangeable, the *ex nihilo* Creation. In this sense, while Bogdani's poetry is continually illustrative of the poetics of prose writing and explains there a Creation from Nothing, Empedocles work is explained as a process of transformation and order, from a matter composed of elements that were and are Eternal. In the Bible and in the discussion of St. Augustine, the world created by nothing is, in fact, a great and all-rounder disintegration quality: *nothing in the thing*.

This is also the metaphysical transition from eternity to time. The Creator in this case, as outside of time, introduces and presents the Creation as such. Therefore, time markers must be taken into their absolute relativity, where chaos (nothing as subject) and Creation as a process appear and act simultaneously, as a mirrored and seen, text-based, and interaction of the *Being out of time*. The conjunctive locution: *parëse* (Prior to) between the verbs: *ishte, kje*, in the temporal reality that they transmit, marking this eternal time, implying that the order between the elements is not a measurable time: before, *during* and *after*, but a unity of eternity. (Rasell, 2004 p. 74) Although the author is functionally addressing the theory of four elements and organises a poetic structure as follows:

Parëse qiellja, dheu, deti e zjarmi (T') <i>ishte, kje zjarmi, dheu, qiellja e deti.</i>	Sky+ Earth +Sea +Fire Fire +Earth +Sky +Sea
Ma shempton qiellja dhenë e detin zjarmi: Se, ku ish qiellja, dheu, zjarmi e deti, Aty ish dheu, qiellja, deti e zjarmi.	Sky/Earth + Sea/Fire Sky/Earth+EarthSky+Fire/Sea +Sea/Fire

<sup>7</sup> Jeaneu, op. cited, according to RUGOVA, Ibrahim., p. 459.



Dheu qiëllnë (e) mbelon, e zjarminë deti. Qiejlja, deti, ende zjarrmi ishte ndë dhet. Dheu, zjarmi ende qiejlja ishte ndë det.	Earth/Sky + Fire/Sea Sky, Sea + Fire/Earth Earth, Fire + Sky/Sea
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This order, Creation, is not just a qualitative and quantitative organisation. Bogdani has also considered and explained it in his prose text that Creation is immediate and the process of interchangeable is just the essence of this Creation process. For this reason, while the organisation of poetry is clearly distinguished as part of the creative process of the order of four elements, such as Empedocles, these should not be seen in their true meaning, but in symbolic-mythical value, for which, whether action, space, and time are metaphysical. The perceptual poetic intensity, thanks to the creative action, is poetically noted, as a backwards shift or shrinkage of time, outside the time, an expansion, in the cosmic or eternal second where the look on the Creation passes from time to space:

*Mbe qiellt' nuk ishte as yll, as dielli  
Qi me dritte të vet zbardhen dritë të re;  
As hana (s') delte me dy të rgjana bri,  
As prej qiellshit (s') vite (ndonji) (r)reze për dhe,  
As dheu si sqype nalt (s')qendron e (r)ri,  
As niegullë me shi, as breshen, as rëfe,  
As deti me valë (s')epte të madhe gjamë,  
As lymentatë me breg (nuk) ishin zanë. (Bogdani, 1940-1943 pp. 36-37)*

Space also requires its own cosmic, metaphysical concept of perception - in the case of Bogdani's poetry - of its hollowness, because it is not with a reference system, for example, the earth or the sun, the sky, or the altitude. In the space outside the time there is no *sub*, nor *above*, *front*, *back*, *left*, *right*. All this indeterminacy in the imaginative consciousness of the author is given in view of the biblical Creator's action, which is related to the creation of the heavenly cup (Genesis 1: 7-8), the sun and the moon (Genesis 1: 15-18) Creation of the Light (1: 3-5), Separation of Soil and Water, making productive land (1: 6-13) Creating the Moon and the Sun and the Stars (1: 14-19) Creation of animals (1: 20-25). As a space out of time, it represents the lack of creative results. Linguistically denying particles: *nuk*, *as*, *s'* they not only have the function of negation but also that of the assertion of this space as an image, giving us, in this regard, not only the process of Creation in its absolute present but also encouraging the imagination to conceive this space without time. Emptiness in itself, nothing is witness to the Being beyond time and space, His greatness, in the coming results, of Creation, filling this space with being, Creation.

What is the perspective of poetry in this poem? Who is the poet? Where is he in the meantime? Following the above-mentioned argument, on the authorship or the paratext of poetry, we turn back to Bogdani himself in his Lecture: who is the poet?

The text cited above, while it precedes and warns the illustrative poetry of the upper explanation of Creation, does not make it clear the authorship: Bogdani or a paratext, another author. Bogdani has left the language unclear; in both variants, in Albanian and in Italian: *Posi thotë Poeta/ come il poeta [dice]*, (As the poet says) we do not distinguish in the resumptive word "*poet*", the author. We have noted above that the author does not intend to write an autorial text, for this purpose he leaves open our question on authorship and adaptation of illustrative/instancing poetry. The poetic text, with all the approaches and textual approximations with other texts on Creation, does not offer to the poet, a voice in poetry. The perspective of poetry is in an absolute present, where time and space do not have either time-stamped markers or if they are, do not signify meaningfully either time nor space. The testimony, as a poetic voice is inexplicable, the Creator himself, out of time and space, self-sufficient, is evidenced by his Creation or His absence. The poet, whoever he is, is neither a witness nor a target to feel part of this vision. In such a metaphysical dimension, it resembles the poetic text of the *Song of Songs* in the Bible, to which the author, the famous poet of that time, does not sign his name, and the songs are easily referred to as Solomon's (Songs) (המלך שלום).<sup>8</sup> (TESTAMENT, 2005 p. 2560)

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<sup>8</sup> Cited according to the bilingual version *L'ANCIEN TESTAMENT*, Hébreu – Français, Soleil d'Orient, Theotex, 2005. מִרְיָשׁ הָרִיץ – Cantique, 1:1, p. 2560.

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# Albanian Migration in Greece: Understanding Irregularity in Time of Crisis

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## Abstract

*The third decade of Albanian migration to Greece signalled a historical change in the human geography of Greece's largest migrant group. The impact of the economic recession and the visa-free regime for Albanians entering the European Union shaped a new fluid reality for Albanian irregular migration. This paper explores the impact of the socio-economic transformation processes on the migrants' legal status vis-à-vis irregular status and integration dynamics. The emerging mobility strategies are conceptualized as a migrants' agency that overcome socio-economic barriers or policy restrictions and navigate them. This paper goes beyond the legality-irregularity dichotomy, suggesting it is the multidimensional 'in-between' space of semi-irregular status where apparently 'irregular' Albanians interact with various forms of agency. Our aim is to explore how the irregular/legal nexus developed within the Balkans in the specific context of Greece. The empirical analysis draws on in-depth interviews with 94 Albanians and 13 stakeholders in Greece and Albania.*

**Keywords:** Albanian migration, Greece, irregularity, mobility, integration, circularity, visa-free regime

## Introduction

Albanian migration represents the most spectacular case study of the western Balkans-EU migration system. Since the 1990s, Albania has witnessed the most dramatic migration flow in its history. The images of desperate Albanians 'breaking the walls' of Western embassies or piled into rusting ships to escape a country falling into chaos, became a part of the iconology of migration on the European continent in the early 1990s (King and Mai 2008). Indeed, it was a typical version of the 'new migration' (Castle and Miller 2009) that came to mark the collapse of the Soviet bloc in eastern Europe and the demise of the 'new communist man' dogma.

The massive migration outflows<sup>1</sup> occurred almost 'overnight' as the country moved from a 50-year totalitarian isolation to an unprecedented large-scale emigration. The ratio of Albanians emigrating abroad to the country's population and the typology of this movement qualified Albania as a unique case (Vullnetari and King 2011). Its 'uniqueness' is further linked to the fact that the migration flow was directed massively towards two neighbouring countries: Greece and Italy. Indeed, since the 1990s, Albanians have been the largest migrant community in Greece. Albanians' migratory movements to Greece throughout the 1990s were intended as temporary, predominantly irregular, and involved semi-skilled, low-skilled, or unskilled migrants.

In the early 2000s, most of this irregular and temporary migration evolved into permanent settlement. This resulted primarily from legalization procedures first introduced in 1998 that made social insurance contributions a prerequisite for proving legal work and obtaining or renewing residence permits (Maroukis and Gemi 2013). Despite this development, irregular migration of Albanians remained a major challenge through the 2000s. Since 2010, however, there has been a significant decrease in irregular migration, with detections of illegal border-crossings showing a considerable decline. This is most evident since the introduction of the visa-free regime for Albanians as of 21 December 2010. Nevertheless, there are still

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<sup>1</sup> According to the Government of Albania over a million Albanians have migrated abroad (RoA, 2010).



a number of irregular Albanian migrants in Greece although there seem to be degrees of irregularity that involve various types of entry, stay, or informal employment (Triandafyllidou 2016, p. 19). In one respect, irregular (circular) work now constitutes the main structural feature of this 'new' irregularity.

Indeed, Greece's deep economic recession has altered the economic, social, and political conditions in the country, subduing both the integration dynamics and the overall migration patterns that have come to characterize Albanians in Greece. The new forms of irregularities relate to de-regularisation, return, informal circular movements between Greece and Albania, and multiple journeys either between the two countries or towards other destinations. These are now the most common types of Albanian migration to Greece prompted by the Greek economic crisis.

In addressing these issues, the paper explores the impact of both the recession and visa-free regime on the Albanians migrants' legal and socioeconomic status as well as on emerging mobility strategies. It analyses the key findings of fieldwork among Albanians by focusing on the multidimensionality of the 'in-between' space created by the precariousness of semi-legal status where they interact with various forms of agency and negotiate their present and future orientation. The emerging mobility strategies are conceptualized here as the migrants' agency that have to overcome and navigate both socioeconomic barriers and policy restrictions. Albanian migrants are thus viewed as active actors shaping their own strategy in order to cope with difficult conditions in the Greek market for low-skilled labour and find practical responses to these circumstances.

The paper has three parts. The study's broad context is outlined in the first part, which delineates the methodological approach and the sample's profile. The second part attempts to place irregular Albanian migration into a theoretical perspective and frame it in the Greek context. The third part elaborates on the main findings of the empirical research through interviews of Albanians and various stakeholders conducted in both Greece and Albania. Finally, the conclusion summarizes the research findings and addresses the question of how the migrants' agency shape new strategies in response to an increasingly insecure labour market and legal status.

## Methodology and Sample

The methodology of this study relies on multifocal ethnographic fieldwork. We conducted 94 interviews with regular and irregular migrants, members of their families, representatives of migrant associations, and migrant smugglers in Greece and Albania. Thirteen additional interviews were conducted with stakeholders in Greece and Albania. The sampling method is purposive and qualitative. Initially, the snowball technique was adopted, followed by the purposive sampling of the available sample.

As for the baseline demographics, 56.4 per cent of the total sample were men, mostly first-generation migrants living in Greece for over ten years. The majority of Albanians in the sample were men working in construction or tourism, with the second largest group comprised of women working mostly as domestic workers. Most of the sample corresponds to the 25-35 age cohorts, immediately followed by those aged 36-45 years.

With respect to education level, the sample was largely comprised of primary and secondary school graduates, thus confirming the view that migrants involved in mobility schemes are of relatively low educational capital and work as unskilled or semi-skilled workers (Gemi 2013, p.27). It is worth noting that university and vocational education institute graduates belong to the group of the second or 'one-and-a-half' generations: some were students, while others completed their studies in Greece. As for employment, 15 per cent of the sample claimed to be unemployed. This category was mainly comprised of interviewees based in Albania who either work in Greece seasonally or are supported by family members who live in, or travel back and forth to, Greece.

## Understanding the Irregular/Legal Nexus of Albanians in Greece

The prevalent view on irregular migration implies a strategy of overcoming the institutionally embedded restrictions to pursue socio-economic advancement (Bommes and Sciortino 2011, p. 216).<sup>2</sup> Based on this premise, economic migration flows tend to move from low-income to high-income countries (Jandl et al. 2009, p. 211), taking advantage of a so-called dual frame of reference (Waldinger and Lichter 2003), whereby employment conditions abroad are evaluated against job opportunities in the home country (Berntsen 2016, p. 4). It can thus be assumed that the income disparities between Greece and neighbouring Albania fuel the regular and irregular migration movements to the country. There is much empirical evidence confirming that the income inequalities combined with geographical proximity and established ethnic networks are sufficient preconditions for generating irregular migration. In fact, until 2009, the Greek-Albanian borders were the main point of entry for irregular migrants to the country.

Furthermore, various migration theories<sup>3</sup> support that as far as demand for low-skilled, low-paying, and dangerous jobs cannot be satisfied by native workers, it is increasingly filled by irregular migrant workers (Jandl et al. 2009, p. 213). This is evident in Greece, where irregular Albanians often work with low risk of detection in low-skill, physically-demanding, and largely seasonal jobs in the service sector (caring, cleaning, and tourism) and in the primary sector (agriculture) where natives no longer want to work (Triandafyllidou 2016, p. 8).

<sup>2</sup> It refers to the category of economic irregular migration

<sup>3</sup> See for example the dual labour market theory (Piore 1979), classical (Portes 1997) and contemporary (Arango 2004) international migration theories, the global city hypothesis (Sassen 1991)

From a demographic perspective, being a male, having a low education level, originating from a rural area, and having positive short-term migration experiences are all factors that indicated a propensity for involvement in temporary cross-border mobility for employment (Vullnetari, 2009). This can be seen in the METOIKOS findings<sup>4</sup> that seasonal migration involves young or middle-aged Albanian men from rural areas who go Greece every year for a few months to work in agriculture in northern Greece (Triandafyllidou 2011, p. 13).

While migration to Greece in the 1990s was mostly irregular, gradual changes in migration laws and the introduction of integration policies in the early 2000s signalled a change in this stereotypical image of irregular Albanian migrants, with a significant number of Albanians being regularised even under a temporary regime and with an incomplete legal status. However, the 'pool' of individuals without papers continues to replenish itself with both informal circular migrants in search of job opportunities as well as with others who lose their legal status for reasons primarily tied to job insecurity, insurmountable bureaucratic obstacles, and restrictive integration and citizenship policies.

These developments are in contrast with the migration systems approach which maintains that migrants' socio-economic advancement becomes self-perpetuating after they have settled at a destination because it creates the social and economic structures to sustain the migration process (Castle and Miller 2009, Bakewell, et al. 2011, p. 6). Indeed, this static view fails to take into consideration the contextual and structural developments in both sending and receiving countries that might evidently change the initial conditions under which migration took place (de Haas 2010). For instance, as the stability of remittance flows is dependent on the migrants' legal status and position in the labour market, the economic recession in Greece along with the decrease in remittance flows qualifies as the main transmission channel of a domino effect vis-à-vis the Albanian economy (Gemi 2014, p. 7).

The momentum created by the crisis coupled with the unsustainable migration policy in Greece has disrupted the life-cycle of Albanians by blurring the system boundaries and their integration trajectory dynamism. The question, however, is how to explain the changes occurring in the existing migration system as well as the role of agency vis-à-vis structure in addressing such change (Bakewell et al. 2011). The available migration literature (Faist 2000; Massey et al. 1993) suggests that it is the migration network theory that can explain the extent to which previous migration experience and the settlement of migrants in the destination country may facilitate both the arrival of new migrants and their status. However, the conceptualization of migration and integration dynamics from the perspective of the network theory appears too simplistic to explore the role of the agency of migrants to navigate within those structures (Bakewell et al. 2011, p. 11). In this case, to be an agent implies being able to exercise a certain degree of control over the structural factors (i.e. immigration policy, labour market, economic conditions) that play a significant role in determining the likelihood of agency within the migration system (ibid, p. 12). Is this the case when it comes to irregular migrants?

Migrant worker agency is conceptualized primarily as workers' ability to act within organized and collective forms of resistance, such as trade unions (Penninx and Roosblad, 2000). This approach, however, tends to focus only on settled regular migrants. Albanian migrant workers do not fall under this category as they are irregular and move between worksites as well as between Greece and Albania on a regular basis. From a collective agency point of view, these workers appear to be powerless actors who passively accept the unregulated employment conditions (Berntsen 2016, p. 4). Yet these migrants also exercise their agency within a micro-scale context; while Albanian workers might not have a 'say' in the job market context because of their irregular status, they still exercise their agency to claim a position even within the existing undeclared employment relations.

On the other hand, the Greek economic crisis has activated the availability of resources and networks in both Greece and Albania. What began as economic recession for Greece in 2009, intensified economic, social, and legal insecurity for many immigrant workers and in particular those of Albanian origin. The attrition from austerity and the economic downturn negatively impact labour sectors, both formal and informal, that once concentrated the majority of immigrant workers. Evidence refers to regular migrants' loss of legal status due to the high unemployment rates, which reached an estimated 36 per cent in the third quarter of 2012 (LFS 2012). According to the Labour Force Survey data of Hellenic Statistical Authority (EL.STAT), for the first time in the last 20 years, the Albanian migrant population in Greece has decreased steadily since 2010. The drop in the number of registered Albanian immigrants in 2012 suggests that approximately 130,000 Albanian migrants have lost their stay permits, making approximately 29 per cent of the Albanian immigrant population in Greece irregular.

Albanian irregular migration thus appears higher not because of new entries but because of former legal migrants' inability to renew stay permits—a phenomenon usually termed as the de-regularization process (Triandafyllidou 2013, p. 1). Under these circumstances, Albanians (migrant agency) are forced to reconsider their livelihoods and develop new strategies for responding to the new situations (Gemi 2014, p. 13) that might make existing precarious employment relations more resilient<sup>5</sup>.

As we have seen, there is a mosaic of migration realities and legal ambiguities that involves various types of entry, stay, and mobility strategies that currently shape the multi-dimensional nature of irregularity of Albanians in Greece. Thus, who is an Albanian irregular migrant? Is there any definition that may capture the multi-faceted aspects as well as its very specific nature?

<sup>4</sup> <http://www.eui.eu/Projects/METOIKOS/Documents/METOIKOSComparativepaper.pdf>

<sup>5</sup> Examples of such strategies include working multiple jobs on a circular basis, switching between jobs on a regular basis, and being flexible and mobile between countries to increase household income (Berntsen 2016, p.4). The analytical category of reworking is useful for capturing the different forms of migrants' agency and their resilience strategies. For example, the concept of reworking implies "redirecting available resources as [...] and reformulating the social agency" (Katz 2004, p. 250), but in practical terms, the project of reworking could alter the individuals' conditions "to enable more workable lives and create more viable terrains of practice while offer focused, often pragmatic, responses to them" (Katz 2004, p. 247).

The IRMA concept paper<sup>6</sup> places the causes of irregular migration in the context of the intersection between people's search for a better life, market demand for cheap labour, and restrictive immigration control (Hatziprokopiou and Triandafyllidou, 2013). If this is the case, then the interconnectedness of migration policy with migrants' strategies in the particular economic reality of Greece may explain the specific environment for generating irregular Albanian migration to Greece (Maroukis 2008). However, in order to understand the mechanisms behind the ambiguous statuses of irregularity of Albanians in Greece, we need to explore the ways through which Albanian migrants become irregular. Empirical evidence suggests a variety of pathways into irregularity, among which irregular entry is just one and which accounts for the lowest percentage of irregular Albanian migrants since the visa-free regime introduced in 2010. How realistic is it, though, to argue that all types of Albanian irregular migratory routes identified by this study theoretically qualify as irregular?

In terms of domestic migration law,<sup>7</sup> the 'illegal' migrant would be a person "who does not or no longer fulfils the conditions of entry...stay or residence" (L. 4251/2014, p. 1304). Under the visa-free regime, Albanians are allowed entry into the country, albeit with restrictions on access to employment. Are migrants who work despite visa restrictions indeed irregular migrants? From a legal point of view, they are considered legal residents but irregular workers.

On the other hand, a large number of Albanians cannot find work so they can purchase the social security contributions required for renewing their stay permits. As a result, many of them are lapsing into an irregular or semi-irregular status. Those who become unemployed and fail to successfully acquire a long-term stay permit are often left to their own devices despite living in the country for more than 15 years and having children who were born and raised in Greece. Thus, we are talking about another "irregular" group of Albanians, notably the "de-regularized" holders of a two-year stay permit for dependent work or independent economic activity, female holders of stay permits for family reunification whose husbands lose their jobs, and the second generation of Albanian migrants who lost the right to a stay permit as dependent family member.

In the relevant literature, there is an effort to employ terms and definitions that allow for some degree of conceptualisation of the fluidity and flexibility of the irregular reality on grounds such as in-between migrants (Schuck 1998), liminal legality (Menjívar 2006), semi-compliant (Ruhs and Anderson 2010), legally illegal (Rigo 2011), quasi-legal (Düvell 2008), a-legal (Lindahl 2010) or semi-legal (Kubal 2012), to name just a few. Nevertheless, the legality-irregularity dichotomy hasn't been clearly addressed yet.

Given that in the context of Greece the legality/irregularity nexus is not a static condition but rather a flexible one with people shifting 'overnight' from one status to another, it is suggested that it is the multidimensional 'in-between' space of semi-irregularity where apparently 'irregular' migrant agency interact with various forms of structures. Employing the concept of semi-irregularity would allow us to explore the complex and multifaceted situation of many Albanians trapped in a legal ambiguity (Kubal 2012, p. 5). As the distinction between legal and irregular status of Albanians is hardly clear-cut, it is further argued that semi-irregularity would enable us to properly frame the empirical findings and illustrate the limbo many Albanians experience. Semi-irregularity is thereof used as an analytical concept to address the multi-dimensionality and blurred boundaries that the 'irregularity' of Albanians presents.

## Irregularity of Albanian Migrants in Time of Crisis: an Empirical Perspective

Moving beyond the theoretical perspective of irregularity, this section turns to the empirical findings that revolve around the role of migrant agency in the issue of semi-irregularity of Albanians in Greece.

To accurately address the complexity of the phenomenon, we identify the Albanian irregular migrant<sup>8</sup> as a person who falls into one or more of the following categories:

- (a) has entered and stays in the country irregularly (i.e., an expulsion order has been issued);
- (b) has entered the country legally, but violates the conditions and terms of entry or stay or both (i.e., visa overstayer or informal employment or both);
- (c) holds a legal stay permit, but is working informally (i.e., the stay permit prevents them from accessing the labour market);
- (d) has lost legal status and continues to stay in a semi-irregular status.<sup>9</sup>

Based on the empirical research, this section elaborates on the main findings of the fieldwork conducted in Greece and Albania. It explores the multiple ways in which the ongoing economic, social, and political crises in Greece intersect with new and old patterns of irregular Albanian migration and its related mobility. Multiple forms of mobility such as regular and irregular temporary movements, circular migration, returns and re-migration are believed to become important livelihood strategies for Albanian migrants in dealing with the current economic and political reality in Greece.

<sup>6</sup> <http://irma.eliamap.gr/wp-content/uploads/2013/04/IRMA-Concept-Paper-EN.pdf>

<sup>7</sup> [http://www.synigoros.gr/resources/docs/n4251\\_2014.pdf](http://www.synigoros.gr/resources/docs/n4251_2014.pdf)

<sup>8</sup> In Article 3 of Directive 2008/115/EC of the European Parliament and the Council of 16 December 2008 on common standards and procedures in Member States for returning illegally staying third-country nationals, informal stay is defined as "...the presence on the territory of a Member State, of a third-country national who does not fulfil, or no longer fulfils the conditions of entry as set out in Article 5 of the Schengen Borders Code or other conditions for entry, stay or residence in that Member State."

<sup>9</sup> This category concerns migrants with a temporary stay certificate and stay permit for extraordinary circumstances or humanitarian reasons.

Following Duvell's approach (2006, p. 178), we distinguished a range of mobility patterns that were traced in our sample:

- (a) Some Albanians move very few times on an occasional basis.
- (b) Some Albanians frequently go back and forth between the two countries on a circular basis.
- (c) Another group returned to Albania but continue to commute between two countries for employment purposes.
- (d) One group choose to move to other European destinations to find job opportunities. According to Duvell (2006, p. 178) they represent a globally mobile category.
- (e) Another group may cross the borders once by staying longer in Greece
- (f) Another group may come only once, but stay as long as possible.
- (g) Other are long-term irregular migrants

### Typology of irregular migration

This study identified a typology consisting of three types of irregularity according to irregular or semi-regular stay and/or employment in Greece, demographic features, skill level of occupation, and sector of employment (Table 1).

**TABLE 1:** Typology of Albanian irregular migration to Greece

		Type 1 Legal Entry-Irregular employment	Type 2 Migrants lapsing into irregularity	Type 3 Irregular stay and employment
DIMENSIONS				
	Category	seasonal/daily cross-border movement	unemployed migrant who failed to renew their stay permit/ female mainly domestic worker failed to renew their family reunification stay permit/ children whose parents fall into irregularity/second generation over 18	visa overstayer, sex workers, trafficked children, refused entrance, penal cases
1	Demographic features	single male migration	married male and female, children/young migrant	single male/female/children, family,
2	Stay status in Greece	regular (visa free regime)	undocumented/semi-regular	undocumented
3	Duration	3 months – usually for seasonal work; daily cross-border	permanent/temporary/return/	Varies according to the activity
4	Skill level of occupation in Greece	low-skilled	low- and semi-skilled	Low skilled and unskilled
5	Sector of Employment	work mainly in agriculture or other seasonal employment such as herding or tourism.	male in construction sector or tourism; women are mostly domestic workers; second generation is student and/or work irregularly.	mainly in agriculture and tourism, sex services, beggary, illegal activities
6	Country where migrants' families are permanently situated	Albania	Greece	Greece, Albania

Source: Compiled by the author

#### Type One: Legal Entry-Irregular Employment

The first type configured in typology (Table 1) refers to the employment of Albanians in Greece that goes beyond visa restriction. It constitutes a new form of semi-irregularity that derives from the introduction of a visa-free regime for Albanians in the Schengen area as of 21 December 2010. It also demonstrates how the political developments further blur the boundaries between legal and irregular status, thereby creating space for semi-irregularity to unfold (Kubal 2012, p. 16).

Indeed, this policy development has significantly reversed the ratio of regular migration to irregular migration. At the same time, it has unintentionally set a framework of legal entry in which irregular seasonal employment occurs. Is it safe, though, to classify it as a type of irregular migration? The IRMA concept paper argues that “the irregular employment may suggest that there is a demand not for irregular migrants as such but for the type of (irregular) work they offer and the specific conditions and wages this is provided” (Hatziprokopiou and Triandafyllidou 2013, p. 14).

Indeed, most of the qualitative interviews indicated that the pull factors related to demand for cheap and flexible seasonal labour on the one hand, and the lack of legal channels to work regularly in Greece, on the other, leaves migrants no other option but to use the visa-free regime to pursue irregular work. Obviously, these migrants do not live permanently in Greece but move back and forth in a circular way.



In this sense, the EU's visa liberalization regime has served as a means to control legal entry into the Schengen area and not irregular employment. In practice, the visa liberalization regime gives space only for short-term stay (three months) and seasonal informal work, but does not provide any other employment rights. The fact that these irregular migrants have no work rights in Greece renders them a significant source of irregular labour.

There are two types of employment that present elements of irregularity. The first involves low-skilled Albanian men, arriving regularly in Greece to work irregularly mainly in agriculture or other seasonal employment such as herding or tourism. They usually stay for three months and then return to their family in Albania. It is widely acknowledged that irregular movement is facilitated by new, even more flexible and insecure modes of employment relations because of the pressure exerted by the economic crisis on the formal labour market. There are also Albanian workers who cross the border daily in order to work in agriculture in northern Greece. This type of circular seasonal employment in informal economy is actually a significant form of reproducing the irregular mobility of Albanians to Greece.

Since the introduction of visa-free regime, a significant drop has been noted in irregular border crossings. The empirical data demonstrate how the option of being under a semi-irregular (entering legally) status challenges the stereotypical image of the victimised Albanians exploited by bad employers. On the contrary, this study reveals a well-established rational interaction based on the mutual interest of Albanian migrants and Greek employers. Another approach that has gradually gained ground focuses on the de- or re-regulation argument (Jandl et al. 2009, p. 31) that the Greek state would tolerate the underground economy in order to allow small and medium-size firms to remain competitive in an increasingly unstable market hit hard by the economic crisis.

### **Type Two: Migrants Lapsing into Irregularity**

The second type of irregularity involves the de-regularization process as a consequence of unemployment and the inability to fulfil the requirements in order to renew the temporary stay permit or, in the case of the second generation, reaching adulthood. The pathway from regularity to irregularity may be best exemplified by what has been termed "befallen illegality" to describe situations whereby migrants face difficulties in renewing their permits mainly due to an inability to prove formal employment (Hatziprokopiou and Triandafyllidou 2013, p. 16).

This type of irregularity has been developed more systematically than any other form of irregularity in the case of Albanians. If such instances, the loss of legal status is not a question of individual preference or strategies, but depends on employment-related developments and immigration policy (Hatziprokopiou and Triandafyllidou 2013, p. 17).

In conditions of high unemployment and dramatic drops in wages, a significant segment of the Albanian population has been led to irregularity or, in the best of cases, to a semi-irregular status. Even when employed, the lack of valid documents along with the lack of prospects for a return to regularity may invigorate the vicious cycle of irregularity. This demonstrates that the incomplete implementation of migration and integration policies is one of the defining conditions of semi-irregularity (Kubal 2012, p. 14).

Women are also subject to such circumstances, although the level of unemployment for men is notably higher. This is because the impact of the crisis on the construction sector is deeper; as a result, most men lost their jobs from the beginning of the recession and have thus been without work longer than women. On the other hand, women<sup>10</sup> lose their legal status from the moment their husbands are unemployed and stop earning the required income to qualify for the residence permit's renewal.

In other cases, the administration appears exceedingly strict, even where the migrant loses the right to stay because of an error on the part of the employer. Even second-generation migrants face the danger of falling into irregularity when they reach adulthood. Until recently they had been required to have a stay permit for work, studies, or other reason as they were no longer considered dependants and thus ineligible for such a permit. Instead of being granted citizenship or at least access to long-term legal status, second-generation migrants reaching adulthood were treated like any other temporary migrant.

It should be noted that in the interim between the fieldwork and this writing, the Code of Immigration and Social Integration (Law 4251/2014) has come into force and hopefully may cause a shift in the current pattern of de-regularisation. More specifically with regards to adult children of migrants, the Code introduces a new permit category for the second generation,<sup>11</sup> extending a five-year stay permit to adult children born in Greece to migrants or who have successfully completely a minimum of six years in a Greek school before the age of 21.<sup>12</sup>

As for regular migration, Greece's economic crisis has led to an increase in unemployment and a displacement of a large number of Albanians, especially those working in the construction sector. The data provided in April 2015 by the Social Insurance Institute (IKA)<sup>13</sup> shows a gradual decline in the number of insured Albanians compared to previous years.<sup>14</sup>

<sup>10</sup> Albanian women mostly work as domestic workers and stay in Greece under the status of family reunification.

<sup>11</sup> It has been suggested that this provision for a special second-generation residence permit contained in the Code is used as a substitute for nationality acquisition in the aftermath of the Council of State decision that struck down Law 3838/2010

<sup>12</sup> This stay permit can be renewed every five years without the need for additional documents but by simply presenting the previous stay permit and paying a fee of 300 euros. It is estimated that approximately 150,000 children of migrants are eligible to obtain the second-generation stay permit.

<sup>13</sup> [http://www.ika.gr/gr/infopages/stats/stat\\_report\\_results.cfm](http://www.ika.gr/gr/infopages/stats/stat_report_results.cfm)

<sup>14</sup> From 7.3 per cent in 2009 to 5.38 per cent in May 2013 and 5.09 per cent in May 2015, whereas the data for April 2015 show a small increase of 5.41 per cent.

Data provided by the Ministry of Interior suggest between 130,000 and 140,000 Albanian migrant workers lost their stay permits because they were unable to secure the required number of social insurance stamps to renew their documents (Gemi 2013, p. 4). According to the Migrant Integration Policy Index (2015),<sup>15</sup> employment rates in Greece are actually the lowest in the EU (around 50 per cent) with economic recession and austerity measures exacerbating the structural problems within Greece in implementing social and integration policies. As few immigrants had secured permanent legal status under Greece's rigid and restrictive migration policies, many of them have lost their jobs and legal status, and therefore their basic social entitlements. As a consequence, by the end of 2014, Greece ranked 27th out of the 38 MIPEX countries, with the most problematic areas being legal status, access to citizenship, and anti-discrimination policies for long-settled migrant population.

According to more recent data for the residence permits issued by the Ministry of Interior (October 2015), 69 per cent (380,503 out of a total of 548,515) of regular immigrants in Greece are of Albanian nationality. At this point it would be interesting to note that the number of regular Albanian migrants in 2015 has increased by 79,664 compared to 2012 (300,839). This may be due to the implementation of the transitional provisions in the Migration and Integration Code (Law 4251/2014)<sup>16</sup> which provided the opportunity for a return to legality for certain categories of unemployed migrants and instituted the residence permit for the second generation. With respect to the stay permit's categories, there is a significant decrease in the number of stay permits issued for 'Employment' (12 per cent), whereas an increase is found in the 'Family Reunification' (44 per cent) and 'Other' (44 per cent)<sup>17</sup> categories. Moreover, an increase is also noted in the number of naturalisations, with 56,274 Albanian nationals—or 85 per cent of the total number of naturalized immigrants—having obtained Greek citizenship in the 2010-2014 period.

### Type Three: Irregular Stay and Employment

The third type of Albanian irregular migration involves different forms of irregular entry and stay. Some of these are related to legal entry on a visa-free regime and overstaying after expiration, entry and stay using fraudulent documents, or other illegal activities related to trafficking of human beings. Contributing to the continuity of this type of irregular migration is the fact that some persons are registered in the list of unwanted persons (Law 2910/2001, Art.49), usually for illegal entry and stay in country.

Data provided by the Greek police (2014b) show that the arrests of Albanians for irregular entry and stay for the 11-month period in 2014 account for 21.53 per cent (15,635) of the total number of foreigners' arrests (72,632). Conversely, FRONTEX (2014) shows an increase (60 per cent) in the number of irregular Albanians detected on the Greek-Albanian borders in 2013 compared to the two previous years (an estimated 5,000 individuals for the years 2011 and 2012) (p. 30). This development may be associated with cases of violation of the terms of residence (90 days) in Greece, as stipulated by the liberalisation of the entry visa.

Despite the changes in the legal status and the new possibilities for crossing the border legally, certain categories of young men follow the 'traditional' routes that made up the model of irregular migration in the 1990s. This group usually opts for irregular migration, either because there is a some pending issue between themselves and the Greek state or because in the past they had violated the terms of entry and stay in Greece. Most of them are low skilled or unskilled single males or females working mainly in agriculture, tourism, the domestic sector, sex services, beggary, and other mostly illicit activities, such as drug trafficking.

One category that doesn't fall under the typical cases of irregular migration is the women who come to stay in Greece for family reunification, but without the legal papers. An interesting element that distinguishes this category from the previous ones is that these women are under the protection of their family; their children are born in Greece and women usually work as domestic workers. Their husbands and children usually hold valid stay documents.

## Concluding Remarks

This paper has attempted to explore the 'new' irregularity of Albanians in Greece and the role of migrant agency in order to see how the socio-economic transformation (strongly accelerated by the economic crisis) impacts on the migrants' legal vis-à-vis irregular status. It is further suggested that the multidimensional 'in-between' space of semi-irregular status is where irregular migrant agency interacts with various forms of structures. The employed concept of semi-irregularity allowed us to explore in depth the complex and multifaceted situation where Albanians find themselves trapped in a legal ambiguity. It, indeed, proved to be a useful concept tool that enabled us to cast light on blurred boundaries that the 'irregularity' of Albanians presents and address their relationship with the structure and system in place.

Given that migrants are not passive recipients of the opportunity structures imposed by the host country, they are proved to exercise a certain degree of control over the structural and legal factors that play a significant role in determining their likelihood. In this context, an interesting issue is to see how Albanians (migrant agency) shape their strategies in response to the policies that condition their migration towards Greece.

As shown by the present article, the expanding possibility of legal entry into Greece has had the immediate consequence of limiting irregular border transit. But the question of circular mobility for seasonal work persists. This is because a significant

<sup>15</sup> Form more details see: <http://www.mipex.eu/greece>

<sup>16</sup> It entered into force as of 1/6/2014.

<sup>17</sup> The category 'other' includes the sum of individual residence permits issued for long-term stay or temporary residence.

number of Albanians make use of the possibility of legal entry into Greece to enter the country with the aim of finding work, thus violating the terms imposed by the relevant regime of the liberalisation of the entry visa. On the other hand, the increased circularity, as a product of legal border crossing, facilitates the mobility of the Albanian labour force and its adaptation to new, even more flexible, forms of labour relations because of the pressure exercised by the economic crisis in the labour market, both in Greece and Albania.

In an effort to understand which institutions are more involved and how these act upon decision-making for Albanians, it becomes clear that the dynamic of attraction is exerted by the demand for seasonal work in sectors such as tourism and agriculture. At the migrant agency level, the existence of family networks plays an equally important role in the involvement of Albanians in mobility schemes for work, compared to inter-group or transnational networks. Moreover, access to the labour market usually takes place with the mediation of migration networks of co-ethnics and Greek employers.

This study's findings show that the emerging phenomenon of semi-irregularity does not include new migrants from Albania, but involves migrants with even rudimentary information about the Greek environment and contacts with the migration networks in Greece. Moreover, the consequences of Greece's economic recession combined with the visa-free regime and the development of ethnic networks outside Greece have differentiated migratory destinations, with Albanians moving towards other industrial countries to seek work opportunities.

The overall findings would allow us to draw the profile of an Albanian migrant (agency) who is relatively well-informed on the condition of irregular entry and stay in Greece. Their basic goal is to benefit from the work opportunities and the relatively good pay in Greece (compared to Albania) and the lowest possible cost in choosing the destination and means to get there. They appear to adequately acknowledge the distinction between regular and irregular border crossing, as well as the rules that determine cross-border journey and employment in Greece. Moreover, these migrants play an active role in shaping the trajectory and the cost-effectiveness diptych with respect to the means used to reach their destination.

To achieve their goal, migrants draw from informal information that serves the goal in the short term but which is nevertheless cross-referenced, making use of informal (ethnic) networks and middle-men who are mostly based in Greece. A crucial part in this process is undoubtedly Greek language proficiency, combined with long-term contact with Greek society. Contacts, as well as the level of interaction with formal institutions of the Greek state and civil society institutions, are far more restricted and marked by intense suspicion on both sides. On the other hand, the role of institutional and other factors such as the police, the consular authorities and the network of smugglers, facilitate the realisation of the irregular migration plan, but do not shape its dynamic.

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# Democratic consolidation as a teleological concept in the study of post-authoritarian regimes

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## Abstract

*The years that followed the fall of the Berlin wall and various authoritarian regimes in different regions of the world, witnessed the growth of a wide literature on democratization, which was influenced more and more by the paradigm of transition and the “consolidation” of democracy. Since then, evaluations as well as perspectives through which were seen various regimes (the new democracies “with problems”) are developed mainly through the theoretical lens of consolidation paradigm, according to which full democratic consolidation was the endpoint of regime transitions. But it has become clear today that in many countries, in which more than three decades have passed since the fall of authoritarian regimes, the issue of “completion” of democracy in their social and political context is still far from being a happy reality. The purpose of this paper is to criticize both in the theoretical and the empirical level, the concept of “consolidation of democracy”, seeing it as a non-valid concept for the study of democratization. This paper will argue that essentially the concept of consolidation is teleological and problematic in the sense that democracy is seen not as a process but an endpoint product.*

**Keywords:** democratization, democratic consolidation, telos, “the only game in town”, “two turnover” test.

## Introduction and conceptualization of “democratic consolidation” in literature

According to the broad literature on the study of regime change that flourished among many academics starting in the late 1980s and especially in the 1990s, democratization was seen as a process unfolding in three phases. The opening or liberalization of the previous authoritarian regime occurs in the first phase. During this period we have a relief of measures taken by an old authoritarian regime (still in force), in which restrictions are removed and individual and group rights are expanded. Then in the second stage, there follows a *breakthrough* in the old regime, a time when its collapse occurs and the new democratic system emerges, with the coming to power of a new government through elections and the establishment of a democratic institutional structure (Carothers, 2002: 7; Karl, 2005: 7). Holding what are known as the founding elections as well as accepting their results are said to mark the end of transition from authoritarian rule and the establishment of democratic rule. In the third phase, we have the consolidation of democracy, a process in which its institutional framework forms the only framework of the rules of the game for (the whole) society. The most important political actors play according to the rules of the democratic game, not simply instrumentalizing them. Conceptually, as O'Donnell made the difference later, we are dealing with two transitions: one is the transition to democracy (towards establishing a democratically elected government, the second phase here), while the other is the transition towards a democratic regime institutionalized, consolidated (O'Donnell, 1994: 57).

Mainly in the transition and consolidation literature, two types of conceptualizations have emerged, as to when a democracy can be considered consolidated (which in a way can be said to mark the ending, enclosure of the democratization process). The first definition of a consolidated democracy is the one who sees it as being accepted by all important political actors of a particular country as the „only game in town“. A democratic regime is considered to be consolidated when “all politically

significant groups regard its key political institutions as the only legitimate framework for political contestation, and adhere to democratic rules of the game” (Linz & Stepan, 1996, 5; Gunther & Nikoiforos & Puhle, 1995: 7). In this case, a regime where the losers do not think to solve their dissatisfaction by replacing or overthrowing it, but all political actors try to solve their dissents within the existing limits of the game. The second conceptualization of when a democratic regime can be considered consolidated is that offered by Samuel Huntington and known as the „two-turnover“ test. It contends, in essence, that democracy becomes consolidated once an electoral regime is fully entrenched and capable of delivering free and competitive elections. Samuel P. Huntington writes that a democracy becomes consolidated “if the party or group that takes power in the initial elections at the time of transition loses a subsequent election and turns over power to those election winners, and if those election winners then peacefully turn over power to the winners of a latter elections” (Cited in Encarnacion, 2002: 486).

### **“Consolidation“ as a teleological and a non-valid concept for the study of democratization**

As we have mentioned so far, consolidation, apart from being the last explanatory stage of the democratization process under the “transitional” model, marks a kind of “closure” in the conception of this process and of democracy itself as a final product. So, through this notion within the consolidation paradigm, which is intended to explain the process of transforming democratic forms into a democratic substance, a process which states that the institutions of democracy are gradually strengthened / consolidated and in time become capable of modeling the behavior of political actors, as well as where the latter are taught to contained to and to apply the rules and practices of the game of democracy. Explanation by this concept of consolidation of democratization processes in a country - as progress oriented processes (linked to the telos of the approach of transitology) which presumably will lead to what O’Donnell has distinguished as the outcome of the “second” democratic transition - is quite problematic in itself and it does not help us at all understand the dynamics of developments or political processes that have occurred (and happen) in most of the new democracies who moved away the authoritarian regimes during the third wave period. As such, the concept of democratic consolidation should now be dismissed as no longer valid for explaining the developments or political processes of these countries, thus re-conceptualizing our approach to democratization.

Let’s start providing a critique to the notion of consolidation starting from a remark of Guillermo O’Donnell, who sharply criticized the literature of consolidation, and noted that: “cases that have not “arrived” at full institutionalization, or that do not seem to be moving in this direction, are seen as stunted, frozen, protractedly unconsolidated, and the like... That some of these polyarchies have been in a state of “protracted unconsolidation” for some 20 years suggests that there is something extremely odd in about this kind of thinking”. (O’Donnell, 1996: 38). So it is exactly due to the fact that a good part of the countries involved in the third wave of democratization (new democracies) have continued for such a long time now facing a weak institutionalization of formal structures and formal rules of democracy in their environments, that makes the author question the usefulness of this concept of consolidation. Just like that, the author also notes that in many “democracies”, even those that somehow are in compliance with (or embrace) the “full package of polyarchy”, there is again a big gap between the formal rules and the way most political institutions actually work makes for a strong affinity with delegative, not representative, notions of political authority<sup>1</sup> (O’Donnell, 1994; O’Donnell, 1996: 44;). Such regimes all over the world, in the face of the institutionalization option and the consolidation of their democratic regime, have continued to break constantly the “rules of the game” of democracy, and this has happened in various forms starting here since the risk the re-enactment of military supremacy in their environments (the “reserved areas”, the “military prerogatives” that authors such as O’Donnell, Linz and Stepan often emphasize mainly referring to Latin American countries); or in contrast with the power almost dominantly focused on the executive branch, thus subjecting the other branches; with officials government who constantly break the rules and act outside the law; by the appearance of the hegemonic or even the leaders with authoritative features that may affect fair election competition; the decline of electoral institutions (but also other ones) in the face of their pressure; without forgetting the many practices of corruption, clientelism, vote buying, which affect the entire functioning of the democratic system in a decisive manner.

Therefore, the explanation through the concept of consolidation (so that these countries are moving towards democratic consolidation) does not help us and is no longer useful to understand the political developments that take place, or even the direction they take in different countries. “If these [third wave] democracies have persisted through serious adversity for a decade and more and they are not consolidated, why not and how can we tell—and what does it matter, if they continue to persist? Without a persuasive answer to these questions, the concept does indeed lose its utility (Diamond, 1997: 6). So it has become clear now that political developments in many third countries have taken different directions, and what is more important is that these countries have continued to survive for a long time as such (without consolidating) rendering invalid the explanatory usefulness of this concept, and thus rejecting the telos of the consolidation paradigm, which sees regimes as being oriented (on the way) towards the end of the “second transition” as O’Donnell remarked, to the institutionalization of the democratic regime in their environments.

<sup>1</sup> By “delegate” the author refers to an executive (personified to the president) “cezarian”, a plebiscite who once resolved and “sees” himself with power to govern the country as he / she sees fit, limited only From the difficult facts of the existing power relations and the time constraints of the mandate. The author also notes that these delegating democracies are not consolidated (institutionalized) democracies, but they can be sustainable for a long time. In Guillermo O’Donnell, “Delegative Democracy”. *Journal of Democracy*, Vol. 5, No. 1 (1994), p. 56-60.

Such an approach to the paradigm of consolidating democracy is essentially characterized by a strong teleological dimension and tendency in itself, by building democratization models that are largely oriented towards telos (goal) and bypassing the understanding of the complexity and specificities of this process in certain places. Thus, focusing more heavily on purpose - that in this case is the shifting of societies, emerging from authoritarian regimes, to the model of liberal democracy - transitologists and consolidators point out the concrete phases in which democratization is seen to pass, explaining it as a process that goes (almost) rationally and without paying much attention to the specific context specifics of each country. Such an approach therefore tends to explain political changes or transformations almost in terms of a rational process that progressively and continuously goes to a teleologically predetermined and desired end result: in this case the consolidation of democracy. However, "consolidation" literature lacks a specified theory of how democracies may be sustained and of how we could tell a 'completed' democracy from one which is not" (Friedman, 2011: 35). Guillermo O'Donnell, seeing this teleological tendency of the transitology paradigm, emphasized that "this mode of reasoning carries a strong teleological flavor. Cases that have not "arrived" at full institutionalization, or that do not seem to be moving in this direction, are seen as stunted, frozen, protractedly unconsolidated, and the like. Such a view presupposes that there are, or should be, factors working in favor of increased consolidation or institutionalization, but that countervailing "obstacles" stymie a process of change that otherwise would operate unfettered" (O'Donnell, 1996: 37). So, an end point in the process of democratization is assumed to be normal, and any case that does not go toward this endpoint is seen as a deviant case.

Consolidation is a problematic concept also for the understanding *democracy*, which, as various authors have emphasized, "precludes closure regarding its own identity (thus, with definitions that determine once and for all what is it), and therefore it should be seen always as a moving target, an open-ended, developmental kind of thing (Schedler, 1998: 104; Whitehead, 2002: 18). As such, the process of democratization itself must be understood as an open, dynamic process, a process that is always "in the making" and can never be completed by itself thus rejecting the teleological nature of any kind of approach that strives to mark "closure" in its conception. In this sense, it is criticized the concept of "democratic consolidation" by Valerie Bunce, for which the concept it is not only unclear in what it means in empirical sense, but also a vague notion: "if democracy is a process, not a result, and if the democratic project can never be completed, than how can we understand the term "consolidation" with its implication of democracy as an end state?" (Bunce, 1995: 124-125). The term therefore imposes "closure" on processes (those of democratization) that in fact must always be understood as open, dynamic, transgressive and the result of which we can never know for sure. The process can move towards an institutionalized and well-functioning democracy, as it may go backwards taking authoritarian forms, or even it may be that a democracy (in the sense that it adheres to somehow to the package of criteria provided by Dahl) proceed in a defective form infinitely. As long as we can not know this end result, it is more correct to talk simply about their open political developments, and about a process that in itself remains open.

## Over the two different types of definition of consolidation: "the only game in town" and the "two-turnover" test

Here we come to that part of the literature that makes up two different types of definition (or conception) of what makes a consolidated democracy. The first definition of a consolidated democracy (or a complete democratization) is one that sees it as being accepted by all important political actors of a particular country as "the only game in town". A democratic regime is considered to be consolidated when all politically significant groups regard its key political institutions as the only legitimate framework for political contestation; where they [significant political groups] do not undertake seriously attempts to overthrow the democratic regime, but they believe that any further political change must emerge from within the parameters of democratic procedures" (Linz & Stepan, 1996; Gunther & Nikofores & Puhle, 1995: 7). Of course, in this case, the "only game in town" metaphor may seem to be an appropriate or a sophisticated alternative to explain when democratization may be reached, but in itself it is quite unclear and does not helps us to understand the processes of democratization in different countries.

Firstly, in some cases, it is very difficult to determine who are the significant political actors and who are not, and from here we come to the conclusion that democratization may be termed as an end point or not in a particular country. As Whitehead pointed out: " by this criterion it is again questionable when or whether democratization has been completed in, say, Italy or Spain. (Are the Basque separatists a 'significant political actor'? This is a matter of careful and contestable evaluation and judgement, not of self-evident objective truth.)<sup>2</sup> (Whitehead, 2002: 27). Likewise, how could we understand the end of democratization in Greece (the making of the "only game in town"), while the high rate of political radicalization that has existed in this country has often questioned the issue of dedication of its "sinificant political actors" to the democratic framework (of the game).

Secondly, the absence of political anti-system actors (that is, accepting "the game") can not again lead us to conclude that democracies are consolidated. If in the first case it is too ambiguous to quantify empirically the consolidation of democracy based on the term "politically significant" (Encarnacion, 2002: 489), now the problem is about the qualitative distinction . The fact that in a country with "consolidated democracy" there may not be "significant political actors" to oppose the system (the

<sup>2</sup> The author follows the justification when he notes that "it is a matter of exquisite judgment whether the Communist Party, or even the strongest currents within the Christian Democratic Party, have ever completely embraced the (democratic) doctrine, whereas Lega Nord (which increased by importance during the '90s) did not explicitly do so".



institutional framework of the game) does not mean that democracy does not face various problems or deficits, either at the structural or normative level, or in some cases even the violation of democratic norms, which may have important implications in its functioning. Just as Giovanni Sartori well reminds us of what constitutes the essence of the definition of democracy, is that “a democracy exists only insofar as its ideals and values bring it into being” (Sartori, 1987, 22). But full embrace of the rules of polyarchy should not mislead us into thinking that all democracies play the same political game (Encarnacion, 2002: 490). So, the problem here is that these democracies, even though in the classification language of different authors can be considered consolidated (where democracy has become the „only game in town“), they can continue to face structural deficits which characterize them in their various fields, ranging from legal systems, shortcomings in the rule of law, political culture, civil society, etc. Likewise, we may also mention the violation of democratic norms or principles in these „consolidated“ democracies, for example. One can mention the use of money power for the purchase of votes or for various favors, illegal electoral funding, the use / instrumentalization of the mass media (which certain actors may have in possession) to influence public opinion in their favor. Perhaps the most typical example to be mentioned here (but not the only one) is again Italy, whose democracy, for almost two decades, is regarded as consolidated by the authors or as „the only game in town“, half of its territory (ie. its South) continues to face all of the above-mentioned problems and challenges, which have no consequences or any implications for the „game“.

Third, a recent problem related to the conceptualization of a completed democratization of making democracy as „the only game in town“ is also related to democratic stability / longevity. This conceptualization, although implicitly, contains in itself the presupposition that a democracy at once fulfilling the conditions for consolidation and thus becoming „the only game in town“, is also capable of ensuring its continuity and sustainability. However, even in this case, this conceptualization of democratic consolidation results in many theoretical and empirical weaknesses in the reality that it tries to explain, and by the very fact that, as we have mentioned above, it imposes „closure“ on political processes and developments that basically always remain open. This also is noted by Lawrence Whitehead when he says that by the same criterion (all significant political actors accept the institutional framework of democracy) we would have to conclude that democratization had been completed in, say, India, Uruguay, or Venezuela in the 1960s—although in all these cases the subsequent course of political development revealed the severe practical incompleteness and normative inadequacy of these accomplishments. Again the definition imposes closure on processes that are in practice still openended, value-laden and transgressive (Whitehead, 2002: 27). Democratization should therefore be understood as an open, complex and dynamic process, which makes it to some extent an unpredictable process.

Now, let's come to the one that constitutes the second conception of when a democracy can be called consolidated in the literature of democratization: the “two-turnover” test of Samuel Huntington. It contends, in essence that democratization begins with the removal from the political scene of an authoritarian regime and ends after competitive elections (electoral regime) have given rise to two subsequent peaceful power transfers between competing parties. It is no coincidence that such a conception has been substantially criticized by the various authors in the field of democratization, so to say in the words of Gunther, Diamandourous dhe Puhle, it leads to “absurd application in the real world (Gunther & Diamandorous & Puhle, 2002: 487). Such a conception, besides being absurd in itself (that it can be said that it is difficult to find a single democratization case that can be precisely explained through this “two-turnover” test), also undermines the very concept of democracy. In all the concepts of democracy (remember in the second chapter of this paper) it is emphasized that democracy is not just a choice, and it means far more than simply an electoral regime that defines the winner and the loser. Remember the example of Pakistan for illustration:

“A ‘generally free and fair election’ is held, for the third time in the five years since a transition from authoritarian rule and for the second time since the inauguration of ‘democracy’; the opposition wins and constitutionally assumes power. Thus what Huntington identifies as the ‘two-turnover’ test for democratic consolidation is satisfied (Huntington 1991, 266–67). However, within a year of that third election the defeated prime minister resorts to creating ‘ungovernability’ by organizing a series of paralyzing strikes in order to force early elections or provoke the army (which still heavily influences the presidency) into dismissing his opponent, who is now again prime minister. In return the current prime minister investigates her opponent’s business empire and arrests his elderly father on charges of tax evasion. Both politicians come from a tiny land-owning elite which dominates the country’s economy, army, politics, and state, and their differences on policy issues are limited at most, but they are far from agreeing on the rules of the game. At the mass level, political, sectarian, and ethnic violence sweeps through the country’s most populous city and also its most remote province, where religious fundamentalists stage an uprising to demand imposition of Islamic law and the chief minister ultimately concedes, in violation of the constitution. Around the country security forces continue to violate human rights with impunity, through torture, brutal prison conditions, extrajudicial killings, and the rape of female detainees” (Diamond, 1997: 7).

According to defining standards Pakistan (which is more or less in a similar situation still today) is qualifying as an electoral democracy and has also satisfactorily fulfilled the “two -turnover” test to which it refers Samuel P. Huntington for democratic consolidation. However, as can be seen from the above quotation, such a country has little to do with democracy: a country where civil rights and civil liberties are not respected, where the state in its actions is not bound by the law, where the conduct of politicians hardly adhere to any kind of democratic norm. Democracy in this country (as far as it makes sense

to apply this term in this case) continues to survive as a kind of facade, and it would be very difficult for anyone to come to the conclusion that Pakistan could be considered as a country with consolidated democracy. So, the “two-turnover” test is an indicator that results in an absurd explanation of the democratization cases upon which it is applied.

## Conclusions

For more than two decades, it has become increasingly clear that understanding or explaining political developments in post-authoritarian countries through the concept or paradigm of their democratic consolidation is no longer valid from an analytical point of view. The concept of democratic consolidation is a teleological concept in itself that is most oriented towards the democratization telos, bypassing the understanding of the complexity and particular problems of the democratization process in certain countries. Such countries that have not long been able to have well-functioning and institutionalized democracies in their environments for a long time should not be perceived as deviant cases from a desirable or desirable end point (telos democratization). Just as Guillermo O'Donnell best emphasized earlier (also making an self-critical as an author) when he suggests that the term “democratic consolidation” can no longer be used by political scientists: “As an author who has committed most of the mistakes I criticize here, I suspect that we students of democratization are still swayed by the mood of the times that many countries have more or less recently passed through... The northwest was seen as the last point of the trajectory that would be traversed largely by removing authoritarian rulers. This illusion was extremely useful during the hard and uncertain times of the transition. Its residue is still strong enough to make democracy and consolidation powerful, and consequently pragmatically valid, terms of political discourse (O'Donnell, 1996: 46-47).

Moreover we emphasized in this paper that the concept of consolidation is also problematic for understanding of democracy as a term that excludes the conceptual closure of its identity. Democratization must always be understood as an open, dynamic process that can mark advancements and backwardness in its path, as well as it can continue staying in a broken form (though problematic, functioning with serious defects) for a long time. Cases of many new democracies in different parts of the world have best demonstrated this in the last 26 years.

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# The art of using fidelity and liberty in translation - correspondence and equivalency of the meaning

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## Abstract

*The communication between two or more identities requires the irreplaceable need for translation. The art of translation in intercultural communication consists in the idea that the same thing has to be identically said in another language. The object of this research is: The use of fidelity/liberty duality by the translator, who has to differently write or interpret a word or text for the target language, while making sure the meaning remains identical with the one in the source language. The research question is: To what extent can the translator be free or faithful in order to express the same concept from the source language, in a different form but identical meaning, with the one in the target language? The communication among cultures requires the translator to stay faithful to the meaning and a betrayer of the “form” during the process while the only two elements that accompany the translation from one language to another are: correspondence and equivalence of meaning.*

**Key words:** translation, communication, fidelity/ liberty, correspondence, equivalence, meaning.

## Introduction

The three questions that accompany a translator throughout the entire process of translating a message from one identity into another are: What are you translating? Who are you translating for? How does the author express the concept he/she wants to transmit?

It may be difficult to think that everything is identically translatable. Consequently, the translator bears a triple responsibility, as shown by the three abovementioned questions. An expert translator is responsible for the intercultural communication and must face all the challenges of lexical, cultural, grammatical, historical, and stylistical character.

The translator, in spite of being a genius of reproduction, becomes a co-author to a certain extent. As E. Tupja states in his book: “Advice to a translator”, (Translation is both an art and a craft). It is not the diploma that makes a translator. The diploma is simply a “gateway” for entering the art and craft of translation. The moment an individual takes this step towards traductology, one considers the fact of the high level of service to the communication between two or more identities of different historical, lifestyle and cultural backgrounds. The translator becomes aware of his/her social responsibility for the intercultural communication the moment one admits to being a transmitter of a message between two different cultures. Otherwise, if one fails to simultaneously work on the three questions “What? Who for? and How?... the translator must quit doing such a noble profession, which helps spread knowledge and development all over the world.

Being loyal to what the author has said in a language and culture different from the one you are translating into, concerns the fact that: the translator is loyal to the semantic aspect of the message, in other words to the meaning, and somewhat a “traitor” to its grammatical aspect. It is almost impossible not to have this kind of duality, since every language and culture allows ways of interpretation to help you get closer to the real connotation of the message. In case the translator lacks the necessary capacity and experience in the art of translation, one cannot and should not take the responsibility of conveying a message from one identity to another.

The duality Fidelity/Liberty in translation is equivalent to the process of negotiations, with the translator resigning from something (the message form) in order to gain something else (the message meaning). In a certain way, this process of negotiations helps for proper communication between two or more identities.

*“Thus, even in cases when we rightfully think that the translation is impossible, in practice we always come face-to-face with the Achilles and tortoise paradox: in theory Achilles must never overtake the tortoise, but in fact (as taught by experience), he does overtake it.”* (Eco, U 2006: 19). This is the reason why we say that the untranslatable message does not exist. Translation is always possible by being faithful to the meaning and free in interpretation.

## Research goal and objectives

The methodology of this research paper relates to the analysis of correspondences and equivalences of meaning used by the translator while translating with the aim of clearly conveying the message from the source to the target language. The analysis of these two important elements of translation verifies how important it is to the intercultural translator to simultaneously work with the art of fidelity and freedom in translation. The entire globe manages to communicate solely due to the exchange of messages and the most essential element of this communication is the meaningful translation from the source language and culture to the target language and culture.

The object of research is: The translator always stands between the duality fidelity/freedom, when one has to write or interpret a word or a text differently in the target language, which must have the same meaning as the one in the source language. A message from the source language is written differently in the target language but the meaning must remain identical. The importance of this research relates to the way a translator conveys almost the same thing from one identity to another.

## Correspondence of meaning in translation

The correspondence of meaning is mostly found in different language dictionaries as well as in cases when a word or concept finds its correspondent in the existing synonym of the other language or culture. At this moment, it is very easy for the translator to convey the appropriate message from the source to the target language, since the correspondence of the word or concept carries the appropriate meaning to the culture you are translating into. Each word is said and written with a specific purpose. It carries the meaning of the source language as well as the target one.

*“If neither the world nor the text carries a unique content, if any interpretation does nothing but produces a new text subdued to interpretation, it is not worth to wander if the message is properly conveyed.”* (Oliver, B. 2015: 79).

It is precisely the case when the complete correspondence to the word or concept in the source language is found in the target language as well. For instance, the word “la mère” in French, whose correspondence in Italian is “madre”, and in Albanian “mamaja”. If we get deeper into the connotation of these synonyms in these three different cultures, we can observe that to the word “la mère” Albanian language has the word “nënë” as well as the word “mami”. In the above example, we are not talking here about the “mami” (midwife), the woman who helps women at childbirth, but the mother of an individual. This example is worth mentioning to illustrate that appropriate correspondence needs to provide an accurate connotation in conformity with the social context in which the process of translation is occurring as well as the transference from one culture to another. The closer the synonym found in translation, the clearer the message to the reader of the target language and culture.

In the case of correspondence of meaning, the synonym to the word or the concept in the target language fits totally with the one in the source language, making possible what we simply call: word-for-word translation. Depending on the social context into which the translation occurs, there is no need for adding or removing words for the message to be conveyed. The correspondence of meaning is equivalent to the automatic translation, for example: the word or phrase that is translated using the Google Translate. In this case, the automatic translation finds the correspondence of a word or concept. The synonym in the target language is the very right one since in the target language there is a perfect synonym to the word from the source language. While translating a word or a concept, the challenge to find the appropriate synonym in order to get to the right correspondence of meaning becomes virtually invisible. It is to the translator to set the appropriate correspondence when the synonym to this word is found in the target language. Synonymy is a very simple element to understand, since the word in the target language suits with the word in the source language. Still, we have to be careful since the difficulty in finding the correspondence of meaning occurs when one word expresses two totally different things, as in the case of word “mami”, when one meaning could be “mother” and the other meaning could be “midwife” - the woman who helps women at childbirth.

It is the word “nënë” (mother) itself which in different social contexts is used in different connotations. The word “nënë” is used to express the concept of “mother” but in other situations the word “nënë” is used to express the concept “grandmother”.

I gave the most beautiful flowers to my mother on March 8th.

I gave the most beautiful flowers to my grandmothers on March 8th.

The correspondence of meaning is easier to be used by the translator when the word or the concept in the source language is literally translated into the target language, without the need for translator’s subjectivism during translation. The moment

the translator finds the correspondence, one has found the equivalent word in the target language and it is not necessary to play with the words to get to the right connotation of the word within the required social context. Social context is not very important to find the correspondence since the primary meaning of the corresponding word encompasses the required context. Upon finding the correspondence of meaning, the translator remains faithful to the structure of words and sentences as well as to the meaning of the word itself.

**Example;**

French version: Je veux manger.

Albanian version translated through correspondence of meaning: Unë dua të ha.

Albanian version translated through equivalence of meaning: Më hahet.

In the above example, it is clear that the translator has remained faithful to the meaning as well as the sentence structure. The sentence structure in the target language is identical with the structure in the source language: Pronoun (je) (unë)+ verb phrase (veux manger) (dua të ha). Whereas in the second Albanian version, the sentence structure has changed due to equivalence of meaning in the target language: “më hahet”.

The concept faithful in translation means that the translator remains loyal to the contents of the message even when there is correspondence of meaning. The translator is also faithful to the form of the very message. *In order for the work of translation to be successful, translator's talent needs to complement the genius of the author.* (Marashi, A. 1996:31) As mentioned in the beginning of this research, throughout the entire process of translation, the translator needs to bear in mind what is being translated, who is it being translated for, and how to find the correspondence of meaning in order to convey a meaningful message to the message recipient in the target language.

## Equivalence of meaning in translation.

As a concept, language is particularly important in the process of intercultural communication. With the aim of communication between identities of different language and culture, the role of a translator is indispensable. *“Issues related to language can be important. Language at times can lead to intercultural conflict, but it can also serve as the primary means for settling intercultural conflicts”.* (Martin, J.N and Nakayama, T.T.2010: 237). The task of a translator is to clarify every single image of the source language that is conveyed into the target language.

The translator is able to understand that the words take a different meaning depending on the situation the story occurs. Finding the synonyms in the process of translation is the easiest element. The challenge becomes greater, but not insurmountable, in cases when for one single word in the source language there are a number of corresponding words in the target one. In the case of using equivalences in translation, the translator is free or compelled to play with the words depending on the meaning required by the social context. The translator can add or remove words, betraying this way the structure of the sentence while remaining faithful to the meaning. Fidelity in translation couples with the fact that the translator is free to reformulate the concept of the source language and convey it to the target language based on his reasoning and subjectivity without altering the meaning of the message.

Things get more difficult in cases when there is no correspondence between the meaning of a word in the source and target language. When there are correspondences between two cultures and identities, translation is easy and communication between them does not lead to misunderstandings, but in cases when there are no correspondences, the appropriate equivalences have to be used. When translating idioms or proverbs, the translator needs to find equivalent expressions, which do not distort the meaning of the message from the source to the target language. Different languages have different lexical wealth due to different historic and cultural origins. The more synonyms a language has, the richer it is. When a word or a concept is described by many synonymic words, translation becomes potential and well done, but in cases when different concepts and phenomena are described by a single word only, the degree of a potential and well-done translation starts decreasing.

**Example:**

The French version: Il a la tête sur les épaules.

The Albanian version translated using correspondence of meaning: Ai e ka kokën mbi shpatulla.

The Albanian version translated using equivalence of meaning: Vepron me mend në kokë or Ai e di se çfarë bën.

The above example clearly shows the importance of translation through equivalence. The second version of translation stands closer to the meaning in the source language, while the word-for-word translation of the first version does not clearly give the connotation of this French idiom.

In many cases the translator has to use equivalences with the sole aim of: conveying an exact message from the source language to the target one. Equivalences in translation receive the appropriate meaning depending on the social context.

**For example:**

The word “kafshë” in Albanian takes different connotations depending on the situation it is used in.

The French version: Il travaille comme un animal. The word-for-word translation of this sentence into Albanian

would be: Ai punon si kafshë. But another translation using the equivalence, would be: Punon shumë fort dhe pa pushim. The connotation of the word “kafshë” in this case is synonymic with working hard.

Another example: The French version: Il m’a parlé brutalement. The word-for-word translation of this expression into Albanian would be: Ai më foli egërsisht. It would not be wrong if this sentence was translated into the target language using equivalent sentences like: Më foli si kafshë. Më foli si harbut, to show that he was rude while speaking to me. The use of the word “kafshë” is an equivalence to the meaning “like an animal” in the target language with the purpose of showing the level of cruelty. In the second case, it is clear that the level of cruelty is amplified. The meaning of the sentence is identical but the connotation gives the contextual situation a deeper coloration. To the message recipient in the target language, the message that the way the individual behaves is unacceptable, becomes even more understandable.

In intercultural communication, the translator has a very difficult task. For this reason, while working, the translator does one’s best to imitate the primary language, in a way that the message from the source language is not deviated. The translator learns to use the duality fidelity/freedom along the entire process of translation.

There are very few cases when the equivalence of a word or a concept cannot be found in the target language and the translator has to use the foreign word in order to stick to the meaning. *“When it is impossible to find a corresponding word to the meaning in Albanian, it is necessary to use the corresponding foreign language, otherwise serious logical misunderstandings can occur.”* (Fuga, A. 2014:307).

Both fidelity and liberty are indispensable elements in the process of translation in intercultural communication. The translator faces two things at the same time. First, he/she plays the role of the guardian of the primary meaning as well as the role of a word juggler in order to find the proper word and connotation in the target language.

## Conclusions

The translator is an indispensable element of intercultural communication. The antimony fidelity/liberty in translation pursues the translator along the entire process of translation/interpretation. Being a “craft”, translation requires translator’s professionalism, but being also an art it requires proper interpretation and a high level of cognitive capacity from the translator. A good translator needs to be skilled in using the duality fidelity/freedom for achieving proper intercultural communication. The use of meaning correspondences and equivalences is an unavoidable part of the communication between two or more identities of different upbringing, origin, and history. In cases when the translator uses both these mechanisms, it can be said that he/she has remained faithful to the meaning needed to be conveyed. The alternation between correspondences and equivalences of meaning makes it possible for the translator to be faithful as well as free at the same time. If the translator is either faithful or free during the process of translation, one is at risk of becoming traitor to the meaning. As consequence, the translator fails to convey a clear message and does not build the bridge for the message to pass from one culture to the other.

In the process of translation in communication, the translator is always faced with negotiating the fidelity/freedom duality. In the communication between two different languages and cultures, the translator deviates in form, subjectively interprets and plays with the words, but remains faithful to the meaning of the message being conveyed. The translator does all these while always bearing in mind what is being translated and who for. All over the world, people manage to communicate through language universals. The latter has a very broad inventory. The system of symbols people utilise to communicate is always in need for the use of fidelity/freedom duality in order to make human communication possible. Concepts, phenomena, and words are denominated with symbols that make human communication possible. The translator, as an important element of intercultural communication, translates the word along with the culture, reality and social context.

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# Power as Medium

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## Abstract

*This article aims at clarifying the medial concept of power, by making use of the work of the eminent German sociologist and social theorist Niklas Luhmann. It will be argued that this medial concept of power has clear theoretical advantage over other attempts at conceptualising power. This is so in that the medial concept of power manages to overcome the challenges of philosophical critique, especially the charge of ontological burden and essentialist presuppositions. On the other hand, the medial concept of power manages to position itself in the interface between sociology and political science, proving useful for both disciplines, something that other concepts of power cannot do. The article starts with Luhmann's critique of the classical theories of power, by identifying eight problems. Then some consideration is given to the analysis of power as medium, where the main ideas of Luhmann and Foucault seem to converge. Next, in order to further clarify the medial concept of power, the article deals with the question of influence, which ought to be distinguished from power. After this, the article takes a sociological twist, by giving an account of the transformation of power in modern society.*

**Keywords:** power; Luhmann; medium; influence; violence

## Introduction

Niklas Luhmann's conception of power is formed by his methodological commitment towards constructivism. He argues that concepts, while being instruments that enable us to understand the world, at the same time necessarily blind us towards certain aspects of the world. Consequently, social theory cannot be based on actors' conceptual frameworks, but must construct new conceptual frameworks that enable the sociologist to observe how the actors observe and describe the world. This constructivist commitment towards second-order observation leads Luhmann when he develops the basic assumptions relating to the notion of power, in the critique he develops versus the classical concept of power, i.e., the capacity to act in accordance with individual will even against resistance from others. According to Luhmann, this classical concept of power, initially formulated by Max Weber, is supported by unsustainable ontological assumptions, but, nonetheless, is typically used by actors because of inherent limitations of their perspective on the world (first-order observation). This classical concept of power reproduces the illusion of actors that causality and intentions are true, while, in fact, as witnessed by second-order observation, they are contingent constructions that attribute effects to causes, identifying only two elements, a cause and an effect, in the chain of determinations that is potentially unlimited in both directions. Luhmann's power analysis begins with the critique against what he names "the classical theory of power", thus including a broad range of theories developed from different perspectives, but that have several features in common.

## Critique of classical theories of power

The first problematic feature that Luhmann notes in the classical theory is suppositions of *causality*. As a prominent example of the way of conceptualising power and causality in the classical theory of power, Luhmann mentions the claim of Herbert



A. Simon, who holds that the statement “A has power over B” can very well be replaced by the statement “A’s behaviour causes B’s behaviour” (Luhmann 1969: 150). The main implication, not only Simon’s, but of the whole classical theory of power, is that power is conceptualised as a decisive event that makes the individual subjected to power act as he does *and* that this individual would have acted differently unless he were subjected to power. Luhmann is critical towards this causal framework. First, the examination of the causes of power does not tell us the origin of power (Luhmann 1969: 150). Second, every effect has an infinite number of causes and likewise every cause produces an infinite number of effects. (Luhmann 1970: 16). Thus, the determination of the causal relationship is a contingent enterprise, an attribution dependent on observation and, as such, one that might have been different.

The second problem of the classical theory concerns the *intentionality* of exercising power. Luhmann refuses searching for goals or specific motives, which are supposed to stand behind the exercise of power. He states that motivation is no “cause” for action, but only attribution that enables a socially intelligible experience of action (Luhmann 1979: 120).

A third problem refers to the question where one can actually imagine the exercising of power as *decisive* on the actions of the individual subjected to power. Is it causally possible to exclude the possibility that the person subjected to power might have acted differently in all circumstances or, at least, that there were no other reasons for his action except for the power exercise?

The fourth problem of classical theory relates to *conception of time*. Classical theory of power implies a time conception where the future is seen as a determined projection, objective and already fixed by the past, in any case a future poor in alternatives (Luhmann 1969: 151-2). This is particularly obvious in the case of individuals subjected to power, whose future actions are supposed as predetermined before any actual exercise of power. In other words, the causal thought of classical theory must be abandoned, since, as Whitehead says, actual entities in contemporary universe are causally independent from one another (Whitehead 1978: 123).

A fifth problem of classical theory is that it imagines power as a substance that might be *possessed* (Luhmann 1969: 158-9). The question is that a simple reference to power possession, where power is transferred from a person to another and from a situation to another, completely hides the systemic conditions of this modality of power. Also the image of power as possession implies that in order to study power one must look for persons that are believed to “hold” it at a specific moment. In other words, the perspective of possession opens the way for an individualistic explanation, where power is attributed to individuals.

The sixth problem is linked with the supposition that exercising of power is a *zero sum game* where, for example, the increase of bureaucratic power is claimed to happen only if there is a loss of parliamentary power. Luhmann questions this supposition and argues that an adequate theory of power must be able to take into account that power often increases in a place without bringing with it correspondingly loss of power in other places. In fact, as Luhmann himself shows, organisational power increases simultaneously both for superiors and for subordinates, when their internal relations are intensified (Luhmann 1969: 163; 1979: 179-82).

Luhmann notices a seventh problem of the classical theory of power in the explanations that depart from *anthropological suppositions*, wherein power is conceptualised as something that inhibits realisation of human dignified life. Such analyses for Luhmann are very broad to design specific and clear paths for empirical study and suffer from analytic limitations as long as they depart from existing suppositions about the character of the society analysed. One can also say that they are based on contested philosophical anthropologies, as is witnessed e.g. in the battles over the concept of “real interests.”

The eighth problem of classical theory is the explanation of power as *sovereignty* and the accentuation of the need for limiting its action, for example through constitutional formulae. Luhmann notices an inclination in the Western political tradition to refer to a “unified politico-legal system” (Luhmann 2004: 357). According to him, this conception of a unified system comes from the concept of the state, which is supposed to be simultaneously both legal and political. Luhmann emphasises that the conception of sovereignty and of sovereign power, wherein is based the state since its consolidation in early European modernity, has combined to different ideas of the political power: first, the idea of a *generalised* capacity for ensuring compliance to commands; second, the idea of legal force, which is reflected in the fact that power was presented and imposed in the form of law, i.e. in a form that had always already been *specified* in advance (Luhmann 2004: 359). Therefore, the concept of sovereignty combines law and politics in a single formulation.

## Power as medium

The non-causal departure of Luhmann is the double contingency problem, thus, of an interaction situation where both *alter* and *ego* have generalised potential to conceptualise the facts as selections that imply denial, potential to deny these denials, and to construct other possibilities (Luhmann 1976: 509). For Luhmann, several symbolically generalised communication media have emerged historically, such as truth, money, love, power, and each of them, in a functionally equivant way, treat the principal problem of sociality, i.e. the problem of double contingency. Power, as one of these media, offers a mechanism for coordinating the selections of alter and ego. Luhmann differentiates the symbolically generalised communication media according to the way they link the action or experience of ego to that of alter. In the case of power, of interest is the coordination of ego’s *action* to that of alter’s. Thus, the function of the medium of power is the increase of probability that ego uses alter’s action as a premise for his own action, or, in other words, ego’s motivation for conditioning his own action through alter’s action (Luhmann&De Giorgi 2003: 120). This conception of power as a relation of action to action is equivalent with Foucault’s



conception of power (in the form of governmentality) as conduct of conduct, with the important distinction that Luhmann is explicitly interested in regulation of *selections*, of the selected action by a selected action (Luhmann 1976: 517).

But there are also other elements where Luhmann and Foucault converge. For example, the close relationship between power and freedom insisted by Foucault, in Luhmann is implied by the concept of selection. If ego *cannot* act in discordance with alter's demands, then there is no need for power. In contrast to this, power ends the moment ego is constrained to obey. Constraint means that there is no regulation of contingency, i.e. that the principal problem of sociality is not being addressed, or that there lacks the trust that this problem can be addressed through the medium of power. Consequently, constraint can only be exercised with a specific cost: the person who exercises constraint must take upon himself the burden of selection and of the decision at an equal measure with the constraint exercised, in that the responsibility for reducing complexity (the cardinal problem of social systems) is not distributed, but is rather transferred to the person who exercises constraint (Luhmann 1979: 112).

Another feature that unites Luhmann with Foucault is connected with the critique that the latter makes to the sovereignty discourse and to the claim that power can be possessed and transmitted as a substance. Foucault's attempt to get away from this conception of power is to focus on extremely relational character of power (Foucault 1990: 95). Also Luhmann distances himself from understanding power substantially and ontologically, and refers to the medial character of power. Understood as a medium, power is nothing else but code oriented communication (Luhmann 1979: 116), or, as Foucault says, nothing else but the name we give to this communication (Foucault 1990: 93).

However, although Luhmann was against the ontological definition of power, in his earlier work one finds ontological formulations. For example, in his monographic study on power in 1979, he writes that the function of communication medium is transmission of reduced complexity, and also in the case of power the main interest is the transmission of selection (Luhmann 1979: 113). Thus power is presented as a question of transmission of selection, as if these were tangible entities that might be posted. But later Luhmann changes his position, in that he realises the flaws of the "transmission" metaphor. In 1984, when he publishes his principal work on social systems, he gives the argument that the transmission metaphor is unusable, since it implies too much ontology. It suggests that the sender sends something that is then received by the receiver. This is not correct, for the sender does not send something in the sense that he does not have it anymore. The whole metaphor of possession, having, giving and taking, the whole 'thing metaphor' is inadequate for understanding communication (Luhmann 1995a: 139). Consequently, this metaphor is inadequate for understanding power.

Thus Luhmann reconstructs systems theory in such a way as to liberate its foundational concept, communication, from the idea of a sender and a receiver. Instead, he conceptualizes communication as a triple selection of information, utterance, and understanding. This displacement of conceptual perspective has consequences for the notion of power, too. Now power must be conceptualised without the ontological notion of transmission. Luhmann implements this by using the distinction between *medium* and *form*. The medium of power is described as loose coupling of objectives and sanctions of power, while the form of power is constituted by the distinction between obeying an order and its alternative, viz. the negative sanction. The limits of power are to be found there where ego begins to prefer the alternative of avoiding the sanctions, and also himself demonstrates power to force alter either to give up or to impose the sanctions. Thus, on one hand, there seems to be a loose coupling of elements which, being threats, are not consumed in usage but are rather renewed and, on the other hand, a temporary strong coupling; forms that combine instructions and compliance to them (Luhmann 2012: 212).

By conceptualising power as medium, Luhmann positions himself against the idea that power has the main role in society, or that power must be considered the main notion for constructing a theory of society. Actually, as mentioned above, Luhmann attributes this role to the concept of communication. Moreover, as a medium, thus as product of evolution, power is conceptualised in an evolutionary framework and not within a general and unhistorical theory of power. Power is observed as emergent solution to a specific evolutionary problem, which is linked to the fact that because of escalation of societal complexity, it becomes increasingly difficult to rely on situational convergence of interests in order to regulate and condition contingent selections. In this situation, the development of power as a way to regulate contingency, becomes unavoidable priority for further evolution (Luhmann 1979: 116).

## Forms of influence

According to Luhmann power can only emerge in uncertainty conditions, i.e. in conditions that are entirely determined, but also allow for realisation of alternative possibilities. These conditions come from functional differentiation of systems of modern society: autopoietic systems are uncertainty fields in that they produce themselves their own structure and are not dependent on external determinations. One of these uncertainties is linked to the fact that society members are dependent on one another. Thus, uncertainty concerns how the others will react versus our actions. The ways of taking into consideration the actions of others give birth to *influence*, in other words, to the capacity to act effectively in relation to others.

Luhmann distinguishes three symbolic forms of influence. He names the first form *uncertainty absorption*. This form concerns the attribution that actors, if required, would be able to give reasons for their affirmations. But social power that results in this way remains diffused and can be challenged quite easily. Another and stronger form of influence is based on *positive sanctions*: exchange relations manage very well to structure actions. However, economic power that results from this is limited, since it comes to an end were positive sanctions not to be fulfilled or were they discovered to be illusory. The third

symbolic form that influence has taken in modern society is based on *negative sanctions*. Political power that results from this form is stable enough to function as a symbolically generalised communication medium for the political system (Luhmann 2010: 99-100).

But in order for influence to serve as raw material for transformation into power, it needs to be generalised. More concretely, what needs to be generalised is the motivation of ego to accept alter's the selection of action. Acceptation of influence means, for ego, that he must select his own action (as a reaction towards alter's action) and, to do this, he needs to be motivated. These motivations can be generalised in the temporal, fact, and social dimensions.

Temporal generalisation neutralises differences in time: Ego accepts the influence since he has done it before, in that there is a history that tends to be repeated continuously. In the case of fact generalisation differences in content are neutralised: Ego accepts the influence since he has done so in other situations and because he transfers the positive experience towards a communicative content to the likewise positive judgement towards another communicative content. In the case of social generalisation social differences are neutralized: Ego accepts the influence because that is what others do, too. (Luhmann 2010: 80).

Luhmann names these types of influence generalisation in the dimensions of meaning respectively *authority* (influence generalised in time), *reputation* (influence generalised in relation to contents), and *leadership* (influence generalised at the social level). Thus authority, reputation, and leadership are generalisations of motivations to accept influence. Formation of authority is based on differentiation of *chances* supported by previous actions. When a communication that exercises influence has been successful, whatever its motive, expectations are consolidated that raise probability, facilitate acceptance of communication, and make it hard for rejection to occur. After a period characterised by acceptance without rejection, every rejection generates a surprise, disappointment, and unforeseeable consequences; and, that is why it requires specific reasons. Symetrically, until the contrary is proven, authority needs no justification, since it is based on tradition.

*Reputation* is based on the supposition that it is possible to be given other reasons in favour of the justice of influenced action. Generalisation on the level of contents moves in a direction which, more than other types of generalisation go close to cognitive mechanisms. For this reason the very theory of science could make use of the concept of reputation in order to replace the concept of truth. Thus generalisation of motives would be realised by the fact that a general expressive and argumentative capacity is accepted *in a relatively uncritical manner* and is transferred from cases where it has proven fruitful to other cases. Also in this case the basis of the relation is representation of a *possibility*: the possibility to carry out ultimate verifications and to express doubts, which, nevertheless, is not practised. This possibility contains an element of indeterminacy (or better: it is not necessary for it to be completely determined) that accepts generalisation. Therefore, the more evident and universally acceptable are the reasons given for making certain decisions, the lower is reputation.

*Leadership* is based on the reinforcement of availability to conform, because of the experience that others, too, do conform, i.e., at the bottom line, it is based on *imitation*. Thus the influence is accepted since others accept it as well; and symmetrically the latter accept the influence because that is what the former do. If it is possible to exercise influence on more persons, then the leader is authorised to select the person to influence. He augments his own alternatives, which, from their part become orientation factor for others. The leader becomes independent of the concrete conditions under which a subject might obey. The subject loses the possibility available to himself, thus being forced (but not necessarily) to mobilise the group against the leader. Likewise, the leader must try to preserve a group atmosphere, even if it fictitious, in order to keep the supposition that now and then the others would accept him as leader and in order to isolate the deviant subject (Luhmann 2010: 81-2).

However, for Luhmann these are analytical types, since in reality it is impossible to use only one of them in order to generalise influence. Thus, the leader cannot only rely on the social dimension of expectations based on imitation, but also ought to somehow refer to the validity of motives in time, as well as to reputation that comes from correct and effective decisions in given sectors. And since the validity of influence is relevant in relation to themes and persons, also temporal generalisation (authority) cannot be realised via excluding entirely the reputation and gets close to the social dimension once it begins to be communicated. The opinion of others and their predisposition to conform has special importance when a demand or an order is not followed by immediate and direct obedience (Luhmann 2010: 82-3).

## Transformation of power in modern society

Luhmann formulates three main theses in order to characterise the relations of power in modern society. The first concerns *the law of transformation of positive sanctions in negative sanctions* (Luhmann 1990: 158). This thesis is related to the sources of power. According to Luhmann, the principal social source of power is always control over superior physical violence, whereupon the state is built. Without this control the state would be impossible. Even the law presupposes control over these sanctioning means. The prospect of maintaining an advantage with regard to use of physical violence has specific qualities that seem appropriate for building the foundation of power. This is because (1) physical violence is generalisable in very different contexts, independent of what is enforced through the threat of physical violence; (2) it presents itself as relatively reliable – independent of the type and intensity of motives for resisting it; and (3) it is capable of being organised well – can be transformed into decisions by others about the application of physical violence, and these decisions can be conditioned and programmed.

Luhmann regards these qualities of physical violence as the foundation of law and politics in modern society. However, when he turns to the contemporary welfare state, he says that this state cannot be characterised adequately by taking into account only the power based on physical violence. Actually, by searching for other foundations for politics, the welfare

state enters a terrain of power that carries problematic aspects. This is characterised by inclinations to transform positive sanctions into negative sanctions. Luhmann is aware that it is difficult to make the distinction between these two kinds of sanctions and that this is a matter of interpretation, a matter of definition of the situation. Nonetheless, he offers a distinction criterion. If one clearly expects and relies on positive performances, then their withdrawal becomes a negative sanction. For example, when assistance is offered with certain regularity toward a target group that secures its living via it, the possibility of withdrawal of assistance appears as a threat and is thereby transformed into a negative sanction. The same thing may be said about the employees, which can be made to feel the threat of firing, or for partners that have been conducting business for a long time together etc. Thus, the more that one becomes accustomed to advantages, the more that potential power grows as a result of possibilities that have accrued to negative sanctions: the potential power of withdrawal. In this way social power is increased: as the power of helpers and caretakers; as the power of those who participate; as the power of those who grace an affair with their consent or their presence or who draw attention to this fact through their rejection of it; as the power of all those who can change things by saying “no!” to existing expectations.

Luhmann says that this kind of power is, in part, harmless, in part excluded, through the protection of claims as legal and political maxims. But the chances of transforming positive sanctions into negative ones continually arise through the ever increasing services provided by others. Thus, these become sources of power with politically dangerous properties. They are (1) not capable of being centralised (unless through the centralisation of all assistance) and remain distributed diffusely; (2) their use cannot be controlled; (3) they are suitable mainly for obstructing instead of promoting specific behaviour. The power of withdrawal becomes a political problem as the power to block (Luhmann 1990: 158-160).

Luhmann's second thesis is that *power in modern society is no longer exercised on the basis of social stratum but on the basis of formal organisation* (Luhmann 1990: 158). The relationships of power in the contemporary societal system cannot be understood if one begins from the concept of a ruling stratum, class or elite. Of course, there are persons who occupy positions of leadership and who have their contacts facilitated within such leadership groups. But leadership in such leadership groups does not manifest itself as family or social refinement but arises out of the perception of organisational positions. Unlike former societies, one cannot assume that a stratum of society creates solidarity among its members. And it is improbable that stratum-specific modes of behaviour direct the process of the exercise of power successfully. This would correspond to a type of society in which political power still resides essentially in the control of access to superior physical violence. For Luhmann, this is no longer the case. Today, any increase, material diversification and refining of power depends on formal organisation. This is notably true in the case of the development of longer and more permanent chains of power, for indirect forms of its use in directing the exercise of power by other and for its increasing effectiveness in the sense that with *one* decision a person can trigger *many* resulting decisions.

The organisation is a mechanism that differentiates and distributes power, but not as a pre-given commodity. The distribution, for its part, creates and changes whatever is distributed. Luhmann says that the bourgeois theory of society had wanted to introduce the mechanism of differentiation into the theory of the separation of power and the theory of economic competition in order to limit power and to reduce it to what is legally permissible or legally rational. But in implementing this programme one unavoidably discovered that the formation of organisations also multiplies power – even if not in centrally controllable forms. In this way the problem situation was gradually displaced. According to Luhmann, today the question is not so much that of the misuse of power as whether, through organisations, our society does not produce too much unusable power (Luhmann 1990: 161-2).

Also organisational power is nothing but a case of application of transformation of positive sanctions in negative sanctions. It relies on the fact that membership in organisations can be given as an *advantage*, whereas not giving of membership or its withdrawal can be determined as *negative sanction*. This is typical in the organisational reality of hiring and firing. But, nonetheless, power in organisations cannot rely only on this way, for it is too crude and is actually used only to take decisions in cases of serious conflicts. Thus the transformation of membership advantages in a negative sanction that follows from not giving or withdrawing it is only used in extreme situations and generates power only as long as the sanction is *not exercised*. According to Luhmann, one does not allow conflicts to arise that could threaten membership, unless one had already decided to leave the organisation and created a final heroic conflict to serve as a pretext for this (Luhmann 1990: 162). Moreover, power is also refined through control of personnel decisions, which is linked with members' carrier in the organisation. Thereby, how high one's position is in the organisational ladder becomes an instrument of power. And nonpromotion, indeed reorganisation itself accompanied with a redistribution of certain disadvantages, becomes an instrument of power to which one adjusts through anticipating one's superior.

Luhmann's third thesis is related to *the birth of significant differences between real power and attributed power, accompanied by inflationary or deflationary trends in power-communication* (Luhmann 1990: 158). As a consequence of the existence of complex organizational systems within society, organization power is assessed differently from outside the organization and from within. Viewed from outside, the homogeneity of the organization and the ability to implement organizational power is typically overestimated. Power is attributed to the top; while in truth complicated balances of power exist that vary with topics and situations. As a result, more power is attributed to the top than it actually has. This process of causal attribution does not remain without an effect on the actual relationships of power. Outwardly, the organization has to honour the attribution of power, for otherwise persons outside the organization would not be able to see and treat the organization as an order. But for outsiders, to deal with the organization, simplifications are necessary that permit commerce with the outside. For this reason, the prestige of the top's power has to be promoted and sustained. In this way the external attribution of power becomes a power-factor in internal conflicts. Top level persons can threaten to leave the organization or otherwise create situations that

make apparent to the environment that the organization does not function like a decisional and implementational unity. This forms the basis of a kind of informal power of the formal top that rests merely on the fact that power is attributed to it and this attribution, as a symbolically generalizing process, is sensitive to information about facts. According to Luhmann, this applies to individual organizations in quite varying degrees; for political parties more than for universities, for organizations in the area of mass media more than for the postal service, for the military more than for banks (Luhmann 1990: 163-4).

By transferring the concepts of *inflation* and *deflation* from the theory of money to the theory of power (since these are both symbolically generalised communication media), Luhmann says that as with a money economy, there also seems to be a *limitedly meaningful overdraft of resources* in the domain of power that is comparable to credit. The holder of power makes more decisions and has more of his or her decisions complied with than he or she could effect in case of conflict. If the holder of power makes *too little* use of the power attributed to him and limits himself to the power that he “really has”, he triggers a *deflationary* trend. He operates too close to his means of sanctioning. And the danger in this is that he does not escape the zone of threatening to exercise power into that of successfully exercising it. Conversely, if the holder of power relies *too strongly* on the power that is merely attributed to him, he triggers an *inflationary* trend. In this case he becomes dependent on visible successes that demonstrate that he has power. At the same time he is also made vulnerable by crises that show that he cannot cover his decisions with sanctions (Luhmann 1990: 164-5).

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# “Grand Strategy”: Challenged from outside, missing from within

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## Abstract

*Grand strategy is a term of art from academia, and refers to the collection of plans and policies that comprise the state's deliberate effort to harness political, military, diplomatic, and economic tools together to advance that state's national interest. Grand strategy is the art of reconciling ends, resources and means. This paper is written aims to help the debate on 'Grand Strategy' as a concept and practice by bringing opinions about contemporary developments in the area of strategy and security. It does not undertake to give a specific model, which need to engage a broad range of scholars, politicians and experts of the respective fields. This paper tends to promote access to critical and strategic thinking in our country's conditions, comparing it with other countries. It no longer defends the idea that the debate about the conception and having a 'grand strategy' is much more than it's missing or 'ignoring' the problem. The debate is worth to understand the national history more deeply, but also to deal better with the challenges of survival of our nation for now and the future. For several years, European University of Tirana (EUT) has developed in academic studies programs on strategy and security issues. EUT has the merit that, like the most famous universities in the West, to bring the auditors, curricula's and academic staff for developing and debating through theoretical concepts on such issues as security, defense strategy and grand strategy.*

**Key words:** grand strategy, security strategy, defense strategy, academic paradigm, small countries, big powers.

## ‘Grand Strategy’ as a concept in international affairs

The “Grand Strategy” or the National Strategy is not synonymous of the security strategy, defense strategy or any other strategies. As a concept, the Grand Strategy is found in the dynamic space of the academic studies that offers political guides for national elites. According to Murray

*“the grand strategy expands the idea of strategic issues beyond the traditional concept in three ways: First, goes beyond the military strategy, and includes diplomatic, financial, economic, and information means and resources; second, it takes into consideration not only internal but also external resources by asking also many other elements too and third, thinking and reviewing the issues of the strategy not only in war period but also in peace process” (1994: 13).*

A considerable number of big or small countries attract very important interest to grand strategy conceived itself as the guide's principles of their national policies. The fact that in our country this concept is in ‘terra incognita’, means that scholars, researchers, universities, and other academic institutions can offer potentially important contributions to the study and application of this major concept. Within or without the requirement of the elites, it is the duty to offer the contribution to develop the definition of the term and the outline of the context, then to explain its necessity for national interest as well. Grand Strategy outline and express the characteristics of national power. The national power is the ‘the best currency’ in international relation, so the grand strategy remain very important to international affairs.



**“Grand Strategy” in our articulation.** – Grand Strategy in Albanian language could be found in the form of ‘National Strategy’, ‘nationwide strategy’, etc. There are a lot of debates for this concept, various in form, but not so much in the content. Almost everyone speaks for ‘grand strategy’ as the top level of the strategic concept. Many researchers and analysts of security and international relations discuss about definitions and the content offering new and different ideas for this concept in Albanian context. Bernard Brodie on his work “A guide for Clausewitz work On the War” once stated that *“The main purpose of any theory is to clarify the concepts and ideas they follow ... and as soon as the terms and concepts are clarified. Only then there is optimism to make clear progress in dealing with matters”* (1976: 26). Perhaps, this definition applies to the concept of ‘grand strategy’ when it is dealt in the context of theory. Under these conditions one of the most interesting definitions of the “grand strategy” can be considered by Liddell Hart when he wrote in his work Grand Strategy that:

*“The Grand Strategy in the modern world is the art of management to nation’s defense resource to security and representation of his interests, in the face of threats ... The simplest words ‘grand strategy’ is a process in which a country / nation “seeks to find its place under the sun”; A reflection of the uninterrupted history of a nation, creation and work of generations”* (1976: 22).

**Why is necessary Grand Strategy (GS)?** Countries that have this guide knows the values and difficulties of working with Grand strategy. The question here is related to the fact that our country, since the state creation has not had a Grand Strategy. Formally, during this period, no debate has been made about this concept. Lack of discussion is not argument for having or not a grand strategy. So, is any need for a Grand Strategy? The response was provided by well-known scholars of strategy and international relations. A part of them agree that the greatest value for GS is related by the idea that it orients nations on how to use their powers to achieve objective of security and survival in a world that is constantly changing. Eduard Lutwak, almost in the same line with Liddell Hart, told for the need of grand strategy with *“...recognizing, evaluating, managing and using all country’s resources to provide national strategic goals, in the face of real and potential threats”* (1987: 48).

Colin Gray, Robert Art, Christopher Layne, Hugh Strachan in (Strategy in the Contemporary World 2013) discuss the same idea that Grand Strategy deals with the most fundamental issues of the nation in period of peace and war. GS assesses the vital interests of a nation. It is the biggest and most important thing for the fact that it is the one that achieves (should) harmonize all other types of other strategies. In this way GS is not the same with security, defense, politics, diplomacy, economics or even other strategies. All these strategies are considered very important and have their place in country policies. They have a lot of elements of GS and works for survival and prosperity of the country. But they are not the same with GS. The ‘grand strategy’ is strongly related, but not synonymous with other field strategies, not least important as the environment, economy, culture, etc. Separately, or together, the outputs of these strategies help and strengthen the ‘grand strategy’, just as they related to its basic concepts.

**“Grand Strategy” - as an academic paradigm.** GS appears today in powerful debates of academic interpretation. It has occupied a distinguished and important place in Western university elites, while it is thought that it is still in its infancy in many other places, mostly small countries. It is interesting that the powerful debates and configurations for GS develop in an open and inclusive process. While according to Colin Grey in some small countries GS conceive to be oriented, developed, and realized limited, confined, and to a “confidential” level (1999: 87). Such examples are also typically in neighboring countries, which according to the definition of Gray are ranked in the category of small countries.

In our country there is a lack of a normal debate, both at the official level also in the academic, and public level. In political elites, at least in these 25 years, it is not even mentioned the idea of grand strategy is. It’s the same in the academic field or in public lectures. In these conditions it is believed that the opening a debate on the concept of “Grand Strategy” as an academic discipline may help to orientates not only the political elites, but also public opinion even being too late. To overcome this gap the debate has to face academic discussion, as well political and public critiques. Appreciated in this context, GS firstly must approach to the debate, face criticism and then overcome the gap that divides the academic world from decision-making levels.

After that it can find itself in the next phase or called maturity. If GS will reach to this phase it would be positioned and configured as one of the most important strategic guides, at the same time beyond the current strategies (Snyder 1990: 18). If it happened then it could be used as a visionary orientation for the nation. The paradigm of GC conceptualization is, therefore, both in the academic context, and in the way of presentation and follow-up to political elites, and of the same value to the public as well.

As for the academic debate, John Gaddis at Duke University states that *“... the grand strategy is a useful way to bring together academic history, political sciences and lived experiences”* (1982: 13). More clearly, in its construct GS is integrated and related to the disciplines of history (what happened and why?), political sciences (what basic models and causal mechanisms work), public policies (how does this orientation come in line with direct interests and perspective?), and also economically (how much are national resources secured and protected in potential strategic interests?). In this perspective, the interest in the Greater Strategy increases because it makes the history more important, political science more specific, public policies more closely related to the economy. So we agree with Gaddis idea when he said that a number of countries, particularly large and powerful organize grand strategy as a guide to

Unlike any “intellectual delicatessen” of the political elites, the opening of the grand strategy debate at university auditors comes from the fact that it represents a highly appreciated and for the academic world. The ‘grand strategy’ on the academic ground represents a deeply humane and persuasive worldview.

*“... if most of studies in political science have turned into separate voices, they also need sounds. Grand strategy, as you can imagine, harmonizes voices and sounds by giving the scenario of nation survival...”* (Luttwak 1987: 21).

The fact that the 'grand strategy' is a triad of fundamental strategic interests, the resources of national strength and the instruments to connect the them, may lead to the idea that the grand strategy can only be the "domain" of large and powerful countries. *"Grand strategy is the art of reconciling ends and means. It involves purposive action — what leaders think and want."* (Feaver 2009: 7). This is because powerful countries possess all three elements. While small countries have a distance and difficulty in linking this trinity (vital interests, national resources, and instruments).

**Grand Strategy for Small Nations.** The use of two extreme words "small" and "grand" seems to create the most intriguing dilemma for this discussion. The fact that GS harmonizes the interests with the resources and instruments seems to express a "domain" that possess mainly the 'great powers', because they are able to integrate resources and instruments to realize grand strategic interests. Being so, countries or major powers have overcome the debate over having a grand strategies as way to maintain their role on the global stage. So, the issue is debating for small countries. Do the small countries need a Grand Strategist? Simply, the dilemma is whether and how small countries can survive?

Once David Mitran said *"...the last 100 years have been the 'triumph' of small countries."* (1975: 178). According to him, unlike in 1914, when the world was the arena of great powers, today, more and more, is turning to the space of the little nations. More than 50% of sovereign states have a population of less than 5 million and about 50 out of 193 states do not exceed 1.5 million. In notable qualitative and statistical terms, he (Mitran) not only argues the idea of the survival of small countries, but also the need for a grand strategy that would serve as a guide to their future. Unlike large countries or large powers, small nations / states categorize their interests in survival and prosperity. They recognize both options as well as limitations. They never aim to 'clash' with the great powers, so their national strategies are also launched, developed and realized in models that have in their basis the nation's survival and not to be a 'great power'.

By shifting the debate on the concrete ground, we can rightly ask the question: if our nation needs a Grand Strategy? According to estimation, a "small" country generally lacks the resources of human, economic, defense, and security. That doesn't mean that small country hasn't the same fundamental vital interests as other (larger, more powerful, equal or smaller) for existence, survival, prosperity, and security for the future. In these circumstances, the existence of imbalance between long-term interests and limited opportunities risks to avoid the need for a "grand strategy". In this case, the dilemma deepens even more.

In favor of possessing such a strategy we are giving some opinions on why a small country like Albania needs a 'grand strategy'. Not simply because, as E. Luttwak says it, even because our neighbors have, that are also categorized as "small countries". But, because they really have different capacities, but this is not a reason to avoid from the discussion. Even for this reason, it would also be enough. In a wider context, the Grand Strategy is a necessity because even a small country, as our country, regardless of the constraints on power sources, cannot have objectives for its vital national interests.

Of course, these interests will be much different, compared to those of major countries / powers. In the concrete case they would mainly focus on national survival, security and prosperity. *"And as long as the 'grand strategy' is the only orientation that harmonizes the link between national interests with the actions taken for their realization, the GS, clearly - direct or reflective way, for spontaneous inertia - we know it or ignore it will be present"* (Luttwak 1987: 35).

Intelligent fulfillment of a grand strategy will be the best way to ensure the long-term vital interests of the nation. The spontaneous road, which has been present in our rippled history, has become more difficult and painful. What we have achieved seems to be more realistic as the merit of national idealism, tradition and national culture, given, acquired or lost chances, where national intelligence is modestly displayed. It has been influenced well or negatively by individuals who, in the majority, rather than run, have dominated this country. Effective GS provide a unified goal and common direction for leading elites, policy makers, allies, and strategic alliances. A grand strategy for small countries (even for Albania) reduces the risk of chaotic decisions of political leadership in reference to this object.

GS, as a systematic and accountable approach to national interest, contributes to the systematic and long-term contribution of all stakeholders. What gives the elite the chance to "play" at tactical and operational level, orients them to be "limited" and mature at a strategic level? Defining the borders of "playing area" help them to be able for reimbursable of errors or damages at a tactical or operational level and would lead the leaders themselves. While, everything temporarily misplaced at the strategic level, it does not limit the damage only to leading or ruling elites, but expands at the national level and influences in time and space. Unfortunately, there are many examples that the ruling elites, not respecting the "level of the political game" have ignored or lost allies and strategic alliances for individual interests, which compared to national interests would be considered missed chances.

GS may have a significant impact on the case of small countries, says Colin Grey, because it helps to maintain and manage the country's limited resources by overseeing their distribution. Any elite who misses the recognition of the grand strategy "drowns" in the present and abuses power resources that will support the future (2006: 28). Nonetheless, political elites constrain their vision at the electoral level (4-year-old), not avoiding the abuse of those resources that should remain "corners" on the foundations of the nation. GS helps elites to modify their political behavior in relation to national interests. GS minimizes or avoids historical "breakpoints", which unfortunately in our history as a nation and later as a state appear when the ruling elites change. The tendency for the starting the "zero" level appear as a trend to these elites that hurting the continuity. Meanwhile, GS would enable and realize the option of recognizing and respecting permanent values, setting "stones" in the nation's castle, from the past to the present with a vision of the future.

Mastering the GS assists the probability of protecting and advancing national interests under a strategic scenario to have far more success, in analogy with fragmentary actions stemming from its absence. Under this view, what we mention above can only be a number of arguments, which are also limited by the space of this paper. The debate over this topic can be deepened and expanded, and each person's contribution helps at least sensitizing the issue.

**In the Dynamics of Debate for Grand Strategy.** – The debate for Grand Strategy appears difficult, complicated and with well-organized standard because it deals with vital, unchangeable, intangible national interests. In this context, the “grand strategy”, requires from the elites to think conceptually and visualize the effects of engagement. To present a functional grand strategy, it is imperative to mature the national political process itself, to find consensus in the environment of those who will implement it. And, there is a general assessment that small countries as our country will face a number of limitations. Restrictions related to relations with other countries, small or large, that are characterized by an asymmetry of power sources. This asymmetry is sensitive and dynamic. In economics, this translates into relationships of dependence, as the economy is first easily affected by the actions of others. In security, reliance on allies or larger alliances for major interests is required. In culture, there is an unlimited space where values and features of national culture have to swim in the era of globalization. And in this continuity, a number of dilemmas can be listed where interrelation is inevitable.

If the difference between interests and resources is so great, can small states realize their Grand Strategy? - Robert Koehan (2002), although knows very well the constraints faced by small states, still believes that countries may be able to “influence their weight” and thus display disproportionate influence on global politics.

*There are a number of instruments - he says - that the current international scene brings to these countries. Commitment as active members of international organizations (ONDs) is a very important factor for small countries.*

OND gives small countries diplomatic space, information and a position to coordinate and harmonize their strategic interests in collective action. The small countries, where our country is part, have the advantage of being specific. And being in this way, they can be dynamic partners with international organizations to help them with information that these forums will need forever. The more specific the information, the more weight of a country exceeds the size of the dimension by approaching what is special. In this way the opportunities return to the favor of the grand strategy. An important element to realize its major strategy as a small country is the application of “soft power”. This is simplified by prioritizing and concentrating its modest resources in certain directions, rather than attempting to spread to the diversity of global affairs, as do the large powers. Soft power gives the country the advantage as a small country to “weigh heavily on their weight” in the international arena. The way the small states use the soft power is different from what the great states use it. Those (small countries) actually try to “take advantage of” of their limitations in power and resources. They “have the advantage” of the fact that, unlike large states, small countries cannot be seen as a threat or as a place of hidden agendas.

## Instead of conclusion

In the case of Albania there is no ‘grand strategy’ or national strategy. We have a state security strategy and Kosovo has the same but both countries doesn’t have national security strategy, which defines national interests as an entirety. The nation is more great than the states ... We have military strategy, but we don’t have national defense. We have various types of strategies ... but we do not have a ‘grand strategy’. GS is missing and sufficiently delayed. We are and will always be challenged from inside and outside. This is the dynamic of development and the future of international relations.

So, as we have discussed above, the main idea remains what Juliet Karbo of Kansas University has told “... the argument that a small country needs a grand strategy is enough to minimally help avoid the chaotic decisions of the elites and will save limited resources of a country. Even for that, it is decisive enough” (2013: 7). This confirmation is certainly more important than the assumption that a small country does not need a major strategy due to the lack of capacities and resources to realize it (Mitran 1975: 115). The grand strategy responds to the dilemma of achieving strategic objectives even when the country has fewer resources and capacities. It is within the unique context of circumstances that a nation estimate more or less its grand strategy. But it’s accepted that the lack of strategy is dangerous.

The Grand Strategy aims at achieving the vital objectives of a nation that is not limited to time, or at least long-term. At a quick overlook of history, three scenarios of grand strategy appears to small countries to ensure national interests: neutrality; joining powerful blocks and strategic partnerships with great power (Gray 1999) The small number of alternatives (only three) does not give the chance to avoid the idea of building a debate about a grand strategy for our country as well.

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# Individual, society and state from Kant

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In the climate of political-historical developments of the 18th century, the premise was created for a political thought that moved towards the topics of civic freedoms and equality before the law. The basic submissions put forward by Loku and Montesky as well as the theoretical elaborations of the last period of the Enlightenment<sup>1</sup>, followed by the historical experiences of the revolutions, and in the first place of the French, created an important space for the political doctrinal thinking to focus on the liberal ideas. Of course, as we have said before, this opinion will certainly bear the political specificities of the countries<sup>2</sup> of origin, as the theoretical approach has become more concrete and more connected with the political and social ground upon which it rises. Just as Burke, in the comparison between the French and the English Revolution, expresses the peculiarity of English political society versus its own constitution closely related to tradition and history, and further reflects that consciousness and perception conceived by the formative thoughts of the English language on reports Between the individual, the society and the constitution of the state - so the political thought born on the Germanic soil in the period we are talking about will be conditioned by the specific local situation and will reflect a political orientation stemming from this situation and takes on the premise from The relevant political and historical reality.

Germany of this time is characterized by political organizations in the kingdom, principality and smaller entities of absolutist<sup>3</sup> nature, and naturally the political thought coming from that land will have a greater sensitivity to the figure of the state in relations with society and the individual, such as And in approaching the French-style revolutionary ideas on human rights, outlining that philosophical-political stream known as the classic German idealism. In this regard, Imanuel Kant's<sup>4</sup> opinion moves between conservative elements and the elaboration of liberal ideas, which, however, gives a prominent and clear contribution to liberalism.

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<sup>1</sup> Politically, Kantius will define the Enlightenment as an "exit from the state of the minority" (metaphysical principles of the doctrine of law, in *Political Writings and Philosophy of History and Law*, Turin, 1956)

<sup>2</sup> For the political situation of Europe of the eighteenth century and the beginnings of that nineteenth century, we see the overwhelming distinctions between different countries: "... great differences were distinguished from country to country: in England there was a political regime that guaranteed the freedom of speech and thought, Kind of guardianship of the individual, a constitution that protected the fundamental human rights; In France were preserved, though with limitations (in the post-revolutionary period), some achievements of the revolutionary and the Napoleonic period, such as the constitution, a parliament though reduced, the right to vote; In contrast, in Austria, Prussia, Russia was seen as an absolute iron regime, denied any freedom, willing to intervene against any kind of opposition force." (C. Cartile: *History ...*, cit., P. 24)

<sup>3</sup> Ibid, p. 108 and following

<sup>4</sup> On this dualism between conservatism and progress, manifested in Kant especially after his recent trials on the French Revolution, in his critical look at the compilation of Kant's work, G. Saso analyzes analytical sharpness but does not conform to the contextuality: "The pages that Kant has devoted to the thorny problem [of rebellion, which we will further discuss, ch. Im] have been referred to as the earlier proof of his conservatism, of implicit authoritarianism in his concept of the state ... How then to come out of the controversy offered by this Kant, without ever denying his deeply deep liberalism, However, one can think of a "conservative" and yet in the last years of his life writes so accurate and "progressive" pages, if, up to and in the case when sovereign power denies this free criticism of the people, the people are Forced to accept it?" (G. Sasso, edited by: *Kant. Anthology of Political Writings*, Mulino, Bologna, 1961)



Kant, with his philosophical thought, ranks among the most important philosophers of Western<sup>5</sup> thought, because with his criticism he casts the foundations of recognition and relations of man-reality, not only paving the way for German idealism<sup>6</sup> but also influencing and inspiring directions. Different thoughts, according to the diverse approaches made to his philosophical conception. While his moral theory is judged as one of the most authoritarian and meticulous in the modern era.

In the ratio between the weight of his philosophical and political thoughts, the work on the latter does not have that dimension and space of genuine philosophical works, yet in them there is a difference between conceptual innovation on relations between morality and politics. Faced with the historical reality and the ideals to be followed, and by designing the forerunner as an individual. These Kant's theoretical submissions constitute a consistent flow of liberal thought, concretizing the pattern of the rule of law that is touched upon throughout the following century, and the unity of the world's peoples that will be recaptured in different ways from Today on pacifist premises. In another plan, he has made a very careful anthropology of antagonisms, in all their performances, and of perspectives for overcoming them, looking at himself and his morality, or out in the historical plan -sociational ones where they appear in two levels, in inter-individual relations and in relations between states<sup>7</sup>.

In relation to other philosophical works, a systematic representation of his political opinion, Kant, sets forth in his work *The Metaphysics of Habits*, which is undoubtedly a synthesis of the conclusions reached in philosophical works, concretizing the premise, principles, criteria. Which enable politics to be recognized in such a way that the behaviors of individuals can be systematically conceived when acting on the ground of interaction, by distinguishing what is easily understood by society and the state as well as all the phenomena that are included within their targets and characterize them. In this rubble, reason is not separate from politics, but is organically connected to it, and it makes it possible for it to be understandable, so it is necessary to specify such a premise both in the theoretical and in the practical<sup>8</sup> plan.

Turning to the complex antagonisms analyzed by Kant, we see that in terms of the first, namely within the human being, the individual, he deals with his moral theory. The idea of freedom to the individual constitutes the transition from pure reason to practical, because it should be considered practical "all that is possible through freedom"<sup>9</sup>. Freedom, for Kant, is related to the will, which must be distinguished by the desires that arise from feelings of pleasure and pain, or from the tendency to choose behavior closer to our desires. The will, however, is subject to an action that has an objective value, where, as it is free, the form and the content are identified, so the will of the will is moral law, which has an objective and general<sup>10</sup> value. While rationality is the precondition of any free will decision that is determined regardless of the conditioning of impulses, desires, and interests, and this rationality makes it possible to distinguish a maximum of validity for all other people. So internal conflict between individuals is the one who sees opposing the view of reason and passion, while overcoming this conflict is ensured by the morale, which in Kant rises above the categorical imperative. This categorical imperative corresponds to the goal of formulating a moral theory that derives from the rationality of man and affirms his autonomy without losing sight of a universal dimension.

In approaching such a concept, Kant examines the rules that govern our conduct and notes that all that comes from the outside world or that are related to punctual goals and show the appropriate instruments for these do not correspond to the general character. That moral norms must have, and these rules call it hypothetical imperatives because they respond to hypothetical formula "if you want this, you must do so." Only the categorical imperative possesses this character, because being simply formal excludes any external goal and is imperative in itself. In this conception, Indeed, the influences of Rousseau are noteworthy, as Kant analyzes what is enlightenment: "Enlightenment is the emergence of man by the state of the minority for which he must blame himself. Minority is the ability to exploit the private intellect without the leader of another. Otherwise, to make a public self-evident enough, and if left to freedom, it is almost inevitable<sup>11</sup>." As for the guiding criterion, Kant writes further, for the maximum of each of my actions, I always look at how it would be if it were to be a universal nature law. So the emphasis is not on the content of behavior, but on the criterion that leads them and on the possibility of generalization.

For Kant the moral law gives the individual the personality, makes him completely autonomous and independent of the mechanism of nature, so man must respect in himself and others his humanity and should not consider himself or others as means but just as Purposes<sup>12</sup>. Only by subjectivism, known to oneself and others, a superior value would avoid any form of instrumentalization, the rational relations of respect and mutuality would replace the strength reports. The fundamental

<sup>5</sup> "Kant revolutionized philosophy ... Regardless of the ways he pursued Kant to achieve the goals he set for his new critical philosophy, his achievements were enormous. And it can be said very well that the mistakes he made in dealing with his theories were far more important than the successes of many others, but what crossed the limits was, that it is not necessary for you to accept it. Really everything Kant said, it is impossible to deal with philosophy nowadays regardless of his views." (Samuel E. Stumpf: *Philosophy - History & Problems*, Toena, Tiranë 2004, 290, 309).

<sup>6</sup> "Immediately after Kant's critical philosophy came the movement of German idealism of the nineteenth century, formulated by Fichta, Shellingu and Hegel" (ibid, 312).

<sup>7</sup> See G. Bonaiuti-V. Hill: *History of Political Doctrines*, p. cit.

<sup>8</sup> See G.B. Biavaschi: *The Political System in the Philosophy of E. Kant*, in I. Kant, Milan 1924.

<sup>9</sup> I. Kant: *Criticism of pure reason*, Tirana 2005.

<sup>10</sup> I. Kant: *Critical Philosophy*, Tirana, 2005.

<sup>11</sup> Answering the Question: What Is Enlightenment?, in *Political Writings and Philosophy of History and Law*, vep cit

<sup>12</sup> The moral law is sacred, namely, inviolable. Man is quite profane, but his humanity, in his person, needs to be sacred. In all creation, all that is desired, and over which there is power, can be used simply as a means; Only the human being and every rational creature with him is an end in itself "(I. Kant: *Criticism of Practical Reason*, Bari, 1947).

characteristic of moral law is its “deafness”, given that in its determination it can not interfere with any element that belongs to the world of sensitivity, since moral law can not aim at the fulfillment of any interest and therefore should not have No relation to our impulses, our desires, our feelings. The only feeling that responds to the moral law is that of the duty, which rises above the whole sensory world and releases us from the “mechanism of nature”<sup>13</sup>.

Moral law is the foundation of practical action, but Kant makes the difference between moral good and happiness and judges that the first must have complete primacy to the latter.

Kantius further explaining the norms referring to the behavior of individuals determines that metaphysics of the custom is the discipline that, on the basis of the moral principles of the moral law, studies the relationships between morality that disciplines domestic actions and the law, Which regulates the external actions of individuals. The basic premise of metaphysics of customs is that the supreme idea of freedom, the principle of autonomy and independence of will, the concept of moral law, the concept of personality, are all defined in the aims of criticism of practical reason, in light of the results in which it is Achieved in the critique of pure reason. The difference between morality and law is based on the principle that the first relates to internal decency, while the second concerns only the discipline of external action. And when the impulse is identical to the task, we are faced with moral law, and when the impulse stems from a principle different from the idea of duty, we have a legal law.

In defining the concept of law, Kanti addresses four elements: - the right is inter-subjective, or it concerns only external actions that are put into practice by one person against another; - regards the will of individuals, aware that they should pursue objectives and not have to do with expectations, desires, or uncertainties; - regards formalities between wills, that is, excludes the contents of the reports to deal only with the modalities with which action must be taken; - and further, the fourth element attached to the first three is the character of compulsion, which means that if the moral act is put into motion only by the categorical imperative, the juridical one is oblivious of the obligation to conform to the law and the threat Of the sanction for whom it opposes. The binding character of the law is fundamental as it specifically ensures compliance with the law even for those who do not respect moral rule. Right is fundamental because, by disciplining wills and freedom within the strict limits, it makes possible the peaceful coexistence of individual wills.

In this elaboration of Kant’s political opinion in the relationship between moral and juridical law, there is also his perspective on overcoming the second-level antagonisms, that is, inter-individual antagonisms, in the conflicts of the historical-social world.

Thus, the right is “the set of conditions from which everyone’s will can be co-ordinated with the will of others under a general law of freedom<sup>14</sup>”, ie in the report from the right to freedom to the spheres of freedom within which the personal actions coexist Peacefully with the actions of others, harmonizing the freedoms of individuals so that each one does not affect that of others. In this dimension, Kant appears as the theorist of the rule of law, defining as the purpose of the state the freedom, the freedom provided by the law; A state that ensures the respect of the right as a guarantee of individual freedom, considered as the only united and inalienable human right.

In this rollover of surpassing the second level antagonisms comes his theoretical conception of society and the state. For Canton, political society is the union of individuals through legal laws, which finds in the formula of the social contract the principle through which it is possible to understand the relationships that arise between individuals within society. The social contract is not a historical fact, a solemn document of the founding of political society itself, but it must be conceived as a hypothesis that we must necessarily formulate so that we can understand political organization in accordance with the concept of law. In fact, only the social contract hypothesis makes it possible to guarantee the freedom and equality of individuals, as a common political will which is the foundation of the society and the responsible generalized obligation that appears to the state and to which all individuals should Are subject to the consensus of the individuals that make up the society. By means of a social contract, “as a people, they deposit their natural external personal freedom, to retrieve them immediately as members of a common troupe, ie as members of the people, such as a state<sup>15</sup>.” For Canton, political collectivity can be considered as: - civil status, provided by the mutual relationship of individuals united in the people; - a state, which is all in relation to each member of the party; - public affair, thanks to the interest that the law of individuals to live in the legal state. In another perspective, political collectivity is called power when referring to other peoples, a nation when it is evidenced the continuity of the generations of a people. Public law is distinguished by the rights of peoples, the rule of law and the political rights of peoples or the cosmopolitan right.

The state further for Canton is “the unification of a certain number of people under the legal laws” and under this view the essence of the state, the nature of the state is ideal, as it can be conceived in the purely principles of law, and that is precisely this idea “ As a conduit or rate for any real socialization that wants to form a state<sup>16</sup> “.

Regarding the characteristics of the general will reflected in the political organization, Kant recalls Montescre’s principle: the general will is divided into three powers: sovereign power, which lies within the legislature; The executive power that lies with the government; Judicial power in the body of judges. So Kanti in the institutional aspect of the state affirms his being a republic based on the separation of powers and representation, and is convinced that the separation of powers is needed because otherwise it is put into despotism. And although he accepts the idea of Rousseau in the Social Contract that the

<sup>13</sup> There again.

<sup>14</sup> I. Kant: Foundation of Metaphysics of Costumes, Rome 1970.

<sup>15</sup> I. Kant: Metaphysical Principles of Law, op. cit.

<sup>16</sup> Also There.

legislative power is the power to make laws and belong to the people, so that everyone obeys the given laws, on the other hand, he conceives that he should be exerted by the collective unorganization of his representatives. And the fact that this republic is representative is fundamental, as forms of direct democracy are despotic. While representation should not be based on general voting, since not all citizens have the right to vote, as employee workers can easily be conditioned by their employers.

In contrast to the spirit of the old regime, the Kantian state aims to guarantee the freedom, equality, independence of the individuals that make up it. The concept of freedom implies that the state can no longer take on the task of making citizens happy: happiness must be sought and fulfilled by each individual autonomously, according to his personal convictions and conditions, and the state has no right to Dictate behavioral norms that relate to the lifestyle of citizens and that are specifically aimed at fulfilling happiness. Kant refuses any form of paternalist state, which means creating the living conditions that inevitably follows the happiness of the citizens, and in particular the personal paternalistic conception of the Prussian state, whose government was inspired by the criterion that the subjects should be exerted A watchful tutor. The principle of freedom means, however, that citizens should be considered fully capable of living their own lives autonomously and fully able to make a personal contribution to the governance of society.

Freedom, understood as the complete consciousness of the autonomy of each individual, controversial to the state-happiness, as was theorized by the representatives of the weight of German enlightenment, takes on a clear political meaning, which is directed by the conception of enlightenment itself. It encourages the public's awareness that man has finally become major, meaning that he is fully able to use the reason, that he should therefore turn away from the protection he is subject to by the paternalistic governments, the old regime governments based on the aristocratic-feudal<sup>17</sup> structure. Every citizen should be recognized by the public use of his own reason, namely the ability to acquaint himself with his own ideas, his critical considerations with government measures, and eventually with the political organization itself, through the press: it can not be accepted, In spite of the private use of reason, that is, the right of criticism of the functionary against the public acts that must be applied to the achievement of goals of general interest<sup>18</sup>.

This distinction between the public use of personal and private reason must also be applied in the religious subject, regarding the ecclesiastical organization whether the priest or the believer are obliged to abide by its principles. Covenant religion is expressed in the act of trust in the existence of the god, who is the judge of our intentions and is therefore present in the interior of our consciousness: belief, conceived thus, is the necessary conclusion of the analysis of practical reason and is the logical perfection of the law Moral, coexisting with the very practical reason.

For Kant, the state, apart from the freedom of the individual, must guarantee equality, in the sense that all are subject to the rule of law, all are equally subject to the state and no one can dictate anything to others except through laws. Kant aims to clarify that the definition of equality in legal and constitutional boundaries means the abolition of any privilege. All citizens, just as equal before the state and the law, have the right to achieve a social position that coincides with their personal abilities, with their own work, without reserving this right, inherited privileges, some social categories.

Kant's liberalism takes a critical stance against the heavy and layered society typical of Germany's old regime, which with its intangible hereditary privileges claimed to retain other social categories in a state of permanent protection and the political-social minority, And defends the idea despite the free confrontation of all citizens with their abilities<sup>19</sup>.

In a concluding summary of Kant's conception of political society and the state, it can be said that the republic that he conceived derives from the pure principles of law and represents for the ideal pursuit, an extremely advanced prospect for his time as if The French revolution had opened up important perspectives, Kant himself lived within a political reality like Germany still far from republican ideas.

In another aspect, that of the third-level antagonisms that we have mentioned above, namely those between the states, Kant sets the prospects for overcoming them in his view, seeking ways for a peaceful coexistence between them. His theoretical perspective is that the international discipline of the law should be extended to international targets, considering the individual states in the way individuals in each state and thinking of a universal confederal organization capable of giving way and using A cosmopolitan right. He outlines these perspectives in his article For the eternal peace<sup>20</sup>, in which expresses the modern concept of state sovereignty that leaves room for any kind of intervention, noting that "no state should interfere by force in the constitution and in Governance of another state<sup>21</sup>". His refusal to intervene in the internal affairs of a state should be understood not as a sign of theoretical reversal, but rather has the meaning to exclude the inevitable outcome of intervention, that is to say, falling again into one nature where the only justice is that of the victor. In his argument on relations between states, Kant writes further: "The way in which states defend their right can never be, as before an external court, the judicial process, but only the war; This, however, even if lucky, even if winning, does not decide on the issue of justice, and the peace treaty may end the current war, but not the state of war. And in addition, this permanent act of war can not even be determined unfair, since each is a judge in his home.

On the other hand, according to international law, states can not be required to carry out tasks that, according to natural law, apply to individuals in a state of nature deprived of the laws to "exit from this state" In the capacity of states, already have an in-house political constitution and have therefore removed the obligation of states that would seek to subject them to a

<sup>17</sup> Answer to the Question: What Is Enlightenment?, in Political Writings and Philosophy of History and Law, cit.

<sup>18</sup> Religion within the Limits of the One Reason, Modena 1941.- see about this Kant writing included in the Political Writings

<sup>19</sup> See for this Kant writing included in the Political Writings, Act. Cit.: Above the Commune, "This can be fair in theory but not worth the practice."

<sup>20</sup> Kant: For Perpetual Peace. Philosophical project, in Political Writings, op. cit

<sup>21</sup> Also there

wider legal constitution. Yet the reason, from its throne as the supreme law-making power, absolutely condemns the war as a legal proceeding, while establishing the immediate state of peace, which can nevertheless be created or ensured without a peoples agreement. Hence, the need for a special relationship, which can be called the link of peace [which] is not intended to win any power from one state, is only a matter of safeguarding and securing the freedom of a state for itself and At the same time for other confederal states, without implying that they must undergo (as individuals in the state of nature) public laws and a mutual obligation. “ This seems like Hobs’ reasoning that both individuals and states could be pushed into a contract, the “link of peace,” by the necessity of security. But Kanti avoids this linearism further when he supports the idea that this contract would lack what characterizes domestic law, namely public law and mutual obligation. The transition from a natural one between the states ruled by the will of power, in a supposed peace contract between all states, is entrusted to a gradual evolution.

Kanti, a warrior of natural law, refers to the Hjum he had disputed, to hypothesize that the wreckage ruin is the premise of a return to the best, towards a peace that is not a truce. It is a “prophecy” that at least for two centuries will be rejected because of the situation described: the contrast between the rules of the game set in the internal plan with the contractual theory, but which are missing on the international level. And far from favoring political doctrines that are oriented towards “the best,” emerging wars (the Napoleonic ones) are valid for the emergence of an opinion that after Kant, from Faye to Hegel, will lead to the theorization of state power at the international level.

In a general assessment, in his political theory on the individual, society and state, Kant does not lack the elements of Rousse’s political opinion, and his ideal republic carries many democratic aspects, but liberalism prevails with the support of a simple anthropology Individualist, of a secular morality with a fairly high profile and of a special philosophy of special law.

Kant’s idea of a categorical imperative in the morality, of an individual’s behavior according to a valid norm for all, Hegel will move beyond the sheer ethic of the state that he knows no other than his own. We will see this report in the next step.

# Text world construal in dystopian novels: The case of “Karpa” by Martin Camaj

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## Abstract

*The latest developments in literary discourse studies suggest that one of the most significant aspects of reading is the understanding of the mental representation of the world presented by a text. Text World Theory, suggested by Werth and developed by Gavins state that the projection of a particular text world by a text is based on the reader's imagination and background knowledge as well as on the specific linguistic choices and patterns applied by the author. These choices make up a particular construal which is later on decoded by the reader leading to the creation of the so called text world. The text world construal is thus a two- layered nature process which involves the interaction between text and reader. Dystopian texts represent an imaginary world where reality is disrupted, yet the issues treated are inspired by the same reality. “Karpa” is a unique case of dystopia in Albanian literature. The present article offers a narratological analysis of the discourse structures that characterize the novel. Through the investigation of its particular construal we will try to provide an alternative for the analysis of the representation of fictional realities and their re-construction as text worlds by readers.*

**Key words:** narratology, text world theory, literary discourse, dystopia, mental space theory

## Introduction

The present article will focus on a cognitive semiotic and narratological analysis of some passages from Martin Camaj's novel 'Karpa'. Broadly known as a dystopian novel, 'Karpa' reverses the concept of the dystopia through its particular structure and composition. Following an analysis based on Text World Theory which is a contemporary theory of text analysis we will try to provide an insight on the hidden layers of meaning that the text inhibits. Firstly we will provide a brief theoretical background of text world theory followed by a short consideration on the relationship between dystopian fiction and language use and finally discussing the most interesting passages from the novel through the lenses of Text World Theory.

## Text world construal

Text World Theory was first outlined by Werth in his *Text Worlds: Representing Conceptual Space in Discourse* (Werth, 1999). Following a cognitive approach to text analysis his thesis holds that 'all of semantics and pragmatics operates within a set of stacked cognitive spaces, termed “mental worlds” (Werth, 1999, p. 17). There are three types of mental world according to the Text World Theory: the discourse world, the text world and the sub-world. The discourse world is where the immediate communicative acts take place. When it comes to reading literature, the reader and writer occupy two separate positions in the discourse world. The latter is thus a 'construct' which according to Werth is founded on real circumstances (Werth, 1999, p. 17). The text world, on the other hand is a purely mental construct. It is 'defined initially by the discourse world itself and specifically by the deictic and referential elements in it' (Werth, 1999, p. 20). That means that text worlds are packed with



deictic and referential 'world building elements' which are introduced to the reader at discourse world level. They function here as markers of time, location, entities and object and play a very important role in the advancement of the plot. Sub-worlds are created when there are variations to the main text world. There are three types of sub-worlds: deictic, attitudinal and epistemic. The reader/discourse participant creates this sub-worlds based on the stimuli that the text provides to him. Thus, he recognises only the information that he finds relatable with his own experience. Another important aspect of Werth's theory is how readers sort out the issue of the context through the notion of the 'common ground'. Common ground is defined by Werth as a 'the totality of information which the speaker(s) and hearer(s) have agreed to accept as relevant for their discourse.' (Werth, 1999, p. 119). This reinforces the idea that readers select only the relevant information that the text provides in order to be able to manage the richness of contextual information that accompanies any given discourse situation.

Gavins also bases her work on Werth's theory and her work is the most contemporary to date. She re-contextualises the previous world building elements and classifies mental processes under epistemic modality. Thus, there are three types of modal world: the boulomaic which is created by expressions of desire through modal auxiliaries such as hope, wish or want; the deontic which is created by linguistic expressions of obligation and the epistemic which is constructed as the result as the expression of a speaker's belief in the truth value of perception modality (Gavins, 2007). Moreover, epistemic worlds are also constructed on the basis of indirect speech and indirect thought as is the case of hypotheticals and conditionals.

In terms of literary texts, we are all aware that the narrator and/or enactor are textual entities that guide the narrative from their point of view and as a result we would think that the only world of Gavins's model to be generated would be the epistemic one. With regard to this issue Gavins states that 'participant-accessibility must be granted to the enactor-accessible epistemic modal worlds created by the narrator of the text, if the act of literary communication is to be performed successfully' (Gavins, 2007, p. 131). So, the reader approaches the narrator with the same level of trust he would a real world discourse participant and as a result of this logic he has the potential of creating text worlds. The text enactors on the other can only create epistemic modal worlds which we perceive as 'less reliable' and which exist at a greater epistemic distance from the reader (Gavins, 2007, pp. 130-131).

Despite the slight differences both Gavins and Werth suggest that Text World Theory states that a very important aspect of text world construction is its 'text-driven' inclusion of readerly background knowledge drawn from the discourse world (Werth, 1999, p. 17).

## Dystopian fiction

Dystopian fiction generally evokes images and phenomena that belong to an imagined and fictionalized future. However, they derive from political or social situations belonging to the present. What lies at the bottom of the majority of contemporary dystopian fiction is the complex relationship between language, power and control. Language especially, is considered to be a very powerful tool both for repression and rebellion purposes. Thus language is used by ruling classes in order to manipulate and control popular thought and at the same time it is used by the common character to overcome oppression.

As stated above the text world construal is basically a linguistic phenomenon, thus it of central importance for the present analysis to establish language as a central theme of dystopian fiction. Since every dystopian society is ultimately set in the future, the past or the present become the main sources of text construal. This does not only apply for the reader, who judges the dystopian society against his own based on his personal experience and background knowledge, but also for characters within the narrative. In a way, the past often portrays 'better times', and in the act of measuring the past against the present, subversive actions and resistance are evoked. As a result the construction of a text world for this genre is very challenging and reality is only implied as such because all of the above mentioned sub-worlds do not reflect objective situations and the other referential elements state one thing but imply another.

Nevertheless the reader is able to grasp the meaning of the text and make sense of the construal because of the fundamental cognitive mechanisms that inhibit the mind. The way in which we make

sense of our environment is an 'imposition of structure', effected by a process of *comparison* through mental scanning (Langacker, 2007). This scanning mechanism, according to Langacker, enables the impression of coherence in a scene and also, it is suggested, the

recognition of contrast (Langacker, 2007). The first step towards text construal is the recognition of contrast and parallelism between the explicit deictic expressions (or deictic sub-words) of the text and the implied ones. During reading, individually profiled 'things', 'relationships' and 'processes' are successively attended to through sequential scanning and typically summed to form a 'rich background' (Stockwell, 2012) which develops as we read.

## Karpa- a dystopia in reverse

The events in 'Karpa' take place almost three centuries in the future- in 2338. It is quite difficult to summarise the plot of this novel. The main conflict, however, revolves around the restrictions that the characters suffer because of the tradition established in their country and the impossibility to challenge these traditions since the consequences would be devastating. The central character of the novel is a young man named Voni who is expatriated from his hometown and has moved to Karpa,

as called by the tradition, to get married and settle there. A tutor awaits him on the other side of the river and accompanies him through his journey until Voni finds a wife and officially becomes a citizen of Karpa. The assigned tutor is Shkriba, who is also the chronicler of the town. Here starts Voni's journey in reverse since his direction goes on opposite of the horizontal stretch of events. At the time the dictator leader of Karpa, the so called Grandfather, dies and the country plunges in a civil war between the population of the mountain and the town. As it is the tradition there, Voni is hidden and enclosed in a cavern in order to stay safe during the war so he can marry Bora, the wife assigned to him. Bora is the granddaughter of the dictator and a rare beauty. However, she is a very ambivalent character; apart from the name Bora which she carries while in town she is also called Judita when she is in the countryside. While trying to survive and find a way out of the cavern Voni discovers different layers of ancient civilisation materialised in the shape of bones, tools, jewellery and dishes coming from the past. Following an old labyrinth he is able to get out of the cavern and the narrative gets back in the horizontal stretch of events carrying the secret of having discovered an ancient civilisation which he calls Illyria. His return in town coincides with the fall of the dictatorship regime and he fulfils his promise: gets married with Bora, who is now officially called Judita. After that the narrative suffers a flash forward and the reader finds Voni in a relationship with Lejda, a young lady from Karpa who has only recently returned to her country. Together they decide to finally return in the prehistoric cavern and lead a quiet and fairy tale like life there.

This is just the linear plot of the story. There is an unexpected surprise in the concluding framework. All the narrative results to be the reading of an ancient chronicle, written during 1975-1980 and Voni and the other characters are representatives of characters belonging to another time. The real characters are other people. The Grandfather or dictator also happens to be the author of the chronicle and all is result of his imagination, slightly based on a past real event. The real Voni is married to another Bora-Judita. These two versions are totally melted within the narrative and only made clear by the compositional structure of the novel.

## Text world construal in 'Karpa'

This novel also contains elements of fairy tales and mythology mostly inspired by the Albanian folklore. There are two parallel structured plots that take place in different times but at the same place. This choice reflects the universality of the topics treated here such as prejudice, pain, a wounded society where the reader can easily identify himself. Camaj's style is manifested here through the usage of allegory, irony, black humour, all of which allude to a time where Albanians would fight with one another.

This novel has a cyclic composition which reminds us of Camaj's 'Circles' - a novel dealing with the relationship between the human being and his identity in the swirl of time. The structure of this novel is an example par excellence of the text within a text construction. This technique avoids the logical ending and chooses surprise instead. An attentive reader however would predict the unconventional ending of this novel. Since the very beginning the author alludes to the past through the usage of intertextuality:

VIOLA: Which country friends is this?  
CAPTAIN: This is Illyria, lady.  
*Shakespeare, Twelfth night*

In literary texts, as Genette states, intertextuality is used to reinforce the main theme or the central aim of the text (Genette, 1992). In this text the reader is provided with a very small degree of information on what will follow. The allusion to Shakespeare's *Twelfth night* here is not selected only because Voni discovers a piece of what he calls Illyria later in the story but also because Illyria was considered as an unusual place and the message Shakespeare wanted to convey was that the world itself is unusual and unexpected. The activation of this knowledge by the reader is crucial to a complete understanding of the text's meaning.

The text continues to express its distance in time with the reader through the usage of the past simple tense in the introductory paragraph:

*It was the end of summer in 2338, morning, when a boat was spotted in the flow of a river that in ancient times was called Drin. It moved right and left through the river down.*

The passage evokes a real setting that for an Albanian reader is not difficult to conceptualize. A feeling of unease and restlessness is also present through the usage of the contrasting adverbs right and left. The creation of this atmosphere since the beginning of the novel works as an anticipation for the events to follow later on.

The reader should also be aware of the fact that Voni has been reading all the time. All the actions described in the narrative are hypothetical lies. The reader and the character are both reading the same chronicle. It is the chronicle that builds the novel. Karpa seems to possess a dual character: how the others see it and how it is in reality. Its reality is made up by the people and the events. There is a Zoo for example. There is a disruption of normality here, since the Zoo hosts domestic animals.

*There were a lot of previous domestic animals in the zoo, those who became wild after the great storm (this is how they called an atomic bomb that exploded years ago) like cats, dogs, birds and hens. After becoming wild these were mixed with other wild animals, a dog with an wolf, a cat with a fox, a duck with an eagle, etc etc. (Karpa, p 55)*

There is a paradox described in this passage. The paradox evokes the period of the socialist society and the outcome of the mixture of the animals is an artificial being, maybe the 'new men' of the socialist society. These are all inferences that a reader can make after his background knowledge is activated. Also the reader constructs here an epistemic modal world since there is an allusion of multiple realities. The enactor of text is unreliable in this passage and the lack of trust is also reinforced by the not specific deictic element of time expression 'years ago'.

The other paradox of the novel is fact Voni comes to Karpa to find a wife, in Albanian traditional culture the bride travels to the groom, not the contrary.

*At the time, marriage inside the kinship, was not allowed in Karpa and all the land touched by the Drin river. In the last one hundred years this tradition was inherited verbally generation after generation and was essentially modified: in the middle ages, girls of the area were obliged to leave their families and move to the place their chosen husband came from. Men would not travel to an unknown place like our Voni did. (Karpa, p 5)*

There are two sub-worlds constructed in this passage. First, the epistemic modal world, because of the reverse of traditional expectations. The enactor of the text is aware of the paradox he is describing. As previously mentioned, the reader may choose to consider the enactor as any other discourse participant. In this particular instance, the statement of the enactor may not be perceived as true. This belief is reinforced by the usage of the modal auxiliaries *would* and *could* in the original text in Albanian language. The reader applies here the analysis of contrast through comparison as well. The implied idea comes to the surface after a comparison with the explicit is activated in the mind of the reader. The obligation factor evoked in this passage also causes the activation of the deontic sub world where the reader identifies with Voni and tries to find a means of cohabitating with this destiny.

The following passage may cause the conceptualisation of a boulomaic sub-world in the mind of the reader. It describes the instance Voni was told that for safety reasons he would stay alone and isolated inside a cave in the wilderness of nature.

*-Don't! Don't isolate me!  
-Living in the middle of nature is not isolation- contradicted the Novelist- We are not imprisoning you inside a hotel room on the 101<sup>st</sup> room where you would see nothing but asphalt. I understand, it will be boring at first, maybe you will get into depression, but remember what I am telling you: you are connected with nature like flash and nail! (Karpa, 113)*

The usage of the exclamatory sentence at the beginning and the repetition of auxiliary verb 'don't' reinforce Voni's desperate plea to continue his life in freedom. The novelist, who functions as the text enactor in this case, is offering an alternative reality to Voni. At the same time a parallel epistemic sub-world is created here because there is an implicit alternative reality: the isolation in a hotel room. This presupposition brings the reader to that textual construction too and the lack of its realisation makes the enactor unreliable in this case.

The novel, mostly constructs epistemic modal worlds due to his play with time and the multiple deictic shifts. Let us focus on a passage that follows a years- long flash forward:

*The girl was called Lejda (an ancient name that was given for the first time to a girl in Karpa) and she was well known in the community and not because of the name but because she brought a new fashion in Karpa, dressing a woollen dress that resembled the Scottish kilt; this was worn only by those who were not married, whether girls or boys. She came after peace was established because she was curious to get to know a new world. (Karpa, p 185)*

There seems to be a temporal distance with the rest of the events and for the attentive reader the introduction of Lejda brings a breeze of fresh air to the text. The dependent temporal clause 'after peace was established' implies that there is a huge deictic shift from the previous events to this one. The appearance of a fresh new character implicitly suggests that Voni's life has changed too. The new fashion introduced by Lejda symbolises not the community's acceptance of her but Voni's detachment from the society and his willingly chosen isolation.

Following the ending, the reader immediately returns to the Novelist's previous assumptions that there is no isolation in the middle of nature and sometimes isolation from the society is way better than isolation from the self.

With 'Karpa' Camaj recreated devil's country and he did that through a remarkable artistic mastery. The structure of the novel keeps the reader interested and engaged and the paradoxical scenes are described as they were normal. The reader has to reconceptualise all his background knowledge here in order to grasp the hidden, implied meaning. In literature, the implied meaning suggests the presence of a universal art, acceptable by any reader, at any time.

## Conclusions

The present article presented an alternative to literary text interpretation. The method used followed a cognitive linguistic approach using the model provided by the Text World Theory, founded by Werth and developed by Gavins. Text world theory is very useful, especially for the interpretation of dystopian novels due to the particular usage of time that this genre has. The

analysed novel, *Karpa*, is unlike any other case of dystopia in Albania literature for it reverses all the expectations of the reader. However, just like in any other novel of this kind, we could witness that the epistemic sub- world is the one that is most often constructed during its reading. The main reason is that epistemic sub- worlds evoke hypothetical situations and question the truthfulness of the enactor's assumptions (the text enactor in the case of literary works is the author or/and narrator). When judging the enactor's point of view the reader unwillingly considers him as a normal and equal discourse participant. *Karpa* involves a lot of time shifts which are marked by a very frequent usage of deictic elements. Is the lack of temporal coherence between the discourse world and text world that confuses the reader through the discovery of the implied significance of the text. The integration of the identification of the stylistic devices of the author and the personal experience of the reader prove to be a very effective means of text analysis.

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# Religious tolerance versus national unity

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## Abstract

*By means of this paper, I will try to realize a comparative analysis between the idea of Albanian religious tolerance – which from several authors was described as a fundamental feature of our country – with the image of national unity which was constructed during the period of the national renaissance. The main principle of this image was the idea according to which, despite of the internal religious divisions, Albanians were always eager to unify with each other when an external enemy threatened their existence as a nation. This comparison will be positioned according to the definition of the nation as a civic religion, while on the other side, in the field of spiritual religion, the religious diversity was substituted with the idea of religious tolerance that in the everyday discourse is used as 'religious harmony'. Based on the theoretical tools of functionalism, the research question in this paper will be: what are the forms of knowledge that stimulate the creation of a certain version of modernity in Albanian territory?' This question will be answered through a comparative analysis between two different forms of modernity in Albanian territory: the modernity of Tanzimat Reforms during the last century under the Ottoman Empire and that of the Reforms of King Zog during the first decades of independence. Through the constructivist point of view, the religious tolerance will not be explained as a fundamental feature or as an essential, constitutive element of our country, but on the contrary, it will be seen as a result of the nationalist discourse in the year 1920-30', which gave political priority to the ethnic homogeneity. The same discourse was performed during the Tanzimati Reforms, which marked a sort tentative by the Ottoman administration to create a new sense of belonging which was supposed to conclude with the rise of an Ottoman nation through the territories of the Empire.*

## Introduction

The main goal of this article is to observe the way the muslim culture has been adopted in a society based on religious tolerance and above all the shape it has taken adapting to the nationalist vision to direct the Albanian identity towards the Western Europe. In other words, the goal of this study is to investigate upon the social structure that provides the combination of tolerance and religion (that in it's essence implies an absurd and universal notion) as an only entity. Furthermore, in the framework of continuos recrutation from Islamic terrorist organizations in the muslim countries of the Balkans, such a study would take on special importance. In this research project some important issues are included, that would help us understand the role that the muslim religion plays in our society. What is the dynamics that the muslim religion has gone through from the Tanzimati period until the period of King Zogu's rule when the Albanian state officially started a political campaign to promote religious tolerance? Under what conditions was the intertwining of the muslim religion and the social-political dynamics of the nation's idea? What conditions favoured the sensibility increase of the Albanian society on muslim religion in a time when the government promotes politics that stimulate religious tolerance?

The theoretical basis focuses mainly in the theories of modernity and orientalism, as well as in studying theories of cultures and anthropology. The main authors I will rely on are Edward Said, Morocco Della Rocca, Enis Sulstarova, Oliver Schmitt, Bozidar Jezernik, Gerard Delanty, Albert Hourani, Nathalie Clayer. What all these authors have in common is that they do not tend to treat the concept of religion in stagnation, on the contrary they try to describe it by focusing on the way it is interpreted



and adapted to the structure and the common sense of the society. Under this framework, the perception of the religious belief should not be viewed by universal “rigid” texts, but by the society that interprets it and ascribes a certain meaning to this text. Analysing the semantics and discourse of a society on a certain concept (e.g. religion) we can achieve a clearer idea on the dynamics the society has gone through and the mechanisms that have ascribed a certain significance to this given concept. In other words, to analyze the way a society approaches towards a religious belief, one should not focus on the belief itself but on the society that interprets it. Through this theoretical basis we could see that contrary to the religious belief that tends to be rigid, linear and conservative, the society is a fluid concept, always changing and that during its dialectic it permeates continuous refractions.

## The Tanzimat reforms: Ottoman modernity

During the Tanzimat Reforms, a period that Isa Blumi considers a “temporary modernity” (Blumi, 2011, p.72), one of the most important features to evidence was the transferring of the power from the Sultan to the Empire’s bureaucracy, also known as the Sublime Porte. This enabled an important change in the empire’s hierarchies, where the main part of the power would be in the hands of the new bureaucratic elite, a characteristic that according to Hobsbawm represents one of the most important elements of the modern state (Hobsbawm: 2012, p.48). In a similar manner, we can identify during the same period other elements of modernity like: the consolidation of the central authority and the control from the state over all the territory as well as the decline of the power of those that in the western world were called “local feudal lords”, whose counterparts in the Ottoman Empire were the ayans. When the Ottoman state managed to marginalize such groups like the ayans that used to have an extremely important regional power, as well as expelling in 1830 the Janissaries garrisons from the Empire, the opportunity for new political actors opened up. Among them there was a new intellectual class that gradually became part of the new Ottoman bureaucracy. This period – that is known as the Tanzimat modernity – had an important influence on the Ottoman administration’s policies in the Western Balkans. This new class, that represented the main part of what was called the Effendi class, became the initiator of a whole new direction in governing, which is connected with a widespread phenomenon of the Western world, that is modernity (Blumi: 2011, p.65). In general, in the historiography of post-independence, the Tanzimat period is considered related to the origination of nationalism and of the separatist movements where a considerable part of the Ottoman elites were engaged in. However, considering the context of time, such an affirmation seems controversial as on the one hand it criticizes the efficiency of the Tanzimat reforms, but on the other hand it claims that the elites born from the Ottoman administration were able to evidence the fall of the Empire and became part of the separatist movement. A typical case that proves that the creation of the modern Bulgaria could paradoxically be seen as a product of the Ottoman reforms. (Todorova: 1996, p. 58). The establishing of a modern educational system, as well as the consolidation and centralization of the administration were the major goals of the Ottoman authorities since the Tanzimat period. Extending the education and bureaucratic circuit, as well as developing the telegraphic net, the road system, the railway system, the registration teams or the informative net had all helped in the increase of the contact between the state and the society.

(Clayer: 2009, In the beginnings of the albanian nationalism: The birth of a nation with a muslim majority in Europe, Tirana: The struggle, 310). However this temporary modernity was not isolated but in continuous interaction with other western countries. “In the Tanzimat period, the new network that imitated the western system, was perceived as an education system for all the subjects of the Empire” (Georgeon F: 1995, p.92). Nathalie Clayer explains that the Tanzimat period, defined by some European modern elements actually functioned as a resistance against the influence of the west on the Ottoman state. In other words, the Tanzimat reforms, even though they bore aspects of the European modernity, were implemented as a confrontation of the latter, manifesting some elements that can not be found in the western modernity. In this point of view it seems that the theory of the multiple modernities responds to a certain extent to the developments of the period, yet it does not suffice to explain the reason that modernity differs based on the context of it. As Benjamin Fortna has indicated, the educational network and the expansion of it through all the state territory, in fact “helps to retaliate the Christian missionaries’ threat” (e.g. the influence of the Franciscan missionaries in the north of Albania), the neighbouring countries’ propaganda and the activities of the ‘minorities’. The directions changed and the emphasis was put on the discipline in the micro-cosmos of Ottoman society, the loyalty to the Sultan, and on the virtue and the religious principles” (Fortna: 2002, p.93). The dispatch of preachers, building mosques and education foundations were all in regard to the same goal. These actions aimed to strengthen the Ottoman patriotism and the Islamic religious belief (Clayer: 2009, 312). From these information one could reach the conclusion that during this time the Ottoman Empire was trying to install some sort of homogeneous mixture in the whole territory of the country, that would peak with the birth of an Ottoman nation where everyone would speak the same language and all the citizens would be governed by the new Ottoman administration. Carter Finley described the mechanisms and the main consequences of this plan in the social plane: Switching from the scribal service that functioned as a guild and patriarchal model in an administration, that theoretically was organized according to a rational system and relying on written laws; the considerable rise of this administration during the process of centralization, as a result of the consolidation of the administrative network in all its levels, the segregation of duties; a diversity of profiles and cultural scopes of the functionaries (Carter Finley tek Clayer: 2009, *ibid.*). These political strategies reflect at the same time the reduction of local power of the ayans and the consolidation of a centralized modern government. As I have stated above, to understand modernity it is not enough that we investigate the social and political context, interpreting the concept of modernity as a phenomenon that is shaped in an isolated “island”. In fact when we talk about the way modernity is shaped in a certain

society, we should consider the interaction of this society with its neighbouring countries. Put differently: the concept of modernity in this study is interpreted in regard to the symbolic interaction approach, through which the reforms and political and social developments of this period in time should be viewed as a confrontation or resistance against the outer forces that are perceived as “threatening” to the status quo or the political lineup of the premodern era. Referring to the identity politics that unfold with the increase of different cultures interacting and the ratio of ever changing forces, we will obtain a clear view over the different shapes modernity takes when it is put in different contexts. In this regard, the largest oriental Empire’s developments during this time imply that the political strategy of the Ottoman administration during this time was becoming more “western”, but on the other hand the way that these political strategies were being implemented in the society were completely different from how it was done in the west. The conflict between Ali Pasha and the Sultan brings to mind the conflicts of the bourgeoisie and the European aristocracy that reached their peak with the revolution of the bourgeoisie during the eighteenth century, nevertheless in contrast with the inherited European bourgeoisie that with the passing of time turned into a balancing force for the royal power, ayans like Ali Pasha or Mehmet Ali and the authority they obtained did not contradict the power of the Sultan, on the contrary they were responsible for the preservation of his legitimacy in the localities they governed. This temporary modernity’s arrival according to Isa Blumi is justified by two main events: Firstly as a result of failing to implement governmental policies by the local patriarchs, not as a result of the nationalist resistance of the latter, but because they were focused mostly upon increasing their own advantages and political power in the regions they ruled. The second factor were the wars between the Empire and the Great Powers, particularly the war against Russia that ended with the loss of Crimea that until then had been under the Empire’s administration. During these wars, the military limitations of the Ottoman state were demonstrated, which resulted in the increase of the western influence in the Empire’s territory. It was exactly this increasing western influence that accompanied the boost of the national conscience of the Christian minorities of the Empire. The foreign influence affected the bureaucratic division between Christians and Muslims. In other words: On one hand the Empire’s policies aimed to concentrate the state’s power, eliminate the differences between sects and to empower the legislation, on the other hand the European countries were using their influence to further promote the existing divisions. The discourse through which the western powers wanted to politicize the existing differences was one of discovering “the natural roots” of the religious communities on whose behalf they had to fight for the separation from an Empire ethnically and culturally heterogeneous (Blumi: 2011, p.103). Thus the European states in the foreign affairs declared themselves protectors of the Christian groups within the Empire, that had been forced to forget several centuries of their past in this multi-religious society. In this regard, the researcher Ussama Makdisi would write that “Constricted by the circumstances of the time, the local elites would become allies of the European powers articulating a discourse of progress and civilization” (Makdisi: 2000). This kind of discourse on the ‘civilization and progress’ is coherent with orientalism, one of the main concepts where this study focuses. This discourse in later phases was “colored” with national nuances in the National Renaissance period. On the other hand, the separatist tendencies of the time were incarnated in the image of the civilized Christian world that would bring about the centralization of the Ottoman state during the Tanzimati reforms, as a resistance against a nationalist and orientalist discourse of the minorities.

It is important to emphasize in the conclusion of this part that important characters of the Albanian nationalism like the Bushatlinj of Shkodra, Ali Pasha, Skanderbeg or Mehmet Ali alike Serbian nationalism characters like Obrenovic, in their context did not aim to enlarge their country beyond the regions they governed. Isa Blumi reminds us that the “homeland” of Skanderbeg did not extend until Tivar or Preveza, while Ali Pasha cooperated with the Peloponezi elites in his attack against the northern Gegë of Albania in compliance with the Sultan’s policies (Blumi: 2011, 106).

## **The secular reforms of King Zog: religious tolerance versus the national unity**

In the first part of this paper, I tried to describe the changes that Albanians of the Ottoman Empire brought about. The Tanzimati reforms in the framework of increasing the control of the Ottoman state through the territory, administration and centralization of the religion and education. If the Tanzimati reforms in literature are known as an attempt of the Sublime Porte to modernize a state with a rotten administration and an outdated social structure, where the central element was religion, that was used to brand the other and oneself, after Albania declared its independence and the Ottoman Empire fell, islam would go through a radical transformation. In the development of Balkanic nationalism after separating from the Ottoman Empire, religion played an important role concerning self-identification, since for the last four centuries the states of the Balkans were part of a millet system, that was a type of religious set-up based in the religion affiliation. Like Nathalie Clayer says, the “millet” could be considered “religious nations” and their importance in regard to feeling that one belonged there surpassed the importance that ethnicity or mother’s tongue could have (Clayer: 2009, p.126). In this regard, the Tanzimati reformat further emphasized the fact that every muslim citizen belonged to the ottoman ethnicity, because being muslim became equivalent to being ethnically ottoman, just like being orthodox was equal to being ethnically greek. This centralization and equivalence of the religion and the ethnicity did not serve Albanians, since they belonged to different religious affiliations even though they labeled themselves part of the same nation. To reinforce the role of religion in the balkanic nationalism’s birth that peaked with the creation of new counties during the XIX-XX centuries, the nationalist researcher Urs Altermatt writes that “In the southeast Europe, religion is much more than in the western Europe, a constructive element of the nation and the nation-state. The countries in the southeastern Europe, normally, consider themselves as cultural nations, where the religious factor plays a central role as a cohesion element.” Altermatt adds that “From the outside, in the Balkans, language is the one that overtakes the

function of the distinguishing feature, while on the inside it is always religion that acts as a mobilizing tool” (Altermatt: 2002, p.123). This goes for most of the Balkan countries where “The churches had been the authority on ethnic and cultural identity of the Balkan residents for centuries” (ibid., p. 123) but for a place with a majority of muslims like Albania, the religious element more than cohesion force, risked becoming an instrument in the hands of neighbouring countries to produce division within Albanian citizens. Furthermore, the 1914 riots of some Sunni muslims in the central Albania against Prince Vied, proved that the country still had nostalgic people demanding the return of the Ottoman Empire and that even after the establishment of the new Albanian state on November 28<sup>th</sup> 1912, the Ottoman Empire continued to have an impact on a part of the society through the religious element (Gjuraj T: 2013, p.95). On one hand there is a nation with a high ethnic homogeneity – one of the most homogenous people in the Balkans – and on the other hand there is a nation which seems separated in four different religious beliefs (the Sunni Muslims, the Bektash, the Orthodox and the Catholics). For this reason, while in other Balkan states (e.g. Greece) the religious diversity became a condition to convert people of other ethnicities in order to integrate them in their host society, in Albania such a thing did not happen and would not even make sense. In this regard, the political strategy of Albanian leaders, since the period of King Zogu, was not one that aimed to make religion an instrument that ensured national cohesion, but quite the opposite, the aim was to make the nation an instrument of religious cohesion, which is understandable in a country nationally united, but religiously divided in different beliefs. In this plane one could analyze the secular politics of Zogu, the first Albanian leader that realized the division between the state and the religion, starting what could be called the beginning of the modern Albanian state. What seemed vital in that time was unity, centralization and the administration of religious institutions from the bureaucratic apparatus of the state, similar to what happened in the Western Europe during Renaissance when the religious power from the political one. One of the main elements of these reforms was the separation of the Albanian muslims from the links with the Ottoman past and the adoption of a new vision that would direct Islam toward the west. On April 1<sup>st</sup> 1928 in Albania, a new Civil Code is adopted based on western models. The Islamic Judges, the Qadis are dismissed (Dela Roka: 1994, p.138). Four years later, in July 1924, King Zogu released a decree that officially sanctioned the existence of different religious communities in Albania, which should be equipped with their special statuses within a short deadline. According to the decree, the religious communities should be recognized by the state, that would take care to supervise their resignation from every political activity, as well as appoint and eventually dismiss their executives and analyze their financial administration (ibid, p. 138). Religious homogeneity was stipulated as a condition for converting people of other ethnicities within their integration into the host society, in Albania something like this has not happened and would make no sense if it happened. In this regard, the political strategy of the Albanian leaders, starting from the period of King Zog, was not to establish religion as an instrument to ensure national cohesion, but on the contrary, intended establishment of the nation as an instrument for religious cohesion, which is understandable for a country unified nationally, but religiously divided into different denominations. In this context can be analyzed the secular policies of Zog, which is the first Albanian political leader who stated the separation of church and state by launching what it could be called as the beginning of modernity in the Albanian state. That which seemed essential in that period was the unification, centralization and management of religious institutions from bureaucratic state apparatus, as has happened more or less in Western Europe in the Renaissance period when religion was separated from the political power. One of the key elements of these reforms was severing ties with the Albanian Muslim practices by the Ottoman past and the establishment of a new vision that will orient Islam to the West. On April 1, 1928 in Albania enters into force a civil code based on Western models. Islamic judges, qadis, are sacked (Dela Roca 1994, 138). While four years ago, in July 1924, King Zog had issued a decree that officially sanctioned the existence in Albania of different religious communities, which within a short period should be provided with their specific statutes. According to the decree, religious communities should be recognized by the state, which ensures to control their withdrawal from any political activity on their part, so the state will appoint and eventually dismiss their top executives and analyze financial administration of these religious communities (Ibid, p. 138). Another element that shows the secular campaign of King Zog under the umbrella of nationalism and a state that functions as a regulator in the control and management of religious institutions is Sunni Congress held in 1929, which decided:

- The use of the Albanian language for prayer and preaching
- Unification of madrasas and seminars in a single training institute for the whole kingdom
- Centralized management of all wakfs assets
- Closing the majority of mosques, holding two or three in each city (Bega S: 1939, 32)

Reforms such as the use of the Albanian language during prayers, administration of religious institutions assets or closure of the majority of mosques are very similar to developments that occurred in Europe after the French Revolution of 1789 in which the mysticist religious worldview gave way to the strengthening of state institutions which exalt rational reason over spiritual beliefs labeled as backward. Albanian modernity of Zog period best fits the definition of Michel Foucault on modernity, according to which “modernity can be centered on the development of a new power mode / knowledge, which constituted one not just as an object of this regime but also as his subject. This new regime differs from that of previous historical periods through new power and identification processes, which already operate more in the mind, the reason than the body”. As stated above on the Zog administration reforms, it is apparent that the new identification processes that led to these reforms was to increase people’s confidence in the state institutions, as well as increase in the identification rate with the nation notion that once was threatened by political activity of religious institutions. But undoubtedly the most important element of the Albanian modernity during this period, which regarding the degree of efficiency is far higher than the Tanzimat

reforms at the time of the Ottoman Empire, was the Muslim religious orientation towards the West. “The prophet Faith - written in July 1932 - has turned its prow fleet westward to raise his flag up in the most remote places” (Dela Roca 1994, 143). These are allegations that perceive Albania not far from the western world. Albanian Islam did not consider itself alienated from the fate of the West, unlike other communities of fellow Asian culture. The results of these policies in modernizing the Albanian Islam can be seen in the new program of the leader of Muslims in 1932. In this document, among other things, was written that should be needed:

- To practically prove that high Muslim principles serve in a large-scale the national progress and exaltation and homeland defense.
- To proceed to a closer national fraternity being inspired by Islamic principles, with regard to tolerance towards other religions and respect for freedom of conscience.
- To find ways to realize faster and complete spiritual merging of Albanian brothers of liberated lands with other motherland brothers.

Phrases such as “tolerance” or “homeland defense” were expressions that Albanian Islam had never encountered in the past. This program seems to be turned into a document certifying the effectiveness of Zog’s policy on nationalization of religious institutions and the establishment of “homeland” as a priority over existing religious divisions. The idea of religious tolerance is a relatively recent concept, which originated in Albanian nationalism promoted by the Albanian National Renaissance intellectuals. In this regard, Oliver Schmitt writes that “there was no rising-above-religion in the Albanian nation as a political or social actor before XX century” (Schmitt O: 2012, 133), on the other hand, this tolerance might not work unless mitigating the impact of religious institutions in society or the secularization of important figures of the country by disconnecting them from religious background. Decisions regarding the centralization of Islam and its orientation towards the West explain an important element in the correlation between religion and modernity. Like every other state institutions, religious institutions can not remain removed from the galvanizing power of modernity, but these institutions are transformed into the soil where is placed the idea of modernity that assumes unification, administration and secularization of religious worldview. These three concepts from this moment on begin to serve the nationalistic frame that was being nourished at the expense of pre-modern multiculturalism, not coincidentally the anthropologist Ernest Gellner has defined nationalism as a symptom of modernity (Gellner: 2011.43). In this sense, through the secular activity of nationalism, figures such as Skanderbeg – who is known in Western history as a symbol of Christianity – in the perception of Albanian society appear as a defender of the idea of the Albanian nation, detaching Gjergj Kastriot from the religious dimension was an element of great influence over XV century. Similarly we can say that has happened even in the case of Mother Teresa in the recent years when she was declared as “Mother of the Albanian nation” as a figure who embodies the idea of “religious tolerance” but also “a figure that shows the affiliation of the Albanian nation in European culture” (Endresen C: 2013, 53-74), despite the fact that Mother Teresa identified herself first and foremost as a Christian believer, her return to the motherland after the fall of communism “rediscovered” her Albanian roots. Thus, the idea of religious tolerance is not indicative of the fact that Albanians have never believed in God, as is often said. The idea of religious tolerance is not an objective and unchanging phenomenon, but it is a *telos*, which originates in Albanian nationalism and it has a specific political purpose for Albanian community. Albanian religious tolerance makes sense only in the name of preserving this *telos* which is the idea of the nation as a tool that serves to distinguish us from our neighbors. Religious tolerance is the designation of the line that makes us different from other nations, and that, furthermore, it is an element of Albanian society estimated from developed Western countries. It makes no sense a religious tolerance in faith, but it has to do mostly with an institutionalized and organized tolerance under the umbrella of the nation-state which is regarded as the protector of this tolerance. This is the mission of nationalism as explained by Eric Hobsbawm “the stabilization of a new civic religion to nurture a sense of belonging and loyalty to the motherland”, a mission which in the modern period seems to be so important that makes other spiritualistic forms of religion to be presented as tolerant towards each other.

## Conclusions

As I tried to emphasize above, the political and social construction of modernity, takes different forms depending not only from the social context but also on the historical period when it’s constituted. In this paper I took the example of the political reforms of the Ottoman Empire, which marked a crucial point for the Ottoman administration to modernize the country in the last century of its existence. These reforms were implemented with the purpose to construct an Ottoman version of European modernity, but in a declining Empire almost totally deprived of a national belonging the results were catastrophic. If we compare this modernization reforms with the reforms made during the first decades of national independence in the times of King Zog, we can argue that after the construction of Albanian national identity after the independence, political modernity and the preconditions of social homogeneity shaped a more solid version of social engineering if compared to the Tanzimat reforms of the Ottoman Empire. As was explained by several authors, the apex of modernity is the creation through the activity of national propaganda, of the nation as a sense of belonging. After the construction of the modern nation, the tentative of King Zog to modernize the religious institutions of Albania, this time were addressed to a group of citizens whom identified themselves as Albanians. On the contrary, during the Tanzimat reforms, the political reforms of the Ottoman elite were addressed to a group of heterogenic citizens that were part of different ethnicities, religions or linguistic minorities, for



these reasons the Tanzimat reforms were opposed from many citizens of the Empire, especially the ethnic Albanians. In these to example of social engineering, we have two different versions of modernity on the same territory but on two different states. The Tanzimat reforms were supposed to conclude with the creation of a new Ottoman nation, whereas the King Zog reforms were supposed to consolidate the social homogeneity in an already existing nation. While on the first case, the construction of modernity took a vertical dimension because of the continuous control by the state in a population deprived of a national identity, on the second case we have to do with an intervention by the state in a population with a civic religion, a society where the idea of citizenship and a sense of representation by a central authority were already known and accepted as such by the majority of Albania's citizens.

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# Evaluation of security environment in Albania

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## Abstract

*Security of Albania is affected by a combination of traditional and non-traditional risks arising from internal and external factors. The purpose of this paper is to analyze the implications of organized crime and terrorism at security level in Albania. The conceptual framework of this paper will be the Copenhagen School of securitization process. To date, these two phenomena are simply defined as the main priorities of security, not as existential security threats. This shows that there has never been a true securitization process. The issue is not related to the absence of a national strategy in the fight against organized crime and terrorism. It tends to emphasise the need to be redesigned by being adapted to the new security environment and the necessity for its applicability. The data used for this paper include primary sources such as strategic documents and statements of different actors on the phenomena of organized crime and terrorism; and secondary sources, such as theoretical literature on the phenomena of organized crime and terrorism and previous studies on these phenomena.*

**Keywords:** security; organized crime; terrorism.

## Introduction

«On bases of the National Security Strategy of the Republic of Albania is the aspiration of the Albanian people and the political will to realize the common vision for a homeland security, justice, equality and well-being for the present and future generations; A free, democratic and developed country, a committed NATO member and integrated into the European Union.» (SSK, 2014: 3)

Despite the clear positive tendency, the country's security continues to be heavily dependent on internal-risk hazards and external threats that create new challenges in international relations and social cohesion. The security analysis is carried out at three levels: *At the internal level*, Albania's security is threatened by corruption, the organized crime and terrorism, which violate the rule of law, our national institutions and the development of the economy. These phenomena find the spaces and favorable conditions for empowering their activities as a result of many factors such as fragile institutions, lack of the law, poor economy, low trust of citizens in state institutions, etc. *At the regional level*, Albania's security is threatened by the problems and potential conflicts of the neighbor's states of the region, as a result of national historical claims. *While at the international level*, Albania's security is threatened by dangers that are no longer conventional, but rather of a hybrid nature, that are related to factors such as international criminal organizations, terrorist groups, the strengthening of non-state actors, as well as global climate and global demographics. The way we approach the challenges and opportunities will be decisive for our future. „Security is called the moment when an issue is presented as an existential threat to a defined reference object“ [traditionally, but not necessarily the state, which includes governance, territory and society]. (Collins, 151). Organized crime and terrorism affect the non-fulfillment of the fundamental priority of the state that is security and well-being for its citizens. Driven by this major threat, these two issues need to be ensured, and a proper security process must be applied (follow-up on two necessary stages process) as well as taking extraordinary measures to resolve this threat.

## Purpose and objectives of the study

The purpose of this paper is to analyze the implications of organized crime and terrorism at the security level in Albania. To fulfill this goal, this paper focuses on identifying the features / characteristics of organized crime and terrorism and their implications in the security environment in Albania. The paper also focuses on analyzing actors' approaches to these threats, both in terms of cooperation with other actors and in the level of security of these phenomena.

## Research question, hypothesis and methodology of work

In coherence with the purpose and objectives specified above, *the main question is*: How does organized crime and terrorism affect the security environment in Albanian reality? While specific sub-questions are: What are the characteristics of organized crime and terrorism and what are their potential implications in the security level? What was the stakeholder approach to these threats and what impact did it bring to internal and external security policies?

*The basic hypothesis* of the paper is: „Organized crime and terrorism in the Albanian reality pose an existential security threat by putting in dilemma the existence of the state because it weakens organisms and hinders the consolidation and development of our society.“

*The methodology of this paper* is based on the elements of qualitative access to scientific research. This paper contains primary data, which includes: Strategic Documents - such as the National Security Strategy; Military Strategy; Declarations of various actors on the phenomenon of organized crime. The paper also contains secondary data such as: Specific Literature which deals with the phenomenon of organized crime and terrorism in the Albanian context, both theoretically and applied. The research model used in this paper is that of a case study.

## Analysis, interpretation of data

The new geopolitical environment emerged after the end of the Cold War brought the evolution of the concept of security in Albania, which is no longer dealt with in state empowerment in military terms, but national security is linked to regional and global security, which is now based on the use of diplomacy, multilateral agreements, and the development of all components of national power. Factors that have associated with the birth and development of organized crime and terrorism in Albania have been the change of political system, the weak economy, political instability, the 1997 economic crisis / collapse, accompanied by instability, endangering the constitutional order, overthrow of the government and the lack of rule of law. Even the conflict situation in the region (the dissolution of the former Yugoslavia) has contributed to increasing the opportunities for cooperation of Albanian criminal groups with other criminal groups outside its territory. The fight against terrorism and especially organized crime has always been part of the Albanian government's agenda of priorities since the 1990s, but the policies and strategies undertaken have not achieved the desired result.

One of the forms of criminal activity is trafficking in human beings. In Albania trafficking in human beings has come as a result of the lack of an anti-trafficking law. It is noticed that only after 2001 trafficking in human beings was considered a major problem and after this identification began the consideration of forms and means to crack down on this phenomenon. The late identification of this major problem has created the necessary conditions for criminal groups for the operation and extension of this activity. It should be noted that despite some positive efforts there is a partial implementation of the anti-trafficking legal framework and insufficient official data in this regard (Republic of Albania, Ministry of Interior, and National Strategy of the Fight against Trafficking in Human Beings-2010). Analyzing official data on trafficked persons reveals that even today, Albania continues to be considered a country of origin for the trafficking of women and children subject to exploitation for forced prostitution inside and outside the country, especially in Belgium, France, Germany, Italy, Ireland, Netherlands, Switzerland, United Kingdom (Strategy and National Action Plan 2014-2017). Despite the measures taken over the years, the smuggling of Albanian migration even today is a problem and are the same factors that promote the political instability, insecurity and aggravated economic situation. This form is used by criminal groups because their benefits are many times higher than the costs allocated to this activity. However, it should be noted that nowadays Albania from a country of origin is considered as a transit country for smuggling persons.

We can mention the first collaboration of criminal groups with the Italian mafia, gaining some autonomy in drug management, exploitation of prostitution and black market for their compatriots in Italy (Europol, 2004: 22) as well as cooperation between Albanian criminal groups, Turkish, Macedonian and Kosovar traffickers of heroin. This co-operation was favored by Albania's geographic position among the strongest drug manufacturing countries in the East, such as Afghanistan and Turkey, and consumer countries in the West, such as the EU member states (Zhilli & Lamallari, 2015: 19).

With regard to illicit drugs, it has been noted that over the years, Albanian governments have made efforts to combat their trafficking and this is reflected in the adoption of all United Nations conventions in the adoption of the National Anti-Drug Strategy 2004-2010 Approval of the national action plan, etc. However, there are still major problems in this regard. Still today,

Albania continues to be considered a transit country for heroin originating from Afghanistan and a transit country for cocaine produced in Latin America, which is also the main activity of Albanian criminal groups today (OCTA 2009: 34).

Albania's use as a transit country for cocaine produced in Latin American countries and transported to Europe is also reported in UNODC's (UNODC 2013) reports. Apart from cocaine and heroin, in the Albanian reality it is also noted that cannabis cultivation in a part of Albania, such as Malësia e Madhe, Tropoja, Kruja, Dibra, Mallakastra, Vlora, Berat, Tepelenë, Gjirokastra, Lazarat. Trafficking in drugs as an important direction of criminal activities in the Albanian reality has undergone several stages: - external trafficking for use in the domestic market and transit; - cultivation of narcotic plants for export, establishment of laboratories for processing in the country in order to increase the value as commodities in the market; - sophistication of its means of transport through the use of vehicles, from inflatable boats to small aircraft (through land, sea and air); - the expansion of the cultivation area from north to the south of the territorial space of Albania.

The routes through which drugs were trafficked by Albanian criminal groups targeting Italy were used by those of the naval ports of Durres and Vlora. While the routes followed for its trafficking in Greece have been the use of the border posts of Kapshtica and Kakavija. Nowadays drug trafficking is reported through Corfu, using the city of Saranda as a strategic point (Koromani, 2014). The question that arises in this case: How does this trafficking result to be highly successful when it is widely known the traffickers' routes and their itineraries? One of the forms used by criminal groups is their co-operation and infiltration into police ranks, bribery and the exercise of pressure and power in the ranks of customs officers to facilitate their activity. However, in the Albanian reality it is very difficult to verify them as a result of the lack of data and registered cases of cooperation of criminal groups with police and customs. This lack of emphasis is the reason why in this regard this form of cooperation remains simply in the context of the finding and the belief that this is happening, making it difficult to affirm a credible statement of this fact.

Some reflections on the concept of security create the idea that organized crime, rather than terrorism, is a phenomenon that can no longer be called national. It has evolved into its shape, structure and dynamics, overcoming conventional boundaries. Organized crime today operates on the network, which is multinational. The combination of national and regional organizations seems to have two main reasons. First, looking for markets for its objective (drugs, trafficking, prostitution, etc.), it is forced to take forms of conglomeration and integrate into its member organizations regardless of nationality, oriented only on the basis of objective interests. Secondly, the combination enables it to alleviate the strong competition that exists between these organizations. This is one reason why the concept of security reflects the nature of the threats evolving. Under these conditions, the Albanian state has also followed the same strategy that our partners also use. To prevent criminal activity, regional cooperation is of great importance because this cooperation is seen as a necessity to protect and enhance security.

Regional co-operation has been bilateral and multilateral. We can mention the basic document in the fight against crime „Cross-sectoral Strategy in the Fight against Organized Crime, Trafficking and Terrorism“ approved by the Council of Ministers of the Republic of Albania in August 2008. It is worth mentioning that the objectives set and undertaken commitments, are in line with the obligations stemming from the Stabilization and Association Agreement. In this strategy, it is noticed a division of duties and responsibilities undertaken by all institutions in order to achieve positive results in the fight against criminal activities (Sectorial Strategy of the Fight against Organized Crime, Trafficking and Terrorism, 2008: 12-13). Regardless of the division of responsibilities and the definition of key tasks, it more is still required to achieve the appropriate level of cooperation and coordination between the relevant institutions charged with combating criminal activities. Through a policy reflection process over the years we come to the conclusion that there have been positive efforts to combat such phenomena, which seem to have been the result of the fulfillment of the obligations set by NATO, the EU or the body Others where Albania has been a priority for integration, rather than the understanding of the Albanian political situation of the real level of threats to our security. We note that Albanian governments react and take action mainly when pressure is exerted on them by key players in the international system.

A very important factor that has led to the inefficiency of these operations and the fight against these phenomena has been the lack of associating in parallel with social and economic policies, which are a necessity for undertaking effective and successful policies. Albania, despite the ratification of all international conventions related to the fight against terrorism and the assignment of duties to each respective institution, continues to remain a country with many problems. These issues relate to poor control of its borders, an inefficient police, major problems with the judiciary, and this as a result of its limited resources (State Department Country Report of Terrorism, 2014). In addition to limited resources, there is a marked lack of cooperation between institutions for the implementation of national strategies or plans designed to protect national security. They remain purely written, tailored to EU, US or other international institutions' action plans, but without proper efficiency. This is also noticed in the 2011 cross-sectorial strategy for the fight against terrorism (2011-2015) adopted in 2011.

In this strategy, as well as in the foregoing ones (2008), authorities are committed to identifying factors and causes of terrorism, identifying and documenting the institutional action of all actors taking on the obligation to fight terrorism, defining the current situation in place and measures for prosecuting, preventing and protecting from this phenomenon. This shows that many of the previous objectives have remained unrealized. Documented data is still missing, the level of institutional response is very weak, the legal framework, despite the changes, remains weak and ineffective. As for the fact that they simply try to implement strategies imposed by the key actors in the international system, to be in compliance with them, this is also reflected in the 2011 strategy, which is based on the EU strategy focused on Four main directions: prevention, protection, prosecution and fighting terrorism.

The perception by important actors, the high risk of this phenomenon on national security, but also as an important threat at the global level, has been enough to make Albania part of its priorities on security threats. In reality it has simply tried to

be on the same political line with the important actors without developing the appropriate analysis in the Albanian context in order to identify the level of risk that this phenomenon presents in our reality. This is also noted in setting the hierarchy of priorities in the national security strategy, where this phenomenon is seen more as a threat at the regional and global level, but not internally.

Matters that need to be secured because of the high level of danger, must first be identified and understood by the Albanian political elite. Yet today, Albanian politics does not consider these two phenomena as existential threats to our security.

The threat of security against organized crime has intensified greatly and this is the result of two factors. *The first* is related to the fact that if Albanian criminal groups have been engaged in the cultivation of Cannabis in centralized / localized areas, trafficking in drugs, human beings, weapons and have become part of international networks. As of today, the deteriorating economic situation has influenced the perception of cannabis cultivation as a family business, so it is considered a good opportunity to improve their economic situation and their family well-being. This has led to the cultivation of cannabis at the national level, thus extending this activity throughout Albania.

*The second* relates to the failure of policies and strategies to combat, prevent and minimize this threat, leading to even more weakening of state institutions and not improving them.

Organized crime and terrorism should also be considered as existential threats / threats to Albania's national security, because all the domestic conditions of the country create appropriate circumstances. This is because the activities of criminal groups / terrorist organizations use the problems that accompany the weak states to strengthen their positions in order to realize their goals and objectives. Failure to take appropriate measures against the spread of this phenomenon would further affect the further weakening of state instruments.

The process of security, in order to be successful, must pass through all phases. *The first phase*, which is related to the public-political debate, can be said to have been developed recently, but intensification needs to be further enhanced and politics should emphasize the fact that organized crime and terrorism are issues that need to be secured, because they constitute the existential threat to the security of the state, its citizens and their well-being, and to them extraordinary measures must be taken. Failure to develop this debate in previous periods and not identifying terrorism and organized crime as existential threats shows that there has never been a clear security process in Albania. However, it should be noted that despite the development of a recent (positive) public-political debate, the language used in these debates has been more focused on insulting terms and personal attacks than in giving arguments and facts. In this regard, more needs to be done, for the argument among others would serve to raise public awareness, but also to the political class itself, for the major significance of these problems.

The second phase of the security process is the use of a political discourse in order to convince the audience of the necessity of securing these phenomena with a high level of risk to security and taking extraordinary measures to prevent them. However, this phase will be characterized by many difficulties for the Albanian political elite. This is because the Albanian society has a very low level of credibility with the state and its institutions.

The improvement of the level of trust of the society is realized with demonstration of concrete policies in the improvement and strengthening of state institutions and policies to improve the economic situation for the citizens. Also, increasing the credibility of society also has an impact on raising awareness and providing its support to the set priorities and policies undertaken by the government.

Under these conditions, all the capacities of the national power of the Albanian state should be made available / function of the realization of this process and the passage of these issues from the security phase to the phase of de-securitization, which means passing these issues into the normal process and not considering them as an existential security threat. As long as we do not reach the process of de-securitization, we will not be able to talk about a successful security process. The challenge to these security threats is enormous, but the basic and fundamental element for coping with them remains the understanding and immediate application of security as the only effective way to cope with these existential threats to our national security.

## Conclusions

Taking into account the contemporary security environment, it is necessary that organized crime and terrorism in Albania should be considered as priority issues that need to be secured and the security process applied with all its stages. Securing these issues is also needed for a bottom-up support, which can be achieved through the use of a political discourse in order to convince the audience of the necessity of securing these phenomena. The commitment of all elements of the national strength of the Albanian state is required in order to accomplish this process and the passage of these issues from the security phase to the phase of desecuritization. It is necessary to draft and implement concrete policies in the improvement and strengthening of state institutions as well as policies to improve the economic situation for citizens. Finally, it is imperative to go beyond the specific interests of the political elite, where the development and strengthening of the capacity of the Albanian state power should be considered as major priorities.

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# PANEL 2

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UET - MAJOR RESEARCH PROGRAM / **INNOVATIVE ALBANIA** 2015-2020

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RP / **DEVELOPMENT THROUGH EDUCATION**

Prof. Asoc. Dr. Tomi Treska



# Teachers' role in enhancing a proper education and managing students' behavior

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## Abstract

*The aim of this descriptive research is to investigate the strategies for improving students' learning and teachers' role in enhancing a proper education by motivating them . On one hand, my intention in this research is to explore the possible association between students' interest in learning and teachers' strategies in teaching depending on their level of teaching experiences, and on the other hand, the role of teachers to manage students' behavior in the classroom. As Sadker and Zittleman (2007) explain, "Teachers must manage more than thirty major transitions every day, from one content area to another, through different instructional activities, and through a myriad of routines..." (p. 399). It is the responsibility of the teachers to teach students how to form, create, and express new ideas to attract their attention.*

**Key words:** teachers' role, proper education, students' interest, students' behavior .

## Introduction

A teacher's role involves more than simply standing in front of a classroom and lecturing. In fact, even though a teacher spends the majority of the day in the classroom, the actual teaching component is only part of the job. An effective teacher understands that teaching involves will and responsibilities to ensure that the school day runs smoothly and all students receive a quality education. Teachers don't just lecture in the classroom, but they also are facilitators of learning, providing students with the information and tools they need to master a subject. Sometimes, a teacher's role is to act like a tutor, working with small groups of students or individual students within the classroom. Teachers also play the role of evaluators, constantly assessing students' abilities through formal and informal assessments, giving suggestions for improvement and assigning grades. A teacher's job is to provide a quality education to all students in the classroom. A professional code of ethics must address this fact, stating that teachers must not show favoritism or discrimination against students. Teachers also must interact with students appropriately, not taking advantage of students in any way, by bullying students or putting them down. Contact with students outside of the classroom or school building must be kept to a minimum and must focus on school-related activities and events.

## Qualities of Effective Teachers

Good teacher is perhaps the most common and least precise of all terms. Shulman, President of the Carnegie Foundation for the Advancement of Teaching, describes a good teacher in the following way: In the classroom of a good teacher, students are visible, engaged, attentive and participating...In good teaching, students are responsible for their learning; they are accountable for their understanding....Good teaching is passionate, and it induces an emotional response in students....Good teaching starts with inducing habits of mind, but doesn't stop there. Good teaching engages practical thinking and problem solving skills that can be applied in a variety of settings. And good teaching affects students' values, commitments, and identities. (as cited in Loeb, Rouse, and Shorris, 2007, p.7 )

Instead of just lecturing in the classroom, It is very important to know that teachers are facilitators of learning, providing students with the information to go ahead and tools they need to master a subject. At times, teachers act like tutors, working with small groups of students or individual students within the classroom or after class. Teachers also play the role of evaluators, constantly assessing students' abilities through formal and informal assessments, providing suggestions for improvement and assigning grades. It is assumed, therefore, that teachers and the actions they take in the classroom fundamentally impact students and what they learn. Effective professional learning focuses on developing the core attributes of an effective teacher. It enhances teachers' understanding of the content they teach and equips them with a range of strategies that enable their students to learn that content. It is directed towards providing teachers with the skills to teach and assess for deep understanding and to develop students' metacognitive skills. Intuitively is known that these highly effective teachers can have a better effect on the daily lives of students and their lifelong educational goals and career aspirations. We now know practically that these effective teachers also have a great influence in enriching student learning. Years of research on teacher quality reveal the fact that effective teachers not only make students feel good and comfortable about school and learning, but also that their work actually results in enabling student achievement. Studies have stated that a whole range of personal and professional qualities are related to higher levels of student achievement. The ability to use a range of teaching strategies skillfully (verbal ability, knowledge of pedagogy, knowledge of content, status of certification) and enthusiasm for the subject ask for more successful teachers. *Let's mention some of the qualities of effective teachers:*

- Teachers have a formal teacher preparation training.
- Teachers are certified within their fields and hold certification of some kind
- Teachers have experience in teaching for at least three years.
- Teachers are caring, fair, respectful, serious and friendly.
- They hold high expectations for themselves and their students.
- Teachers instructional time is characterised in an effective classroom management and organization.
- Teachers instructions are enhanced by varying instructional strategies, activities, and assignments.
- Teachers present content to students in a meaningful way to promote understanding.
- Teachers monitor students' learning by utilizing pre- and postassessments, providing timely and informative feedback, and reteaching material to students who did not achieve mastery.
- Well-qualified teachers are effective at producing students outcome, such as grade promotion, school engagement, attendance and motivation in learning.

## The importance of motivation

Motivation is generally defined as the force that compels us to action. It drives us to work hard and pushes us to succeed. Motivation influences our behavior and our ability to accomplish goals. There are many different forms of motivation. Each one influences behavior in its own unique way. Motivation is a basic and essential part of learning (Brewer & Burgess, 2005). Gardner (1885), believes that with the intention of being motivated, the learner necessitates, requires, and needs to have something to anticipate, foresee, expect and long for, a reason, principle, or rationale having to do with aim or target. Cook (2000) states that acquisition of language is not the same among learners. He also believes that there are three main factors which influence the Second Language Acquisition. These three factors are: age, personality and motivation. Motivation is the most significant factor among the mentioned three factors that affect second language acquisition. Ellis (1994, p. 715) suggests that motivation is "the effort which learners put into learning an L2 as a result of their need or desire to learn it". Also, Lightbrown and Spada (2001, p. 33) identify motivation in SLA as an intricate incident which can be identified along with two factors: "learners' communicative needs and their attitudes towards the second language community". **Intrinsic motivation** refers to behavior that is driven by internal rewards. In other words, the motivation to engage in a behavior arises from within the individual because it is intrinsically rewarding. (Coon & Mitterer, 2010). Intrinsic motivation is an important topic in education, as teachers and instructional designers strive to develop learning environments that are intrinsically rewarding. **Extrinsic motivation** refers to motivation that comes from outside an individual. In other words, it refers to taking some action in order to obtain a reward or outcome. Instead of doing something because it is fun, people who are extrinsically motivated act based on what they receive as a result and factors are external, or outside. Motivation has a great importance in accordance to the factors like self-confidence, classroom condition, passion and role of student-teacher in the class. It is an influential element in the success of any activity. Students need motivation in order to establish the right goal to enhance them learning English well and the teachers should create a comfortable environment in the class to make a student be more interested in learning a second language and to give a proper value to a student who will feel very motivated after that.

## The necessity of Cooperative Learning

Research on classroom management is reviewed, with an emphasis on lines of inquiry originating in educational psychology with entailments for teacher education. Preventive, group based approaches to management subtitle a basis for teachers to

plan and organize classroom activities and behaviors. Studies of teacher expertise and affect supply additional perspective on teacher development and on factors that signalize management. Cooperative learning activities affect management. Cooperative learning is an approach to groupwork that minimizes the occurrence of those unpleasant situations and maximizes the learning and satisfaction that result from working on a high-performance team. Furthermore, it refers to students working in teams on an assignment or project under conditions in which certain criteria are satisfied, including that the team members be held individually accountable for the complete content of the assignment or Project. Teachers are often afraid to implement cooperative learning in the classroom because it requires them to give up some control. However, this method of instruction has been shown to increase student communication skills and academic achievement if done correctly. Spencer Kagan (1989) recommends that teachers use the “structural approach” to cooperative learning, which involves “content-free ways of organizing social interaction in the classroom.”<sup>1</sup> Kagan explains that structures require a series of steps to be implemented into the group dynamic. Kagan lists well-known structures that have been successfully used in multiple grade levels and subject areas<sup>2</sup>:

One essential element of cooperative learning is the appropriate use of interpersonal and small-group skills. Coordinating efforts to achieve mutual goals, students must first get to know and trust each other and to communicate accurately and unambiguously. In order to accept and support each other, they resolve conflict constructively (Johnson, 1990, 1991; Johnson & F. Johnson, 1991). Teachers should be aware of the fact that placing socially unskilled students in a group and telling them to cooperate does not guarantee that they have the ability to do so effectively. Students are not born instinctively knowing how to cooperate effectively with others. Teachers must teach students the social skills required for high quality collaboration and make them be motivated to use them if cooperative groups are to be productive. The whole field of group dynamics is based on the premise that social skills are the key to group productivity (Johnson & F. Johnson, 1991). The more socially skillful students are and the more attention teachers pay to teaching and rewarding the use of social skills, the higher the achievement that can be expected within cooperative learning groups. In their studies on the long-term implementation of cooperative learning, Lew and Mesch (Lew et al., 1986a, 1986b; Mesch et al., 1988; Mesch et al., 1986) investigated the impact of a reward contingency for using social skills as well as positive interdependence and a contingency for academic achievement on performance within cooperative learning groups.

## **The importance of Cooperative Learning in the classroom**

Cooperative learning is an instructional approach which is designed to promote deep learning, encourage self-esteem and the acceptance of others, and to improve interpersonal effectiveness. Cooperative learning consist of small groups working on specific tasks like collaborative learning and It looks up to subdue some of the weaknesses of traditional small group approaches by structuring activities carefully. The effective cooperative learning experiences discusses including the cooperative classroom, supporting a cooperative activity, organizing groups and teams effectively, and carrying out group activities. It is important to stress that the key to cooperative learning is the careful structuring of learning groups. Cooper (1990, p. 1), in fact, regards the key to successful cooperative learning as “Structure! Structure! Structure!” Macaulay and Gonzalez (1996, p. 2) stresses it as: The instructional use of small groups so that learners are able to work together in a manner that enhances both group and individual learning.

## **Some advantages of Cooperative Learning**

In Cooperative Learning, students may explain things better to another student than a teacher to a class because it sends the symbolic message that the class is egalitarian and classless. . Students learn how to teach one another and explain material in their own words. It has been shown to have a positive effect on student learning when compared to individual or competitive conditions. They ask questions and answer in a group setting. Here, we stress the fact that higher ability students are in a position to be experts, leaders, models and teachers; lower ability students get the benefits of having higher ability students in their group. Cooperative learning has the potential to meet more learning style needs more of the time than individualized direct instruction. In a Cooperative learning activity Interpersonal and Collaboration skills can be learned. The individuals feels that they can not succeed if anyone in the group doesn't, that means that positive interdependency is achieved when they understand it. It has the potential to produce a level of engagement that other forms of learning cannot.

## **Some disadvantages of Cooperative learning**

The teacher find difficulties to be sure whether the groups are discussing the academic content rather than something else. Higher ability students may not experience the stimulation or challenge that they would with other higher ability students. Lower ability students may feel perpetually in need of help rather than experiencing the role of leader or expert relative to the others in their group. The goal of scaffolding is for students to become independent and able to think by themselves, without the help of others. It depends on an individual's motivation and interest on a particular subject that will determine how well



they would learn. Cooperative learning sometimes create increased chances for conflict and therefore resolution skills are needed for conflict. Furthermore not all students (low-achieving students) are involved in and their focus is rather passive.

## Cooperative versus collaborative

In cooperative learning Students receive training in small group social skills. Activities that are structured in the class, involve each student to have a specific role. The teacher observes, listens and intervenes in a group when necessary. At the end of class, students submit work for evaluation. Students assess performance individually, pair or group-work. Whereas in collaborative learning it is believed that students already have the necessary social skills, and that they will build on their existing skills in order to reach their goals. Students can organize and negotiate efforts themselves. The activity doesn't need to be monitored by the instructor. When questions are directed towards the teacher, the teacher guides the students to the information needed. Students retain drafts to complete further work. There are also similarities between them, by giving the importance of active learning. The teacher acts as facilitator. What's more teaching and learning are experiences shared by both the student and the teacher because they enhance higher order cognitive skills. Greater emphasis is placed on students' responsibility for taking charge of her or his learning by Involving situations where they must articulate ideas in small groups. In other words, similarities between cooperative and collaborative help students develop social and teambuilding skills and increase student success and information retention by utilizing student diversity.

There are authors who have made the distinction between cooperative and collaborative learning (Brody, 1995; Bruffee, 1995). Cooperative learning is a social process grounded by structured group work, and is concerned with promoting both social and academic outcomes; that is, students learn new social skills and how to work together in order to achieve academic goals. These goals are realised through the imposition of structure and control by the teacher. The teacher holds students accountable for learning, collectively. In doing so, the teacher acts like a manager or director who uses instructional strategies to engender social skills, positive interdependence, cooperation, and accountability (Brody, 1995).

(Panitz,1996) stresses that whereas cooperative learning is teacher centered, collaborative learning is more student centered. According to him, "the cooperative learning tradition tends to use quantitative methods which look at achievement: i.e., the product of learning. The collaborative tradition takes a more qualitative approach, student centered approaches to learning, analyzing student talk in response to a piece of literature or a primary source in history." (Panitz ,1996) notes that in collaborative learning, "student talk is understood as a means for working things out.

In understanding and solving problems in today's modern way of teaching, teachers and students combine intellectual efforts to explore and to find new and different ways. They generate ideas, and finally create a product. Collaborative learning has a strong influence on critical thinking through discussion, debate and assessment of different conclusions. It is very important to set terms in collaborative learning. For example; forming a proper group of students, selecting members according to mutual interests and viewpoints. It is necessary that the teacher should give students right to opinion at each stage of learning and common interaction . Each member of the group must be responsible for their own work (Individual responsibility, Slavin, 1980). In addition to that, group is responsible for each member. Collaborative learning has a role to reduce the feeling of individual loneliness. Elder and Paul (1994) interestingly define critical thinking as self-guided, self-disciplined, and self-corrective thinking. Furthermore she stresses that to be a good thinker, one must be good at effective communication and problem-solving abilities and be ready to bring new ideas and skills. De Bono (2000) has repeatedly said that being a thinker does not involve being right or clever and solving all problems that come your way. Being an effective thinker, according to De Bono (2000), involves consciously wanting to be a thinker and going through the motions of thinking i.e. role playing, deliberate use of thinking tools etc. He further notes that being a thinker involves deliberately practicing and focusing on your operating skill. And like any skill such as playing the Guitar or volleyball, one can improve his/her thinking skill over the passing of time.

There are three basic ways students can interact with each other as they learn. They can compete to see who is "best," they can work individualistically toward a goal without paying attention to other students, or they can work cooperatively with a vested interest in each other's learning as well as their own. Of the three interaction patterns, competition is presently the most dominant.

## Individual accountability enhances fair evaluation

No matter how much support, and encouragement students receive, they must be individually responsible for their own academic achievements. Because students have been acclimated to academic settings where they compete against fellow classmates, this aspect of cooperative group work is reassuring: Final course grades will be based on personal efforts, uncompromised and uncomplicated by the achievements of others. Teachers can task to them quizzes, projects, and final exams just as they would in a class where group work is not the norm. Positive interdependence and individual accountability can be provided through carefully structured in-class activities. For example, when students receive a specific task such as worksheet or case study to complete cooperatively, teachers can show students that one group member unidentified ahead of time will be responsible for reporting the group's work. This is a cooperative structure called "Numbered Heads Together"

(Kagan, 1989), “Problem Solving Lesson” (Johnson, Johnson, and Smith, 1991), or “Structured Problem-Solving” (Millis and Cottell, 1998). Such an approach has several positive outcomes: (a) It helps all students to learn the material because they don't know who will be called upon; (b) It gives the opportunity to weaker students to request and typically receive peer coaching; (c) It helps shy or less-able students to accept leadership roles because their selection as the spokesperson is random and the report they give is not their personal report, but the team's.

## **School responsibility for providing proper education**

The performance and development culture self-assessment process provides an opportunity for schools to engage their teachers in highly effective professional learning. The significant benefits of this process to schools, including enhanced student outcomes, can be maximised by the provision of effective professional learning to address areas for improvement of individual teachers' professional practice. The collaborative nature of effective professional learning, combined with the enriching, supportive and motivating environment that a performance and development culture generates, has the capacity to realise significant school improvement.

Without enabling personal transformation [through education], social reformations are susceptible to corruption (McWhittney & Markos 2003). Educational anthropologist, Ruth Benedict, argued that education is transformative as it can begin to resolve cultural issues by surveying “the major wastages in our culture” (Nash 1974). School is an important cultural construct and therefore it is only sensible to promote proper education about social issues through schools (Schooling the world 2010). Mannheim strongly advocated that schools should cease to concentrate on “purely scholastic traditions” and that they should rather aim to “embody and impart humanisation qualities” among young people as schools are “uniquely qualified” to prepare pupils for life (Lawton 1975). Providing proper education regarding social issues at school level can help to make future citizens more responsible.

## **Managing the problem of noise (my personal experience)**

There are some teachers who have a ‘presence’ about them so that as soon as they walk into a room everyone goes quiet. Almost all senior teachers have it, and I used to think it went with the rank. But I have to confess that I have seen senior teachers without this natural authority and I worked with a young teacher - promoted to head of department after only a few years teaching - who also had this ability. I was blessed with a “serious presence” that gave me a better authority, even though I must admit that I didn't like it that much. But it helped me to have an easier teaching. When I first started teaching I tried to use it, and within a few months I gained my self-esteem and it seemed to me as I had years of experience in teaching. One day a senior teacher took me aside and taught me some things I hadn't thought about. First my voice must not be strained because students get used to a teacher who shouts and they no longer take the teacher seriously. Even when lecturing, even when I have a free topic to discuss about in the class. Therefore I try to get quiet. I will for instance, stop talking until all is quiet. But sometimes noise builds up. Therefore, a better way when teaching is to say that I will talk for a few minutes then stop and allow the students to discuss what they have heard. Some of the noise in a classroom is due to students asking each-other about what the teacher has said. One key to achieving silence is to name the students still talking - one more use for the seating plan. Another key is to start loud then slowly reduce the teacher volume. Usually silence can be achieved, but it rarely lasted long. When I changed my work place and went to another school, I noticed that even the good classes rarely stayed quiet for long. So I discovered a new role of the teacher in classroom management. To me, it was the method of teaching. I had not read about this in any book on teaching, and no one explained it to me. If students will not be quiet, I must calm down, why should I waste energy attempting to make them? Why should I wear myself out? Why should I make a fool of myself? The key question is to keep the students busy learning. I tried many activities that could be done without requiring the whole class to be quiet and to listen to me (the teacher). So what I learned to do was to keep to a minimum to those activities that required silence from the whole class. I made a habit before opening the door to a new class to write instructions on the board. If I had to enter a room with students already there, I would immediately clean the board and write an instruction. Something simple like turn to the next page and answer the first question. When all the problems had been solved, and everyone was busy, I would, from a prominent position, tell the class to put down their pens and to listen to me. I would teach for five minutes or so. As soon as noise is present, I would instruct them to go back to the work set for them on the board. Then I would move round the class. I would select maybe more than five students and ask them to pay attention. I would teach, ask questions, and explain new things. As long as the rest of the class had a tolerable noise level I would leave them to work - or not work. After a few minutes with one group I would move on to the next and repeat the same lesson. In a one hour lesson it was possible to do this circle of small group teaching two or more times. It was easy achieved to get a small group to listen. The students felt they received more personal attention - which, in fact, they did! After each round, I might try a whole class activity. The point is that with noisy classes you do not need to continually ask them to be quiet. This method functioned and what's more, it was a low stress method. With some classes I also achieved a compromise with disruptive pupils: they keep their noise down, and I would not be too demanding. Disruptive pupils are “a hard task”, what can be done will vary from the school, but there are some tips that may work across cultures. The traditional way is to move disruptive pupils either to the front row, or into the four corners

of the room. Sometimes the problem is that some classes have more than six trouble makers and classrooms only have four corners! So, I learned the hard way to move disruptive pupils to the back, naturally, my eyes focus on the back row. Some pupils are on the focus of attention by being watched by others, and at the back of the room this is more difficult for them.

## Conclusion

On this paper I want to emphasize that the importance of effective teaching in global, knowledge-based societies cannot be overstated. Furthermore, in a world that enriches day by day in information and communication technologies, and characterised by complex social, economic, cultural and political interactions, students need high level problem-solving skills and an ability to apply knowledge to new and different situations that is more than a challenge for them. The extent to which students develop these capacities will depend in large part on the quality of teaching they experience at school. But teaching is complex and challenging work. Teachers should have in-depth knowledge of the subject areas they teach, how students learn that content and an understanding of classroom environments that inspire learning. They need access to ongoing, high quality professional learning opportunities to develop and enhance the necessary skills and understandings. Like the members of other professions, teachers need to be continuous learners who see their own learning as being fundamental to membership of the profession rather than something that is incidental or optional. The extent to which a school promotes the conditions for effective professional learning depends largely on its organisational culture – the beliefs, attitudes, values, knowledge and skills of its teachers and leaders. Effective schools have cultures that value continuous learning and encourage all staff to reach progressively higher levels of performance. Importantly, effective school leaders know how effective professional learning can be put into operation as part of an overall strategy for school improvement. Investing in professional learning is the key to ensuring that schools become learning communities where teachers work together, learn from each other and share best practice on effective teaching and learning. It is only through the collective work of teachers and by creating a shared professional knowledge that sustained school improvement will be secured.

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# The Impact of ICT on Teaching and Learning Process

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## Abstract

*The development of the society under the impact of global changes and challenges, have made the Information and Communication Technologies an essential medium in Higher Education Institutions. The adoption and use of ICT in education, has a positive impact on teaching and learning techniques. In addition, the use of the best practices, which can be implemented and shared by means of ICT, can encourage better teaching and improved academic achievement of students. The appropriate use of ICTs in Universities, has gained the necessary attention due to the latest technological developments and because of the impact of these technologies in modern teaching and learning techniques. The focus of this paper is to examine the role of Information and Communication Technology (ICT) in higher education institutions in Albania and the impact it has in teaching and learning process. The increasing use of information and communication technologies (ICTs) has brought a lot of changes to teaching and learning techniques. These new forms of teaching and learning techniques are also being introduced in online environments and this is why e-Learning is becoming a normal way of teaching and learning nowadays. The integration of ICTs in classes creates countless opportunities to improve the teaching and learning techniques and also lends itself to a more learner-centered setting. A successful implementation of ICT influences and empowers teachers by giving them the desired/required support in their engagement with students learning process. In this paper, I will also highlight the role and importance of Information and Communication Technology in the culture of teaching/learning and the adaption of these techniques to student's needs.*

**Keywords:** ICT in Education, teaching / learning through ICT, learner-centered, higher education.

## Goal

The purpose of this paper is to make a qualitative research to show the impact that Information and Communication Technology (ICT) has on Teaching and Learning process and the contrast this method has with the traditional teaching methods. It also aims to show the effectiveness of technology-based methods in the acquisition of English as a Foreign Language. In addition, this study aims to elaborate on a variety of ICT techniques that can be successfully applied in the classroom.

## Introduction

The impact of new technologies on language acquisition is great and is rapidly changing. Technology implementation in the classroom requires both students and teachers to acquire new skills and strategies to access the potential that these tools can offer. The fast changes and advancements in technology and the increased access of the Internet are rekindling interest in alternative and innovative models for education. These include the use of electronic learning (e-learning), and more recently 'blended learning', which combines conventional delivery with technology-based delivery for teaching, and learning (Armstrong 2009).



“Continuing to teach students using traditional approaches may not augur well for the 21<sup>st</sup> century world of work and entrepreneurship opportunities” (Resta, 2002; Jhurree, 2005; Lalitha, 2005; Jung, 2005; Bingimlas, 2009). The introduction of the latest technology in education requires that students gather the necessary knowledge and skills in order to become accustomed to the new environment that is characterized by continuous technological changes. The uses of ICTs are important and specific for education. It must be underlined that the employment of ICT is of great importance for education in general and foreign language learning. ICTs greatly facilitate the acquisition and absorption of knowledge, offering developing countries unprecedented opportunities to enhance educational systems, improve policy formulation and execution, and widen the range of opportunities for business and the poor. One of the greatest difficulties endured by the poor, and by many others who live in the poorest countries, is their sense of isolation. The new communications technologies promise to reduce that sense of isolation, and to open access to knowledge in ways unimaginable not long ago (Blurton, 2002). Evoh (2007) claims that the application of ICT plays a big role in facilitating learning and enhancing the quality of education. However, successful implementation of ICT requires strategic planning and government support for finance and policy. Improved education is essential to the creation of effective human capital in any country. However, the experience of introducing ICTs in the classroom and other educational settings suggests that the full realization of the educational feedback of ICTs is not quick and instant. The effective integration of ICTs into the educational system is a complex process that involves not just technology but it also requires a suitable curriculum, teacher competencies, institutional readiness and stable financial resources. When used appropriately, different ICTs are said to help expand access to education, strengthen the relevance of education and raise educational quality, helping make teaching and learning an active process connected to real life.

## Literature review

Information and communication technologies and are defined as a “diverse set of technological tools and resources used to communicate, and to create, disseminate, store, and manage information” (Blurton, 2002). These technologies include Internet, PCs and other broadcasting technologies. In the last years there has been a huge interest in how computers and the Internet can be used to improve the efficiency and effectiveness of education at all levels and in both formal and non-formal settings. However, ICT does not comprise only technology but it is a much broader concept, including a number of implications in educational processes. Thus, ICT is a way of teaching and a modern method of making education a more interesting and efficient process. One of the greatest contributions of ICT in the field of education is - Easy Access to Learning. With the help of ICT, students can now browse through e-books, write and edit online their papers etc. and can also have an easy access to resource peers-all over the world. “This flexibility has heightened the availability of just-in-time learning and provided learning opportunities for many more learners who previously were constrained by other commitments” (Young, 2002). The best practices and learning materials in education, which can be shared by means of ICT, can also foster better teaching. ICT also allows the academic institutions to reach disadvantaged groups and new international educational markets. As well as learning at anytime, teachers are also finding the capabilities of teaching at any time to be opportunistic and able to be used to advantage. Mobile technologies and seamless communications technologies support 24x7 teaching and learning (Noor-Ul-Amin, S. 2013). Young (2002) says, choosing how much time will be used within the 24x7 envelope and what periods of time are challenges that will face the educators of the future. ICT provides opportunities to access an abundance of information using multiple information resources and viewing information from multiple perspectives, thus fostering the authenticity of learning environments and procedures. Thus, ICT may function as a facilitator of active learning and higher-order thinking (Alexander, 1999; Jonassen, 1999). The use of ICT may foster co-operative learning and reflection about the content (Susman, 1998). “Another aspect which may of course influence the use of ICT is access to technology” (Kennewell, Parkinson, & Tanner, 2000; OTA, 1995). This refers not only to the number of computers, but also to the placement of the equipment, which might be in the classroom or in a IT room and the effect the environment has to students. ICT environment improves the experience of the students and teachers and the use of learning time in order to achieve better results. Using different software and also the extended experience in developing web based and multimedia materials has developed the ICT environment. “ICTs have an important role to play in changing and modernizing educational systems and ways of learning” (Noor-Ul-Amin, S. 2013). “ICT helps in providing a catalyst for rethinking teaching practice” (Flecknoe, 2002) developing the kind of graduates and citizens required in an information society (Department of Education, 2001); improving educational outcomes (especially pass rates) and enhancing and improving the quality of teaching and learning (Wagner, 2001; Garrison & Anderson, 2003). “ICT can help deepen students’ content knowledge, engage them in constructing their own knowledge, and support the development of complex thinking skills” (Kozma, 2005; Kulik, 2003; Webb & Cox, 2004) (Noor-Ul-Amin, S. 2013).

## Types of ICTs used in Education

There are different types of ICTs used in classrooms nowadays. “e-Learning” is the most famous ICTs that is expanding rapidly all over the world.

**Blended learning** is another method, which refers to learning models that combine traditional classroom practice with E-learning. For example, students in a traditional class can have both print-based and online materials, have online training



sessions with their teacher and be part of the class E-mail list. Another activity would be a Web-based training course, which can be enhanced by periodic face-to-face teaching. Blended learning indicates that not all learning is best achieved in an electronically mediated environment. However, it should be stressed that the learning objectives and outcomes and the characteristics of the learners should be optimized in order to succeed in the acquisition of knowledge.

### “Digital literacies”

*“Digital literacies: the individual and social skills needed to effectively interpret, manage, share and create meaning in the growing range of digital communication channels”* (Dudeney, Hockly & Pegrum 2013). We’re preparing students for a future in which the technological development will mold everyone’s life. We do not know what new jobs will exist. “We’re starting to Develop a much clearer picture of the competencies needed to participate in post-industrial digitally Networked Economies and Societies” (Dudeney, Hockly & Pegrum 2013). Neil Selwyn denotes that there are external and internal imperatives for the incorporation of digital technologies into education. External imperatives concern the need to prepare students for social life and employment outside the classroom (Dudeney, Hockly & Pegrum 2013). It is largely due to such external imperatives, that school curricula around the world are beginning to emphasise the importance of digital competencies (Belshaw, 2011; Selwyn, 2011). “The first set of key literacies our students need is broadly connected with the communication of meaning through language, including the many channels that complement, supplement and, on occasion, supersede linguistic expression. Print *literacy: the ability to comprehend and create a variety of written texts, encompassing a knowledge of grammar, vocabulary and discourse features alongside reading and writing skills*” (Dudeney, Hockly & Pegrum 2013).

### ICT as learner-centered environment

Research has shown that the appropriate use of ICTs can accelerate the teaching methodology shift in both content and pedagogy that is at the heart of education reform in the 21st century. If Information and Communication Technology is implemented properly in education and mainly in English language teaching and learning, it will promote the acquisition of the knowledge and skills that will empower students for lifelong learning. ICTs, such as computers and Internet technologies, enable new ways of teaching and learning English language rather than simply allow teachers and students to revise their teaching and learning methods.

**ICTs contribution in:** *Active learning.* ICT learning mobilizes tools for examination, calculation and analysis of information. Learners therefore learn whenever appropriate, work on real-life problems, making learning less difficult and more relevant to the learner’s life situation. In addition, ICT learning increases learner engagement. Another use of ICT learning could be “just-in-time” learning, in which learners can choose what to learn when they need to learn it.

*Collaborative learning.* ICT learning encourages the cooperation and interaction among students, teachers, and experts regardless of where they are. Apart from real-world interactions, ICT-supported learning provides learners, the opportunity to work with people from different cultures, helping them in improving teaming and communicative skills.

*Evaluative learning.* ICT learning is student-centered. Unlike static, text or printed-based educational technologies, this new method of learning realizes that there are many different learning ways and many opportunities of acquiring knowledge. ICTs allow learners to explore and discover rather than just listen and remember and this is very important when you are learning English, for example, when you need to recall new words which you have come across recently you can find its definition and its use faster because you have some previous experience in using it in similar scenarios.

### ICT as a method of information delivery

Students encounter ICT in many areas of their lives and it is essential that we provide them with opportunities to explore the technology and encourage them to use it as a learning tool. What researchers say about this is that to implement ICT successfully in their classrooms teachers must understand what visual literacy is and rethink what learning to read and write means in the 21st century. (Goodwyn, 1997; Reid, 2002). English teachers can maximize the impact of ICT in their classrooms by ensuring that they and their students use ICT as an integral part of lessons, present ideas dynamically, and use a range of media.

“To implement ICT successfully in their classrooms teachers also need to identify how ICT can be used to meet specific objectives within the English curriculum to improve pupils attainment” (Moseley, 1999)

Using ICT enables English teachers to tap into this learning style and the dominant youth culture. Many modern ICT texts can also be used as a starting point for the exploration of traditional texts (Smithson, 2005). For example, an interactive site such as the virtual tour of the Globe Theatre site allows us to bring Shakespeare’s world to life. ICT also enables a representation of language as a symbolic system. Furthermore the use of well-designed ICT environments can help pupils understand abstract concepts such as imagery, literary relations, and morphology. (Interactive Education, 2006).

Plomp, Pegrum & Law (2007) claim that people have to access knowledge via ICT in order to keep pace with the latest developments. If we keep pace with the latest technological developments, we will be able to find new ways of acquiring and facilitating the “path” towards new knowledge techniques.

## Using ICT in classrooms

The use of ICT in the classroom can vary from simple presentation of teaching materials through use of PPT slides, websites and other Internet resources. The recent changes in work environment call for new skills to be developed. There is a need for new pedagogical tools to be used in a classroom environment. These ICT tools should foster motivation, curiosity and interest of students for effective learning. The framework to discuss the use of ICT in the classroom is provided by Leidner and Jarvenpaa (1995). In their theoretical review, they noted that the impact of technology on learning can be based on the four distinct ICT visions derived from the organizational research: automating, informing up, informing down and transforming. As applied to education, they found that neither teaching nor learning was conducive to automation as these could never be fully structured activities. However, some aspects of instruction, particularly the delivery of information could be automated to some extent—largely through the facilitation of presentations using text, graphics and some animation. At present, this use of ICT is rather widespread in management education (Buhamik 2012). In the educational context, it would mean giving feedback to the instructor as well as asking questions so as to clarify misunderstandings and misinterpretations during a classroom session. This could be done through key response pads and e-mail, but both the extent of its use and its impact is rather limited. This is perhaps because in classroom teaching this can be better achieved through immediate face-to-face communication. However, in the context of a course, this could happen between one class and the next and ICT could be very helpful in informing up between classes through the use of e-mail, discussion boards, learning systems and even social media. Also, in technology mediated learning where technology drives the complete delivery of education, informing up would be one of the important uses of ICT. In classroom use, informing down would mean providing information to students, probably from more than one source, so that they can critically analyze the information and discuss it among peers. This may mean accessing databases and other external sources of information as well as platforms for discussion—some of which may even be performed outside the classroom. This use of ICT may vary from course-to-course but it is rather extensive in the teaching of some management courses like operations management, finance and economics (Buhamik 2012). The ICT vision of transforming would mean transforming the teacher–student interactions and some aspects of the student–teacher relationship. Conceptually, it is possible to extend the chronological and the spatial boundaries of the classroom using different tools offered by ICT. Again, much of this happens outside the classroom. Blackboard and other learning systems like Moodle have been developed to provide platforms for both student–teacher and student–student interactions and have found widespread adoption all over the world (Buhamik 2012). From a pedagogical perspective, the purpose of ICT in classroom is to help the students in their learning process and making it more useful and efficient. The use of ICT has to be made in harmony with the pedagogy chosen by the teacher. In the classroom, the use of ICT is primarily in extracting, retrieving, exploring, running and display of teaching material, concepts, ideas, models, processes, simulations and games. The communication to the students is through the screen, which displays information in a passive form or in an interactive form (Buhamik 2012).

## ICT enhancing teaching and learning process

Yusuf (2005) says The field of education has been affected by ICTs, which have undoubtedly affected teaching, learning and research (Yusuf, 2005). ICTs have the potential to accelerate, enrich, and deepen skills, to motivate and engage students, to help relate school experience to work practices, create economic viability for tomorrow's workers, as well as strengthening teaching and helping schools change (Davis and Tearle, 1999; Lemke and Coughlin, 1998; cited by Yusuf, 2005). Oliver, (2000) claims that, contemporary ICTs are able to provide strong support for all these requirements and there are now many outstanding examples of world class settings for competency and performance-based curricula that make sound use of the affordances of these technologies. "The flexibilization time-space accounted for by the integration of ICT into teaching and learning processes contributes to increase the interaction and reception of information. Such possibilities suggest changes in the communication models and the teaching and learning methods used by teachers, giving way to new scenarios which favor both individual and collaborative learning" (Cabero 2001). ICT increases student engagement, which leads to an increased amount of time students spend working outside class (Becker 2000). Coates et al. (2004) showed that students in on-campus courses usually score better than their online counterparts, but this difference is not significant here. ICTs and Internet technologies set up new ways of teaching and learning.

## People study and sampling

A sample of 150 students of the second year took part in this research and we noticed that after teaching and discussing the same topic, using the traditional method of the teaching and ICT tools, different results emerged. Data sample includes: Faculty of Foreign Languages of Tirana – EFL Students. This is a representation sample which allows us generalize the results for all students of the second year during their Bachelor studies. Intentional sample selected requires: a. **Students age 19-22 years.**

The selection of the classes where English Language subject is taught was random. The main question, which show the impact/influence ICT has on students learning activity, is: In lessons, how often are you engaged in the following (whether using ICT or not)?

1. You concentrate more on what you're learning
2. You try harder in what you're learning
3. You understand more easily what you're learning
4. You remember more easily what you've learnt
5. ICT enables you to work better with other students on tasks
6. ICT improves the atmosphere in class (e.g. students are more engaged, there is less disruption)

**In the table below you will find the results of the questionnaire:**

Question	Not at all	A little	Somewhat	A lot
You concentrate more on what you're learning		4	17	129
You try harder in what you're learning	2	2	18	128
3. You understand more easily what you're learning		2	5	143
4. You remember more easily what you've learnt		2	6	142
5. ICT enables you to work better with other students on tasks	2	4	10	134
6. ICT improves the atmosphere in class (e.g. students are more engaged, there is less disruption)	1	1	8	140

## Data base methodology

Combined methodology has been used. Qualitative and quantitative analysis of 150 questionnaires that were part of this research. I interviewed 5 teachers. The quantitative data collected were processed by statistical program SPSS.

## Study results

Students paid greater attention while using the PC and other audio-visual tools. We reached this conclusion after we compared the results of the questionnaires. For example, new words that were related to the description of the types of houses were illustrated with pictures. After showing these photos, the feedback from students was high and they were able to make the difference from one type of house to another using the appropriate words in English to illustrate them. It was very difficult to receive a feedback from them when we explained the difference of the houses only by focusing in the difference from one another without showing them the pictures. Another example that shows ICT is fruitful in teaching and learning environment, was when a short *reading part* about a famous English play was the topic that students would be asked about. Students read the part that was in the book and they responded to some questions. They were not told if their answers were correct or not because we wanted to play a video of the same part they had previously read. We played a video that contained the same part of the play and the feedback was completely different and more positive. The results of the use of audio-visual media enabled students to understand the mistakes they had made after they had read the text. The video made it easier for them to make more interpretations and also some of them found out how to pronounce some words, which they mispronounced when they were reading the text. As a result, we would like to add that the concentration of students on the topic increased considerably. They reported that it was easier to understand the topic and concentrate on the main idea of the plot. They were also able to make a summary immediately after watching the images and videos of the same topic they read during the traditional teaching-learning process. Their memory "wasn't playing games" anymore. In other words, they felt that recalling and memorizing important details was as simple as understanding the main idea of the plot. Furthermore, writing down notes about the topic was easier and more efficient. Another improvement in the learning process was the ability to discuss with other students after watching the images and the video. They also felt more engaged and more willing to discuss on different topics.

## Conclusion

The use of ICTs help students acquire the information they need and helps them interpret and analyze the information. Critical thinking is improved and ICT can be considered a more inclusive approach. The continued use and development of ICTs within education will have a strong impact on: ICT in teaching- learning process, in the quality and accessibility of education, in learning motivation and academic performance. In addition, it will increase flexibility so that learners can access the education regardless of time and geographical barriers. It can influence the way students are taught and how they learn. It

would provide the rich environment and motivation for learning process, which seems to have a great impact on the process of learning English as a Foreign Language by offering new possibilities for learners and teachers. ICT helps students boost their critical thinking and also makes them more attentive. They show a better understanding of the texts they read or the parts they listen. This is a learner centered approach which makes them feel they are doing something which is not only a matter of studying a new language, but also learning new things and making use of them in improving their communication skills and other skills which make you a better English user.

## Recommendations

- 1) The inclusion of ICT in Educational Institutions should be the next step towards future in our Educational Institutions.
- 2) Digital literacy it is the first step towards the implementation of new computer based technologies
- 3) Insertion of more books which will be accompanied by audio-visual materials that will facilitate a lot the learning process for learners of English as a Foreign Language.
- 4) The use of different audio-visual techniques which will facilitate the information absorption.
- 5) Digital communication should not be a taboo in today's hi-tech era. Communication and other learning/teaching activities should not be limited due to lack of tech skills.
- 6) It is necessary to change some laws and the force they exert towards the role that should be given to teaching through technology, for the sole reason that its use is becoming essential.
- 7) We should do more in order to increase the importance of technological awareness and its contribution in the classrooms.
- 8) Frequent training courses for teachers and learners in regard to the use of the technology.
- 9) We should make a detailed analysis of the present state of the educational system and address the problems of infrastructure, methodology, language, training of teachers and students.
- 10) ICT use must take in consideration the current institutional practices.

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# Anxiety of performance and of social interaction in a sample of Albanian university students

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## Abstract

*Social anxiety is a disorder characterized by constant fear of social interaction and performance situations, as well as avoidance behaviour. The present study assessed social anxiety and its' specific dimensions of performance and social interaction, as well as demographic correlates such as age and gender in a sample of 360 Albanian university students. Liebowitz Social Anxiety Scale was used as a measuring instrument, and the study was conducted online. Results revealed particularly high rates of social anxiety, more specifically, 34% of the sample was classified with very probable to highly probable social anxiety. Age and gender were irrelevant in explaining patterns of fear or avoidance behaviour. However fear and avoidance components were strongly correlated both in performance and social interaction situations. Findings have implications for future research on social anxiety in Albania, particularly as regards specific cultural values/dimensions which might trigger or enhance social anxiety tendencies (e.g., criticism, lack of openness etc.)*

**Keywords:** social anxiety, performance, social interaction, Albania, students

## Theoretical background: An overview on social anxiety and its' dimensions

### Social anxiety: Definitions and empirical research

Social anxiety is classified as a disorder, whose main distinguishing characteristics involve persistent and continuous anxiety and fear related to social situations, as well as behavioural efforts to avoid these situations (American Psychiatric Association 2013). Hence, social anxiety includes apart from the emotional component (anxiety, fear), also a cognitive component (anticipation of embarrassment and negative cognitive schemata) and a behavioural outcome (avoidance, delay, distancing etc.) (Bacon & Ham 2010; Kashdan & Steger 2006; Kashdan 2007; Kashdan, Elhai & Breen 2008). Individuals diagnosed with the disorder experience a high rate of all three components, and consequently great interference with normal everyday functioning (American Psychiatric Association 2013). For instance they consider negative social events as more probable to occur and also report more severe distress as compared to non-anxious controls (Foa, Franklin, Perry & Herbert 1996; Rheingold, Herbert & Franklin 2003). In terms of everyday functioning social anxiety produces impairment in several simple daily activities, which require interaction with others, as well as the formation of new friendships, romantic relationships, performance situations (either at school or in jobs involving social interaction) etc. (Schneier et al. 1994). Subjective reports of life satisfaction also suggest that individuals with social anxiety are significantly less satisfied in several domains including relationships with significant others, leisure/free time, school or job performance etc. (Khalid-Khan, Santibanez, McMicken & Rynn 2007; McCarroll, Lindsey, MacKinnon-Lewis, Campbell-Chambers & Frabutt 2009; Stein & Kean 2000; Wittchen et al. 1999). Levels of self-esteem as well as perceived social support from others are also reported to be quite low, and likelihood to engage in health risk behaviours such as substance use and abuse is considered as higher than control groups (Bakken, Landheim & Vaglum 2005; Book, Thomas, Smith & Miller 2012; Buckner & Schmidt 2008; Buckner, Heimberg & Schmidt

2011; Caslyn, Winter & Burger 2005; Ham 2009; Ham et al. 2010; Johnson 1991; Schneiner et al. 2010; Stice & Barrera 1995; Van Zalk, Van Zalk, Kerr & Stattin 2011).

A developmental perspective on the disorder suggests that the typical onset is during adolescence; indeed peer pressure, need for social acceptance, imaginary audience etc. are only some of the developmental aspects which might boost social anxiety symptoms (Ballenger et al. 1998; Chartier, Walker & Stein, 2003; Stein & Kean 2000). One of the most observable characteristics of adolescents with social anxiety, is the very limited number of friends or the inability to form new friendships (La Greca & Lopez 1998; Vernberg, Abwender, Ewell & Beery 1992).

However, social anxiety symptoms, which do not meet diagnostic criteria, are quite widespread among the general population; for instance, research has shown that a substantial fraction of American college students (38%-75%) report some of social anxiety symptoms (Baum, Duffelmeyer & Greenlan 2001; Bryan 2005). Indeed, young adulthood poses significant developmental challenges on the individual in terms of achievement, acceptance, belonging, intimacy etc. (Erikson, 1978). Moreover exposure to novel situations, and performance pressure, which characterize college or university life certainly increase the risk of displaying symptoms for individuals with anxious tendencies (e.g., public speech, eating in public etc.) (American Psychiatric Association 2013; Hartman 1986; Schenkler & Leary 1982; Weeks, Heinberg & Rodebaugh 2008).

Apart from developmental stages and chronological age, social anxiety symptoms and diagnosis also seem to show different patterns based on gender (Grossman, Wilhelm, Kawachi, Sparrow 2001; Turk et al. 1998); for instance, there is evidence that adolescent girls' scores on social anxiety are significantly higher as compared to boys (La Greca & Lopez 1998; Wittchen, Stein & Kessler 1999; Peleg 2004). Findings have also been replicated with university students (e.g., Peleg, 2002, 2005). Some authors have suggested the involvement of specific gender schemata, particularly as regards situations provoking social anxiety; for instance there is evidence that women report higher anxiety rates in talking to authorities or performance situations, while men, in using public restrooms or returning goods to a store. Gender of the observer has also shown to be relevant, particularly in performance tasks (e.g., men evaluated by women in specific tasks) (Larkin, Ciano-Federoff, & Hammel 1998).

### **Dimensions of social anxiety: Fear and avoidance in performance and social interaction contexts**

Research on social anxiety has examined physiological, cognitive, emotional and behavioural components, particularly as individuals are subject to task evaluation experiments (i.e., performance conditions). For instance research investigating physiological arousal in task evaluation conditions, has demonstrated that individuals with social anxiety report greater arousal, both in anticipation of the task and also during performance (Anderson & Hope 2009). Nonetheless, this same study also provided objective physiological measures (apart from self-reports) which were compared to non-anxious individuals; interesting enough results showed that the two groups did not differ in physiological measures of arousal but only in subjective self reports, i.e., socially anxious individuals show greater awareness of physiological changes during performance situations, and are also more anxious about any social consequences (evaluation of performance by others). These results were replicated by Thibodeau, Gómez-Pérez, and Asmundson (2012), who investigated aspects of social anxiety in situations involving some form of 'perceived social threat' in performance situations (public speaking, monitored typing task etc.); once more perceived rather than objective physiological arousal, was important in predicting social anxiety symptoms. Authors highlight the role of anxiety sensitivity as a mediator between social anxiety and perceived arousal. Indeed beliefs that physiological feedback affects performance quality during social evaluation tasks actually produces higher social anxiety levels (Ashbaugh, Radomsky 2009).

Hence research suggests that performance anticipation is an important aspect to consider in understanding social anxiety. However, post-performance processing also is important to consider, i.e., the interpretation and reconstruction of social performance *after* it has occurs (Brozovich & Heimberg 2008; Mor & Winquist 2002). Thus individuals with social anxiety symptoms experience repetitive post-event thoughts, ultimately leading to negative affect and overall negative self-evaluation. Research suggests that this process is not exclusive to performance situations; simple social interaction situations (e.g., engaging in conversation) also produces these cognitive and emotional effects; for instance socially anxious individuals overestimate the visibility of anxiety symptoms during social interactions (overestimate the extent to which others perceived 'anxiety signals' during social interactions (Wild, Clark, Ehlers & McManus 2008).

Therefore, over-interpretation of physiological symptoms during performance or social interaction situations, accompanied by post-event rumination, promote feelings of anxiety and subsequent behaviour. Indeed avoidance behaviour is a distinguishing feature of social anxiety (Arntz, Rauner & van den Hout 1995) provide an interesting perspective on the relationship between negative emotional states, dysfunctional cognitions and avoidance behaviour. In line with 'the fight or flight' stress response, authors suggest that feelings of anxiety are automatically associated with danger and consequently the flight response (avoidance of social, or performance situations). The avoidance dimension of social anxiety is particularly important to consider as it directly interferes with everyday function, i.e., individuals retreat in their comfort world, which might become smaller and smaller every day.

### **Context and purpose of the study**

The investigation of social anxiety is important in the context of the post-modern society and the radical changes in forms of social communication and relationship formation. Moreover the accumulation of data from different countries, provides very interesting cross-cultural perspectives, which enable a more comprehensive understanding of the specific symptoms

and disorder itself (Hofmann, Asnaani & Hinton 2011). Particular interest would provide studies from countries undergoing important transitional processes as regards social, economic or political aspects. Albania provides a good example of a country undergoing important changes within the last 3 decades; examples include the shifting of social norms and values, changes in family dynamics and structures, intensification of social problems such as poverty, job insecurity etc. These socio-cultural and economic factors certainly pose Albanian youth in front of enormous challenges, in terms of development and promotion of the self into society. Indeed research studies indicate increasing rates of depression and anxiety in general (Instituti i Shëndetit Publik 2015); nonetheless, social anxiety has not been systematically investigated so far.

The aim of the present study was to assess social anxiety symptoms in a sample of Albanian youth (university students) in order to determine a. probability of developing the disorder b. relationships between fear and avoidance components of performance and social interaction c. Predictors of Performance Avoidance and Social Interaction avoidance d. Gender or age patterns in social anxiety symptoms.

## Methodology

### Participants

360 Albanian university students participated in the study. In terms of gender composition, there were 117 men and 243 women, Mean<sub>age</sub> = 25 years, SD = 8 years. There was an almost even distribution of participants in terms of their fields of study; more specifically there were 115 students from the Faculty of Law, 135 students from the Faculty of Economics & Information Technology and 110 students from the Faculty of Social Sciences.

### Procedure

The self-report questionnaire was uploaded online using Google Docs Platform. Five hundred email contacts of students were randomly selected from the database of the University. Through a personalized email students were invited to participate in the study; the purpose of the study was briefly explained while also ensuring anonymity and confidentiality of the data. Contact details of the researcher were also provided in case participants needed further questions/clarifications.

### Instruments

The measure of social anxiety was Liebowitz Social Anxiety Scale (Liebowitz 1987). Additionally participants were also asked to provide information on gender, age and education. Liebowitz scale consists of 24 items; 11 of them refer to Social interaction situations and 13 to Performance situations. Participants are asked to rate their levels of anxiety/fear in the specific situations provided and afterwards also rate the likelihood of avoidance behaviour in the same situations. In both cases responses were provided on a Likert scale; anxiety levels were assessed in a scale from 0 (None) to 3 (Severe), and Avoidance behaviour on a scale from 0 (Never) to 3 (Usually). Scores are provided in total and also for the specific dimensions such as Anxiety in Social Interaction, Anxiety in Performance Situations, Avoidance of Social Interaction and Avoidance of Performance situations. The maximum in the total score of social anxiety is 144, and the categorization of scores is the following; total scores higher than 90 indicate a high probability of social anxiety; scores from 60 to 90 indicate that social anxiety is very probable and scores between 30 and 60 indicate that social anxiety is probable. Finally scores up to 30, indicate that social anxiety is unlikely. The total scale had very good internal consistency, Chronbach's  $\alpha = .94$ . Additionally all four subscales had acceptable internal consistency ranging from  $\alpha = .86$ , for Anxiety in social interaction to  $\alpha = .79$  for Avoidance of performance situations. Anxiety in performance situations and Avoidance of social interactions, had the same internal consistency,  $\alpha = .84$ .

Two independent interpreters translated The Liebowitz scale from English to Albanian. Subsequently, the researcher compared and contrasted both Albanian versions in terms of clarity of expression and comprehensibility. Mismatches were identified and in these cases the researcher who was proficient in English, chose the most appropriate item. A small pilot study was conducted with 8 students to ensure the comprehensibility and clarity of the items; however there were no major corrections to the questionnaire.

## Results

Table 1 shows descriptive statistics for Total Social Anxiety, Fear of Social Interaction, Fear of Performance, Avoidance of Social Interaction and Avoidance of Performance. As regards total scores on social anxiety, and categorization in terms of likelihood of disorder's presence, results indicated the following: only 5% of the sample (i.e., 18 participants) reported the highest scores, thus falling into the category of 'highly probable social anxiety'. However, almost 29% of participants (i.e., 104 students) reported scores up to 90, falling into the category of 'very probable social anxiety'. Moreover, probable social anxiety was reported by almost 44% of the sample (158 participants), while only 22% of them (80 participants) reported 'unlikely social anxiety' (i.e., total scores up to 30).

**TABLE 1.** Descriptive statistics for fear and avoidance of social interaction and of performance.

	N	Minimum	Maximum	Mean	Std. Deviation
Social Anxiety Total	360	.00	133.00	50.70	23.50
Fear of Social Interaction (Fear SI)	360	.00	33.00	11.30	6.90
Fear of Performance (Fear PER)	360	.00	34.00	14.80	7.51
Avoidance of social interaction (Avoid SI)	360	.00	31.00	10.85	6.03
Avoidance of Performance (Avoid PER)	360	.00	36.00	13.78	6.51
Valid N (listwise)	360				

Table 2 shows relationships between study variables, including the fear and avoidance components of social anxiety and age. Results indicated statistically significant, strong positive correlations between Fear of Social Interaction and Fear of Performance,  $r=.82$ ,  $p<.001$ , but moderate correlations between Fear of Social interaction and Avoidance of Social Interaction,  $r=.70$ ,  $p<.001$ , and Avoidance of Performance,  $r=.62$ ,  $p<.001$ . The correlation between Fear of Social Interaction and Age was significant but weak,  $r=.13$ ,  $p<.05$ . As regards Fear of Performance, the strongest relationship was with Fear of Social Interaction (as reported above), while there were moderate positive correlations with Avoidance of Social Interaction and Avoidance of Performance,  $r=.54$ ,  $p<.001$  and  $r=.69$ ,  $p<.001$ , respectively. Fear of Performance demonstrated no significant correlations with Age. Avoidance of Social Interaction was moderately correlated with all four other components, while showing the strongest positive correlation with Avoidance of performance,  $r=.73$ ,  $p<.001$ , and the weakest one with Age,  $r=.18$ ,  $p<.01$ . Finally, Avoidance of Performance also demonstrated strongly moderate relationships with all other components and a weak positive relationship with age,  $r=.15$ ,  $p<.01$ .

**TABLE 2.** Correlations between fear and avoidance components of social anxiety and age.

		Fear SI	Fear PER	Avoid SI	Avoid PER
Fear SI	Pearson Correlation	1	.82**	.70**	.62**
	Sig. (2-tailed)		.000	.000	.000
	N	360	360	360	360
Fear PER	Pearson Correlation	.82**	1	.54**	.69**
	Sig. (2-tailed)	.000		.000	.000
	N	360	360	360	360
Avoid SI	Pearson Correlation	.70**	.54**	1	.73**
	Sig. (2-tailed)	.000	.000		.000
	N	360	360	360	360
Avoid PER	Pearson Correlation	.62**	.69**	.73**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	360	360	360	360
Age	Pearson Correlation	.129*	.065	.176**	.148**
	Sig. (2-tailed)	.015	.225	.001	.005
	N	360	360	360	360

Regression analysis for Avoidance behaviour with Gender, Age, as well as respective avoidance components (Avoidance of Social Interaction and Avoidance of Performance interchangeably) resulted in significant predictive models. Hence for Avoidance of Social Interaction, results indicated a significant model,  $F(5,355) = 150.55$ ,  $p<.01$ , predicting 68.4% of the variance in scores of social interaction avoidance. Table 3 indicates unstandardized and standardized coefficients; Gender and age were not significant predictors, while the strongest predictor was Fear of Social Interaction  $\beta=.66$ ,  $p<.001$ , followed by Avoidance of Performance,  $\beta=.61$ ,  $p<.001$ , and Fear of Performance  $\beta=.42$ ,  $p<.001$ .

**TABLE 3.** Regression model for Avoidance of Social Interaction with predictors: gender, age, Fear of Social Interaction, Fear of Performance and Avoidance of Performance.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.148	.763		1.505	.013
	Gender	-.209	.391	-.016	-.534	.594
	Age	.020	.024	.026	.837	.403
	Fear SI	.581	.047	.661	12.473	.000
	Fear PER	.338	.046	.421	-7.291	.000
	Avoid PERF	.564	.039	.611	14.432	.000

As regards Avoidance of Performance, results indicated a significant model,  $F(5,355) = 150.10$ ,  $p < .01$ , predicting 68.3% of the variance in scores of social interaction avoidance. Table 4 indicates unstandardized and standardized coefficients; once more, gender and age were not significant predictors, while the strongest predictor was Avoidance of Social Interaction  $\beta = .62$ ,  $p < .001$ , followed by Fear of Performance,  $\beta = .61$ ,  $p < .001$ , and Fear of Social Interaction,  $\beta = .42$ ,  $p < .001$ .

**TABLE 4.** Regression model for Avoidance of Performance with predictors: gender, age, Fear of Social Interaction, Fear of Performance and Avoidance of Social Interaction.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.974	.829		1.176	.024
	Gender	.276	.425	.020	.650	.516
	Age	.036	.026	.044	1.422	.156
	FearSI	.307	.059	.322	-5.248	.000
	FearPER	.539	.046	.613	11.789	.000
	AvoidSI	.664	.046	.619	14.432	.000

Finally as regards gender differences in total scores of social anxiety as well as performance or social interaction components, results were not significant; i.e., men and women reported similar overall scores of social anxiety as well as the specific performance or social interaction dimensions. Table 5 indicates more specifically the results of gender comparisons.

**TABLE 5.** Gender differences in fear and avoidance of social interaction and of performance.

		Levene's Test for Equality of Variances		t-test for Equality of Means		
		F.	Sig.	t	df	Sig. (2-tailed)
FearSI	Equal variances assumed	1.589	.208	.587	354	.557
	Equal variances not assumed			.574	211.988	.567
FearPER	Equal variances assumed	4.147	.042	.124	354	.902
	Equal variances not assumed			.118	199.533	.906
AvoidSI	Equal variances assumed	1.254	.264	.715	354	.475
	Equal variances not assumed			.696	209.897	.487
AvoidPERF	Equal variances assumed	.368	.545	.024	354	.981
	Equal variances not assumed			.023	205.999	.982
Social Anxiety total	Equal variances assumed	1.920	.167	.734	354	.463
	Equal variances not assumed			.718	212.384	.473

## Discussion

The aim of the present study was to assess social anxiety and particularly its specific dimensions and demographic correlates in a sample of Albanian university students. Results indicated that 34% of the sample (i.e., almost 1/3) scored in the range between very probable to highly probable social anxiety. Although conclusions on prevalence rates are quite hard to be made,



due to sampling size and representativeness, these data are quite concerning, and clearly pose the need for further research on social anxiety in Albania, particularly among youth. The universal developmental challenges of adolescence and young adulthood, together with specific challenges posed by the Albanian socio-cultural and economic context suggest the need for future research in this direction, e.g., focusing on the particular contextual features that might promote vulnerability. Indeed several authors have drawn attention to culture specific mediators of social anxiety and the great need of conducting cross-cultural research (Hofmann, Asnaani, Hinton 2011). Future research might consider the sociocultural context, e.g., specific norms or values, especially since there is evidence of a relationship between collectivistic tendencies and higher levels of social anxiety (Norasakkunkit & Kalick 2002; Okazaki 1997). Along these lines socio-economic status (and particularly poverty) might also be important to consider in relation to social anxiety symptoms; indeed there is some research evidence of an inverse relationship between socioeconomic status and social anxiety (lower status related to higher anxiety rates) (Schneiner, Johnson, Hornig, Liebowitz & Weissman 1992; Schneiner et al 1994).

As regards relationships between variables, results revealed strong correlations between fear of social interaction and fear of performance. Hence, despite the fact that these two dimensions might be theoretically distinct from each other, in practice they are strongly correlated as in all cases fear of performance includes the social component (performance in front of others) and vice-versa social interaction includes a performance component (i.e., an evaluation of how well they did, even in behaviours as simple as small talk). Results on avoidance behaviour also support this claim; more specifically, Avoidance of Social Interaction and Fear of Performance had almost the same impact on Performance Avoidance as shown in the respective regression model, although it would be expected that Fear of Performance would have the largest impact. Finally Fear of social interaction was also an important predictor of Performance avoidance.

As regards age or gender patterns results did not show any relevance as regards social anxiety components. Although age was significantly (but poorly) correlated with three out of four components of social anxiety, it was insignificant in the predictive model. Even so the positive correlation is in line with research suggesting increasing social anxiety symptoms with age, particularly among young adults (Hartman 1986; Schenkler et al. 1982; Weeks et al. 2008). As regards gender, results revealed no significant gender differences, either in overall scores of social anxiety or in the specific dimensions. This result is surprising since it is not in line with existing research suggesting the presence of gender differences (Grossman et al. 2001; La Greca et al. 1998; Wittchen et al. 1999; Peleg 2004). Despite the fact that overall scores do not differ, gender patterns and variability might still exist, and future research (maybe qualitative) needs to be conducted in this direction.

## Conclusions

The present study assessed social anxiety and its specific dimensions as well as demographic correlates such as age and gender in a sample of Albanian university students. Results revealed particularly high rates of social anxiety but no age or gender patterns were found. As theoretically predicted fear and avoidance components were strongly correlated both as regards performance and social interaction. Particularly interesting was the relationship between the two behavioural components of avoidance (performance and social interaction), a finding suggesting the consistency of behavioural patterns across individuals. Future research might need to focus on specific cultural values/dimensions which might trigger or enhance social anxiety tendencies (e.g., criticism, lack of openness or flexibility etc.)

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# Sociological perspectives on education.

## A critical look at the main sociological theories in educational system

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### Abstract

*Sociological theories tend to explain everything going on regarding social issues and environmental education along socio - educational. How, for example, studies concerning the school social organization, the role of teachers and students, building constructive relationships between their hierarchical planning, socialization processes, social institutions such as family, school, social groups, media etc. Why is it important interpretation of sociological theories in education? The term sociology of education, means to study the structure, processes and practices through the perspective educational and sociological theories. This paper aims precisely the interaction between these two schemes, to contribute to a new approach integrating educational and interpretative system. The study is based on research of some sociological theories to explain their impact on the manner and form of operation of the educational system. There are classical theoreticians like Spencer, Durkheim, Parson to the theory of functionalism; Simmel, Cooley, Mead, Goffman to the theory of symbolic interaction; Marks to conflict theory, Giddens to the theory of modernity, etc. Given that all these theorists are divided ideologically in micro and macro theory, divisions remain precisely on two main questions that they manage. At the macro level functionalist wonder what are the functions of education for society as a whole? While at the micro level but also dialectical (combination of micro systems - macro) they tend to analyze the relationship between education and other parts of the social system as economy, politics, social innovative elements, etc. global developments. Study will carry out a critical overview of sociological theories in education. In this paper I examine the sociology of education, its origins, its defining characteristic, its dominant theories and methods, and some of the issues that are important today in educational environments.*

**Keywords:** Sociological Theory, Education, Social System, the educational system.

### Meaning and Concept of sociology of education

The word Sociology is derived from the combination of the Latin *socius* - meaning 'companion' and the Greek *logos* - meaning 'the study of'. So the word literally means the study of companionship, or social relations. It is the science or study of the origin, development, organization, and functioning of human society. It is the science of fundamental laws of social behavior, relations, institutions, etc. The word **Education** comes from the Latin *e-ducere* meaning - to lead out. Webster defines *education* as the process of educating or teaching. *Educate* is further defined as - to develop the knowledge, skill, or character of... Thus, from these definitions, one can assume that the purpose of education is to develop the knowledge, skill, or character of students. (Sundar, no dates, p. 2). "Education is a philosophical as well as a sociological concept, denoting ideologies, curricula, and pedagogical techniques of the inculcation and management of knowledge and the social reproduction of personalities and cultures". (Oxford University Press, 1998). According to Crossman, he said that while education is typically viewed in most societies as a pathway to personal development, success, and social mobility, and as a cornerstone of democracy, sociologists who study education take a critical view of these assumptions to study how the institution actually operates within society. They consider what other social functions education might have, like for

example socialization into gender and class roles, and what other social outcomes contemporary educational institutions might produce, like reproducing class and racial hierarchies, among others. (Crossman, 2016). Sociology of Education may be defined as the scientific analysis of the social processes and social patterns involved in the educational system. Brookover and Gottlieb consider that – this assumes education is a combination of social acts and that sociology is an analysis of human interaction. Educational process goes on in a formal as well as in informal situations. Sociological analysis of the human interaction in education may include both situations and might lead to the development of scientific generalizations of human relations in the educational system. (Sundar, no dates, p. 2).

In other hand White said that education, funnily enough, creates sociology. Sociology, the study of human society, reflects everything we are taught through education. It's actually at the core of society but can come in a number of forms. *Socialisation* is the name for this learning factor and we are educated through a number of influences, including our family, school, religion, media, etc. Education is a form of secondary *socialisation* as it's secondary to something like the family and builds on what we learned in our infancy. In most countries, state schools are the preferred means by which the population is educated and therefore is the most dominant. It's where the state and other influences, such as religion if you went to a religious school, are able to have an impact on our learning process. Schools educate us in a number of different ways and prepare us for future interactions with other human beings. It will form part of what type of person you will become. (White, 2016). A study of sociology of education helps the educator avoid provincialism in his professional behavior and attitudes, since a concern and interest in sociology of education broadens the experience and hence the tolerance of educators. In short the subject provides the educator with knowledge of the merits of other cultures. (Fanta, 2010, p.133). Swift therefore in 1969, defined education as “*the process by which the individual acquires the many physical, moral social capacities demanded of him by the group into which he is born and within which he must function.*” (University of Nigeria, 2006, p.52). This process has been described by sociologists as socialization.

## Relationship between sociology and education

First of all, we need to understand the Difference between educational sociology and sociology of education. Educational sociology is a branch of discipline of sociology which studies the problems of relationship between society and education. It prepare educators for their future tasks. It uses the results of sociological researches in planning educational activities and in developing effective methods of realizing these plans. Educational sociology studies education sociologically, with the premise that it recognizes education as a social fact, having a social function, a process and an institution. For example the problem of schooling etc. but many researchers, are not agree with the meaning of two terms. They think, that there should be a separate branch of knowledge which can be designated as *sociology of education*. Sociology of Education may be defined as the scientific analysis of the social processes and social patterns involved in the educational system. For example, in 1963, the Journal of Educational Sociology became the Journal of Sociology of Education. According to Saha (2011), the sociology of education is the study of educational structures, processes, and practices from a sociological perspective. This means that the theories, methods, and the appropriate sociological questions are used to better understand the relationship between educational institutions and society, both at the micro and macro levels. (Saha, 2011, p.301). The role of sociology in education is to establish the sociological standpoint and show its appreciation to education. Schooling, in this view, is a site of perpetual adjustment as participants attempt to decipher and share meanings with one another and, in the process, shape their personalities and lives. As expressed by Karl Mannheim : “Modern education from its inception is a living struggle a, replica on a small scale of the conflicting purposes and tendencies which rage in society at large. Accordingly the educated [personis] . . . determined in a variety of ways.” (Wotherspoon, 2013, p. 29).

“To Ottaway (1962), it is a social study and in so far as its method is scientific, it is a branch of social science. It is concerned with educational aims, methods, institutions, administration and curricula in relation to the economic, political, religious, social and cultural forces of the society in which they function”. (University of Nigeria, 2006, p.53). The term of perspective in education is very important, but what is perspective? Much of the material presented so far has been concerned with how some early thinkers viewed society and social life. We have seen that the interpretation adopted by the three groups of thinkers identified differed fundamentally as a result of the different views they had of man, of society and of the interaction between the two. The position that each group of thinkers adopted from which they viewed society determined how they interpreted it and what they regarded as the most important aspects of social life. This position from which the thinkers approached the study of social life is what is called **perspective**. And as rightly pointed out by Meighan (1986), no sociologist would approach the study of social life without making a choice from the pool of perspectives available. Nor would the information drawn from such a study be of use to people in their daily lives unless both the perspective from which the study is approached and the ways in which that perspective differs from others are known. A perspective can thus be defined, as Meighan (1986) did, as “a frame of reference, a series of working rules by which a person is able to make sense of complex and puzzling phenomena. As Meighan further explicated, for the sociologist, the phenomenon referred to in this definition is social life, and in taking a particular position towards its study, he or she makes a set of assumptions upon which analysis can be based and which, typically include ideas about the nature of human beings, of society and of the interaction between the individual and society. (University of Nigeria, 2006, p. 55).



Understanding of what are several scope of sociology of education Mumbai University in their program of master degree, teaching to student, mention:

1. It is concerned with such general concepts such as society itself, culture, community, class, environment, socialization, internalization, accommodation, assimilation, cultural lag, sub-culture, status, role and so forth.
2. It is further involved in cases of education and social class, state, social force, cultural change, various problems of role structure, role analysis in relation to the total social system and the micro society of the school such as authority, selection, and the organization of learning, streaming, curriculum and so forth.
3. It deals with analysis of educational situations in various geographical and ethnological contexts. Eg. Educational situations in rural, urban and tribal areas, in different parts of the country/world, with the background of different races, cultures etc.
4. It helps us to understand the effectiveness of different educational methods in teaching students with different kinds of intelligences.
5. It studies the effect of economy upon the type of education provided to the students. Eg. education provided in IB, ICSE, SSC, Municipal schools.
6. It helps us to understand the effect of various social agencies like family, school on the students.
7. It studies the relationship between social class, culture, language, parental education, occupation and the achievement of the students.
8. It studies the role and structure of school, peer group on the personality of the students.
9. It provides an understanding of the problems such as racism, communalism, gender discrimination etc.
10. It studies the role of schools in socialization of the students.
11. It suggests ways to develop national integration, international understanding, the spirit of scientific temper, globalization among the students.
12. It promotes research studies related to planning, organization and application of various theories in education. (Mumbai University, 1988, p.4).

Why we need to study sociology of education? We all accept, since the needs of the society change education also changes. There is need for studying sociology of education. It helps in understanding:

1. Work of School and Teachers and its relation to society, social progress and development.
2. Effect of Social Elements on the working of school and society.
3. Effect of Social Elements on the life of individuals.
4. Construction of Curriculum in relation to the cultural and economic needs of the society.
5. Democratic ideologies present in different countries.
6. Need for understanding and promoting international culture.
7. Development of Society through the formulation of various rules and regulations and understanding of culture and traditions.
8. Need for Promotion of Social Adjustment.
9. The effect of social groups, their interrelation and dynamics on individuals. (Mumbai University, 1988, p.6).

Daine and Foster in 1976, notes that are five arguments to support the potential of sociological inquiry for educational practice.

1. Sociology of education identifies and elaborates characteristics of the population that encourage or prevent learning.
2. The sociological perspective on education draws attention to the importance of institutional arrangements in the causation of individual strain and specifies the structural sources of individual differences.
3. Sociology develops an understanding that things are not what they seem : it reveals the complex nature of the transmission of knowledge in a social.
4. The results of sociological inquiry into interaction in the classroom have an implicit bearing on strategies of teaching.
5. The discipline of sociology offers theoretical and methodological contributions to the training required by teachers for the lifetime task of reflection on the full meaning of their work as educators. (Daine & Foster, 1976, p. 298:301).

## Theory and Importance of sociology in education

The sociology of education is the study of how public institutions and individual experiences affect education and its outcomes. It is most concerned with the public schooling systems of modern industrial societies, including the expansion of higher, further, adult, and continuing education. It is a philosophical as well as a sociological concept, denoting ideologies, curricula, and pedagogical techniques of the inculcation and management of knowledge and the social reproduction of personalities and cultures. It is concerned with the relationships, activities and reactions of the teachers and students in the classroom. It

emphasizes sociological problems in the realm of education. (Mumbai University, 1988, p.6). It is very important that our school should improve the sociology of education program in their classrooms. Because there are several theories that teachers can use to explain the social problematics in educational environment.

A theory is a set of interrelated propositions or principles designed to answer a question or explain a particular phenomenon, it provides us with a perspective. Sociology includes three major theoretical perspectives: the functionalist perspective, the conflict perspective, and the symbolic interactionist perspective (sometimes called the interactionist perspective, or simply the micro view). Each perspective offers a variety of explanations about the social world and human behavior. (Mooney, Knox & Schacht, 2007, p.1). The authors mention the first, functionalist theory. The functionalist perspective is based largely on the works of Herbert Spencer, Emile Durkheim, Talcott Parsons, and Robert Merton. According to functionalism, society is a system of interconnected parts that work together in harmony to maintain a state of balance and social equilibrium for the whole. For example, each of the social institutions contributes important functions for society: Family provides a context for reproducing, nurturing, and socializing children; education offers a way to transmit a society's skills, knowledge, and culture to its youth; politics provides a means of governing members of society; economics provides for the production, distribution, and consumption of goods and services; and religion provides moral guidance and an outlet for worship of a higher power. The functionalist perspective emphasizes the interconnectedness of society by focusing on how each part influences and is influenced by other parts. For example, the increase in single parent and dual-earner families has contributed to the number of children who are failing in school because parents have become less available to supervise their children's homework. As a result of changes in technology, colleges are offering more technical programs, and many adults are returning to school to learn new skills that are required in the workplace. The increasing number of women in the workforce has contributed to the formulation of policies against sexual harassment and job discrimination. (Mooney, Knox & Schacht, 2007, p.2 – 3).

The earliest influential sociological theories of education emerged within structural functionalist analyses. How to understand the functionalist theory of Durkheim in education? Emile Durkheim saw the major function of education as the transmission of society's norms and values. Over and above his sociological writings, "Durkheim wrote three works directly related to education in which we find the foundation of modern sociology of education: *Education and Society* (1922), *Moral Education* (1925), and finally *The Evolution of Educational Thought: Lectures on the Formation and Development of Secondary Education in France* (1938)". (Saha, 2011, p.301). Durkheim was a functionalist which means that he was interested to believe that, school rules should be strictly enforced. Punishments should reflect the seriousness of the damage done to the social group by the offence, and it should be made clear to transgressors why they were being punished. In this way pupils would come to learn that it was wrong to act against the interests of the social group as a whole. They would learn to exercise *self discipline* not just because they wanted to avoid punishment, but also because they would come to see that misbehavior damaged society as a whole. Science, and particularly social sciences like sociology, would help the child to understand the rational basis on which society was organized Durkheim stated. The school provides a context where these skills can be learned. As such, it is society in miniature, a model of the social system. In school, the child must interact with other members of the school community in terms of a fixed set of rules. This experience prepares him or her for interacting with members of society as a whole in terms of society's rules. "Durkheim described education as a contested social institution in society. On the one hand, education established and maintained social consensus and solidarity through its socializing function, but on the other hand, the self-interest of individuals and groups requires the state regulation of education." (Saha, 2011, p.302). Durkheim in 1950 argued that education: "It is society as a whole and each particular social milieu that determine the ideal that education realizes. Society can survive only if there exists among its members a sufficient degree of homogeneity; education perpetuates and reinforces this homogeneity by fixing in the child from the beginning, the essential similarities that collective life demands." (University of Nigeria, 2006, p.52). Second after Durkheim, functionalist theory is Talcott Parsons. He is an American sociologist that has become accepted functionalist view of education.

Writing in the late 1950s, Parson argues that after primary socialization within the family, the school takes over as the next socializing agency: school acts as a bridge between the family and society as a whole, preparing children for their adult role. In most of all, he argues that:

Within the family, the child is judged and treated largely in terms of particularistic standards. Parents treat the child as their particular child rather than judging her or him in terms of standards or yardsticks which can be applied to every individual. Yet in the wider society the individual is treated and judged in terms of universalistic standards which are applied to all members, regardless of their kinship ties. Within the family the child's status is ascribed: it is fixed by birth. However, in advanced industrial society, status in adult life is largely achieved: for example individuals achieve their occupational status. Thus the child must move from the particularistic standards and ascribed status of the family to the universalistic standards and achieved status of adult society. The school prepares young people for this transition. (Mumbai University, 1988, p.7).

Functionalists view education as one of the more important social institutions in a society. For Robert Merton, an American sociologist who contributed to the structural-functional approach by giving us this concept, manifest and latent function. The manifest functions are the ones that society intends those institutions to have. The latent functions are the ones that are not intended, but which come about even so.

In the table below are the manifest and latent function of education. According to functionalist theory, education contributes to both manifest and latent function.

**TABLE 1.** Manifest and Latent Functions of Education. (Little et al. 2013).

Manifest Functions: Openly stated functions with intended goals	Latent Functions: Hidden, unstated functions with sometimes unintended consequences
Socialization	Courtship
Transmission of culture	Social networks
Social control	Working in groups
Social placement	Creation of generation gap
Cultural innovation	Political and social integration

But in the other hand, functionalist theories of education have been criticized in various ways and replaced by radical theories of educations, as well as some mainstream approaches such as human capital theory. They have been criticized for neglecting the role of ideology and conflict in society. “School is never defined independently and the idealized functionalist description of school has been seen as totalitarian and inadequate due to the lack of solid explication of what qualifies certain school to be deemed “successful” or how these can be this much responsive without posing any problematic to the needs of society and the work – face.”(Sever, 2012, p.653:654).

The second theory from autors is Conflict Perspective. The functionalist sociologist, views society as composed of different parts working together. In contrast, the conflict perspective views society as composed of different groups and interest competing for power and resources. The conflict perspective explains various aspects of our social world by looking at which groups have power and benefit from a particular social arrangement. For example, feminist theory argues that we live in a patriarchal society—a hierarchical system of organization controlled by men. Although there are many varieties of feminist theory, most would hold that feminism “demands that existing economic, political, and social structures be changed”. The origins of the conflict perspective can be traced to the classic works of Karl Marx. Marx suggested that all societies go through stages of economic development. As societies evolve from agricultural to industrial, concern over meeting survival needs is replaced by concern over making a profit, the hallmark of a capitalist system. Industrialization leads to the development of two classes of people: the bourgeoisie, or the owners of the means of production (e.g., factories, farms, businesses); and the proletariat, or the workers who earn wages. (Mooney, Knox & Schacht, 2007, p.2 – 3). Weber “interpreted educational requirements in bureaucracies, drawing especially on the history of public administration in Prussia, as the result of efforts by university graduates to monopolize positions, raise their corporate status, and thereby increase their own security and power vis-h-vis both higher authorities and clients”. (Collins, 1971, p. 1008:1009).

Critical theories have three major concerns: mapping injustices in education, tracing those injustices to their source, seeking and proposing remedies to those injustices. They began to work by defining inequalities in education. “Working class kids or certain minority groups have been stayed at the center of discussions because of their relatively low performance in education in comparison to their white middle or upper class counterparts.(Gibson, 1986)”. (Sever, 2012, p.655). “According to Bourdieu’s (1984) theory of praxis, the social world consists of the history of accumulation. Education as a part of social and cultural reproduction is linked to cultural capital (capital based on students’ social settings and opportunities that provide knowledge of the world derived from live experiences) and subsequent social differences between students.”(Dworkin et al. 2013, p. 2 – 5).

John Dewey-education and human potential one of the most influential proponents of the liberal view of education was the American educationalist and philosopher John Dewey. Dewey argued that it was the job of education to encourage individuals to develop their full potential as human beings. He particularly schooling for all would help to foster the physical, emotional and spiritual talents of everyone, as well as their intellectual abilities. Dewey was critical of the role learning of facts in schools, and argued for progressive teaching methods people should learn by experience by doing things rather than being hold. In this way they would not just again knowledge but would also develop the skills, habits and attitudes necessary for them to solve a wide variety of problems. Furthermore, individuals would develop the ability and motivation to think critically about the world around them.(Mumbai University, 1988, p.9). Dewey “was critical of a growing uniformity of life within industrial capitalism and advocated the creation of more meaningful connections between school and practical experience. However, reflecting his liberal orientations, Dewey promoted schooling as a mechanism that would ameliorate such pressing social problems as poverty, crime, ethnic antagonism, and social dislocation caused by rapid urbanization, industrialization, and economic change”.(Wotherspoon, 2013, p.26).

And the third is Symbolic Interactionist Perspective. Both the functionalist and the conflict perspectives are concerned with how broad aspects of society, such as institutions and large social groups, influence the social world. This level of sociological analysis is called **macro sociology**: It looks at the big picture of society and suggests how social problems are affected at the institutional level. **Micro sociology**, another level of sociological analysis, is concerned with the social psychological dynamics of individuals interacting in small groups. Symbolic interactionism reflects the micro-sociological perspective, and was largely influenced by the work of early sociologists and philosophers, such as George Simmel, Charles Cooley, George Herbert Mead, and Erving Goffman. Symbolic interactionism emphasizes that human behavior is influenced by definitions and meanings

that are created and maintained through symbolic interaction with others. Sociologist W.I. Thomas (1966) emphasized the importance of definitions and meanings in social behavior and its consequences. He suggested that humans respond to their definition of a situation rather than to the objective situation itself. Hence Thomas noted that situations that we define as real become real in their consequences. Symbolic interactionism also suggests that our identity or sense of self is shaped by social interaction. We develop our self-concept by observing how others interact with us a label us. By observing how others view us, we see a reflection ourselves that Cooley calls the “looking glass self”. (Mooney, Knox & Schacht, 2007, p.2 – 3).

The term *symbolic interactionism* was first used by Blumer (1969). Symbolic interactionism has evolved into a number of related perspectives, in particular the dramaturgical perspective Goffman described in *The Presentation of Self in Everyday Life* (1959) and the ethnomethodological perspective. The first of these focused on how the individual managed the social self in the process of interaction with others. The latter focused on the methods and social competence individuals use to construct social reality. These theoretical perspectives have influenced the understanding of interaction patterns between individuals in schools, especially the interactions between teacher and student, and student and student. Interactionist theory also was important in the development of role theory, a perspective which focuses on the definition and perceptions of relevant roles that individuals follow in their daily lives. In some cases, the roles are in society, the result of social consensus. In other cases, roles are constructed. Role theory continues “to be an important theoretical perspective that informs much of the way that administrators, teachers, and students go about their everyday duties (Biddle, 1997). In spite of some problems in role theory, Biddle comments that “... it is clear that the role orientation continues to offer insights for educators and a challenge for those who seek to understand what it means to be a teacher in today’s world”.(Saha, 2011, p.303).

This are the most important theory in sociology science. But in our study we explain the most important theory of sociology in relevance with education. Sociological theories of education have arisen to explain everything from why some people fail and others succeed to problems of educational environment and everyday classroom interaction.

The next and the most important is *the liberal perspective theory*. Some liberals hope that education will help to reduce inequality. By developing the potential that exists with in all human beings the stratification system would become more open. Although liberals acknowledge that there is a need for reform they believe that with relatively minor modifications education can come to play a full and successful role in industrial societies. Ivan illich –mention *deschooling Society* concept. Illich differs from the conventional liberal approach in that he advocates for more radical changes to the education system. In deschooling society he takes liberal views to their logical conclusion by arguing that form. All schooling is unnecessary and indeed harmful to society. The educational ideal:- Illich begins with his views on what education should be first there is the learning of specific skills such as typing woodwork and speaking a foreign language. Next there is education as such which is not concerned with the acquisition of particular skills education should be liberating experience in which individuals explore creak use their initiative and judgement and freely develop their facilities and talents to the full. Illich claims that schools are not particularly racially opposed to the educational ideals in which he believes. He argues that the teaching of skill is best left to those who use those skills in daily life. He gives the example of Spanish speaking teenagers in New York, many of whom were high school dropouts who were employed to teach Spanish to school teachers, social workers and ministers within a week they had been trained to use a teaching manual designed for use by linguists with university qualifications, and within six months they had effectively accomplished their task. However, the employment of such ‘skill teachers’ is largely prevented by a system which demands professionals, that is officially trained specialized & certificated teachers. (Mumbai University, 1988, p.10).

## Conclusion

The sociology of education, as a subdiscipline of both education and sociology, has contributed much to the understanding of educational process. In the other hand sociology of education focuses attention on the social context of educational structures and processes, and its contribution will continue to be invaluable for understanding and reforming educational systems, particularly as they change to accommodate new social needs and new technologies. It is very important to think about concept of sociology in education and for their both theories for understanding what is really going on inside the schools and how they are related to wider structures of societies.

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# The Importance of Motivation in an Educational Environment

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## Abstract

*In this article we will discuss how the concept of motivation in education, affects the learning process of students. Lack of motivation in education can undermine the process of their learning. Are students motivated to cumulating knowledge, without internal incentives (psychological, emotional) or external (social - education)? How to build a combination of internal factors and external motivational between lecturer and student, for learning function in the academic environment? All students, including teachers, are motivated in different ways and forms. For this reason, the educational environment is always very dynamic because each of the two components play certain roles. In the motivational aspect, the role of teachers in the educational process is the creation of a climate and a positive attitude that encourages learning and their long-term success. While the role of students is qualitative knowledge processing and being active in order to increase their academic. Increasing collaborative and communicative force between student and instructor are two basic factors of motivation for learning. The study will be based on a framework familiar with some of the main definitions of the term motivation and some socio - educational and psychological theories, theory of Maslow, Herzbergs, McClelland, etc., to take a point of view from some of the perspectives and cognitive educational skills, that realizes the motivation of students in the academic environment.*

**Keywords:** Motivation, Environment education, Teaching, Learning, Collaboration, Communication

## Introduction

The latest technological developments and economic, redesigned and resized the role of lecturers and students in educational environments. Today education in the 21st century is facing big changes based on concepts, theories, principles, and methods. Motivation is probably the most important factor that educators can target in order to improve learning. Many theories have been postulated to explain motivation. What is the best way to motivate students? According to Williams(2011), the five key ingredients impacting student motivation are: student, teacher, content, method/process, and environment.

The educational equivalent to “location, location, location” is likely to be “motivation, motivation, motivation,” for motivation is probably the most important factor that educators can target in order to improve learning (Olson, 1997). Motivation is defined as the act or process of motivating; the condition of being motivating; a motivating force, stimulus, or influence; incentive; drive; something (such as a need or desire) that causes a person or student to act (Merriam-Webster, 1997); and the expenditure of effort to accomplish results (DuBrin, 2008).(Williams & Williams, 2011, p.2).

Palmer(2007) review the “student motivation as an essential element that is necessary for quality education. How do we know when students are motivated? They pay attention, they begin working on tasks immediately, they ask questions and volunteer answers, and they appear to be happy and eager.”(Williams & Williams, 2011). In the late 1987s, according to Brophy motivation to learn is a competence acquired “through general experience but stimulated most directly through modeling, communication of expectations , and direct instruction or socialization by significant others (especially parents and teachers).”(Gregory, 2009, p. 2). Nukpe(2012), offers some definition for motivation where, Cherry (2010) views motivation

as “the process that initiates, guides and maintains goal-oriented behaviours”. Brennen, (2006, p.4) believes motivation to be “... the level of effort an individual is willing to expend toward the achievement of a certain goal” Guay et al., (2010, p. 712) describes it simply as “reasons underlying behaviour”. (Nukpe, 2012, p. 11).

For example, authors support that, the student must have *access, ability, interest, and value education*. The teacher must be well trained, must focus and monitor the educational process, *be dedicated and responsive to his or her students, and be inspirational*. The content must *be accurate, timely, stimulating, and pertinent to the student's current and future needs*. The method or process must *be inventive, encouraging, interesting, beneficial, and provide tools that can be applied to the student's real life*. The environment needs to *be accessible, safe, positive, personalized as much as possible, and empowering*. According to Palmer, 2007; Debnath, 2005; D'Souza and Maheshwari, 2010 “Motivation is optimized when students are exposed to a large number of these motivating experiences and variables on a regular basis. That is, students ideally should have many sources of motivation in their learning experience in each class.” (Williams, 2011, p.2).

Two elements are very important in teaching environment and student motivation. The authors suggest some tips for improving student contributions to motivation as listed below. That is, student motivation is enhanced when these factors pertinent to students are present:

**Intrinsic and extrinsic motivation:** Individuals who are motivated intrinsically tend to develop high regard for learning course information without the use of external rewards or reinforcement. On the other hand, individuals who are motivated extrinsically rely solely on rewards and desirable results for their motivation, e.g., tests and GPA. (Lei, 2010). Students who are motivated externally are at a greater risk of performing lower academically than intrinsically motivated students. It is interesting to note that nontraditional students report higher levels of intrinsic motivation than traditional students. (Dean and Dagostino, 2007; Daniels, 2010; Bye, Pushkar, and Conway, 2007; Afzal, et al., 2010). Various individual and social factors: Overall academic motivation is affected by various individual and social factors. For example, intrinsic motivation is affected by the reason for preferring the school, the probability of finding a job after graduation, the order of preference, the future expectation, the distinctiveness of testing and measuring activities at the school, and desire to complete a Masters' degree. In the simplest terms, it is necessary to be motivated and to make an effort. Extrinsic motivation is significantly affected by the probability of finding a job, the attitude towards the teacher, the peer group, the level of income, the appropriateness of the classrooms, the adequacy of teaching materials, and the number of siblings. The most effective extrinsic motivation is the probability of finding a job. (Celikoz, 2010). **Hierarchy of needs:** Regarding lower level needs, if a student is hungry or thirsty, it is more difficult to focus on learning. Also, if the environment is physically, mentally, or emotionally unsafe, then it will be hard for the student to put all of his or her attention on learning. If the teacher always is critical of the student, then the student Research in probably will not feel accepted or that he or she belongs. Low self-esteem and ego will make the student feel unappreciated and unrecognized. As such, the educator must do what is necessary to support the student to a higher level of need satisfaction so that the student can focus his or her attention on learning. Even at the level of self-actualization, the educator may need to provide encouragement or opportunities. (Maslow, 1943). (Williams & Williams, 2011, p.3:4).

The following suggestions are offered regarding or teacher contributions to student motivation:

**Teacher skills:** One important extrinsic factor in the educational environment is the Instructor. Teacher skills include staying calm, eliminating negative thoughts or feelings, disengaging stress, remembering that students have their own realities and are doing their best, not taking students' actions personally, remembering that students are not bad rather just in the process of development, and maintaining a sense of humor. (Whistler, 1992). In particular, Shulman (1987, p. 8) calls the knowledge needed for effectively teaching a specific subject “pedagogical content knowledge” (PCK) which “represents the blending of content and pedagogy into an understanding of how particular topics, problems, or issues are organized, represented, and adapted to the diverse interests and abilities of learners, and presented for instruction.” (Williams & Williams, p.6:8).

Are some criterias that affect the performance of teachers in the process of teaching and learning in academic environment, which are:

1. Promotion;
2. The financial reward;
3. Institutional policies - clear, fair and unequivocal;
4. Performance evaluation - should provide feedback for improvement; lead to administrative decisions related to the reward / punishment; public assessment in the sense that an event should be organized with the staff + student, which expressed gratitude and appreciation for the best and bring change their status at the university, evaluation of staff, that is very important to improve the climate at the university.
5. Gratitude and high academic levels;
6. Creation of interests (training, purchase literature, access to databases, collaborations with other universities, etc.);
7. Academic Advancement, sense of achievement and status with;
8. Liability;
9. Contribution;
10. Autonomy - the highest level;
11. The quality of students;
12. Teaching load, but not only;
13. Climate / organizational culture - relationships between colleagues. (Mapo, 2016).

We recall philosopher John Dewey who said that schools should not be a place of taking personal knowledge, where the teacher explains all the while a host of knowledge and the student remains at all times an individual liability, that is, without participating directly but it should be an active student. According to Taylor(2012), the root word of the term *motivation* is *move* (to move). In regards to learning, motivation generally involves inner forces, enduring traits, behavioral responses to stimuli, and sets of beliefs and affects. She said that the study of motivation can be broken down into two main categories: behavioral and cognitive theories. Behavioral theories “view motivation as a change in the rate, frequency of occurrence, or form of behavior as a function of environmental events and stimuli”. Teachers can shape student responses by conditioning the external environment. In contrast, cognitive theories stress the internal structures and processing of information and beliefs. Cognitive theories stress the importance of perceptions of competence, values, affects, goals, and social comparisons when measuring motivation.(Taylor, 2012, p. 1:2). Every educator needs to be concerned about motivation. It is a quality that students, teachers, parents, school administrators, and other members of the community must have if our educational system is to prepare young people adequately for the challenges and demands of the coming century. Of course, the way these various groups of individuals generate and use motivation differs greatly. Students need motivation to learn, parents need it to track the educational progress of their sons and daughters, teachers need it to become better teachers, and school administrators need it to ensure that every facet of the schools they manage continues to improve.

## Psycho – Social – Contextual Influences on students

In the late 1982s, Grolnic and Ryan argue that, a great deal of research in the last two decades has explored how various aspects of the social environment affect people’s intrinsic motivation and autonomous self-regulation and, in turn, the quality of their performance. A central hypothesis of self-determination theory is that social contexts that support people’s being competent, related, and autonomous will promote intentional (i.e., motivated) action, and furthermore, that support for autonomy in particular will facilitate that motivated action’s being selfdetermined (rather than controlled). Thus, for example, supports for competence (e.g., positive feedback) will enhance motivation in general but will enhance ind.rinsic motivation and integrated internalization only if it is administered in a way that is autonomy supportive. Similarly, supports for relatedness (e.g., the interpersonal involvement of parents and teachers) will enhance motivation in general but will enhance intrinsic motivation and integrated internalization only if the involved others are autonomy supportive. (Deci, Vallerand, Pelletier, Ryan,1991). In the other hand in social context are include school culture and organization. The studie of Taylor(2012) tell us that “scholars define a school’s culture as the norms, values, and shared beliefs of the preponderance of members at that institution. Moreover, these norms, values, and shared beliefs can be both consciously and implicit. Generally speaking, a school’s culture is comprised of the following elements”. According to her, first, it entails a belief about the character of human nature. She ask: Are students basically good? or Are they motivated to learn without incentives? Or are student basically bad, not motivated to learn and in need of negative reinforcement? At West Point, much of the faculty believes the latter. The second aspect of beliefs concerns the malleability of student learning and ability. Do students have the capacity to grow their learning and ability, or do students have a limited capacity? A third component of a school’s culture are norms over classroom behavior. At West Point, cadets expect to do many group assignments and work at the boards. Finally, a school’s culture is informed by the shared goals or purposes of the school. At West Point, the mission statement is quite clear. However, the dual nature of the Academy as both an institution of military and academic instruction often hurts student motivation. Military training during the academic semester sends a message to cadets, staff, & faculty alike that the true priority of West Point is military, not academic training. (Taylor, 2012, p.3).

Traditionally, educators consider intrinsic motivation to be more desirable and to result in better learning outcomes than extrinsic motivation. Maehr (1992) in his book “*The Motivation Factor: A Theory of Personal Investment*, Maehr and Braskamp (1986)”, has turned his attention to the relationship between motivation and the organizational culture of schools. Maehr concluded that “goal stresses associated with the school environment seem to relate systematically to student motivation and achievement”, and he reported that “the psychological environment of the school is a measurable variable, a variable of some importance in predicting motivation and achievement of students”. (Renchler, 1992, p.6:7). The dimensions Maehr includes in his model of the psychological environment of the school include:

- Accomplishment—Emphasis on excellence and pursuit of academic challenges.
- Power—Emphasis on interpersonal competition, social comparison, achievement.
- Recognition—Emphasis on social recognition for achievement and the importance of school for attaining future goals and rewards.
- Affiliation—Perceived sense of community, good interpersonal relations among teachers and students.
- Strength/Saliency—The perception that the school knows what it is about and that students know what is expected. (Renchler, 1992, p. 6).

Raffini proposes a four-fold approach that would remove motivational barriers and help students redirect their behaviors away from failure-avoiding activities toward academic applications. He describes how these four strategies can aid in promoting the rediscovery of an interest in learning:

1. Individual goal-setting structures allow students to define their own criteria for success.
2. Outcome-based instruction and evaluation make it possible for slower students to experience success without having to compete with faster students.
3. Attribution retraining can help apathetic students view failure as a lack of effort rather than a lack of ability.
4. Cooperative learning activities help student realize that personal effort can contribute group as well as individual goals. (Renchler, 1992, p.10)

Stipek describes some techniques that promote intrinsic motivation but suggests that they are rarely found in today's classrooms or schools:

Students are intrinsically motivated to work when the threat of negative external evaluation is not salient and when their attention is not focused on extrinsic reasons for completing tasks. They will also feel more competent and proud, and thus more intrinsically interested in tasks, when they can take responsibility for their success. Allowing some student choice enhances intrinsic interest in school tasks, and it teaches self-management skills that are essential for success in higher grades and the workplace. It is impossible for children to develop autonomy and a sense of responsibility if they are always told what to do, and how, and when to do it. (Renchler, 1992, p.10).

She identifies four perspectives from which intrinsic motivation can be viewed: competency motivation, curiosity, autonomy, and internalized motivation. Competency motivation assumes *"that individuals engage in tasks, in part, for the purpose of developing competence and experiencing the positive feeling of efficacy associated with successful mastery attempts"*. The second perspective, curiosity, assumes *"that individuals are innately curious about novel events and activities that are somewhat discrepant with their expectations"*. Autonomy involves the idea that humans have *"a natural need to feel self-determining. They want to believe that they are engaging in activities by their own volition—because they want to—rather than to achieve some external reward or to avoid punishment"*. Internalized motivation *"assumes that some children engage in tasks in the absence of external reinforcement because they learn to value academic work"*. (Renchler, 1992, p. 10).

## Motivation Theories

There are many theories of motivation, but a study of Riley, tell us which are some of the more famous theories like *"Maslow's Hierarchy of Needs Theory (1954), McClelland's Needs Theory (1961), and Herzberg's Two-Factor Theory"* (Riley, 2005, p.3). Maslow's Hierarchy of Needs Theory is one of the most well known motivational theories. Abraham Maslow's theory identifies five levels of hierarchical needs that every individual attempts to accomplish or conquer throughout one's life. The needs start with the physiological (hunger, thirst, shelter) and then move upward in a pyramid shape through safety, social, and esteem needs, to the ultimate need for self-actualization. His final need for self-actualization is defined as one's desire and striving towards maximum personal potential. The pyramid shape to the theory is intended to show that some needs are more important than others and must be satisfied before the other needs can serve as motivators. In the other hands is the theory of McClelland's Needs, where the authors tell us that *McClelland's Need Theory* explores the idea that there are three major "needs" that one will acquire over their lifetime as a result of the experiences in their careers or in their own personal lives. David I. McClelland believed that in order to understand human behavior and how an individual can be motivated, you must first understand their needs and inclinations. The Need for Achievement encompasses the desire to do better, to solve problems, and to master complex tasks. The Need for Affiliation is the desire for friendly and warm relations with others. These are often those passive individuals that try to avoid conflict at all times, even when it might be necessary to fulfill a task. Finally, the Need for Power is the desire to control others and influence their behavior. (Riley, 2005, p. 4 – 5).

According to Riley, *Herzberg's Two-Factor Theory* divides motivation and job satisfaction into two groups of factors known as the motivation factors and hygiene factors. According to Frederick Herzberg, the motivating factors are the *six 'job content' factors* that include *achievement, recognition, work itself, responsibility, advancement, and possibility of growth*. *Hygiene factors are the 'job context' factors, which include company policy, supervision, relationship with supervision, work conditions, relationship with peers, salary, personal life, relationship with subordinates, status, and job security*" (Riley, 2005, p. 5:6).

The author continues to say that, basically the theory differentiates the factors between intrinsic motivators and extrinsic motivators. The intrinsic motivators, known as the job content factors, define things that the people actually do in their work; their responsibility and achievements. These factors are the ones that can contribute a great deal to the level of job satisfaction an employee feels at work. The job context factors, on the other hand, are the extrinsic factors that someone as an employee does not have much control over; they relate more to the environment in which people work than to the nature of the work itself (Schermerhorn, 2003). Herzberg identifies these factors as the sources for job dissatisfaction. "Herzberg reasoned that because the factors causing satisfaction are different from those causing dissatisfaction, the two feelings cannot simply be treated as opposites of one another. The opposite of satisfaction is not dissatisfaction, but rather, no satisfaction. Similarly, the opposite of dissatisfaction is no dissatisfaction. While at first glance this distinction between the two opposites may sound like a play on words, Herzberg argued that there are two distinct human needs portrayed" (*"Herzberg's Motivation-Hygiene Theory,"* 2). (Riley, 2005, p.6).

Self-determination theory when applied to the realm of education, is concerned primarily with promoting in students an interest in learning, a valuing of education, and a confidence in their own capacities and attributes. These outcomes are



manifestations of being intrinsically motivated and internalizing values and regulatory processes. Research suggests that these processes result in high-quality learning and conceptual understanding, as well as enhanced personal growth and adjustment. In several studies, are some contextual conditions that will facilitate motivation, performance, and development. Simply stated, motivation, performance, and development will be maximized within social contexts that provide people the opportunity to satisfy their basic psychological needs for competence, relatedness, and autonomy. This three needs are very important for teachers and students. These three needs for the autors, contribute to people's being motivated (as opposed to amotivated); however, opportunities to satisfy the need for autonomy are necessary for people to be self-determined rather than controlled. (Deci, Vallerand, Pelletier, & Ryan,1991).

To make sense of the range of possible self-determining experiences students might have in the classroom, Deci and Ryan, describe a continuum in which heteronomy (subordination, subjection, or coercion) lies at one end, and autonomy (independence, self-sufficiency, self-rule) lies at the other. For them the more students are determined to pursue self-selected goals, the more likely it is that those goals will be accompanied by expectations of success in areas that matter most to them. Figure 1 is an adaptation of their continuum. (Toshalis & Nakkula, 2012, p. 10).

**FIGURE 1.** Adaption of continuum

Student's Experience						
Type of Self-determination	Amotivation	External Regulation	Introjection	Identification	Integration	Intrinsic Motivation
Characteristics	Lack of intention; low perceived competence; low perceived relevance	Compliance; emerging salience of rewards or punishments	Ego involvement; focus largely on approval from others	Conscious valuing of activity; self endorsement of goals	Congruence of goals; some continued prioritizing of self-set goals	Interest, enjoyment, and inherent satisfaction; synthesis of goals
Perceived Locus of Causality	Impersonal	External	Somewhat External	Somewhat Internal	Internal	Internal

## Self-regulation theory

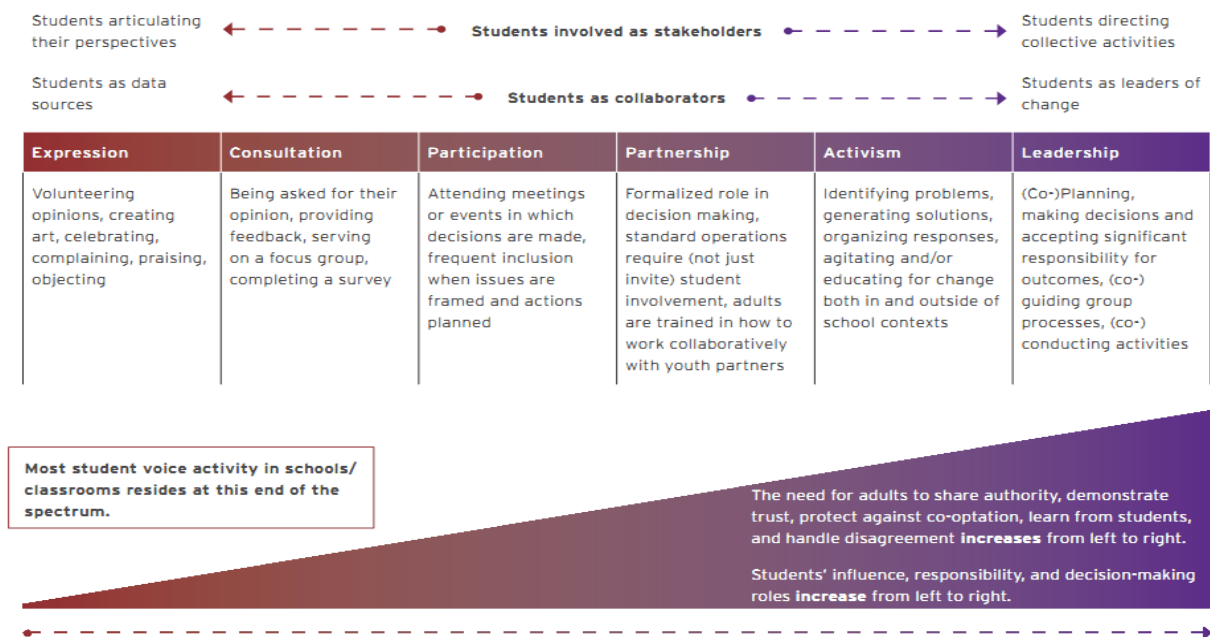
It provides an especially student-centered perspective on the various dimensions of engagement. Whereas self-determination theory addresses students' perceptions of their level of autonomy, competence, and relatedness in a given activity, self-regulation theory is concerned with what students do to generate and sustain their engagement. It begins with the recognition that students are active participants in their own learning, which echoes constructivists' observations that we build rather than absorb knowledge. To be self-regulated is to be goal-directed and demonstrate control over and responsibility for one's focus and effort when engaged in learning activity. (Toshalis & Nakkula, 2012, p. 18).

Cognitively, “self-regulated learners plan, set goals, organize, self-monitor, and self-evaluate at various points during the process [of building new knowledge or skills]. These processes enable [students] to be self-aware, knowledgeable, and decisive in their approach to learning” (Zimmerman 1990). From the teacher’s perspective, self-regulated learners tend to be self-starters who show effort and persistence during learning, who “seek out advice, information, and places where they are most likely to learn” (Zimmerman 1990). Self-regulated learners also are capable of monitoring the effectiveness of their learning strategies and reacting to what they notice by changing their behavior. For example, a student who is reading a short story in preparation for a class discussion on authors’ uses of symbols notices that she has read the last several paragraphs only cursorily. In a moment of self-feedback, she asks herself what those paragraphs were about and, coming up with nothing, reminds herself to go back and reread the portions she glossed. In this case, she regulated her own learning to better promote her understanding of the content, and she did so outside any interventions from the teacher. (Toshalis & Nakkula, 2012, p. 18).

Like motivation and engagement, student voice is a broad term describing a range of activities that can occur in and out of school. It can be understood as expression, performance, and creativity and as co-constructing the teaching/learning dynamic. It can also be understood as self-determined goal-setting or simply as agency. Paraphrasing Dana Mitra, we use the term student voice activities to refer to those pedagogies in which youth have the opportunity to influence decisions that will shape their lives and those of their peers either in or outside of school settings. (Toshalis & Nakkula, 2012, p. 23).

Broussard and Garrison (2004) broadly define motivation as “the attribute that moves us to do or not to do something”. Intrinsic motivation is motivation that is animated by personal enjoyment, interest, or pleasure. As Deci et al. (1999) observe, “intrinsic motivation energizes and sustains activities through the spontaneous satisfactions inherent in effective volitional action. It is manifest in behaviors such as play, exploration, and challenge seeking that people often do for external rewards”. (Lai, 2011, p.4). “Extrinsic motivators primarily have been understood within a behaviorist framework. Specific stimuli external to the self (e.g., social expectations, rewards, praise, punishments, threats, risks) are believed to produce specific predictable outcomes”. (Toshalis & Nakkula, 2012, p.8).



**FIGURE 2.** The spectrum of student voice oriented activity

## Conclusion

In this article, we clarify the complex construct of motivation as it relates to learning and offers revamped curriculum that applies motivation theory and research to practice. Are given, recommends instruction in how motivation, constructs relate to each other, to individual and culturally related differences, developmental changes, and to the classroom context. In this article we examined how the concept of motivation in education, affects the learning process of students. Lack of motivation in education could damage the learning process of students. The primary research question was: Are the student motivated to learn without incentives? The study was based on several theories like, socio - educational and psychological, to see what are some of the prospects and educational cognitive abilities that enable the realization of motivation students in academic environments based on learning function. This article originally intended to provide some key definitions of the term motivation, based by some researchers who have been studying his primary in relation to certain areas of life but mainly socio - educational. Educational environment is often considered more dynamic. Usually all students who are part of this process are motivated in different ways and forms. Therefore students are different from each other - just based on psychological differences to everyone and those socio - educational. Some students may be more focused on the treatise of lectures, other students can be very active, participate in discussions, others can be pretty focused on social aspects of university (clubs curricular, extracurricular activities), others can have much desire to study and get knowledge but educational environment fails to provide it, etc. Educators can do much to create a classroom environment that motivates students to learn and behave in ways that promote their long-term success.

Thus, the teacher must first be guided by goals that assign primary importance to developing in students a motivation to learn. Second, we need a framework for identifying those aspects or structures of the classroom that are manipulable. These structures must represent the classroom organization and must relate to instructional planning. Then we need to identify strategies that will serve to enhance the motivation of all students. These strategies or applications must be grounded in theory and research and evaluated in relation to developmental factors and in relation to other motivation constructs, as well as individual differences. (Ames, 1990, p. 419).

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# School leadership and challenges of the 21st century

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## Abstract

*Education is a very important area for investment and development prospects of families and society. In the 21st century, the challenges are many and varied education for the contemporary citizen, the citizen to cope terms of new circumstances that surround him. Investing in education is the key to success. Educational results depend heavily on the leadership and development of school leadership to meet the needs of society. Decentralization of educational structures, decentralization of powers and increased responsibility of school leaders requires a new school structure and a new leadership in education.*

**Keywords:** education, leadership, school leadership, decentralism, school.

## Introduction

From day to day, from year to year, increasingly, the necessity of an efficient education to cope with the challenges of the 21st century. Education, education is a very important issue that has supported the development of society at all times. Through the education of the society, his elite has not been able to build a better society but also to lead the society towards the new developments necessary and to give way to the economic and social problems of society. Society itself through education and solving many problems of integration and well-being for many of its citizens. Although education has existed all the time and society has spent a lot on it, it will spill over time, money and funding, but we see a great lack of its effectiveness. Intellectual thinking should be more dedicated to finding the most effective ways of supporting and carrying out education. This is a very wide sphere, but we are focusing on the development of school leadership as an aspect of support and instrument of development of education and education.

## Definitions of school leadership

Leithwood et al (1999) contend that there is no agreed definition of the concept of leadership. Yukl (2002, pp.4–5) adds that "the definition of leadership is arbitrary and very subjective. Some definitions are more useful than others, but there is no 'correct' definition." Cuban (1988, p.190) says that "there are more than 350 definitions of leadership but no clear and unequivocal understanding as to what distinguishes leaders from non-leaders". However, given the widely accepted significance of leadership for school effectiveness (Daresh 1998, NCSL 2001a, Sammons et al 1995, Sheppard 1996) and for school improvement (Stoll and Fink 1996, Hallinger and Heck 1999), it is important to establish at least a working definition of this complex concept. As Beare, Caldwell and Millikan (1989) emphasise:

Outstanding leadership has invariably emerged as a key characteristic of outstanding schools. There can no longer be doubt that those seeking quality in education must ensure its presence and that the development of potential leaders must be given high priority. (Beare, Caldwell and Millikan 1989, p.99).

From observations find out very clear that quality in education has a very important component to be influenced. It is the school leadership. The below It will see some qualities or element to leadership.

## Leadership as influence

A central element in many definitions of leadership is that there is a process of influence. Leithwood et al (1999, p.6) say that “influence... seems to be a necessary part of most conceptions of leadership”. Yukl (2002, p.3) explains this influence process: “Most definitions of leadership reflect the assumption that it involves a social influence process whereby intentional influence is exerted by one person [or group] over other people [or groups] to structure the activities and relationships in a group or organisation”. Given the schools, there is nothing else but an organization where people have an important part in communicating, interacting and structuring them and their activity to accomplish their mission, goals, or goals, I think school leadership is very important as an influence that improves the school and enhances its effectiveness.

Yukl's use of ‘person’ or ‘group’ serves to emphasise that leadership may be exercised by teams as well as individuals. This view is reinforced by Harris (2002) and Leithwood (2001) who both advocate distributed leadership as an alternative to traditional top-down leadership models. Ogawa and Bossert (1995, pp.225–26) also state that leadership involves influence and agree that it may be exercised by anyone in an organisation. “It is something that flows throughout an organisation, spanning levels and flowing both up and down hierarchies.” The concept of leadership, person and structure that supports leadership must be embedded. Therefore, the formation and development of leadership is very important for leadership to have effective schooling and effective leadership.

Cuban (1988, p.193) also refers to leadership as an influence process. “Leadership, then refers to people who bend the motivations and actions of others to achieving certain goals; it implies taking initiatives and risks”. This definition shows that the process of influence is purposeful in that it is intended to lead to specific outcomes. Fidler (1997, p.25) reinforces this notion by claiming that “followers are influenced towards goal achievement”.

Stoll and Fink (1996) use the similar concept of ‘invitational’ leadership to explain how leaders operate in schools. “Leadership is about communicating invitational messages to individuals and groups with whom leaders interact in order to build and act on a shared and evolving vision of enhanced educational experiences for pupils” (p.109).

## Leadership and values

The leadership may be understood as “influence” but this notion is neutral in that it does not explain or recommend what goals or actions should be sought through this process. However, certain alternative constructs of leadership focus on the need for leadership to be grounded in firm personal and professional values. Wasserberg (1999, p.158) claims that “the primary role of any leader [is] the unification of people around key values”. From his perspective as a secondary head teacher, he argues that these core values should be:

- schools are concerned with learning and all members of the school community are learners
- every member of the school community is valued as an individual
- the school exists to serve its pupils and the local community
- learning is about the development of the whole person and happens in and out of classrooms
- people prosper with trust, encouragement and praise (Wasserberg 1999, p.155).

Greenfield and Ribbins (1993) add that leadership begins with the ‘character’ of leaders, expressed in terms of personal values, self-awareness and emotional and moral capability.

The researchers adopted a 360 degree perspective by interviewing teachers, parents, governors and students as well as conducting three interviews with each principal. They conclude that “good leaders are informed by and communicate clear sets of personal and educational values which represent their moral purposes for the school” (p.53). They elaborate on the nature of these core ‘personal values’: These concerned the modelling and promotion of respect (for individuals), fairness and equality, caring for the well being and whole development of students and staff, integrity and honesty. These core values were often part of strong religious or humanitarian ethics which made it impossible to separate the personal and the professional and which provide empirical support for those who write of the essential moral purposes of those involved in teaching. (Day, Harris and Hadfield 2001, p.45) Moos, Mahony and Reeves (1998) reinforce the importance of leaders’ “clear sets of educational and personal values” and stress the need for a ‘clear personal vision’(p.70).

## Leadership and vision

Vision is increasingly regarded as an important component of leadership. There are different views about whether vision is an essential aspect of school leadership or, rather, a feature which distinguishes successful from less successful leaders. Beare,

Caldwell and Millikan (1989), for example, say that “outstanding leaders have a vision of their schools – a mental picture of a preferred future – which is shared with all in the school community” (p.99). However, in drawing on the work of Bennis and Nanus (1985), they articulate 10 ‘emerging generalisations’ (present authors’ emphasis) about leadership, four of which relate directly to vision:

1. Outstanding leaders have a vision for their organisations. The vision... may be a dream expressed in written form as our school will be a learning centre in the community, where every child will enjoy coming to school and will acquire the basic skills (p.107).
2. Vision must be communicated in a way which secures commitment among members of the organisation. They cite Bennis and Nanus’ (1985, p.28) view of how this is achieved by visionary leaders: Their visions or intentions are compelling and pull people towards them. Intensity coupled with commitment is magnetic (p.109)
3. Communication of vision requires communication of meaning. They support Bennis and Nanus’ (1985, p.33) assessment that “the management of meaning, [the] mastery of communication, is inseparable from effective leadership” (p.109). They add that symbols are important for the communication of meaning.
4. Attention should be given to institutionalising vision if leadership is to be successful. Articulation and communication of the vision need to be supported by a process of ‘implanting’ the vision: The principal should work with others to implant the vision in the structures and processes of the school, something that calls for the technical and human skills of policymaking and planning (p.115).

These generalisations are essentially normative views about the centrality of vision to effective leadership. Some projects show the high level of support for the notion of visionary leadership but Foreman’s (1998) review shows that, in practice, it remains highly problematic. “Inspiring a shared vision is the leadership practice with which [heads] felt most uncomfortable” (Kouzes and Posner 1996, p.24) while Fullan (1992a, p.83) adds that “vision building is a highly sophisticated dynamic process which few organisations can sustain”. Elsewhere, Fullan (1992b) is even more critical, suggesting that visionary leaders may damage rather than improve their schools:

The current emphasis on vision in leadership can be misleading. Vision can blind leaders in a number of ways... The high-powered, charismatic principal who “radically transforms the school” in four or five years can... be blinding and misleading as a role model... my hypothesis would be that most such schools decline after the leader leaves... Principals are blinded by their own vision when they feel they must manipulate the teachers and the school culture to conform to it. (Fullan 1992b, p.19)

Their study of 12 self-selected ‘effective’ schools shows that most heads were able to describe “some sort of vision” but “they varied in their capacity to articulate the vision and the visions were more or less sophisticated” (p.33). Moreover, the visions were rarely specific to the school. They were “neither surprising nor striking nor controversial. They are closely in line with what one might expect of the British system of education.” (p.35)

The Bolam et al (1993) study also casts doubt on the ability of heads to communicate the vision effectively and to ensure that it is shared by staff. In most of the schools comparatively few teachers were able to speak with any confidence about the elements of the vision. This would suggest that... the head teachers of these schools had not consciously and deliberately set out to communicate their vision to colleagues and to ensure that its influence permeated every aspect of organisational life. (Bolam et al 1993, p.36)

## Towards a definition of leadership

Leadership is a process of influence leading to the achievement of desired purposes. Successful leaders develop a vision for their schools based on their personal and professional values. They articulate this vision at every opportunity and influence their staff and other stakeholders to share the vision. The philosophy, structures and activities of the school are geared towards the achievement of this shared vision.

Leadership can be understood as a process of influence based on clear values and beliefs and leading to a ‘vision’ for the school. The vision is articulated by leaders who seek to gain the commitment of staff and stakeholders to the dream of a better future for the school, its students and stakeholders.

## The methodology of study

The study is based on the best UK studies and on the experience and practice of education in Albania and focuses on the need for an Albanian school for its future. For this, the best leadership modalities dealt with in world literature have been selected. The Albanian context of education and its European integration challenges have been studied.

The purpose of the study is to assess the current situation and determine the extent of school leadership’s impact on school effectiveness and the need to develop leadership.

Human needs for an effective school and high scores are immeasurable and this is the school’s challenge in the 21st century.

Comparative analysis has also been used to highlight Albanian problems in comparison with Anglo-Saxon prospects and solutions given the path followed by contemporary European studies.



## Analysis of documentary facts and case studies

According to the OECD (Opportunities for Development and Economic Cooperation) leadership development is of a critical importance in many countries. A set of common models includes: developing systematic leadership development strategies; Establishment of new leadership development institutions; linking the actual management training with leadership development; aiming at the profiles of the competent leadership as a qualification, standard and context of the job; identifying and selecting potential leaders; training and mentoring and promoting the development of leading leadership through the recognition of the manager's responsibility for the development of other leaders. (OECD, 2001).

## Different stages of leadership development

A career prospect for leadership development is argued that the professional development activities of school leaders will be ongoing, in career and endless stages. (Peterson, in Davis et al., 2005). They have to rely on pre-school education and continue throughout the career stages of a director. Professional development takes place in forms suitable for different stages in the career of the school principal or the leader and is a major, continuous part and a coherent set of experiences for personal growth during the career and enhancement of professional skills. Ideally, leadership development will start at the teacher level and will continue for the leading candidates and first year inductors or directors. Continuous professional development would be expanded and capitalized on the basis of the leader's experience. An increased body of experience will be useful to outline just as well the mature understanding of job requirements and the criteria for effectiveness. Continuous opportunities will enable highly capable leaders to transfer their knowledge, skills and wisdom to new leaders while gaining knowledge, renewal through mentoring and training.

In England, a leadership development strategy sets five stages of school leadership development. Each stage has a range of a variety of development options based on the predecessor, induction and further training of the perpetrators and other school leaders. In Northern Ireland, there is training for emerging and aspiring leaders as well as the service of managers and managers. The Scottish approach is set in box 4.2. Bush. T, Glover. D, 2003

### Box 4.2 Scottish education leadership development

Scotland has recently been shaping its leadership development agenda to match new requirements. Since 2000 it has had a mandatory training qualification for service and induction programmes for most new school leaders and since 2003 a new framework for leadership development. It provides learning opportunities for those involved in leadership teams as well as more senior staff. *Continuing Professional Development for Educational Leaders*, intended to provide a means of promoting professional development rather than a structure for managing schools, is based on the notion of professional progression in educational leadership through four broad levels:

- **Project Leadership**, for teachers who have, or may take on, responsibility for leading a small-scale project. This refers to teachers possibly quite early in their careers, who wish to develop their leadership skills, for instance in an area related to curriculum development or supporting pupils' learning, or through a small school-based research project.
- **Team Leadership**, for teachers who, in addition to leading small-scale projects, have regular responsibility for leading either permanent teams of staff or task groups/working parties. This might be particularly relevant to aspiring and established principal teachers, whether their responsibilities are primarily in the areas of curriculum or of guidance.
- **School Leadership**, for staff who lead projects and teams and who have, or are seeking, overall responsibility for an aspect of leadership across an establishment. This might include teachers or principal teachers who aspire to membership of a senior leadership team and to established members of such teams. Some members of senior leadership teams will aspire to headship and the achievement of the Standard for Headship might be sought within this level.
- **Strategic Leadership**, for staff who, in addition to project, team and school leadership responsibilities, have overall responsibility for the leadership of an establishment or are leading strategic initiatives at local or national level. This is particularly relevant to head teachers and to those working in the education service who have a strategic role in improving Scottish education.

This particular approach seems to be adapting to the need to develop and encourage distributed leadership by investing in project and team leadership as vital for school success.

Source: Scottish Executive Education Department, 2007.

#### Box 4.10 Some features of school leadership development programmes in the United States

The report *Professional Development of School Principals for Leadership of High Performance Learning Communities* elaborates state-of-the-art goals, processes, content and design principles for leadership development programmes. Of particular relevance in this context are the recommendations concerning goals and design principles, aimed primarily at school, local and state governing bodies. According to this report, principal professional development should, among other factors:

- be grounded in principles of effective staff development;
- be tailored to the candidate's needs as determined through assessment and the candidate's development plan;
- draw upon skills and competences of effective school leadership;
- fit onto a larger, coherent development plan linked to relevant strategic and improvement plans;
- provide measurable objectives of learner progress;
- address the full spectrum of the leader's career needs and stages;
- respond to a set of critical "design questions".

Source: Moorman (1997).

## Albania as a case study

In the pre-university education law of 2012, it is decreed that the head of the educational institution should at least receive the title of a qualified teacher. This coincides with at least five years of work as a teacher and has received the first qualification as a teacher.

If a school curriculum for university education is made, it is considered that the specific weight is taken up by the teaching methodologies and the methodologies of the respective subjects. In Albania since 2011 have been accredited the professional and scientific master of education administration, respectively in the public universities of Tirana, Durrës and Elbasan University.

Although the efforts of these universities have made these programs, those few are stimulated to follow the students especially the good ones. Likewise, from the verifications, it was found that only a few of these students who had graduated from this school were selected in managerial positions.

Regarding the quality of the students in one of these universities, it is concluded that only 9 pre-school educators have been registered in this classroom, with an average grade that has just passed the admission threshold.

#### Neni 55

##### Emërimi dhe shkarkimi i drejtorit të institucionit arsimor

1. Drejtori i institucionit arsimor publik emërohet nga titullari i njësisë arsimore vendore përkatëse, pas propozimit të dy kandidatëve që vlerësohen me konkurrim të hapur nga komisioni i vlerësimit. Komisioni përbëhet nga një përfaqësues i njësisë bazë të qeverisjes vendore, kryetari i bordit të institucionit, kryetari i këshillit të prindërve të institucionit dhe dy mësues të institucionit arsimor të zgjedhur nga këshilli i mësuesve. Njëri prej dy mësuesve, me përvojën më të gjatë në atë institucion arsimor, drejton komisionin e vlerësimit. Procedurat për emërimin dhe/ose shkarkimin e drejtorit të institucionit përcaktohen me udhëzim të ministrit.

2. Kandidati për drejtor i institucionit arsimor duhet të ketë të paktën kategorinë "mësues i kualifikuar" dhe të mos bëjë pjesë, pas emërimit, në forumet drejtuese të partive politike.

## Conclusions

1. Education is a very important investment, both personal and social, and nationally.
2. Continuous school decentralization has increased leadership responsibility for achieving school quality.
3. An important element influencing the quality improvement is also the level of development of school leadership.
4. A well-developed leadership builds up an effective and quality school.
5. Special master programs must be pre-requisites for school leaders.
6. Continuous training of school leaders and managers for their training needs to cope with new challenges.

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# Models and methodology in teaching and learning

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## Abstract

*Through this paper i tend to follow the description on: “Models and methodologies of teaching and learning”. To be more confrontational in this regard and as constructive in terms of expectations refer education concept. Education is for every society, every profession, the basic prerequisite for the existence of ourselves and generations to come. It provides for the members of society, knowledge, skills, understanding and willingness to act. So in this context in education, operate and collaborate through a rather narrow enough factors or actors. But in this paper we will examine too of their teachers and students, or students further. Teachers to be more effective, or as qualitative need to know and apply models and methodology to engage and motivate students to get knowledge as complete as possible, to be formed as qualitatively and to educate a line behavior described by norms and rules of a cultured citizen and the full value in terms of personality, character, and to be more human and social. Pupils or students to acquire qualitatively as program (lessons, modules, curricula) so that learning should comprise information that theoretical and practical knowledge with a view to obtain stable know theoretical and practical skills conscious. In this aspect will present three methods of teaching and learning. a. Teaching and learning with student-centered learning b. Teaching and learning with ROPES method. C. Teaching and learning with competencies. These methods are realized with teaching professional, responsive and dedicated. This is a must needed for the implementation of teaching and learning in the student or the student center, ROPES and competence. Quality assurance through these methods will provide confidence in the assessment and validation of information where pupils or students will experience continuity and progression in learning it within expectations, the school community, parents and society.*

**Key words:** Education, teaching, learning, teaching methods, competencies.

## The Aim

Through this paper, the aim will be to convey knowledge and arguments about teaching methods and learning outcomes: “Student or student centered”, “ROPES” and “competence”. **Objectives:** 1. Teaching Methods, Teaching and Learning; 2. Teaching and learning centered students; 3. Teaching and learning by the ROPES method; 4. Teaching and learning with competences; 5. Conclusions and recommendations

## Entrance

Pedagogy science is a science that has its foundation in the art of learning (teaching of learning), the formation of knowledge and the education of the individual. Its main principle is not only to provide knowledge but also to educate and educate people.

Its conception of the past has been like the science of education of children or the theory of education of young ages, while seen in light of the new contemporary requirements, pedagogy has the object and mission: the treatment, formation and education of all ages, because human being is educated, re-educated and self-educated throughout his life.



Lifelong learning in its broader sense should become a reality and a powerful tool for understanding and coping with the challenges of the future. (7 steps in Bologna, page 42, Tirana, 2004)

Pedagogical science consists of a set of norms, principles and values of formative and educational work in general and that of teaching in particular, constitutes a vital necessity for reforming education for each level and each particular field. Today, both in every field and in education is required and required to program the work to target quality. Quality as it is still today, is united as a foundation stone.... Indeed, quality assessment should be considered as an institutional mission, with general and specific objectives, which must be concrete and workable by all, and materialized in the design and implementation of programs to achieve the parameters of an expected progressivity.

He asks, studies to discover new ideas, coupled with contemporary innovations, professional level, intellectual value, academic achievement, curricular coherence beyond. Teaching and applying teaching methods from the most productive, in student, learns to acquire new information in the learning process. So in this context, starting with studies, different research makes the reality especially the methods: "Student-centered teaching", "ROPES" and "Competence". By means of these methods, students will feel cheaper and create space for critical thinking and otherwise in terms of obtaining qualitative and contemporary information. This will do that, students, students will become active in the learning process by getting to absorb the new teaching information to a considerable extent, in over 60% in class or auditor. In this way students form stable theoretical knowledge and practical habits as a much-anticipated desire and expectation from the students, the community of parents and society.

## Objective # 1 Teaching Methods, Teaching and Learning

### Methods of teaching

It will defend the honor of the teacher's profession with all existing means. Robert Dottrens

#### Teaching methods of teaching

Teaching methods relate to the set of ways and rules planned by the teacher to transmit knowledge, develop skills, cultivate attitudes and value to the learner. Teaching methods are conditioned by the purpose and content of learning. In terms of teaching methods, many are classified as: the most acceptable are: a-centered teaching and b-teaching centering the teacher. Teaching that focuses on the student consists of its goal in realization of the (general and specific) learning objectives, by actively activating the students, students, construct: discussion, debate, work in small groups and beyond. Teaching that focuses on the teacher consists in its intention to provide the right and complete information to further develop students 'and students' further thinking. Such are: explanation, conversation, thirst quencher. Teaching methods are the standard performance that teachers use in cooperation with students, students further, to achieve the learning objectives.

It is the teacher's ability to determine the most productive method, in accordance with the content of the teaching topic and the particulars of students, students, classroom or auditor. Understandably, no method is universal, as well as overrated. Each teaching method has its own advantages and limitations (At the end of the material, there is a questionnaire filled with a group of teachers who have filled it individually. There is also a questionnaire processing table, as well as the order of the questionnaire Methods in their opinion). It is advisable that it is necessary for their teachers, pedagogues to intertwine them naturally, to ensure or achieve the intended goal of "Contemporary Methods" (aim to balance verbal stimuli with other incentives as a result of The thorough use of human senses and intellectual, emotional and psychomotor potential of students

The philosophy on which modern methods are built is based on the assumption that students learn better when they learn to act, is when challenged to engage in accessing learning actively and creatively. In keeping with this perspective, students and teachers are partners for learning. In this regard, the role of the teacher is that he mainly orients, helps and supports the students' efforts to acquire and develop knowledge, skills and attitudes.

#### Teaching: There are many definitions regarding the definition of teaching, but all that relates to common aspects

For example Endersoni and Bernstein (Anderson, Burns, 1989) claim that teaching is a process, as it has the action: "The teacher does something when teaching." Teaching is also an interpersonal activity, while the teacher interacts with one or more students. Interaction can be two-way (teacher affects students and students affecting the teacher). This relationship is known as mutual interaction. Ie: "Teaching is a deliberate process where the lesson taught by it is related to one or more specific objectives." Regarding the teaching, the researchers Endersoni and Bwrni came to this definition as: "Teaching is an interpersonal, interpersonal activity that typically involves oral communication, undertaken with the intention of helping one or more students learn or change the ways in which they can or will behave." Possessing aspects of teaching is a complex process, but it can be mastery of mastery. This material pertaining to educational psychology tries to equip students, teachers, to penetrate in-depth the teaching and learning process. These include knowledge of the teaching process, learning, classroom orientation, and what is the function of the school. Teaching is the main factor in learning; Which is an act of teaching in an educational institution; Is the activity and direction of the teaching process by the teacher. Teaching is always a deliberate process, achieving the goal, the general and the specific objective. Like any deliberate activity, teaching does not happen by chance, but it is a planned process that implies the effective realization of this learning process. Teaching is: Transmitting

knowledge from a teacher, a pedagogue to a student, a student, accompanied by the question “What” - what to teach him / her? It is the organization and direction of the work associated with the question “How,” how do I teach them?

## Objective # 2 Teaching and learning centered students

### Teaching with the student centered

Student focused methodology means that the planning and organization of learning (learning and teaching) pays attention to the students' demands, needs and interests. Teaching and teaching methods focus on differences that relate to learning rhythms and styles and aim to positively stimulate students' interest and their permanent motivation to learn.

### New student-centered teaching methods

Student-centered teaching aims at the use of diverse methods. Special attention to our teachers devotes critical thinking. They require more than the inclusion of some new issues and a better treatment of the problem. They thus bring the novelties to the students, the necessity that they contain the initial knowledge, the basic knowledge related to the way of submitting arguments and drawing conclusions. Thanks to this method, teachers give a full treatment to the topic by reaching the best explanation.

**Training and learning are in function of each other and are achieved when several conditions are met:**

- Teaching and learning have students, centered students. The teacher, the pedagogue, keeps in mind the interests, the inclinations, the individual development and the level of each student, the student. It enables all students, students, to develop them further.
- Learning is an exploratory and experimenting process. It is based on the principle that the learner learns to be enabled.
- Learning through the active efforts of ideas has provided theoretical and practical information materials.

These knowledge are intertwined with each other and find reflection in the curriculum.

- The role of the teacher in this perspective is that of the leader and organizer of the learning process.
- Work focuses on individuals and small groups of students more than in the entire classroom.
- Teaching aims at developing students' positive and argumentative knowledge, skills and attitudes.
- The teacher helps students, students to build new concepts and ideas on the basis of their knowledge.

The learner thinks and learns through these processes:

- Understanding and Understanding.
- Concentration and enforcement.
- Picture and Creation.
- Lightness and appreciation.
- The learner is motivated and uses the right strategy to achieve in the fullest sense.
- The student is educated in how to work, learn, and learn, even being independent, during school time but also after years of schooling.

**In this context, we point out that there are three principles on which to build learning, before starting a new learning activity**

1. The necessity of understanding, evaluating and creating the belief that learning is the basis of expectations and success in the progress of schooling
2. The need for motivation as an effort to promote learning, the two components of motivation are the set of goals and activities that are being implemented to fulfill them.
3. Using effective learning strategies through which learning and successful understanding are marked.

**Typical student-centered teaching methods are**

1. Direct-individual, frontal and responsive inquiries-Questioning: It is an element of teaching and learning. The questions are intended to gradually form students or students with notable new notions or concepts. The respondent activates the participants to make use of the acquired knowledge. Teacher's questions should meet some of the requirements as: To have logical clarity, simple and short formulation. Related to the topic, previous lesson, and previously addressed questions. To accomplish this, the teacher is required to make a prior arrangement of the questions he will lead. The content and form of the questions should be such as to enable the awakening of thoughts in the same way to all course participants or students. Even when questions are addressed in different forms, the answer must be the same.

2. Accepting and Encouraging Critical Thinking-Of course, accepting critical thinking by the teacher, and even encouraging it, creates the space for the student or student to be active, to create confidence in themselves and the teacher, To improve, teach and learn.
3. Repetition-Student or student through the repetition of acquired knowledge is placed in the role of deepening knowledge for himself and for his or her students or students
4. Reproducing the Key Issues or Moments of a Specific Objective-The student, or student, reproducing, the knowledge gained by the teacher, he is tested on how he has learned the lesson, in this case he becomes the protagonist or the center-based actor learner
5. Request opinions, suggestions and recommendations-Student, or stud

## Objective # 3 Teaching and Learning by the “ROPES”

### The “Ropes”

The “Rope” method is a teaching method that consists of: In accurately determining the path to preparing, developing and concluding the learning process, through goal objectives, to achieve the highest standards of acquisition or learning of information by students, trainees Or students. Objectives of learning according to the “Ropes” method should be:

- Clear
- Accessible
- Measurable

They should contain the statement of:

- Achievements
- Conditions
- Standards

The Teaching Plan in its composition has sixteen steps:

1. The title of the lesson.
2. Duration
3. Main and sourcing literature.
4. Sourcing tools for the learning process
5. Repeat past learning (repetition).
6. The purpose of the lesson.
7. Learning Objectives
8. Participants (who they are).
9. The importance and the reasons for learning the lesson (motivation). Tips to be attentive, and to gain credibility in the teaching process
10. Method of teaching
11. Entry
12. Teaching content (presentation by objectives).
13. Engagement of participants (exercises, scenarios individually and group).
14. A summary of the information provided by the objectives (summary).
15. Definition of new expressions.
16. Keep in touch with the subject of future teaching and thinking about it.

The sixteen steps of the “Ropes” Learning Development Plan are summarized in five sections:

1. R Repeat
2. O Entrance
3. P Presentation
4. Exercise
5. S Summary

### What does the Learning Development Plan Say?

With Learning Development Plan we mean: Planning and taking concrete measures carefully written, culture and respecting spelling requirements based on the chosen method of teaching. Also drawing and highlighting the goals, which refer to the

topic, purpose and indicators for achieving the standards. Which, to enable the formation of theoretical knowledge and the conscious practice habits, for each trainee or student.

## **The Four Key Moments of Preparing the Learning Development Plan**

### **Before preparing for the lesson**

- Planning based on:
- On the subject of learning.
- Time available.
- Who are the participants?
- How many is the number of participants?
- Method of solving tasks or group exercises.
- The environment where the lesson will take place.
- Placement of participants in the environment where learning will take place
- Possible learning devices.
- What main and helpful literature should be supported.

Preparation of the main part of the Teaching Development Plan for Presentation:

- Meeting ideas.
- Their grouping.
- Step by step.
- Defining visual aids.
- The Learning Development Plan is written out.

### **During learning development**

- Development of the lecture.
- Demonstration.
- Group Tasks Solutions.
- Assessments.

The presentation of the lesson is enlivened by:

- Voice => speed, volume, straightforwardness and united speech of the Albanian literary language (standard).
- Gestures => with prudent use of hands, arms and facial expression.
- Contact with eye => eye contact with each student or student throughout the information tracking time.

### **To create space for co-governance with participants**

- Handling individual and frontal questions.
- Listening attentively to the answers.
- Creating space to give thoughts and bring life experiences.
- Respecting and encouraging different opinions given by participants.
- The generalization and motivation of those who activate during the learning process.
- Realizing ideas and thinking about what they want to learn and apply more.

The content of the steps of the “Ropes” method.

1-repetition:

- Is the lesson to be presented on what will be addressed?
- Space is given to questions that students or students who have come out during the study may have.
- You get a brief answer
- Asking questions (1-2) and frontal (1-2) are asked.
- An example or life experience related to the previous lesson is required.
- Thoughts, ideas for the effects of learning.

2-Entry:

- Presentation of the title of the lesson

- Learning objectives are followed.
- Indicate the standards to be achieved.
- Motivation is realized.

### 3 Introduction

- Information is transmitted according to objectives
- For each goal shown and demonstrated.
- After elaborating any objective, you are asking questions to students or students.
- Create questions for students, trainees or students.
- Encouraging trainees or students to provide ideas, thoughts and experiences.

### 4 Exercise

- Group-based assignments are provided, through 2-3-stage scenarios, including the entire learning group

## Object # 4 Teaching and Learning Competently

### Teaching and learning competencies

#### Content on competences

There has already been a requirement and the necessity to describe the contents of the curriculum by “learning and competency learning. Today is being put into effect the effectiveness in teaching that is successfully carried out by experimentation is the one with competence. The quality of teaching of each teacher, pedagogue in the learning process and reflected through the competences, which constitute the professional framework. This framework with the competence of teachers constitutes the basis for:

- Determining the learning outcomes of initial programs, the preparation of teachers, pedagogues.
- Determining criteria for recruiting teachers and pedagogues to become part of pedagogical or academic staff.
- To recognize the needs of teachers to further their professional skills
- For continuous training of teachers, pedagogues, pedagogical-psychological and social
- To provide realistic conditions and opportunities for each teacher, a pedagogue to continuously develop competences throughout his / her formation, as an important factor for career advancement in the field of education

#### Understanding the competences of the teacher

Teachers' competences relate to: “With a set of socially-accredited skills that are well-received and supported by the knowledge required to carry out a particular task” (teachers - to provide knowledge, to form stable theoretical knowledge and practical As well as to educate them on the demarcation of the civic and cultured line of behavior) (EC, Jonnaert, 2002, p.14) Likewise, competencies are complex combinations of knowledge, skills of understanding, values and attitudes that lead to effective actions of achievement, ie tangible achievement on the part of each individual including the teacher. For each teacher, his reflection on professional experience continually updated and generalized in practice and adapted to contemporary developments should be seen as a broad field of professional activity to build and further enhance competencies. As anyone and a professional teacher, researcher, innovator, and active associate are required:

- Special expertise in knowing the models
- Sensitivity to social demands and classroom or auditor dynamics
- Understanding the Problems
- Being cultured tolerant and inclined to be well-understood
- Critical examination of professional practice

#### Teacher Profession and Competence Framework

Teachers are increasingly being asked to improve the quality of teaching in the teaching process and the whole school activity. From the level and the overview results are the competences, which constitute the professional framework.

#### Development of competences

Teachers in terms of professional competences need to connect with ideas, creativity and professional skills to integrate knowledge, formation and education in accordance with the individual needs of students, students and stakeholders. Teacher skills should be built, developed and realized on the newer concepts of learning or learning as a methodology in which the theoretical knowledge needs to be detailed understandable and from trusted sources, of course seen from the point of



view of application On the practical side. This creates the ability and scope for skills development by critically reflecting and respecting the different thinking. Teachers who have acquired good, good, professional, intellectual, and social competencies are a novelty for pedagogical staffs that can be activated by school directors, departments, for professional development for their staffs. Types of teacher competencies are those in:

- communicative / interpersonal skills
- pedagogical knowledge
- professional skills
- teaching methods
- organizational skills
- theoretical-practical digital knowledge
- the objectivity of the assessment

## Goal # 5 Conclusions and Recommendations

### Conclusions

Teaching as a mission or profession by the noblest, as art and science described theoretically and practically by principles and values, requires each teacher who takes the courage to teach, to work hard to achieve the standards of one A good teacher, with a goal to become very good or “master” of education, for students. This great, compulsory but also moral obligation requires every teacher to become the wise, courteous and decisive man of the model or “etalon”, who, further, succeeds in creating the trust and respect of each student , Tutor or student. Of course, by attending contemporary and argumentative knowledge, and having the core of the learning process, the knowledge, education and training, student, student or student, realizes the expectations in terms of quality learning. Through the commitment and accountability of the students, how moral, legal and humane, will grow even more worthy of respect for themselves, the family and the society. During the learning process (teaching and learning), teachers should pay attention to the needs of:

- develop students’ initiative and independence in terms of learning;
- develop students’ responsibility for their learning indicators;
- highlighting the different needs, interests and talents of students;
- actively involving each student individually;
- Develop communication skills and other social skills, such as human and social skills;
- Develop self-assessment skills for students;
- develop organizational and work skills, such as sharing responsibilities, finding the right information; Setting time limits for fulfilling various tasks, deciding on the use of various tools to facilitate and secure the expected learning outcomes.

### Recommendations

Today’s school is geared toward open teaching, a process in which both students and teachers are both authors and actors. Also, the attention of the school is increasingly directed at the responsibilities that students should take in the learning process. In teacher-centered teaching, the teacher is considered a factor of particular importance in the direction and organization of the learning process, while the students are fully involved in the process, so the learners activate 80% of the teaching process time, while teachers 20 %. Collaborating in different forms gives students the opportunity to further increase their learning.

# Contemporary education and reproduction of inequality

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## Abstract

*“Education is the agent of social regeneration.”- expressed John Dewey (1997) pointing the role of education as a regenerative process of social values, as a fundamental implement of society’s existence. Thereby, for Dewey education is a fundamental agency for individual’s life and society. The purpose of education is to teach and stimulate individuals to think freely and objectively aiming at a more complete realization of the individual. But many authors object this perspective supposing in a relationship of educational system and capitalism, where education according to them is a bureaucratic body where students are rationalized in the service of political and industrial system. (Ilich, 1973; Bowles & Gintis, 1976; Usher & Edwards, 1994; Bourdieu & Passeron, 1977). Thus, according to them the capitalist class determines the education models on self-interest and not depending on the interest of mass. The biggest contradiction however is that meanwhile individual rights are being taught in schools, the school protects the structure of the capitalist system that contradicts in structure with the philosophy of these rights. The main research question of the paper is: “ Which is the contribute of contemporary education in social mobility and reproduction of existing social order? Subquestion of this paper is: Does education still conserve it’s value and importance in the imaginations of young people in terms of the challenges they face after graduation as high unemployment level? In order to fulfill the purpose of the survey: to understand in depth the individual realities of the study participants, from their social and educational perspective, seeking in their individual and social realization through employment and not only, is used the qualitative method through the application of semi-structured interview. Qualitative analysis of the data has enabled the provision of rich information and wide enough about issues, challenges and perspectives on the phenomenon.*

**Keywords:** Education, regeneration, mobility, inequality

## Introduction

‘Education is the instrument of social regeneration’ - mentioned Dewey, emphasizing the role of education as a process of social values regeneration, as a fundamental instrument of society’s existence through the renewal of its elements in time by individuals and groups. Education gives the individuals the chance to be part of the society. The role is based on what society expects from the individual to do. According to Ralf Dahrendorf in the ‘Sociological Man,’ study expresses the conviction that ‘Role-free man is for society and sociology a being that does not exist’ (2006). Through a qualitative and complete education every individual hopes for a worthy position in society. Social mobility refers to the movement of people between categories of social classes and social mobility rates are often considered as “indicators” or “gauge” of the degree of fluidity and the opening of a society. Education is of paramount importance. In general, the higher the level of qualification of a person, the higher the level of his income. Sociologists see educational achievement - how far you go to school - as an intruder variable. This variable interferes with the deployment of the family to the social structure (the attributed status) and the place you possibly achieve as a result of your own efforts (your reached status). Functionalists see formal education as the main way to climb the stairs of mobility in modern societies and as a balancing equation between the social inequalities attributed, especially to

low-income members. Consequently, it can protect top-level members from the downward mobility trend. Sociologists who present both views recognize that education and social mobility in modern societies are closely related. Richard J. Barnett and John Cavanagh have written in their book 'Global Dreams': "A large number of human beings want to be poor, as long as they do nothing to get out of this situation" (Pg.1).

## Literature review and methodology

Different authors emphasize various elements to show how the school relates to social inequality, for example Ivan Illich highlighted the consequences of informal processes at work through what he called the "hidden curriculum". Basil Bernstein emphasized the significance of language; Pierre Bourdieu analyzed the relationship between school and home-culture; Paul Willis focused on the consequences of cultural values in shaping the child's stand on education and work.

One of the most famous authors in education field is Ivan Illich (1926-2002). He is known for criticizing modern economic development, it is described as a process in which people (who used to do everything by themselves) are forced to give up their traditional skills and address the doctor for their health, teachers for education, television for entertainment and employers for survival. Illich (1973) argues that compulsory education should be discussed. He stressed the link between education development and the demands of the economy for discipline and hierarchy. Illich thinks the school has developed to cope with four key requirements: (a) Preservation and care; (b) Sharing people through employment roles; (c) Embracing dominant values; and (d) Learning skills and knowledge approved by society. With regard to the first requirement, the school itself is a protective and safeguarding organization, because it is obligatory to keep children "away from the road" in the period between childhood and until they are thrown into the labor market. At school, many elements that have nothing to do with the formal content of the lessons are taught.

Schools tend to realize what Illich calls "passive consumption", hence an uncritical way of accepting the existing social order, because of the disciplinary nature the schools have. These lessons are not consciously given, but they are melted with school procedures and organization. The hidden curriculum teaches children that their role in life is "to know their place and to sit on it" (Illich, 1973). Illich proclaims a desolated society. The compulsory school is relatively a modern invention, so according to Illich there is no reason to accept it as something inevitable. While the school does not promote equality or the development of individual creative skills, why not discard its existing form? Illich does not mean that all forms of organizational education disappear, but that everyone who wants to learn has access to the available resources at any moment of his life, not just during childhood or adolescence. This system should be made available for getting acquainted and widely disseminated, not limited to specialists. Beneficiaries do not have to undergo a standard curriculum, but have to have a personal choice of what they are studying. What they learn in practical terms is not always complete. Instead of schools, Illich recommends other forms of education. The source materials for formal learning should be found in bookstores and rental agencies, laboratories and information banks, available to everyone. Communication networks need to be built to enable anyone to get information. Pupils should be provided with vouchers to allow them to use educational services where and when they wish. Are Illich's thoughts utopian? Today's societies are based on educational credentials, so for us to be employed we have to present the diplomas we could get. The desecrated society wouldn't have the ability to equip the individual with these credentials, but on the other hand, thanks to the dissemination of information technology, we are seeing that the school is not the only institution where knowledge and information are acquired. Moreover, we see that education is more than ever in line with the needs of adults, not just with the needs of children and adolescents. Cultural reproduction has to do with the ways in which schools together with other social institutions help to perpetuate social and economic inequalities from generation to generation. (Bourdieu and Passeron, 1977). The concept draws attention to the ways in which schools influence the acquisition of values, attitudes and customs (what Illich called the hidden curriculum). Schools reinforce the variety of cultural values with which the individual is presented in the early years of life. When children finish school, these values limit the opportunities of some people, while increasing the chances of others. A famous discussion on cultural reproduction was made from data obtained from a study that Paul Willis performed at a Birmingham school (1977). The issue Willis chose to study was how cultural reproduction occurs, or, as he puts it, "how the working class children occupy the jobs of the working class". It is often said that during the education process, children from the backgrounds of the lower classes, or minorities, conclude that they do not have the "sufficient skills" to hope to find high-paying jobs or a higher status in the future. In other words, the experience of school failure makes them familiar with their intellectual limitations, accepting their "inferiority", they tend to professions, whose career prospects have failed. Willis's study focused on street boys or "street wisdom" (macho lads as Willis calls it). He concluded that this category of children, who often drop out of school, do not do so because they are less intelligent than others who continue it, either because they have a low self-esteem but because they like to use a disagreeing approach School authority. The same nonconformist attitude these individuals are also willing to keep up with the work. When they grow up and build their own family, the "street boys", independently of their own attitude to school, can not do otherwise to educate their children about what their parents did with them. This study, according to Willis, demonstrates best the cultural reproduction.

The work of Samuel Bowles and Herbert Gintis mainly relate to the institutional background for the development of the modern school system (Bowles and Gintis, 1976). Modern education they suggests should be understood as a response to the economic needs of industrial capitalism. Schools help to provide the technical and social skills required by industrial

enterprises; Schools help motivate those individuals to “reach” success, while discouraging others who find low-paid jobs. According to Bowles and Gintis, modern schools reproduce the feeling of helplessness, which many individuals experience wherever they may be. The ideals of industrial development that make up the axis of education can only be achieved if people control their living conditions and develop their talents and skills to express themselves. In the current system, “schools” are predestined to justify inequality, to limit individual development to forms that agree to subordination to arbitrary authority, and to assist processes in which young people leave themselves in the hands of their own destiny. If there was a wider democracy in the workplace and more equality in society and beyond, argue Bowles and Gintis, a system of education could be developed that would ensure a more complete individual realization.

British sociologists Usher and Edwards contradict a “meta-narrative” according to which education spreads rational beliefs instead of pre-modern superstitions. This view of education is related to progress. Education encourages individuals to think freely and reasonably, which enables social progress and innovation. Being postmodernists, Usher and Edwards contradict this by finding no reason why a curriculum may be used and another not, or why some particular topics may be spelled out and some not. Although they discuss many opportunities, they sympathize more with the opportunity that leads to cultural pluralism and diversity. This system could give individuals the freedom to shape personal education programs through lifelong learning or exploring cultural differences (Usher and Edwards, 1994). The theory of human capital reflects the functionalist viewpoint in education as the equilibrium of social inequality. Human capital has to do with the individual skills and talents that a person possesses. Education is an opportunity for low socio-economic class members to develop the skills they need to achieve a higher status in a society. Human capital theory has led major government efforts in the US and elsewhere to make higher education more accessible to more people in the interest of equilibrating life's chances and choices (Bidwell and Friedkin, 1988: 453). Human capital theorists argue that when classroom, race / ethnicity and gender barriers are reduced, individual ability can play a greater role in educational achievement and, consequently, in the choices and chances of life for many people. The theory of human capital argues that academic credentials are crucial to modern societies. Theorists of cultural capital also claim that these credentials are used to classify people into positions that hold a variable amount of wealth, power, and prestige. Cultural capital has to do with the cultural elements that possess a certain social group. It includes the socio-cultural advantages and disadvantages that affect the choices and chances of people's lives regardless of their human capital. Human capital theorists advocate that the process of classification leads to an unbiased reward system and differentiated status based on talent and individual skills, while cultural capital theorists argue that classification actually enables people to own almost positions of High status to curb others who aspire to these positions. Educational credits, thus, have little to do with certifying individual talent and skills (otherwise called human capital).

These credentials, according to cultural capital theorists, relate to the certification of the holders of the required cultural capital (Bourdieu, 1977; Bourdieu and Passeron, 1979). Being disadvantaged by the lack of cultural capital involves more than just apparent financial disadvantages. The impact of monetary capital on education achievements should nevertheless be underestimated. At all levels of education, the most prestigious schools tend to be more expensive schools and the introduction of high-prestige schools at every level can be a factor in enabling entry into a highly prestigious workplace. Beyond money, cultural capital also consists of the basic attitudes, values and skills acquired by children socializing in families with socio-cultural advantages. Association gives them educational advantages regardless of their individual abilities. For example, “adapting” them to the values and norms that exist in schools makes it more likely that they will succeed whatever their intellectual abilities. Educational outcomes have shown that “education in many societies is class-based, aiming to provide superior education to the future leaders of the nation rather than giving a broader and more prosaic education that was Is offered to a potential class of lower classes (Longworth, 1991). Microsociology interprets the functions, structures in education. For them, contradictions in education reflect contradictions in the state: The state is under pressure they say, promote capital accumulation and legitimize human rights. Education now plays a contradictory and dualist role: It contributes to regression as opportunities are not given to everyone while learning about rights and equity. Theory explains that the school's inequalities are preserved, authority is taught, submission to another, authority and strength, fragmentation of students into classes, prejudices, submission to another Curriculum Theory: This theory relies on the analysis and reflection of subject content, teachers and assessment system. The curriculum has an essential role because it is the determinant of the extent, type and quality of the elements needed and provided for student study at school. This theory, besides the disclosure of challenges and problematic issues, states that the curriculum should be timely with social, institutional changes. According to her, the system can be democratized only if part of the curriculum control also becomes students. So it needs a non-passive role of student but also decisive as the information selector he seeks to get the most valuable and suitable for his social profile.

The theory of the economic correspondence of Bawles and Xhinglis disconnected from ‘Education in the USA’: The attention of these scholars was in high school which according to them is a reproducer of the school's social relations. The school and its relationships reflect their hierarchy in production, thus making a vertical division of labor. Young people are taught their work relationships and hierarchical relationships. Streamlines students' needs towards production rather than what they want themselves. Pupils under this theory have no chance of having a role in the content of education. The capitalist class according to them determines the models of education that are of interest to it, not the mass. Carnoy and Levin, wanted to know if this theory was behind for twenty years. The school according to them has a dualistic function, thus it serves capitalism through the formation of a dualistic function: Association with codes that reproduce economic, industrial relations. Young people inscribe this classroom through education. The second mechanism behind socialism is the transformational capacity that schools have through education. Their theory reveals the contradictions between the economic and political levels that education produces. The biggest controversy is that while the rights of the individual are taught in school, the school



protects the structure of the capitalist system that falls in structure with the philosophy of these rights. Credential Theory of Collins taken from the 'Credencial Society': According to him the expansion of education, its massivization gives some opportunities for horizontal mobility but does not bring about change for the system. He talks about the rationalization and bureaucratization of education. So education according to him, is a bureaucratic body where bodies of students rationalized in the service of the political and industrial system. He bosses rationalism as a condition for producing expert. We see the rationalization to the use of testing students. Society needs expert, education uses grades as assessors. Dualist because the school prepares us as a bureaucratic being, it also enables us to create a new lifestyle that keeps our mark as an individual.

In this context, given the purpose of the study: to understand in depth the individual realities of the participants in the study, from their educational, social perspective in pursuit of their individual, social realization through employment and not only, have been used the quality methods through applicating the semi-structured interview and focus group. A key element distinguishing qualitative and quantitative methods is that quantitative methods are deductive and qualitative methods are inductive. A deductive approach is what passes from a theory or hypothesis to empirical observations and conclusions. An inductive approach is the one that follows the reverse path, so the observation precedes the hypothesis, theory and interpretation (Ritchie J, Lewis J. (2003).) The main advantage of qualitative research is that they provide us with a more in-depth understanding of the population, under each case is representative of the specific experiences of a person's life and the interpretation of these experiences, thus representing the truth and reality for that person (Ritchie J, Lewis J. (2003). Qualitative data analysis has made it possible to secure a lot of information about the problematic. In addition to the semi-structured interviews, two focus groups were discussed and the information on the subject matter was discussed. British sociologists Usher and Edwards contradict a "meta- Narrative" according to which education spread rational beliefs instead of pre-mod superstitions This view of education is related to progress. Education promotes individuals to think freely and reasonably, which enables social progress and innovation. They sympathize more with the opportunity that leads to cultural pluralism and diversity. This system could give individuals the freedom to shape personal education programs through lifelong learning or exploring cultural differences (Usher and Edwards, 1994). On the other hand, using the focus group as a data collection method is appropriate for such a study because it helps in gathering data related to the perceptions that individuals involved in the focus group have linked to this topic. Campaigning used for the focus group consisted of 12 students of different study programs. Such a combination provides the possibility of obtaining data from different individuals, thus aiming at a sort of representation from the selected sample.

## Analysis of findings

Starting from the principle of John Dewey that 'Education is the means of social renewal' as a process of restoring social values, individuals and groups, we understand a close relationship between school and the values or ideas of the dominant groups in society. Theorists of the conflict believed that the entire education system is affected by the ideology produced by the dominant groups in society. Bowles and Gintis conclude that modern education has to be understood as a response to the economic needs of industrial capitalism. Schools help to provide the technical and social skills required by industrial enterprises. Cloin Crunch says that, the answer should be sought in post-democracy. He used this term to show the fact that current democracy is characterized by an ever-growing influence of the economic elite on political decision-making. Citizens are required a passive and apathetic role. Apparently, post-democracy produces a climate of exclusion, disillusionment, and powerlessness that is increasingly characterized by the crisis in terms of citizen participation, legitimacy and trust.

In this context the decisions do not express the interests of all citizens, but only those of some economic elites. Post-democracy is the backbone of capitalism institutions. The results of the interviews and the responses from the focus group do not reject this statement by strengthening the conviction of the existence of a strong link between the education institution and the capitalist institutions, concluding that the education system itself supports the values, norms, goals of the institutions of capitalism. According to the results, we find persuasion based on Ivan Ilich's theory that schools through a 'hidden curriculum' teach us elements that have nothing to do with the formal content of the lessons. The school through this apparatus affects the acquisition of dominant values and the teaching of approved and supportive skills of capitalist institutions. Ilich's attitude is also supported by the fact that schools tend to realize what he calls "passive consumption", hence an uncritical way of accepting the existing social order, because of the disciplinary nature the schools have. What's the problem at this moment asks Dewey? We have the existence of formal, intentional and informal education, and one of the serious problems of education philosophy says it is the method of maintaining a proper balance between formal and informal education. So we should not go, he says, towards an undesirable separation between the experience gained in other social agencies and what is gained in school. So there must be a balance between this information that is known to be able to be regulated through other institutions, reforms as it is very easy to turn into an 'achilles heel' of the continuity and functioning of the society. (Dewey, 1997). Findings support the claim that today schools are divided according to class divisions. The best schools are the most expensive schools and the more expensive schools are supposed to offer a better education and are excluded from this quality education, quality students who have no economic opportunity to continue their studies in these schools. Meanwhile, these schools are attended by students, senior members who may not be as good as the education they are able to take and receive a quality education, they will have more opportunities to earn prestige jobs, economic and social values. And in this case, discouraging the possibility of low and middle class students, qualifying students, to get jobs as prestigious as their peers. But, according to the findings, at this moment we are dealing with inequality, which is transmitted, reproduced.



Stefano Bartolini in his book 'Manifest for Happiness' concludes that the school is based on some misunderstandings. The first misunderstanding is the lack of conception of the school as one of the places where knowledge is transmitted. Dewey mentioned that 'Education is a process of living rather than a preparation for the future life' - so the school as an institution should simplify the existing of social life, reduce it to an embryonic form. And so Dewey believes that many of today's education fails because he ignores the principle of school as a form of common life. This spirit of wrong school perception, not as a place where knowledge is transmitted, is felt in Albanian schools as it finds, and this damages the school's mission as a socializing agency. The school is certainly a place of building social relationships, a space in which the individual tests his skills, recognizes himself, but the primary goal of the school is to convey knowledge. According to the results of the interviews and the focus group, school today is perceived more as a place of building social relationships, passing time rather than transmitting knowledge. This is the result of the large number of students who attend school without interest, just to fill their time, which often results in damages to those students for whom learning is a priority. According to Stefano Bartolini, an ever-growing isolation model has been created, in which study and residence in school tend to occupy the children all the time. The school, according to him, occupies a lot of space. A finding that is also supported by John Dewey, who says that school life should gradually increase from the life of the home.

The second misconception lies in the particular attention given to didactic results, destroying any other form of recognition. The full focus of examinations and ups and downs destroys primary elements of learning: the original critical thinking, experimentation, renewal. The acceleration caused by deadlines and programs has a devastating effect on critical thinking. What we need to do is stimulate creative learning and this requires a wide range of opportunities to express the skills and preparation of the pupils. Even teachers are underestimated in their social function: they have undergone some centralized objectives and rules, which undermine their curiosity and imagination. The message that the school brings to the realistic level is competition and hierarchy: competing relationships between students, teachers.

The third misunderstanding concerns the lack of awareness that learning works best when it is backed by positive emotions. They are not required to study because the study is interesting in itself, but because the study allows you to find a good job and avoid the risk of being excluded from society. In this way the school shows that the motivation of the study is instrumental. We must learn to be possessors of ourselves and our time, be deep, creative, inclusive. As the school teaches us to be disinterested, how to be passive to the will of others, be superficial, uncritical, and competing with each other. The school is modeled by the culture of stress and this culture as a pavlovian reflex has created three words: cognitive formation, isolation, growing fatigue (pg. 63).

The results of the interviews and the focus group conclude that the school is valid for the formation of the individual but not for his career. This finding also comes from the high level of unemployment facing newly-graduated young people. Of course, this situation is a manifestation of a more complex system that discourages young people and removes the possibility of their employment. Schools are no longer effective as learning organizations and other agencies outside the school (families, business organizations, friends, governments) are also ineffective. (Fullan, 2010, pg. 69) This is how Michael Fullan says about the school which, according to him, nowadays can not be considered effective in the learning process. This can be said to come as a result of a diversity and inflation of information opportunities but he rushes to say that other agencies are also ineffective. There he distinguishes a worthwhile learning and information that 'is not heated' is not worth it. Fullan is right when he says that the effectiveness of school can be assessed with the ability it has to bring complete, capable, competitive, full academic students.

From the results of the interviews and the focus group, it is concluded that the perception of the school has changed. As a result, schools are not seen as the only place to gain knowledge or benefit from a social role. Even Ivan Illich, said that we should see other alternative forms of education. The development of the information society gives us the opportunity to have access to a host of information, but of course the possibility of having access to an infinite amount of information should not be perceived as such a huge advantage. The school has the ability to select, process information based on objectives, level and goals.

## Conclusions

We do not rule out the existence of a close relationship between the institution of education and the institutions of capitalism. It is nonsense to admit that an institution of society functions independently of other institutions. So we agree that modern education can be understood as a response to the economic needs of industrial capitalism. A finding that comes not only from theoretical assessment and analysis, but also from the facts from the interviews and the focus group with young people where it turns out they do not study because the study is interesting in itself but because the study enables you to find a good job and avoid the risk of being excluded from society. Dewey (2007) stated that with the advent of democracy and modern conditions it is impossible to prophesy categorically how civilization will be twenty years later. It is therefore impossible to prepare children for any condition structure. (P.14). So the school supporting Dewey's finding should be seen as a form of common life. So school should be perceived as a journey, not as a preparation for the next life, but as a way of life. We support Stefano Bartolini when he says that we need to change the school; we need to change the way the school and its mission is perceived. This is indispensable, according to Bartolini, in order to build a world more attentive to the relative dimension of life. We must therefore learn young people to be possessors of themselves and their time, to be inclusive, to learn to live happy.

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# Attention to students with special needs provides a qualitative and inclusive education for all students

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## Abstract

*The purpose of this study is to identify how teachers recognize standard “care to children with special needs” and what is the extent of their applicability in our educational institutions. The methodology followed: quantitative and qualitative methods will provide us with concrete information on the quality and applicability of this standard by teachers. Theoretical information, quantitative analysis conducted through questionnaires to teachers who exercise their profession in undergraduate education, tables of discussion with colleagues and parents of children with special needs, will provide us with a clearer picture on the applicability of this standard in the context of Albanian schools, which are challenging to work with, and as such, there’s a greater need for more progress, findings and suggestions to be made. Results: Results of the study show that 30% of teachers do not recognize these standards, namely standard “care for children with learning difficulties” and “Attention to gifted students”. 80% of teachers in public schools admit to the difficulty of the implementation of these standards compared with 20% of teachers in private schools. 60% of teachers in public schools compared with 50% of teachers in private schools apply the theory of multiple intelligences during classes, which are conducted in this way to increase the inclusion of students. In the calculation of daily plans, teachers take little to no account of the specificities of students. Difficulties can be encountered in the design of PEI plan, student assessment and therefore parental involvement in school which is necessary for communication and closer cooperation in order to increase the quality of the active participation of these children.*

**Keywords:** standard of the teachers, care for children with special needs, PEI, students with cultural diversity, students with linguistic diversity, support of all students.

Persons with disabilities are those persons whose mental functions or psychological condition tend to be avoided for more than six months from a typical age-related condition, which consequently results in restrictions on their participation in social life. A change from normal conditions implies loss or restriction in relation to physical, mental or psychological structures that are present at the relevant age. Disability exists if the injury leads to a limitation that affects participation in one or more areas of life. Pupils with disabilities have long-term physical, mental, sensory, behavioral or combined injuries that, in interaction, may prevent them from participating fully and equally in their education and social life. Pupils with special needs; are those students who need special services to access education and maximize their learning potential.

**Learning Disorders:** difficulties in learning specific skills such as reading, or math. They affect people’s ability to interpret what they see and hear, as well as to link information.

**Intellectual disability:** the term is used for people with disabilities which are characterized by significant limitations in both intellectual and correct behavior.

**Disability Development:** It is a shield term which means any disability that appears before the age of 22 and continues throughout life.

**Compulsory education:** is basic education, united and general education. The compulsory education school includes two cycles: primary education, high school and high education. The compulsory education school may be full-time or short-time school.

**General education:** a learning environment that provides access, accommodation and support for all students. With general education we mean the organization and involvement of children in schools with purpose to adapt and progress to all children, regardless of their physical, intellectual, social, emotional, linguistic or other conditions.

**Integrative education:** refers to measures taken to provide education in the ordinary school system with little extra support (eg resource classes, support teachers, etc.) for children with special needs.

**Special Education:** Every child is special and every child needs support in the development process and adaptation to life. Some children are more in need than others during school years. This special, unic help is known as special education.

**Autism:** It is a developmental disorder that is characterized by big communication difficulties and the formation of relationships with other people as well as in the use of abstract language and concepts.

Pre-University Education Strategy 2014-2020, Normative Provisions for Pre-University Education 2013, Law no. 69/2012 for PUE (Pre University Education), statutory acts and legal unwaful pay particular attention to all students in general and to students with special needs in particular. One of the teacher's standards is the care of or students with learning disabilities, a standard that is devoted to a special legal importance, according to Law 69/2012, DN / 2013, the local education unit establishes a commission consisting of doctors, psychologists, teachers and specialists for children with disabilities, who, after examining the parent's request or the director of an educational institution, makes appropriate recommendations for child attending an ordinary or specialized educational institution. After the child is identified as such, he is treated with a special individual plan built based on the abilities and disabilities of the learner. For this, a multifaceted collaboration between parents and the school requires the first to know the needs, the regression history or the child's progress. The psychologist's role is also very important in this process. Inclusion of children with learning disabilities in institutions studying other children in focus is improving the child's situation, as it is thought that these children are better taught among normal children. On the other hand, this can lead to regression as children may suffer discrimination by other children without their support. Children with special needs should be offered a just and equitable education service. Their fair education implies the design and planning of special strategies for these children. Children with special needs are protected by law and their teachers are responsible for their treatment. Designing and implementing the integration of children with special needs in schools with healthy children requires well-trained teachers in this regard and recognition with the teacher's standard.

One of the standards provided by law is: "Care for children with learning difficulties" based on this standard the teacher believes that all students are able to learn and creates each student the conditions to improve his achievements. In fulfilling this standard the teacher/s:

- Implement multiple intelligence theory in his/her activity with students
- Counseling with other teachers and the psychologist to identify learning barriers for particular students
- Use differentiated teaching and learning strategies that best fit students
  - By designing individualized learning programs
  - By devoting more time off-class to learners with learning difficulties
- Creates in the classroom a host culture and cooperation from other students for the disabled
- Cooperates specifically with parents of students with learning disabilities

Burnett (1995) and Earthman (2002) found that schools should provide a safe and secure learning environment by providing students with individual learning. According to Plank and Candliffe (2011), good classroom organization ensures high quality of learning. Their research has found that lower-grade students have lower student numbers than those with a high level of learning. Referring to Earthman (2001), students need a quiet environment to enhance qualitatively learning. But is this done in our schools? Do our teachers present difficulties in this way? Is quality reached in the learning process? What are the most common difficulties encountered? How well and how do teachers know and apply this standard in reality during the teaching process?

## Presentation of the problem

In our schools, teachers are increasingly encountering difficulties in treating and providing assistance through differentiated teaching in two categories of learning: 1) children with special needs, 2) talented children. The large number of students in the classroom, the lack of training on the treatment of disabled students, the lack of auxiliary teacher, lack of infrastructure, lack of co-operation among colleagues, the feeling of inadequate reception by parents of intellectual disabilities is some of the worries and the major problems faced by teachers today. The topic to be addressed refers to the care to be given to children with learning disabilities.

## Hypothesis

Caring for students with special needs provides a qualitative and inclusive education for all students.

## Null Hypothesis

Caring for students with special needs does not provide a qualitative and inclusive education for all students. The hypothesis intends to examine the correlation between the independent variable that is “care for special needs students” with the dependent variables “qualitative and inclusive education for all students”.

## Research question

Do teachers influence the integration of children with learning disabilities? Are our teachers able to treat disability in learning in all forms of organization? Are trainings for teachers and parents for the treatment of intellectual disabilities? Below I am addressing aspects of questionnaires with parents and teachers in public and non-public schools. The study population is the teachers, directors and parents of disabled children. In total, in schools, 18 children who have different intellectual disabilities were taken study case, with distribution in particular as follows.

Schools	Class I	Class II	Class III	Class IV	Class V	Class VI	Class VII	Class VIII	Class IX	Class X	Class XI	Class XII
Non public DART	2	3	1	0	2	0	0	1	2	1	1	0
Public DARQ	0	0	2	0	3	0	0	0	0	0	0	0

## Data for teachers

### The gender of the teachers both in two departments DART and DARQ:

Dependend schools	Female	Males
DART	45%	55%
DARQ	100%	0%

### The age of the teachers taken in the study

The age of the teachers	≤ 25	25 - 29	30 - 39	40 - 49	50 - 59	60 +
DART	0%	0%	45%	45%	10%	0%
DARQ	11%	15%	47%	27%	0%	0%
Education level of the teachers	High university degree - 4 years system		Bachelor	MSc	PhD	
DART	55 %		3 %	40 %	2 %	
DARQ	77%		0%	23%	0%	
The experience of teachers	- 1 vit	1 - 5	6 - 10	11 - 20	21 - 30	30 +
DART	0%	30%	10%	40%	20%	0%
DARQ	11%	15%	47%	27%	0%	0%

### Parent Data: Gender of parents involved in the study

Depending schools	Female	Males
DART	70%	30%
DARQ	63%	37%



### The age of parents involved in the study

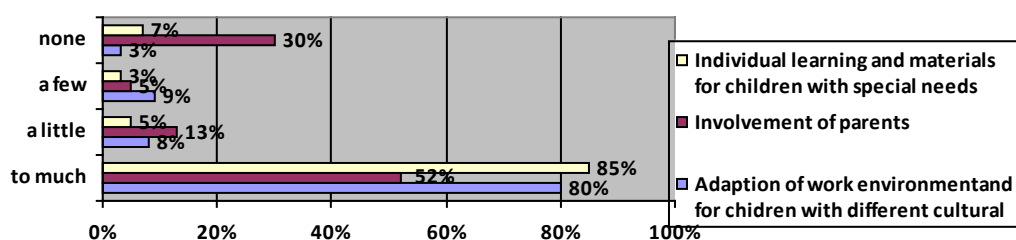
Parents age	≤ 25	25 - 29	30 - 39	40 - 49	50 - 59	60 ≤
DART	0	10%	55%	25%	10%	0
DARQ	11%	15%	47%	27%	0%	0%

### Parent education level in schools depending on DARQ and DART

Education level of parents	Without education	With 8 years of education	With secondary education	High university degree (4year) education	Bachelor	MSc	PhD
DART	0%	5%	40%	55%	0%	0%	0%
DARQ	4%	55 %	44%	11%	0%	15%	0%

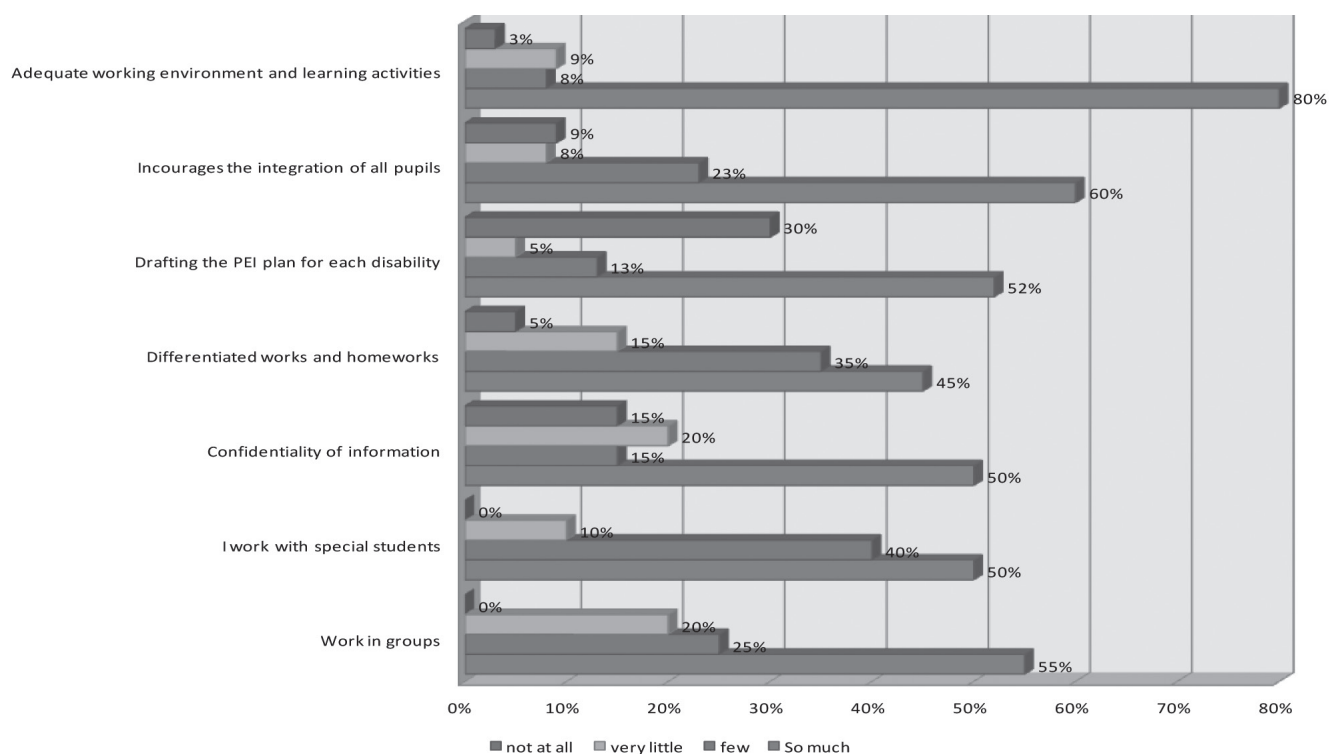
## Analyses of questionnaires with teachers and directors

Chart 1



85% say that they show particular care to students with learning difficulties and that they plan different jobs and tasks for students with low perception of knowledge as well as for fast-moving students, they also orient parents how to work with children Their own, 5% a little, 3% a few, 7% none at all. lacking the support of fellow parents and managers.

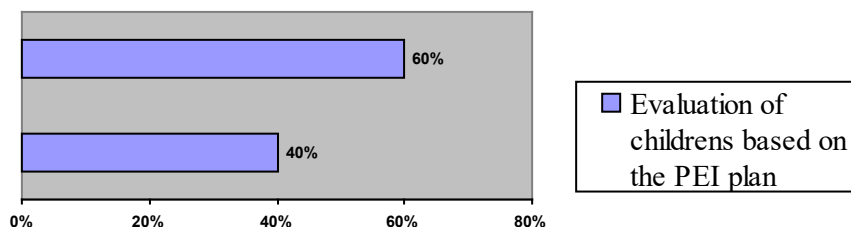
Chart 2



One of the rules set out in the Code of Ethics for Teachers provides that the teacher retains the confidentiality of information provided by parents to their children. If this happens, the parents will lose confidence in the school and the partnership between the parties will be in jeopardy. In this regard, 50% of teachers answered that they did not bother or speculate on the

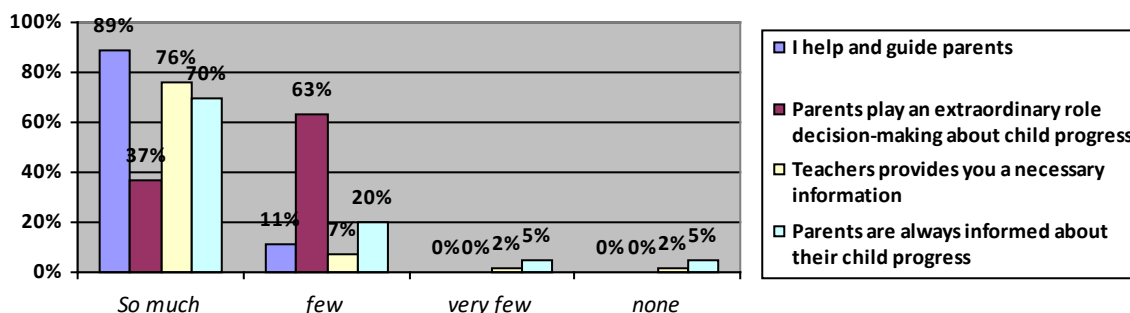
information provided by parents but would make it available to increase student performance, while 15% of teachers say that in some cases where necessary. Knowing the information about the children is useful and important for children's progress. Teachers in urban areas express concern that there are no differentiated learning training in many cases. 55% of teachers claim that students work in groups using research methods based on their skills, 25% say little, while 20% say that the students work very little. The teacher questionnaire results show that they are very willing to work with special students (regardless of the situation), 50% of teachers say a lot, 40% little, 10% very little. 80% of teachers say that it is important for children with special needs to create an optimal and warm learning environment, in order to ensure progress, 8% say little, 4% none.

**CHART 3 - Evaluation of children based on PEI plan.**



Teachers use the PEI plan very rarely, 60% say they do not undertake PEI's assessment of pupils, they claim that they measure the achievements of these students with the achievements of students with intellectual abilities. These students' certificates do not contain the special section for writing standards of achievement for these students.

**CHART 4 -Summary of teacher's questionnaire**



The result shows that 11% of teachers do not orient parents on how to work with their children at home, this is not because teachers can not but because of parents' indifference, while 89% of them assess the progress of children when parents are present during their learning process. Michael Fullan in his book "The New Meaning for Change" (2002) states that; The closer the parent stays to his child's schooling, the greater the impact on the development and school achievement I help and guide parents of the child. Further, this author emphasizes that; Parents and other members of the community are important and generally unused resources, who have the values and expertise of the partnership. For parents, parents play a major role in decision-making at school, 63% have a prevalence of parents' difficulty in parenting decision-making, as opposed to 37% of teachers say parents play an important role in school. 76% agree that teachers make frequent and detailed information available to their children to help them better understand their children, progress, how to improve them, 7% less, 2% few, 2% no. The most common barriers here are how parents expect information, often has parents who don't react good to information. From the survey data, it turns out that 70% of teachers say they are constantly informing students parents, 20% few, 5% very little, and 5% none at all. For the foregoing concludes that teachers are the main cause of failure to keep children informed of the barriers placed between the school and the family through their connecting bridge that is the child. Teachers say that they have tried all forms of information with these parents, such as: letters, telephone, information via direct child, etc.. They also claim to have implemented forms of home visits which, when they are welcomed, are fruitful. Pursuant to point 4.5 of Article 104, Chapter XVI of DN / 2013, THE CLASS PARENTS COUNCIL clearly outlines the duties and responsibilities of the parents who:

- I propose teachers improvements in the performance of classroom students;
- Hears the submissions of the teacher and gives advice or offers co-operation;
- Communicates with parents of students who risk dropping out of school, or remaining in class, or who commit a violation of discipline.

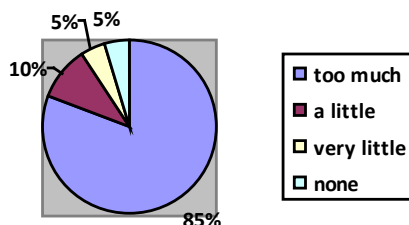
The Parent Council encourages parents to provide their volunteer assistance:

- To work with students with learning disabilities;
- To design or/put into use elective subjects or modules;
- To cooperate in curriculum projects;

## Parent's questionnere

### Parents always inform the teacher about the child's story

Chart 5



I Asked if parents inform teachers about child history, how they interact, what are the strengths and weaknesses, the best way that the children learn fast, 5% teachers say that parents are very few cooperative, 10% less cooperative, and 85 % are very cooperative.

### Teachers use varied ways of communicating and cooperating with parents and the community.

Regarding the question of teacher and varied ways of communication and co-operation with parents, parents appreciate the many ways and forms that teachers find to communicate, inviting them to find bridges of mutual interest to co-operate. Decentralization is one of the strong points but requires accountability and commitment from both sides. 85% of parents express much, 5% little, 10% very little.

### The teacher pays special attention to all students

Parents appreciate the school's efforts towards special care for students with learning disabilities, which is both legal and human. 65% of parents say much about this fact. 20% of them think that somehow more work should be done with this category, 7% very little, 8% few.

### The school offers facilities that enable the development of sports, cultural and artistic activities.

#### Involvement of students in them in order to develop multiple intelligences

92% of parents very satisfied with the joint activities offered by the school. They highly appreciate circular tables, picnics, joint fairs, open week for community, extracurricular activities as well as various contests in different disciplines. School as a community center is a new innovation that provides a proactive and inclusive educational interaction for all types of parents and students. Special programs and services well-planned by the school would make it easier for community partners to support the school, or for school to serve the community? To make this school certainly has to be based on two fundamental aspects: first based on the interests of the students, secondly based on the needs of the students. Given this fact, schools need to carry out the identification of needs and resources, develop a sustainable assessment plan, and follow up on its realization. Such activities enable the discovery of special skills in these children and increase their personality and self-esteem. Gardner says "It does not matter how good you are, does it matter that you are good at something"?

### When parents are proactive at school, they register that students display high academic achievements

Parents 'involvement in active school life increases students' academic level, 75% of parents in DART notice change in their children's achievement, accountability, maximum engagement, dedication, 17% little, 4% little, 4% none,etc ..

### DAR / ZA organizes training on disability treatment for teachers and parents

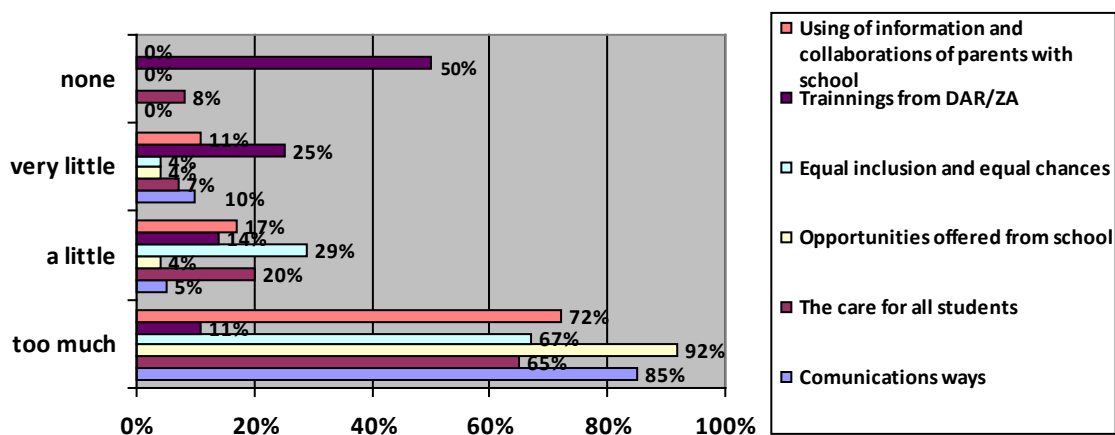
50% of teachers say they have not been invited to disability training, except for professional development cases, 25% very little, 14% few, 1% very this category of teachers say they have privately attended trainings for dealing with different acs.

### The school cooperates with parents to ensure that all students have equal access to reinforcement, counseling and other types of support that improve their learning

72% of parents say that the school cooperates very well with them to ensure a fair and equitable education for their children. Various planned parent-teacher activities as part of the planning of the directorate, the teachers or the school as a whole

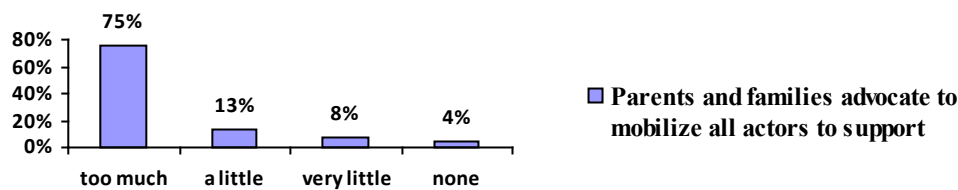
(after-school activities / courses, student-enhancement, home visits, joint activities with parents, training sessions For staff, for community representatives, etc.).

Chart 6



**Parents and families advocate to mobilize all actors to support activities that affect student development and achievement**

Chart 9



75% of parents are involved in finding alternative resources and techniques on how to absorb funds and invite organizations to support educational teaching activities (ELS - education learning process).

## Interview Results - Qualitative Analysis

For the question: Do you know the standard “Caring for children with special needs” and specifically about “Children with learning difficulties” and “Care for gifted students”? Teachers answered: 30% of teachers do not know the standards and more specifically the “Care for the disadvantaged children” and the “Careful Talent Students” standard. Do you encounter difficulties in enforcing standards in your daily life? If so by nature? 80% of teachers in public schools claim the difficulty of their implementation compared to 20% of teachers in non-public schools due to the fact that in public schools there is a high number of students because this leads to non-fulfillment of the pre-established objectives by the teachers. Another very important aspect is the inability to lack proper school management, there is no classroom assistant and parents are passive in most cases. Another important variable for the non-fulfillment of the “Care for children with special needs” standard is the lack of specific training for each learning difficulty, and non-generalized student diagnoses. 60% of teachers in public schools compared to 50% of teachers in non-public schools apply multiple theory of intelligence during lesson, thus enabling the inclusion of students. In their daily planning, teachers take very little into account to the specifics of students. Difficulties arise in drafting the PEI plan, student assessment and parent involvement in school for closer communication and collaboration in order to increase the quality of active participation of these children.

## Conclusions

The results show the correlation between care and attention to be given to children with special needs and the impact they have on increasing the academic level of students in learning.

(Gardner, H., 1983) in his book “Theory of Multiple Intelligences” firmly asserts that his multiple intelligence theory should “empower students”, and not restrict them in their way of learning. Variety of forms and different learning alternatives with students by using the different intellectual skills that children have in identifying ways how students learn better.

In the target group of the study we found that teachers who use different forms and varieties in order to identify the specific skills of children on how they are better educated present a high level of comprehensiveness and ability. There is a need to work better with the different levels of inclusion of other students in the classroom in order to ensure social inclusion of all children.

Teachers are positive in providing maximum assistance and care for inclusion of this category of children in school but on the other side they express concern that they are not specialized trained for the various typologies of disabilities in most cases the teachers generally recognize the basic principles of treatment but not at a specific level. The lack of proper training and a special education staff limits and complicates integration.

Parents are seen as an important component that does not cooperate properly, an interesting factor here is the parenthood of parents and their denying attitude toward the phenomenon. Under these conditions, it is necessary to train the parents and all other factors (leaders, students, teachers, community) for the treatment of different typologies of pathologies.

Teachers present a high level of difficulty in evaluating a student treated with PEI, almost disregarding the typology of assessment by penalizing them with a minimal appraisal of the other class students. Students with special needs are assessed based on their PEI plan with a rating of 4-10 as all other students but in accordance with their achievements, however minimal, accompanied by relevant comment. The assessment of the students with special needs should be carried out in a special section formatted in the report, setting out the objectives with which the pupil is evaluated. The assessment of students with special needs is based on Article 98 of DN/2013 point 4, according to which; Evaluation of disabled students is like other students. The disabled learners who are treated with PEI are evaluated in accordance with the objectives set in the relevant PEI. If the pupils, will follow the teaching process in ordinary schools, do not remain in the classroom and therefore pass all but if they attend special schools they repeat the class. Using complementary activities in the classroom and various activities increases students' learning efficiency, motivates them to act, change, and interact with others by developing their sense of being appreciated.

Fulfillment goals by challenging students with challenging questions and situations that enable them to identify their skills and gifts in order to find themselves. It is exciting to see how the class returns to battle when it comes to solving problems that address situations from student lives, etc.. The learners try to get everyone's idea in the front. Let the teaching to be your personal mission by doing everything humanly possible to help learners know how to make the right choices about getting an alternative.

## Recommendations

It is recommended that teachers pay attention to the various difficulties faced by students during the learning process (eg. concentration difficulty, problems of remembering, socialization, motivation, assessment, etc.) that will not Should be mistakenly linked with problems of attitudes or with emotional and social problems that students might experience.

In order to correctly identify these problems, teachers should collaborate with parents, psychologists and doctors. To help students with learning difficulty, teachers in collaboration with parents, develop an individual education plan (PIA).

Teachers cooperate with specialists so that learners with learning difficulties provide additional help with specific therapies. Parents and teachers should first attach importance to the assignment of tasks or jobs that have an impact on the ability to engage in normal life (performing basic obligations to themselves), aimed at promoting a productive communication of these children. How to engage with academic tasks.

The use of differentiated work with students in learning difficulties gives better results and involvement of students. The students studied during the observed observations noted that interacting with the class freely and the class greatly supported them. Of course, the learning environment is one of the variables that directly affect the performance and integration of children in school. Lack of training by competent bodies, NGOs and other organizations certainly brings problems in the lack of professional development of teachers in this regard.

Treatment of children with language disorders should be carried out according to Norris and Damacio's recommendations (1990), which include:

- the choice of functional language skills based on the determination of child for intervention;
- reading, writing and speaking skills related to the oral language;
- small or large groups of children (focusing first on the individual);

## APPENDIX 1

### Types of questions realised in the questionnaires with teachers

1. Teachers adapt the work environment and learning activities so that children of different cultural backgrounds with different needs in education and at different social levels are equal participants.
2. The environment promotes the integration of all students regardless of the group they belong to (gender, disability, ethnicity, religion, etc.) in the same learning environment and teaching.
3. Each child with special needs has his own individual development file filled with the necessary materials made available by the parents and the psychologist.



4. Parents are involved in treating and caring for children with special needs and difficulties in learning.
5. I draw up the PEI plan for each disability separately.
6. I give differentiated tasks to students with learning disabilities as well as for fast-moving students, directing my parents on how to work with children.
7. Maintain the confidentiality of information provided by parents for their child.
8. I work with special students.
9. Students work in groups using research methods based on their abilities.
10. Teachers adapt the working environment and learning activities so that children of different cultural backgrounds with different needs in education and at different social levels are equal participants.
11. Pupils' assesment is donne based on their achievements refering to the PEI plan with grades 4 to10.
12. I help and guide parents on how to work at home with children.
13. Parents play an extraordinary role in decision-making about the child's progress in school.
14. Teacher provides you with the necessary information for your children.
15. Parents are always informed about their child's achievements.

## APPENDIX 2 (PEI model template)

This plan is drafted in support of article 97 of DN/2013 point 2,  
ASISTANT TEACHER AND THE SUBJECT TEACHER IN GENERAL EDUCATIONAL INSTITUTIONS.  
COOPERATION WITH PARENTS

According to which; The assistant teacher, in cooperation with the subject teacher and the parent, designs and puts in place the PEI plan for the child. PEI is based on official curriculum documents and also contains objectives for self-help skills and other social skills that the learner has to achieve, as instructed by the RED/EO commission.

Individualized Educational Plan  
Subject: Chemistry  
Individual Education Plan Model (PEI)

Name: X Y  
Class: XI  
School: "XXXXXXXXX" Tirana  
Teacher and subject teacher: ..... ..  
Priority (for the period) 3 months: 14 September - 14 December 2015

### 1- Student Identification

The student during the period 14 September to 14 December 2015 was followed by PEI. The student comes every day to school willingly. There was not a single day not just a lesson but also a planned school activities inside and outside. It is equipped every day with textbooks and school supplies and fanatically keeps them, not to touch and to harm from friends. Respect the timepiece by staying loyal to each timetable, in case of a violation of the ringing tone reflects being taken from the place and departing to the planned destination.

Manifests a low level of knowledge, lack of concentration and minimal assimilation in some cases at all during the class. The student gets fired quickly if personal belongings are touched but even if he fails to take note of the concepts listed in the table by the teacher.

He responds very strongly to co-workers if they harass him. He has a very low attention and concentration.

### 2 - Learning about the problem

History of the disease (in cooperation with the parent and the psychologist)

### 3- Testing and monitoring of progress

Description of the situation in which the student is located at the moment of assessment. The age of X.Y. is 19 years old, and he attends the XI grade. He regularly attend the high school since the tenth grade. He is accompanied by a medical assessment. He has hyperactivity and behavioral and attention disorder. He loves and appreciates friends who show kindness to him. He trusts in teachers and respects them. During the second observation, three months after the school started the teacher and psychologist noted: a little attention to the assimilation of the subject of learning during the time it is focused, difficulty concentrating over.

Strength (believes too much)	Weakness
<ul style="list-style-type: none"> <li>- Works very well with plasticine, realizes the picture description according to his fantasy by giving individuality.</li> <li>-Look willingly on physical and cultural activities by being involved.</li> <li>-Search to play with friends smaller than itself.</li> <li>- Likes to talk about a movie he has recently seen</li> <li>- Requires visually teaching, during the teaching time or to be giving different films on the subjects of the lesson.</li> <li>-He likes to attract peer attention to information he has encountered recently.</li> <li>-Identifies a character in a given text</li> <li>-Provides a person or place, not according to structure, but from his point of view.</li> <li>-Belives to much to his parent (mother) and works with her for his homeworks, coming daily with loaded tasks.</li> <li>-Provides advice, especially from the teachers who appreciates more.</li> </ul>	<ul style="list-style-type: none"> <li>- High level of energy</li> <li>-It does not extend the working time for more than 5 minutes, you have to guide it again to perform your duties on time</li> <li>-Can not be protected from the dangers</li> <li>-It often creates confusion, speaks loudly, as it doesn't know how to avoid conflicts.</li> <li>-He has a short-term memory, he doesn't remember from the past.</li> <li>-Sometimes he talks with himself by reproducing a movie.</li> <li>-His stereotypes is to pick up everything that is written on the board, but it is sluggish and if the board is hidden, it becomes irritable.</li> <li>-It becomes irritating during the time that he has to develop a test, because it wants to get a passing note.</li> </ul>

#### 4- Defining student status

The student is determined by the school-based commission based on the forensic report signed by the local doctor and on the standard document issued by the superior "KMCA" which presents his status and the testimony that invalidity exists and with the approval of the multidisciplinary commission established at RED (Regional Education Directory) as Special needs students who need specialized treatment and care.

#### 5- Individualized Program

Long-term objectives	Ways to achieve the objectives
<ul style="list-style-type: none"> <li>To increase the concentration during teaching activity by 5-10 minutes</li> <li>-To identify a molecular formula from a structural formula simply by the visual without getting into the details</li> <li>- To write basic chemical formulas of alkanes, alkenes and alkynes</li> <li>-To identify the basic building blocks of hydrocarbons (Carbon, Hydrogen etc.)</li> <li>-To make a variety of chemical formulas for the main classes of organic compounds with plasticine</li> <li>-To draw chemical formulas in the table and then present them to the co-workers</li> <li>-To increase the sense of responsibility to make a certain task timely</li> <li>-To realize the link between a given question and its context in the text</li> <li>-To speak and integrate together with his friends at each stage of the lesson</li> </ul>	<ul style="list-style-type: none"> <li>-Different physical activities</li> <li>-Setting into the role of the leader (guardian)</li> <li>-Selecting the rules by himself</li> <li>- Activities for reduction of energies</li> <li>- Physical activities with great movements</li> <li>- Walking in a line, lesson during the game</li> <li>-Focus on attention to perform in activities (concentration in games)</li> <li>-The use of different sketches and designs was concluded because the student works very well with the plasticine and the colors.</li> <li>-Discussion</li> <li>- To debate</li> <li>-Activities to include in the lesson by stimulating the elevation in the table etc.</li> <li>-The appearance of a cartoon film of chemical formulas</li> </ul>

#### Expectations

- To raise high the level of energy for the game and focus more than 5 minutes on the activities;
- Avoiding and protecting from dangers;
- Reducing the level of confusion and how to avoid conflicts;
- Encouragement to remember more chemical formulas through various plasticine works and drawings;
- Inclusion by not leaving time to remake movies and lifestyles that are not related to learning, but focus more on learning topics;
- More cooperative in written tests;

#### Challenges

- The class has all three levels of students: with enough results, good and very good, and very predisposed to work with X.Y and help him to achieve the objectives;
- He doesn't like to learn by reading a book, so it focuses more when there are pictures and apps;
- You must write a text respecting the structure, starting with the given model;

## Distribution of services

Among teachers of various subjects, arts, figurative education, parent, psychologist and managements.

## Evaluation

From observations, student X. Y. during activities has reduced hyperactivity in about 45% of cases, stays working for about 6 minutes, without attracting attention. It implements class rules in 60% of cases. He takes the responsibility at 90% of the time. Denotes a character in a given text. Identifies two in 5 given formulas (does not make the link between text and image). Copies the Exercises from the table correctly and without errors, a part rendered by model, up to 90% without spelling mistakes. It requires the presence of the teacher in the written work and the control tasks by not feeling the confidence in his work without the teacher.

At the end of the three months, the commission evaluates "X.Y" with these grades: about work in group and projects 9 (nine), in writing 6 (six) and 7 (seven) in continuous evaluation.

Next evaluation after 6 months (.....)

Group that designs the plan:

Director (AML) \_\_\_\_\_

Teacher \_\_\_\_\_

Psychologist \_\_\_\_\_

Parent \_\_\_\_\_

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# Problems in behaviour's, encountered in high school students, who have divorced parents

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## Abstract

*Adolescence and the problems teenagers face during this phase have a great impact in the teaching process. Divorce is one of the problems I have chosen to treat. This is due to the fact that divorce impacts the social-psychological-educational process of teenagers. The ways they experience the divorce of their parents are various. This depends on the area they live, their parents' educational level, the relationship between parents after the divorce, the kind of relationship they had before, economic level, etc. Teenagers can display aggressive behaviour, disengage from learning, use various substances, etc. as a reaction to their parents. Teens exhibiting aggressive behaviors, during the first divorce phase. This is the object of my study. This research will use the qualitative method. The qualitative methods will consist in direct interviews with teenagers of the age-group of 14-18 years old, with teachers, psychologists and parents. This study will focus on Tirana city. Also consider those problems I might face during my study, on which the teenagers, or even their parents, might not express their opinion. As a conclusion we can say that based on the interviews it results that divorce has a great impact on the social-educational behaviour of teenagers. They exhibit behaviour such as at home and in school environments. The school has an important role.*

**Key words:** aggressive behavior, divorce impact, learning, psycho-social development, teenager.

## Introduction

In Albanian, there is a traditionalist view on marriage where men and women are expected to marry. Marriage is viewed as a life-long contract that is not easily broken. When the contract is broken, the resulting divorce has an effect on the entire family. Children may be torn between parents, forced to live in one house and visit the other. The importance of this issue stems from the effect it may have on children. They may struggle in school due to the stress of experiencing a divorce. The questions posed in this study is: when children experience parental divorce, what problems manifest in their behavior? This study covers the overall problematic adolescent behavior. These behaviors affect how their achievements in teaching as well as the use of various substances such as tobacco, the drugs of various etc. Additionally, the topic of parent-child relationship may also be important when considering their behavior and their academic achievements.

The interest for this study is in finding the relationship between these two phenomena (parental divorce and parent-child relationship) in reference to their behavior and learning achievements. It is noted that adolescents who come from families, when the parents are divorced, exhibit their problems in the air school in various forms ranging from a lack of concentration during classes, it is associated with reduced results in learning, behavior aggressive occasionally locking itself. To realize this study were polled 300 students of different levels in lessons, as well as different classes. This is to make a comparison on the results achieved to happen before the divorce results in lessons after divorce. The study includes boys and girls. This is because it is important that we distinguish between how the boys and girls experiencing, the process of divorce of parents. An important place and the age in which they were teenagers, when happened divorce of the parents. The relationship of the former partners after divorce is an important issue to be studied, because it influences adolescents in the way of experiencing parental divorce.

This topic is reasonable and important, considering the high rate of divorce in Albanian. According to data from the District Court of Tirana in the last 10-year-old from 2006 to 2016, the number of divorce is increasing. From 959 divorces in 2006 in 1822 to 2016 divorce. In terms of the research study, it is certainly plausible to survey students that have experienced parental divorce to evaluate their academic achievement and their behaviors. Additionally, this topic is of interest to many people, considering the commonality of divorce.

This topic is a relevant issue for the generation attending college, and further research may shed light on why college students with divorced parents may have a lesser level of academic achievement. Research on the effects of parental divorce on college students is currently overshadowed by research on the effects on children and adolescents. Additionally, little research has focused on the long-term effects of a parental divorce on a child (Bulduc, Caron, & Logue, 2007).

Many teens today face the consequences of divorce of parents. These consequences not only noticed after the divorce of the parents, but appear from the early stages of the divorce of the parents. Especially important it is to note that the continuing conflicts that have accompanied their parents during this phase, have influenced their behavior as well as in academic achievement. This conflict has greater consequences, especially when accompanied in the use of violence. These adolescents are subject to many adverse effects from experiencing a divorce. Several studies reported that children of divorce have poorer outcomes than their counterparts from intact families, including more stress (McIntyre, Heron, McIntyre, Burton, & Engler, 2003), more problems with parents (Ruschena, Prior, Sanson, & Smart, 2005), dismal views on an effective marriage (Kirk, 2002), and low academic standing (Mulholland, Watt, Philpott, & Sarlin, 1991).

Research has found that while handling their own personal experience with a parental divorce, children may also worry about the parent coping with the new change (Wallerstein & Lewis, 2004). Another fact is that troubled teens and the relationship you will have with parents after divorce. In Albania, the relationship between the former spouses associated with many conflicts. This allows you to experience the bad teenager divorcing. They do not know what to do, whose side hold. It is noted that in most cases the mother's side holding boys. They say that now they are able to go to god, mother and their family see themselves adults. While girls holding father's side. During interviews they see the father as a sure source of economy. (Especially when mothers are unemployed). The absence of the father means to them and the lack of income. Important to note, studies have shown that the percentage of individuals who have experienced parental divorce and are attending college is relatively low, approximately 16%-20% (Grant, Smith, Sinclair, & Salts, 1993).

During high school, it is very important that students have high academic results, to pursue graduate studies. For some, it is shown that individuals from divorced families are not as likely to go to college, in comparison to those with parents that have not divorced, or have an intact family (Aro & Palosaari, 1992; Wallerstein & Lewis, 2004). Additionally, Wallerstein & Lewis (2004) report that in addition to a lower likelihood of attending college, children that have experienced parental divorce were considerably less likely to complete a three-year degree.

Teens who have experienced divorce after getting accepted to college show advanced signs of coping strategies in dealing with stress, more so than an individual raised in an intact family (McIntyre, Heron, McIntyre, Burton, & Engler, 2003). It is shown that these teens have developed an advanced coping mechanism in the process of dealing with divorce, and even with this resiliency, the negative effects of divorce are evident. Though many teens are quick in adapting to the changes of a divorce, even ones possessing resiliency, infer that their parents' divorce is one of the most difficult experiences of their lives (Hetherington & Stanley-Hagan, 1999).

Previous research has shown that most children experiencing parental divorce describe the process as stressful and add that this experience may result in anxiety and depression (Amato, 2001). According to Hetherington (1993), a divorce does not refer to one event, but is more accurately described as one event of a complex transition process. Similarly, the stresses taking place during and after a divorce are important to note and for some this stress is persistent (Hetherington & Stanley-Hagan, 1999). Divorce of parents is experienced with feelings of anxiety and depression by the teenager. This oath that he reacted differently to his behavior in front of different situations. This reduction reaction and simultaneously brings on learning outcomes, as well as the use of drugs and tobacco as a way to avoid their problems. Their communication with teachers and the school psychologist is a good way to overcome the difficulties encountered.

## Research Questions

1. Does the divorce of one's parents affect student's academics?
2. Does parental fighting (outside of divorce) in the home affect students' behaviors?
3. Does divorce of the parents in the use of various substances and smoking among adolescents?

## Hypotheses

Three null hypotheses are formulated and tested in this study.

1. There is no significant relationship between parental separation and academic performance of the adolescents.
2. There is no significant relationship between parental separation and the adolescents' aggressive behaviours.
3. There is no significant between divorced parents and narcotize substance use, tobacco by teenagers.



## Literature Review

Divorce is the legal separation of the partners. This is a process that occurs between partners, but in fact affects not only partner. Children are the most affected by this process. "Family relationships have become increasingly complex due to rising divorce rates and subsequent (step) family formation, potentially threatening intergenerational exchange of family support" (Wijckmans, 2013, 1). When parents go through a divorce, they are not the only ones affected. Divorce affects children in a multitude of ways. "Ongoing conflict, blocked communication and power imbalances between parents are problematic for child and family functioning" (Vanassche, 2013, 3). Children who experience their parents going through a divorce are susceptible to becoming depressed, being withdrawn, acting out, and acting differently. "It is well documented that psychosocial stressors constitute a significant, pervasive risk for children's mental health problems" (Velez, 2011, 244). When children experience their parents going through a divorce, the actions of the parents affect the children all throughout their childhood, and eventually may overlap into their adulthood. "It is well documented that parental divorce is associated with multiple problems for youth that extend into adulthood, including internalizing and externalizing problems, interpersonal difficulties, poor physical health, and substance abuse" (Sigal, 2012, 50).

Amato (2014) found that "children with divorced parents, compared with children with two continuously married parents, score lower (on average) on a variety of measures of achievement, adjustment, and well-being (p. 370)." Although divorce is a reason why children may negatively act out and feel poorly about themselves, it is not the main reason. As Amato (2014) states:, "Longitudinal studies make it possible to compare children before and after parental divorce, assuming that identical child outcomes are available at both times. These studies have demonstrated that many of the child problems typically associated with divorce are present years before the divorce occurs (e.g., Sun, 2001). Thus, many of the negative outcomes attributed to divorce in cross-sectional studies appear to be due to troubled family relationships (e.g., high levels of marital conflict or ineffective parenting) that precede marital disruption rather than to separation itself" (p. 371).

Here it is often the conflict and fighting between parents, not the act of divorce itself that causes issues for children. There are other factors that contribute to a child's attitude and emotions such as the way parents play a role in their lives. The more positive attention and support a child receives from their parents, the stronger the bond will be with the parents. And the stronger the relationship between the parents, the stronger the relationship will be within the entire family. "Because parents select into divorce, the factors that lead parents to end their marriages also may affect children negatively, resulting in spurious associations between divorce and child outcomes" (Amato, 2014, 371). The actions of the parents always affect not only themselves, but their children also. When these children of divorced parents grow up, their problems usually stay with them into adulthood. "As adults, they are also more likely to divorce and become single parents themselves than those who grew up in intact families" (Baxter, 2011, 87). Children learn though experience, and how they were raised during childhood stays with them when they grow up into adults. If a child grows up only knowing conflict and arguments within the family and between their parents, they will carry that knowledge into their own lives when they are older and have a family of their own. Molepo (2012) explains that "the findings suggest that teachers perceive younger children from divorced parents were more likely to have emotional and behavioral challenges than those from intact families" (p. 251). As Baxter (2011) states, "It is therefore not surprising that the elevated risk of adjustment problems apparent for children whose parents have separated are frequently linked to their experiences of significant pre-separation conflict".

To overcome problems after divorce, it is very important that adolescent to request assistance. It is noted that teens who have experienced road of divorce, to overcome this difficult is good to receive specialized assistance. For this school psychologist, it plays an important role in overcoming this problem. Willemijn (2013) states that, "childhood is characterized as a vulnerable period in which many young people experience distress. Being able to cope with this by seeking help is important for a healthy transition to adulthood (Schonert-Reichl & Muller, 1996); if children receive help when they are in distress, troubled behaviors such as violence, substance abuse, and suicide may be reduced" (p.1). Children are very vulnerable when parents are going through divorce because they do not have their parents to turn to for help.

Age at which occurred divorce is a factor that influences the way how children experience the divorce. The use of age as a variable was common for many of the studies we have researched. Determining age to be a variable may show that a divorce is a process and through maturation, adjustment may improve. Amato (2001) found that for offspring, adjustment to a divorce gets better with age. In correlation, Grant (1993) also found that age plays a role in how a child adapts to a divorce. Further, Grant (1993) found that children that had experienced parental divorce during preschool, rather later in adolescence would be better adjusted for life in college, however the time of the divorce was the most negative. Kirk (2002) focused on young children experiencing parental divorce and found that since these children had not yet matured, adjustment would improve in the future. Further, it was the coping strategies that an individual develops through maturing that would improve the way they adapt.

It is observed during the interview. Pupils whose parents were divorced at the time when they were at an early age, not experience the divorce of parents just like teenagers, whose parents are divorced during the early stages of adolescence.

Many of the studies we have researched looked at how gender may play a role in how a child can cope with this stressful process. Amato (2001) found that when comparing genders, a greater deficit in terms of adapting was evident for boys than for girls. Thus, the results showed that the adjustment was easier for girls than for boys. In contrast to Amato (2001), Kirk (2002)

found that no difference among gender was statistically significant. Rather, age better determines how the child will adapt to the divorce. Aro & Palosaari (1992) focused more on the mental effects of divorce on children and found that depression rates were higher for girls than for boys. In addition to gender, parenting style may play a large role in how offspring adjust to a divorce.

Parenting style refers to how a single parent, or divorced couple parents their children. Hetherington & Stanley-Hagan (1999) examined the consequences of parental divorce for children in regard to their adjustment and the healthiest living situation for the child. It was found that the type of parenting style and relationship maintained between the parent and the child may determine how the child adjusts to the new divorce. Also, it was found that two-parent, intact families were the healthiest living environments for a child. However, following a divorce, one parent must control the household and a single-parent household that is harmonious and includes proper parenting, may be more effective than a hostile two-parent household. In the research compiled by Bulduc, Caron, & Logue (2007), although few participants reported things had changed for the better following the divorce, most reported a stronger relationship with the mother and weaker relationship with the father.

In terms of behavior, the results of Ruschena, Prior, Sanson, & Smart (2005) showed differences in terms of those that experienced divorce and those of intact families on the bases of internalizing, externalizing, and overall behavior problems for 17 and 18-year-olds. For Bulduc, Caron, & Logue (2007), these authoritative households and schools were defined as setting clear guidelines and holding expectations for these children. Kirk (2002) found that it is not the divorce, but the level of conflict within the family that creates negative psychological outcomes. Although parenting style may play a role in coping with a parental divorce, the effect of divorce in terms of academic standing cannot be overlooked.

In terms of academics, a child of divorce may face more difficulty than those in intact families, due to having to cope with a familial, emotional, or residential change. Bulduc, Caron, & Logue (2007) specifically examined students that had experienced parental divorce while attending college. Of the 50 interviewed, only one-fifth reported their grades suffering due to the divorce. Similar to the work of Mulholland, Watt, Philpott, & Sarlin (1991), Bulduc, Caron, & Logue (2007), and Aro & Palosaari (1992) found school performance of both girls and boys from divorced families to be inferior to that of children from non-divorced families. In contrast to these findings, Ross & Wynne (2010) found no clear difference between participants that had experienced divorce and those from intact families. For those having experienced parental divorce, academic standing is a clear variable to measure for college students.

The basis of our research is the effect of a parental divorce on college students' academic achievement. Among the research we have reviewed, only studies done by Amato (2001) Bulduc, Caron, and Logue (2007) and Ross & Wynne (2010), Kirk (2002) specifically studied college students. Similar to the research done by Bulduc, Caron, and Logue (2007), the research completed by Ross & Wynne (2010) examined college students to see how parental divorce and parental mental illness may have an influence on offspring. Though this study focused on college students, it differed from work done by Bulduc, Caron, and Logue (2007) since participants had experienced parental divorce before attending college. Grant (1993) found that children that had experienced parental divorce during preschool would be better adjusted for life in college.

## Results

The analysis of data using the characteristic of the respondents, the chi-square for the stated hypothesis revealed the following:

**HYPOTHESIS 1:** It is noted that in most cases the impact that has surveyed the results in learning divorce is present. It is worth mentioning that in cases when parents' divorce occurred in the early childhood, no more impact on learning outcomes. Instead encouraged teenagers to have better achievement in lessons, as they regard as the only way for their future. As teens, parents' divorce that occurred in the early stages of the teenager has an impact on the results of teaching.

**HYPOTHESIS II:** In relation to aggressive behaviour during the stay in school, what was observed during the interview, is that most adolescents, especially those from 14-15 years of age, and experience the divorce of their parents and express more through aggressive behaviours. This mainly prevalent among males than among females. The reasons that they are among the list ranging from anxiety experienced at home because of the ongoing conflict, not the good relations of the former partners between man - another etc.

**HYPOTHESIS III:** What was observed during interviews is that adolescents whose parents are experiencing a crisis of marriage, are more likely to use drugs, mainly smoking. 47% of respondents, mainly boys, claim to have tried smoking during this period. Of these 23% are regular users of tobacco now. While a small proportion of 1.2% claim that they have tried and narcotics as hashish. List the reasons that are, to find tranquillity that their parents have problems of not have time to deal with us, to be "revenge" against parents who do not care for him, but for themselves. This behaviour displayed more to boys than girls. This comes as the reason that girls talk and are ready to share with others their problems, than boys who are more introverted.

## Methodology

The methodology used is based on the qualitative method. Focus groups and interviews are the methods used. Interviews were made with pupils of public and not public high schools in Tirana, age group of 14-18 years old. Tirana has 15 public high schools in urban area. 300 students were interviewed in total (boys and girls). Participation in these focus groups was

voluntary and confidential. They were previously informed on the purpose of the interviews and that they would be kept anonymous. I wholeheartedly thank all the students, teachers and psychologists for the willingness to share their thoughts. The aim of the article: This study aims to identify the impact of divorce in the development of teenagers, both in the social and educational aspects. (Age-group of 14-18 years old).

## Discussion

In hypothesis one it was found that there was no significant relation between parental separation and academic performance of an adolescent from broken homes do not do better than children of intact families. This is because most adolescents from this home cannot afford to pay for extra curriculum activities; they lose concentration in the class and they rarely involve in class activities.

In hypothesis two it was also found that there was no significant relationship between parental separation and the adolescents' social behaviour because adolescents from broken homes are always violent and the poor upbringing of children by parents increases the rate of child abuse in the society.

Hypothesis three stated that; there was no significant relationship between parental separation and use of drugs or smoking among adolescents.

## Conclusions

The divorce rate between parents has been steadily rising over the years to where it stands now at approximately 50% (Afifi, 2013; Brown, 2012; Overland, 2012). Parents are not the only ones affected during their divorce, it spreads through the entire family. As parents make the decision to seek a divorce, the lives of their children are affected. The findings of this research show that all ten of the students whom have divorced parents reported having trouble with their academics, because of their parents' conflicts. Although some of the students' parents were divorced before they even began school, they still commented on how years later the divorce still affected their grades and academics when their parents would continue to fight. Students' whose parents divorced while they were in school reported that their schooling was directly affected around the time of the divorce, and they were able to relate the bad marks to their parents' actions. It is clear that all of these students have felt that their parents' divorce has negatively affected their academics.

The effect of fighting between parents that are still married was another interesting finding. Six of the ten students who have married parents reported that even though their parents were married, they still fought constantly. They reported that when their parents fought, they experienced problems with their academics, similar to that of the peers with divorced parents.

On the other hand, the four students who reported that their parents rarely if ever fight reported that they never experienced any problems with their academics due to their parent's relationship. They commented on how if they did experience any trouble with their academics, it was not related to these types of conflicts. They went on to explain how they believe that since their parents have a stable relationship, this allowed the students to succeed academically and find plenty of support from their parents to do so. The majority of the students in this study had problems with their academics during at least one point in their schooling, and all noticed the relationship between their grades and their parents fighting. Yet, it was clear that it was not the divorce that directly affected each student's grades, but the fighting between parents that caused the failing of tests, failure to complete homework, and generally doing poorly in classes. While the climbing divorce rate is problematic for children's schooling, it is less problematic than fighting between parents and the continuous conflict that comes with that.

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# Influence of annual taught classes in mathematics curriculum as a predicting factor in academic achievements in PISA

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## Abstract

*The aim of the study is to research the relationships between annual classes in mathematics curriculum and student's achievements. Research hypothesis include: (1) there are significant statistical relationships between annual math classes and students achievements. (2) Annual math classes influence student's achievements. One of the main techniques- review of official documentation has been related to secondary data generated by Eurydice- taught time in mathematics, and OECD- percentage of students at each proficiency level in mathematics in PISA 2012. The main conclusions include: (1) Increasing of annual math classes influences decreasing of student's number ranked at below level 1 in PISA. (2) Increasing of annual math classes influences increasing of students number ranked at level 5 in PISA. (3) 6.0% of variance on PISA level 1 is been influenced by annual math classes. (4) 12.9% of variance on PISA level 5 is been influenced by annual math classes.*

**Key words:** annual taught classes, mathematics curriculum, academic achievements, PISA.

## Introduction and literature review

Curriculum design treats nature and organizing of four main parts: (1) objectives, (2) content, (3) methods and organizing, (4) evaluation (Tyler 1949). In the majority of European countries, the mathematics curriculum is established as a formal document that is often prescriptive. It specifies what topics must be learnt, describes the programmes of study and their content, as well as the teaching, learning, and assessment materials that should be used (Kelly 2009). However, in some countries, no strict demarcations exist between the official curriculum document and other steering documents such as mathematics syllabuses or school subject plans. The latter are usually used for planning teaching courses and comprise information such as class time, an outline of course content, teaching methods or specific classroom rules (Nunan 1988). For this reason, when examining the decision-making authorities involved in the adoption or approval of mathematics steering documents, an open approach will be used towards both the presentation of current practices across Europe and their official status (e.g. compulsory or recommended). In the vast majority of European countries, the curriculum is approved by central education authorities and is compulsory. It is usually set down in a central document which defines the objectives, learning outcomes and/or content of mathematics teaching.

In all European countries, the mathematics curriculum has been revised during the last decade and, in the vast majority of countries, important updates have been introduced since 2007. One of the main reasons for the more recent updates was the inclusion of the learning outcomes approach, defined in a broad sense as the knowledge and skills that are needed to prepare a young person for personal well-being, social and working life (Psifidou 2009).

In Albania mathematics curriculum is designed and approved by central education authorities and is compulsory for teachers and schools to be implemented according to key stages (IZHA 2016).

PISA aims to measure how far students approaching the end of compulsory education have acquired some of the knowledge and skills essential for full participation in the knowledge society. PISA surveys are carried out every three years in a large



number of countries, that together make up close to 90% of the world economy. The first PISA survey was carried out in 2000 in 43 countries. The primary objective is monitoring the outcomes of education systems in terms of student achievement to provide empirically grounded information which will inform policy decisions. PISA is steered by representatives from participating countries through the PISA Governing Board. The Directorate for Education at the Organization for Economic Co-operation and Development (OECD) manages PISA and draws on the knowledge of a rich network of international experts (OECD 2016).

Four interrelated aspects measured in PISA are: (1) knowledge or structure of knowledge that students need to acquire; (2) competencies that students need to apply; (3) contexts in which students encounter mathematics problems and relevant knowledge and skills are applied; (4) attitudes and dispositions of students towards mathematics (OECD 2016).

PISA measures knowledge and competencies of students at the six levels of proficiency in mathematics (OECD 2016). (1) At Level 6 students can conceptualize, generalize and utilize information based on their investigations and modeling of complex problem situations. (2) At Level 5 students can develop and work with models for complex situations, identifying constraints and specifying assumptions. (3) At Level 4 students can work effectively with explicit models for complex concrete situations that may involve constraints or call for making assumptions. (4) At Level 3 students can execute clearly described procedures, including those that require sequential decisions. (5) At Level 2 students can interpret and recognize situations in contexts that require no more than direct inference. (6) At Level 1 students can answer questions involving familiar contexts where all relevant information is present and the questions are clearly defined.

**The aim** of the study is to research the relationships between annual classes in mathematics curriculum and student's academic achievements in PISA, as well as the influence of annual math classes in academic achievements.

**Research questions** include: (1) What's the report of annual math classes in Albanian curriculum and in European OECD members?, (2) What's the report of annual math classes in Albanian curriculum and in European OECD partners?, (3) What are the differences of students achievements in PISA in Albania and in European OECD members?, (4) What are the differences of students achievements in Albania and in European OECD partners? (5) Are there significant statistical relationships between annual math classes and students academic achievements in PISA? (6) Is there any influence of annual math classes independent variable on students achievements dependent variable in PISA?

**Research Hypothesis** include: (1) There are significant statistical relationships between annual math classes independent variable and students academic achievements dependent variable in PISA. (2) Annual math classes independent variable influence student's academic achievements dependent variable in PISA.

## Methodology

The methodology used in the study "Influence *of annual taught classes in mathematics curriculum as a predicting factor in academic achievements in PISA* " is based on a quantitative approach. One of the main techniques used in the study was review of official documentation. Review of official documentation has been related to secondary data usage generated by two important and trusted sources: (1) Eurydice- Taught time in mathematics, (2) OECD- Percentage of students at each proficiency level in mathematics in PISA 2012.

The format for the review of official documentation contains dimensions and statements that focus on annual taught math classes in compulsory education in Albania and European countries, as well as percentage of students at each proficiency level in mathematics in PISA 2012 .

The findings were summarized in synthetic way to use as the basis for the analysis of the findings. For the processing of data collected were used: (1) descriptive analysis, (2) inferential analysis. Descriptive analysis include: (1) frequencies values of variables , (2) central tendency values of variables. Inferential analysis include: (1) linear bivariate correlation, (2) linear bivariate regression.

Limitations of the study include: (1) the study does not research the impact of teaching on students' achievements in PISA, (2) the study does not research the impact of other variables on students' achievements in PISA .

## Results and discussion

Annual math taught classes includes time that students spend in teaching in mathematics curriculum included in the core curriculum or flexible core curriculum in school or extra-curricular activities that are part of the official curriculum in European countries (Eurydice, 2013). PISA achievements in math includes percentages of students at each proficiency level in mathematics in PISA 2012 in European OECD members and partners (OECD, 2013).

### Descriptive analysis

#### Annual math taught classes

The following are summary data of the annual taught classes in math in compulsory education in Albania and in European OECD members and partners.

**TABLE 1:** Values of the frequencies of 60 minutes annual taught classes of Math in Albania and in European OECD members and partners

No	States\Grades	1	2	3	4	5	6	7	8	9	10	11	12
1	Bulgaria	72	65	75	85	102	102	102	102	54	54	54	
2	Ireland	146	146	146	146	146	146	111	111	111	111		
3	Greece	105	105	105	105	105	105	90	90	90			
4	Spain	88	88	105	105	88	88	93	93	93	105		
5	France	180	180	180	180	180	144	126	126	144	144		
6	Cyprus	116	116	116	116	116	116	93	70	93	92	69	46
7	Latvia	90	92	92	115	115	115	138	115	121			
8	Luxembourg	216	216	180	180	180	180	135	135	135	135		
9	Hungary	111	111	97	83	111	83	83	83	83	83	83	96
10	Malta Primary & College Secondary Schools	169	169	171	165	165	162	115	115	115	115	115	
11	Malta Area Secondary Schools									115	115	115	
12	Austria Volksschule + AHS (Gymnasium)	120	120	120	120	120	120	90	90	90			
13	Austria Volksschule + AHS (Real Gymnasium)	120	120	120	120	120	120	120	150	120			
14	Austria Volksschule + Hauptschule	120	120	120	120	120	120	120	180				
15	Austria Volksschule + Neue Mittelschule	120	120	120	120	120	120	120	90				
16	Portugal	252	252	252	252	162	158	135	135	131			
17	Romania	89	89	89	89	119	119	119	119	119	119		
18	Slovenia	105	105	131	131	105	105	105	105	96			
19	Liechtenstein Primary + Gymnasium	146	146	146	146	146	146	146	146	117			
20	Liechtenstein Primary + Oberschule	146	146	146	146	146	146	146	146	146			
21	Liechtenstein Primary + Realschule	146	146	146	146	146	146	146	146	146			
22	Turkey	120	120	120	120	120	120	120	120				
23	Croatia	105	105	105	105	105	105	105	105				

Source: Eurydice, 2013

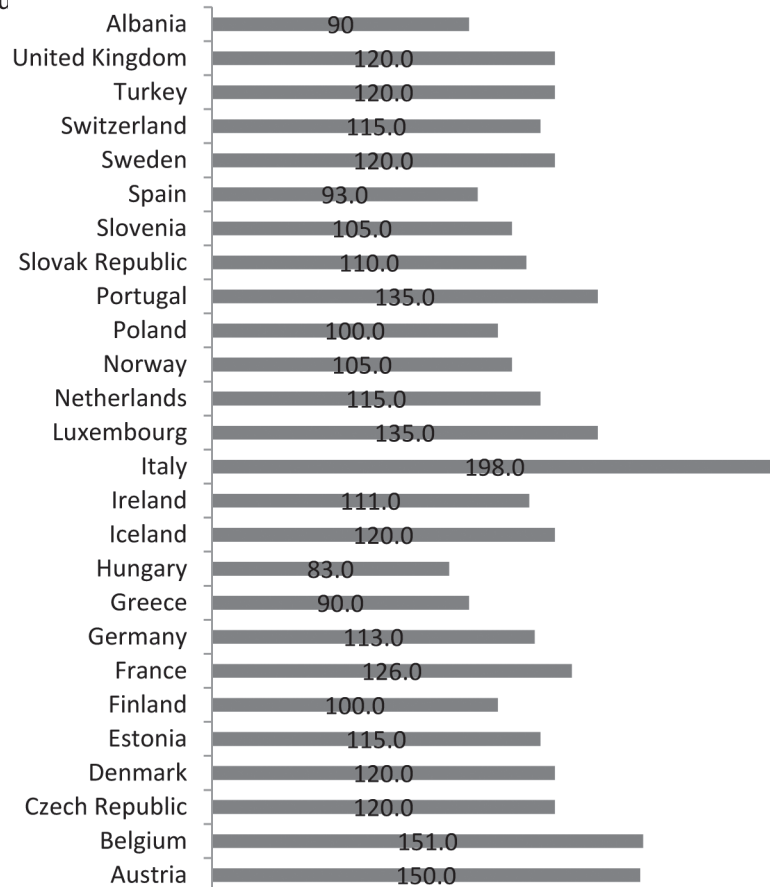
**TABLE 2:** Values of the frequencies of ½ flexible and flexible 60 minutes annual taught classes of Math in Albania and in European OECD members and partners

No	States\Grades	1	2	3	4	5	6	7	8	9	10	11	12
1	Albania		210	315			210		210				
1	Belgium –French Community	Flexible						121	151	151	151	60	60
2	Belgium – German speaking Community	Flexible											
3	Belgium – Flemish Community	Flexible											
4	Czech Republic	579					434						
5	Denmark	flexible	150	150	150	120	120	120	120	120	120	flexible	
6	Germany Grundschule + Gymnasium	flexible		141	141	113	113	113	85	113	85		
7	Germany Grundschule + Hauptschule	flexible		141	141	141	141	141	113	141	149		
8	Germany Grundschule + Realschule	flexible		141	141	141	141	113	113	141	141		
9	Estonia	262			341			341					
10	Italy	Flexible					198	198	198	165	165		

11	Lithuania	216		216		96	105	105	105	184		204	
12	Netherlands Primary + HAVO	Flexible											
13	Netherlands Primary +VMBO	Flexible											
14	Netherlands Primary +VWO	Flexible											
15	Poland	flexible			289			289					
16	Slovakia	397				539					78		
17	Finland	171		342			399						
18	Sweden									900			
19	United Kingdom – England	Flexible											
20	United Kingdom – Wales	Flexible											
21	United Kingdom – Northern Ireland	Flexible											
22	United Kingdom – Scotland	Flexible											
23	Iceland	480				360			360				
24	Norway				560			328	313				

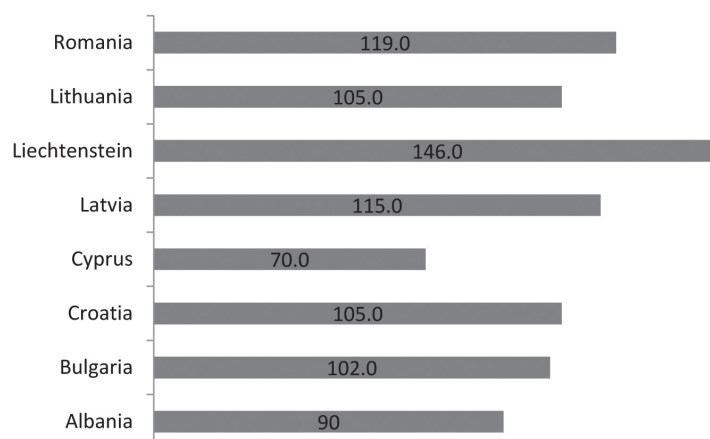
Source: Eurydice, 2013

**GRAPH 1:** 60 minutes annual taught classes of Math in grade 8<sup>th</sup> in Albania and in European OECD members



According to the frequency values of 60 minutes annual taught classes of Math in grade 8<sup>th</sup> in Albania and in European OECD (Graph 2) members has been resulted that: (1) in Albania, Spain, Hungary, Greece there are less than 100 annual math classes per academic year, (2) in Austria, Belgium, Italy, Denmark, Czech Republic, France, Iceland, Luxembourg, Sweden, Portugal, Turkey, United Kingdom there are equal or more than 120 annual math classes per academic year, (3) other countries remain between 1<sup>st</sup> and 2<sup>nd</sup> group.

According to the frequency values of 60 minutes annual taught classes of Math in grade 8<sup>th</sup> in Albania and in European OECD partners has been resulted that: (1) in Cyprus, Albania there are less than 100 annual math classes per academic year, (2) in Romania, Liechtenstein there are around equal or more than 120 annual math classes per academic year, (3) Other

**GRAPH 2:** 60 minutes annual taught classes of Math in grade 8<sup>th</sup> in Albania and in European OECD partners

countries remain between 1<sup>st</sup> and 2<sup>nd</sup> group.

**TABLE 3:** Central tendency values of 60 minutes annual taught classes of Math in grade 8<sup>th</sup> in Albania and in European OECD members and partners

Statistics	
Annual Math Classes	
Mean	116.462
Median	115.000
Mode	120.0
Std. Deviation	22.4682
Variance	504.818
Skewness	1.342
Kurtosis	4.533
Range	128.0
Minimum	70.0
Maximum	198.0

According to the central tendency values of 60 minutes annual taught classes of Math in grade 8<sup>th</sup> in Albania and in European OECD members and partners has been resulted that: (1) The mean value of annual math classes is 116.462, (2) the median value, which means the value that separates two groups of data is 115.00, (3) the value of the standard deviation is 22.4682, which means that 68.8% of the values are between 949 annual classes and 139 annual classes, (4) the minimum annual classes is 70 and regards Cyprus, (5) the maximum annual classes is 198 and regards Italy.

## Academic achievements in PISA variable

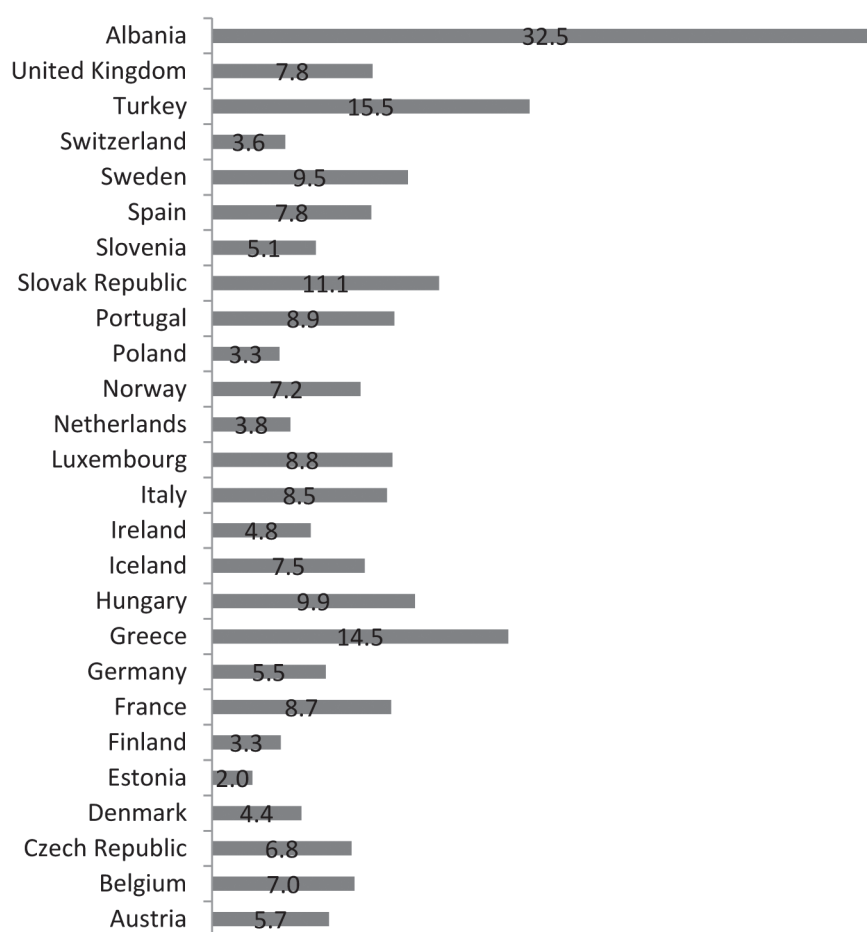
**TABLE 4:** Percentage of students at each proficiency level in mathematics in PISA 2012 and number of annual mathematics classes in European OECD members and partners

No		All students							Number of annual Math classes in Grade 8 <sup>th</sup>
		Below Level 1 (below 357.77 score points)	Level 1 (from 357.77 to less than 420.07 score points)	Level 2 (from 420.07 to less than 482.38 score points)	Level 3 (from 482.38 to less than 544.68 score points)	Level 4 (from 544.68 to less than 606.99 score points)	Level 5 (from 606.99 to less than 669.30 score points)	Level 6 (above 669.30 score points)	
		%	%	%	%	%	%	%	
	European OECD Members								

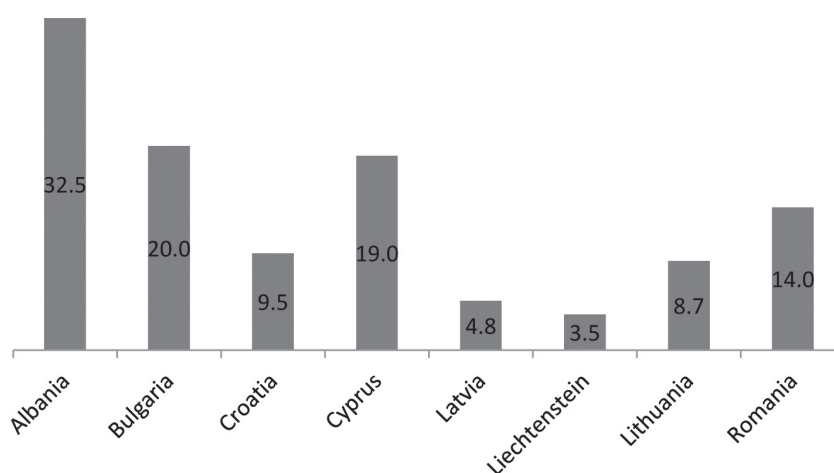
1	Austria	5.7	13.0	21.9	24.2	21.0	11.0	3.3	150.0
2	Belgium	7.0	11.9	18.4	22.6	20.7	13.4	6.1	151.0
3	Czech Republic	6.8	14.2	21.7	24.8	19.7	9.6	3.2	120.0
4	Denmark	4.4	12.5	24.4	29.0	19.8	8.3	1.7	120.0
5	Estonia	2.0	8.6	22.0	29.4	23.4	11.0	3.6	115.0
6	Finland	3.3	8.9	20.5	28.8	23.2	11.7	3.5	100.0
7	France	8.7	13.6	22.1	23.8	18.9	9.8	3.1	126.0
8	Germany	5.5	12.2	19.4	23.7	21.7	12.8	4.7	113.0
9	Greece	14.5	21.2	27.2	22.1	11.2	3.3	0.6	90.0
10	Hungary	9.9	18.2	25.3	23.0	14.4	7.1	2.1	83.0
11	Iceland	7.5	14.0	23.6	25.7	18.1	8.9	2.3	120.0
12	Ireland	4.8	12.1	23.9	28.2	20.3	8.5	2.2	111.0
13	Italy	8.5	16.1	24.1	24.6	16.7	7.8	2.2	198.0
14	Luxembourg	8.8	15.5	22.3	23.6	18.5	8.6	2.6	135.0
15	Netherlands	3.8	11.0	17.9	24.2	23.8	14.9	4.4	115.0
16	Norway	7.2	15.1	24.3	25.7	18.3	7.3	2.1	105.0
17	Poland	3.3	11.1	22.1	25.5	21.3	11.7	5.0	100.0
18	Portugal	8.9	16.0	22.8	24.0	17.7	8.5	2.1	135.0
19	Slovak Republic	11.1	16.4	23.1	22.1	16.4	7.8	3.1	110.0
20	Slovenia	5.1	15.0	23.6	23.9	18.7	10.3	3.4	105.0
21	Spain	7.8	15.8	24.9	26.0	17.6	6.7	1.3	93.0
22	Sweden	9.5	17.5	24.7	23.9	16.3	6.5	1.6	120.0
23	Switzerland	3.6	8.9	17.8	24.5	23.9	14.6	6.8	115.0
24	Turkey	15.5	26.5	25.5	16.5	10.1	4.7	1.2	120.0
25	United Kingdom	7.8	14.0	23.2	24.8	18.4	9.0	2.9	120.0
	European OECD average	7.2	14.4	22.7	24.6	18.8	9.3	3.0	118.8
	European OECD Partners								
1	Albania	32.5	28.1	22.9	12.0	3.6	0.8	0.0	90.0
2	Bulgaria	20.0	23.8	24.4	17.9	9.9	3.4	0.7	102.0
3	Croatia	9.5	20.4	26.7	22.9	13.5	5.4	1.6	105.0
4	Cyprus	19.0	23.0	25.5	19.2	9.6	3.1	0.6	70.0
5	Latvia	4.8	15.1	26.6	27.8	17.6	6.5	1.5	115.0
6	Liechtenstein	3.5	10.6	15.2	22.7	23.2	17.4	7.4	146.0
7	Lithuania	8.7	17.3	25.9	24.6	15.4	6.6	1.4	105.0
8	Romania	14.0	26.8	28.3	19.2	8.4	2.6	0.6	119.0
	European OECD Partners average	14.0	20.6	24.4	20.8	12.7	5.7	1.7	108.9



Source: OECD, 2013



According to the frequency values of percentage of students at below level 1 proficiency in mathematics in Albania and in European OECD members in PISA 2012 has been resulted that: (1) in Switzerland, Poland, Netherlands, Ireland, Finland, Estonia, Denmark there are less than 5% of students ranked at this level, (2) in Albania, Turkey, Slovak Republic, Greece there are more than 10% of students ranked at this level, (3) other countries remain between 1<sup>st</sup> and 2<sup>nd</sup> group.



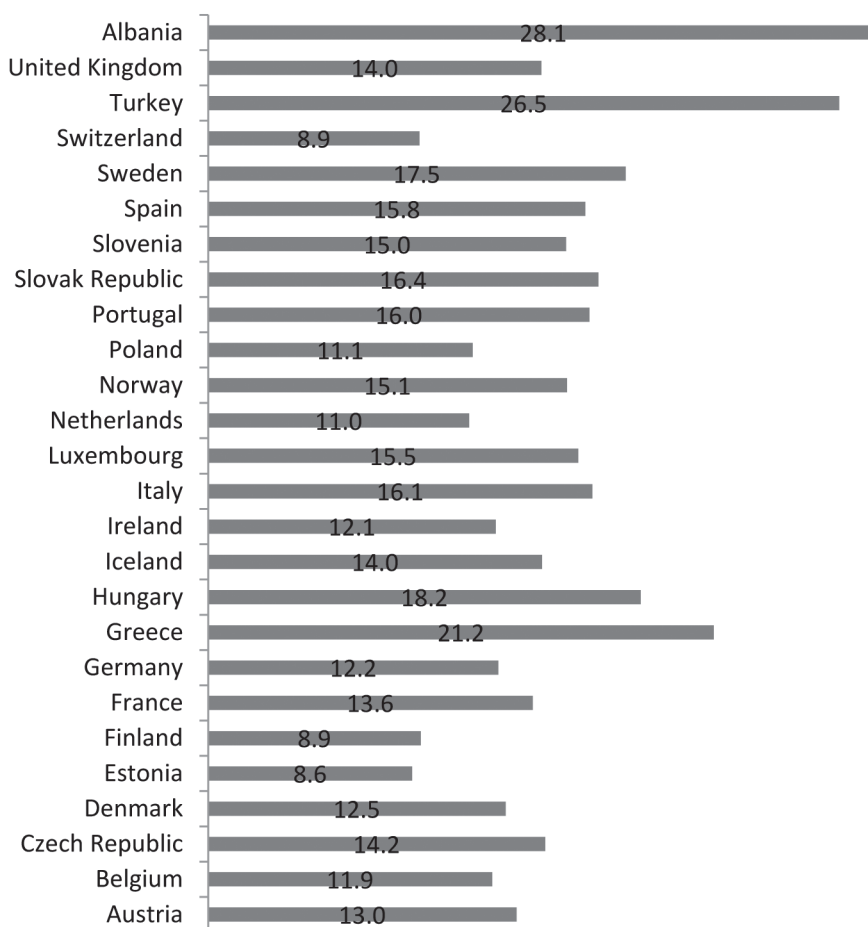
According to the frequency values of percentage of students at below level 1 proficiency in mathematics in Albania and in

European OECD partners in PISA 2012 has been resulted that: (1) in Latvia, Liechtenstein there are less than 5% of students ranked at this level, (2) in Albania, Bulgaria, Cyprus, Romania there are more than 10% of students ranked at this level, (3) Croatia and Lithuania remain between 1<sup>st</sup> and 2<sup>nd</sup> group.

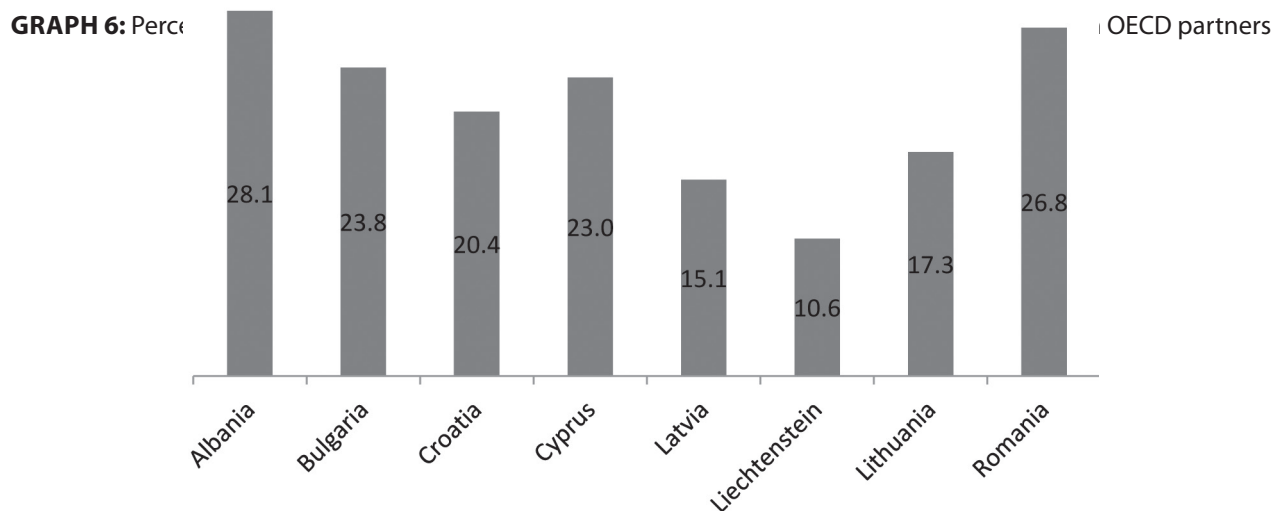
**TABLE 5:** Central tendency values of percentage of students at below level 1 proficiency in mathematics in Albania and in European OECD members and partners

Statistics	
PISA_Below level 1	
Mean	8.977
Median	7.800
Mode	3.3 <sup>a</sup>
Std. Deviation	5.9843
Variance	35.812
Skewness	2.110
Kurtosis	6.117
Range	30.5
Minimum	2.0
Maximum	32.5

According to the central tendency values of percentage of students at below level 1 proficiency in mathematics in Albania and in European OECD members and partners in PISA 2012 has been resulted that: (1) The mean value of students ranked at this level is 8.977%, (2) the median value, which means the value that separates two groups of data is 7.800%, (3) the value of the standard deviation is 5.9843, which means that 68.8% of the values are between 2.9927% and 14.9613% students ranked at this level, (4) the minimum is 2.0% and regards Estonia, (5) the maximum is 32.5% and regards Albania.



According to the frequency values of percentage of students at level 1 proficiency in mathematics in Albania and in European OECD members in PISA 2012 has been resulted that: (1) in Switzerland, Finland, Estonia there are less than 10% of students ranked in this level, (2) in Albania, Turkey, Greece there are more than 20% of students ranked in this level, (3) other countries remain between 1<sup>st</sup> and 2<sup>nd</sup> group.



According to the frequency values of percentage of students at level 1 proficiency in mathematics in Albania and in European OECD partners in PISA 2012 has been resulted that: (1) in Liechtenstein there are equal to 10% of students ranked in this level, (2) in Albania, Bulgaria, Croatia, Cyprus, Romania there are more than 20% of students ranked in this level, (3) other countries remain between 1<sup>st</sup> and 2<sup>nd</sup> group.

**TABLE 6:** Central tendency values of percentage of students at level 1 proficiency in mathematics in Albania and in European OECD members and partners

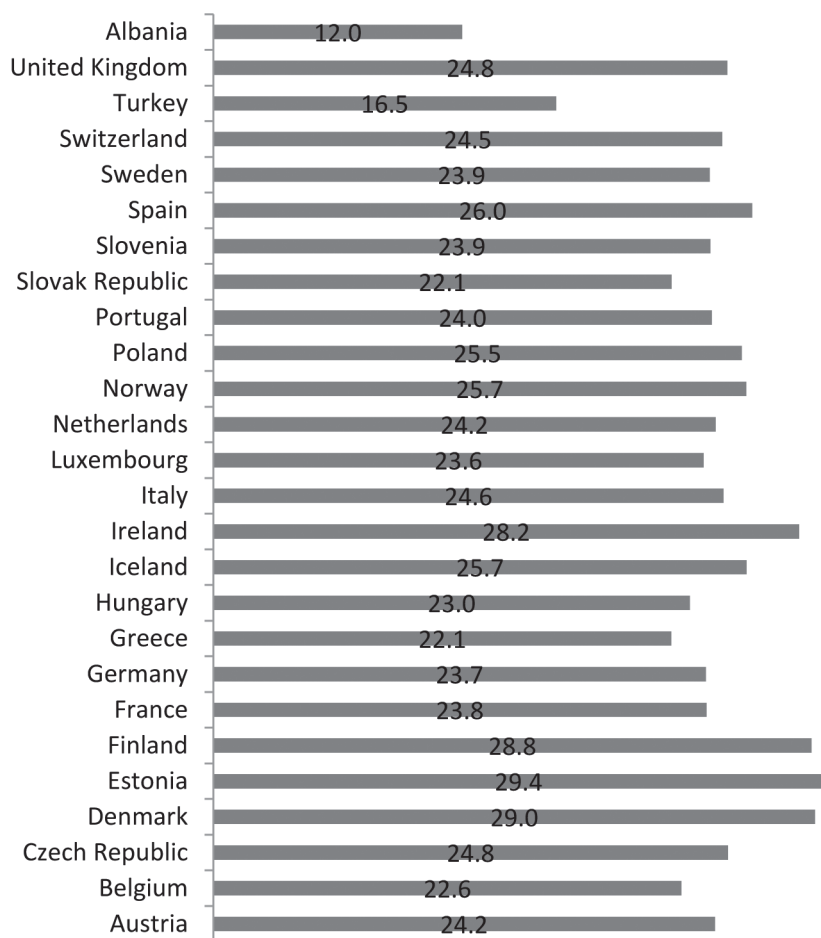
Statistics	
PISA_Level 1	
Mean	15.983
Median	15.100
Mode	8.9 <sup>a</sup>
Std. Deviation	5.0978
Variance	25.987
Skewness	.842
Kurtosis	.161
Range	19.5
Minimum	8.6
Maximum	28.1

According to the central tendency values of percentage of students at level 1 proficiency in mathematics in Albania and in European OECD members and partners in PISA 2012 has been resulted that: (1) The mean value of students ranked at this level is 15.983%, (2) the median value, which means the value that separates two groups of data is 15.100%, (3) the value of the standard deviation is 5.0978, which means that 68.8% of the values are between 10.8852% and 21.0808% of students ranked at this level, (4) the minimum is 8.6% and regards Estonia, (5) the maximum is 28.1% and regards Albania.

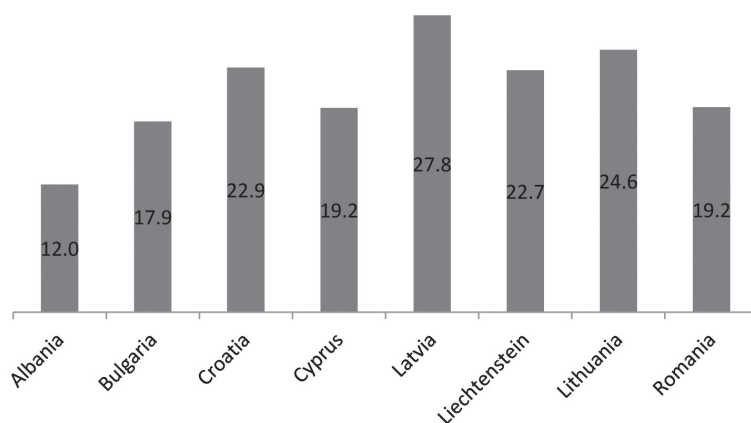
According to the frequency values of percentage of students at level 3 proficiency in mathematics in Albania and in European OECD members in PISA 2012 (Graph 7) has been resulted that: (1) in Albania, Turkey there are less than 20% of students ranked in this level, (2) in Spain, Norway, Ireland, Finland, Estonia, Denmark there are more than 25% of students ranked in this level, (3) other countries remain between 1<sup>st</sup> and 2<sup>nd</sup> group.

According to the frequency values of percentage of students at level 3 proficiency in mathematics in Albania and in European OECD partners in PISA 2012 (Graph 8) has been resulted that: (1) in Albania, Bulgaria, Cyprus, Romania there

**GRAPH 7:** Percentage of students at level 3 proficiency in mathematics in Albania and in European OECD members in PISA 2012.



**GRAPH 8:** Percentage of students at level 3 proficiency in mathematics in Albania and in European OECD partners



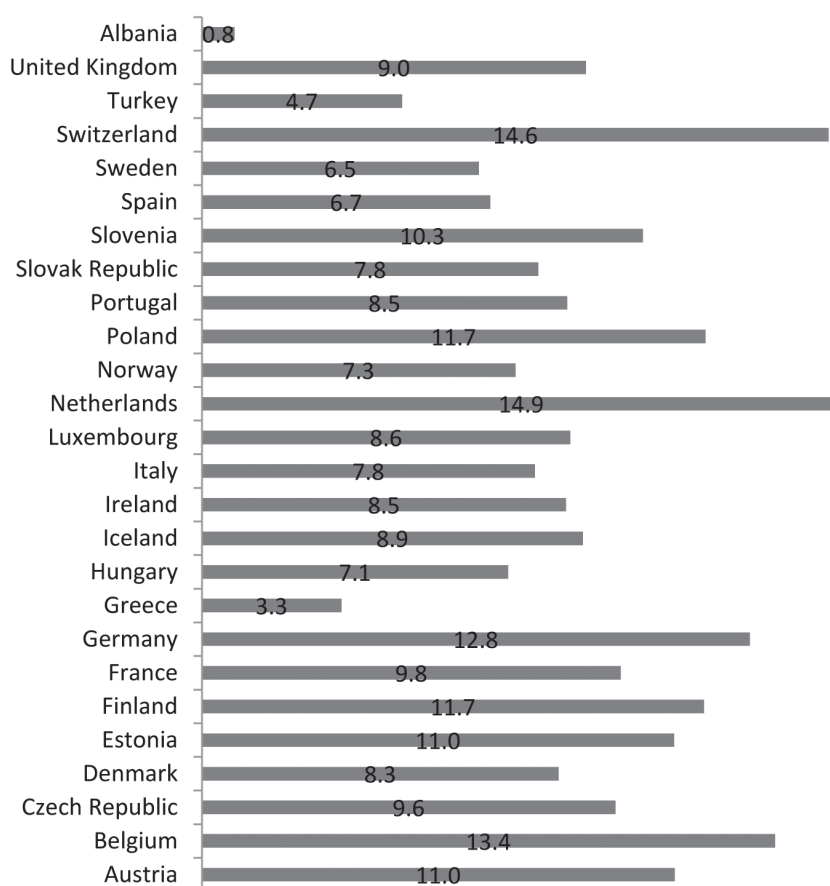
are less than 20% of students ranked in this level, (2) in Latvia there are more than 25% of students ranked in this level, (3) in Croatia, Liechtenstein, Lithuania remain between 1<sup>st</sup> and 2<sup>nd</sup> group.

**TABLE 7:** Central tendency values of percentage of students at level 3 proficiency in mathematics in Albania and in European OECD members and partners

Statistics	
PISA_Level 3	
Mean	23.609

Median	24.000
Mode	24.6
Std. Deviation	3.5389
Variance	12.524
Skewness	-1.129
Kurtosis	2.566
Range	17.4
Minimum	12.0
Maximum	29.4

According to the central tendency values of percentage of students at level 3 proficiency in mathematics in Albania and in European OECD members and partners in PISA 2012 has been resulted that: (1) The mean value of students ranked at this level is 23.609%, (2) the median value, which means the value that separates two groups of data is 24.000%, (3) the value of the standard deviation is 3.5389, which means that 68.8% of the values are between 20.0701% and 27.1479% of students ranked at this level, (4) the minimum is 12.0% and regards Albania, (5) the maximum is 29.4% and regards Estonia.

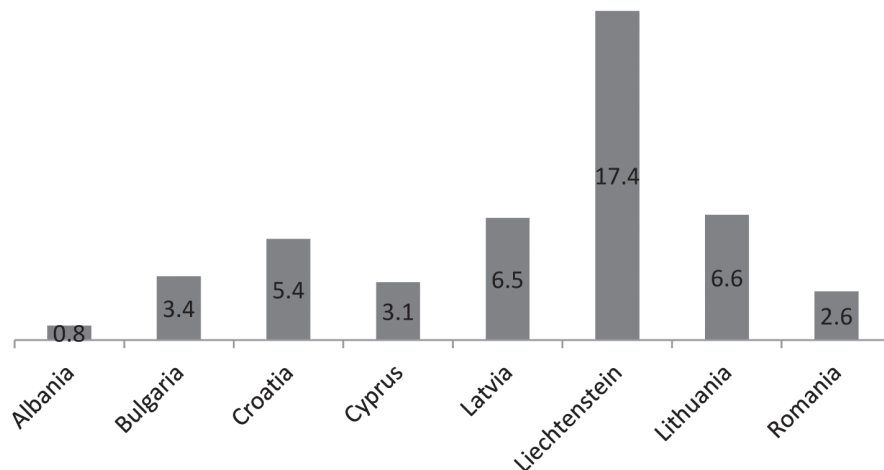


According to the frequency values of percentage of students at level 5 proficiency in mathematics in Albania and in European OECD members in PISA 2012 has been resulted that: (1) in Albania, Turkey, Greece there are less than 5% of students ranked in this level, (2) in Switzerland, Slovenia, Poland, Netherlands, Germany, Finland, Estonia, Belgium, Austria there are more than 10% of students ranked in this level, (3) other countries remain between 1<sup>st</sup> and 2<sup>nd</sup> group.

According to the frequency values of percentage of students at level 5 proficiency in mathematics in Albania and in European OECD partners in PISA 2012 (Graph 10) has been resulted that: (1) in Albania, Bulgaria, Cyprus, Romania there are less than 5% of students ranked in this level, (2) in Liechtenstein there are more than 10% of students ranked in this level, (3) in Croatia, Latvia, Lithuania remain between 1<sup>st</sup> and 2<sup>nd</sup> group.

According to the central tendency values of percentage of students at level 5 proficiency in mathematics in Albania and in European OECD members and partners in PISA 2012 (Tab 8) has been resulted that: (1) The mean value of students ranked at this level is 8.417%, (2) the median value, which means the value that separates two groups of data is 8.500%, (3) the value of



**GRAPH 10:** Percentage of students at level 5 proficiency in mathematics in Albania and in European OECD partners

the standard deviation is 3.7073, which means that 68.8% of the values are between 4.7977% and 12.2077% of students ranked at this level, (4) the minimum is 0.8% and regards Albania, (5) the maximum is 17.4% and regards Liechtenstein.

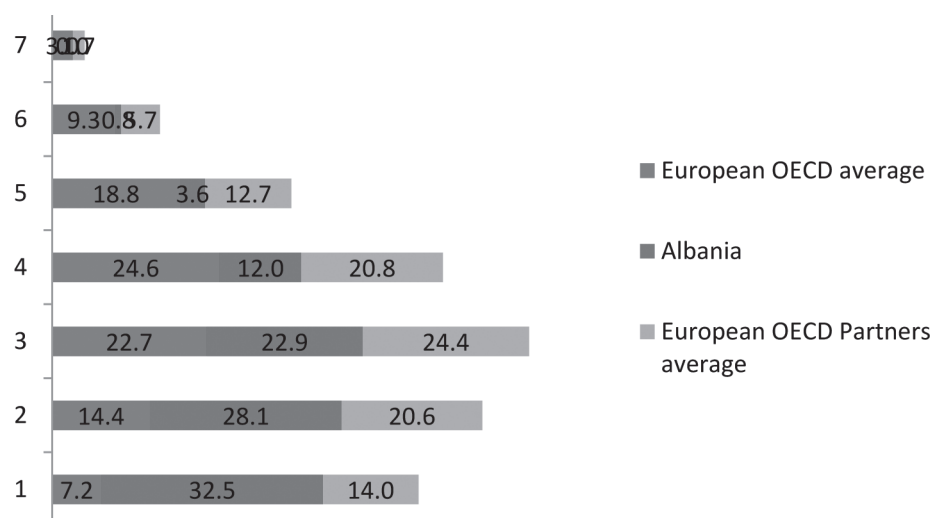
**TABLE 8:** Central tendency values of percentage of students at level 5 proficiency in mathematics in Albania and in European OECD members and partners

Statistics	
PISA_Level 5	
Mean	8.417
Median	8.500
Mode	6.5 <sup>a</sup>
Std. Deviation	3.7073
Variance	13.744
Skewness	.233
Kurtosis	.074
Range	16.6
Minimum	.8
Maximum	17.4

**TABLE 9:** European OECD average vs. Albania vs. European OECD Partners average

No		All students						
		Below Level 1 (below 357.77 score points)	Level 1 (from 357.77 to less than 420.07 score points)	Level 2 (from 420.07 to less than 482.38 score points)	Level 3 (from 482.38 to less than 544.68 score points)	Level 4 (from 544.68 to less than 606.99 score points)	Level 5 (from 606.99 to less than 669.30 score points)	Level 6 (above 669.30 score points)
		%	%	%	%	%	%	%
1	European OECD average	7.2	14.4	22.7	24.6	18.8	9.3	3.0
2	Albania	32.5	28.1	22.9	12.0	3.6	0.8	0.0
3	European OECD Partners average	32.5	28.1	22.9	12.0	3.6	0.8	0.0

According to the comparative frequency values of percentage of students at all levels proficiency in mathematics in Albania and in European OECD members and partners in PISA 2012 (Graph 11) has been resulted that: (1) at below level 1 there are 7.2% of ranked students from European OECD members, 32.5% of Albania ranked students, and 14.0% of European OECD partners, (2) at level 1 there are 14.4% of ranked students from European OECD members, 28.1% of Albania ranked students,

**GRAPH 11** European OECD average vs. Albania vs. European OECD Partners average

and 20.6% of European OECD partners, (3) at level 3 there are 24.6% of ranked students from European OECD members, 12.0% of Albania ranked students, and 20.8% of European OECD partners, (4) at level 5 there are 9.3% of ranked students from European OECD members, 0.8% of Albania ranked students, and, 8.70% of European OECD partners.

## Inferential analysis

### Correlation analysis

**TABLE 10:** Linear bivariate correlation values of annual math classes and PISA below level 1, and level 5 variables

Correlations					
		PISA_Below level 1	Annual Math Classes	PISA_Level 5	Annual Math Classes
PISA_Below level 1	Pearson Correlation	1	-.273	1	.358*
	Sig. (2-tailed)		.003		.002
	Sum of Squares and Cross-products	1217.602	-896.719	467.290	934.104
	Covariance	35.812	-27.173	13.744	28.306
	N	35	34	35	34
Annual Math Classes	Pearson Correlation	-.273	1	.358*	1
	Sig. (2-tailed)	.003		.002	
	Sum of Squares and Cross-products	-896.719	16659.000	934.104	16659.000
	Covariance	-27.173	504.818	28.306	504.818
	N	34	34	34	34

The relationship between annual math classes independent variable and PISA below level 1, level 1, level 3, and level 5 dependent variable was investigated using Pearson product-moment correlation coefficient. Preliminary analyses were performed to ensure no violation of the assumptions of normality, linearity and homoscedasticity.

There was a low, negative correlation between annual math classes and PISA below level 1 variables,  $r = -.273$ ,  $n = 34$ ,  $p < .005$ , with high levels of annual math classes associated with lower levels of PISA below level 1. The value of correlation means that increasing of annual math classes values would result in decreasing of PISA below level 1. Increasing of annual math classes influences decreasing of student's number ranked at below level 1 in PISA that is supposed to be equal with grade 4 in Albanian grading system.

There was a low, negative correlation between annual math classes and PISA level 1 variables,  $r = -.245$ ,  $n = 34$ ,  $p < .005$ , with high levels of annual math classes associated with lower levels of PISA level 1. The value of correlation means that increasing of annual math classes values would result in decreasing of PISA level 1. Increasing of annual math classes influences decreasing of student's number ranked at level 1 in PISA that is supposed to be equal with grade 5 in Albanian grading system.

There was a low, positive correlation between annual math classes and PISA level 3 variables,  $r = .284$ ,  $n = 34$ ,  $p < .005$ , with high levels of annual math classes associated with high levels of PISA level 3. The value of correlation means that increasing of

annual math classes values would result in increasing of PISA level 3. Increasing of annual math classes influences increasing of student's number ranked at level 3 in PISA that is supposed to be equal with grade 7 in Albanian grading system.

There was a medium, positive correlation between annual math classes and PISA level 5 variables,  $r = .358$ ,  $n = 34$ ,  $p < .005$ , with high levels of annual math classes associated with high levels of PISA level 5. The value of correlation means that increasing of annual math classes values would result in increasing of PISA level 5. Increasing of annual math classes influences increasing of student's number ranked at level 5 in PISA that is supposed to be equal with grade 9 in Albanian grading system.

## Regression analysis

**TABLE 11:** Linear bivariate regression values of annual math classes and PISA below level 1, and level 5 variables

Model Summary <sup>a</sup>										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.273 <sup>a</sup>	.074	.046	4.3292	.074	2.575	1	32	.0002	1.942
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics	Durbin-Watson	Model	R	R Square	Adjusted R Square
1	.358 <sup>a</sup>	.129	.101	3.3316	.129	4.719	1	32	.003	2.167
a. Predictors: (Constant), Annual Math Classes										
b. Dependent Variable: PISA_Below level 1/level5										

Linear bivariate regression was used to assess the ability of one control measure to predict at below level 1 PISA levels by annual math classes. Preliminary analyses were conducted to ensure no violation of the assumptions of normality, linearity, multicollinearity and homoscedasticity. Total variance explained by the model was 7.4%,  $F(2, 575)$ ,  $p < .005$ . In the model, the control measure was statistically significant recording a higher beta value ( $\beta = -.34$ ,  $p < .005$ ).

Linear bivariate regression was used to assess the ability of one control measure to predict at level 1 PISA levels by annual math classes. Preliminary analyses were conducted to ensure no violation of the assumptions of normality, linearity, multicollinearity and homoscedasticity. Total variance explained by the model was 6.0%,  $F(3, 456)$ ,  $p < .005$ . In the model, the control measure was statistically significant recording a higher beta value ( $\beta = -.44$ ,  $p < .005$ ).

Linear bivariate regression was used to assess the ability of one control measure to predict at level 3 PISA levels by annual math classes. Preliminary analyses were conducted to ensure no violation of the assumptions of normality, linearity, multicollinearity and homoscedasticity. Total variance explained by the model was 7.0%,  $F(3, 456)$ ,  $p < .005$ . In the model, the control measure was statistically significant recording a higher beta value ( $\beta = -.51$ ,  $p < .005$ ).

Linear bivariate regression was used to assess the ability of one control measure to predict at level 3 PISA levels by annual math classes. Preliminary analyses were conducted to ensure no violation of the assumptions of normality, linearity, multicollinearity and homoscedasticity. Total variance explained by the model was 12.9%,  $F(4, 719)$ ,  $p < .005$ . In the model, the control measure was statistically significant recording a higher beta value ( $\beta = -.49$ ,  $p < .005$ ).

## Conclusions and recommendations

### Conclusions

In Albania, Spain, Hungary, Greece, Cyprus there are less than 100 annual math classes in grade 8<sup>th</sup> in one academic year.

In Austria, Belgium, Italy, Denmark, Czech Republic, France, Iceland, Luxembourg, Sweden, Portugal, Turkey, United Kingdom, Romania, Liechtenstein there are equal or more than 120 annual math classes in grade 8<sup>th</sup> in one academic year.

In Albania and in European OECD members and partners the mean value of annual math classes in grade 8<sup>th</sup> is 116.462 math classes.

In Albania and in European OECD members and partners the minimum annual classes in grade 8<sup>th</sup> is 70 and regards Cyprus; the maximum is 198 and regards Italy.

In Switzerland, Poland, Netherlands, Ireland, Finland, Estonia, Denmark there are less than 5% of students ranked at below level 1 proficiency in mathematics.

In Albania, Turkey, Slovak Republic, Greece there are more than 10% of students ranked at below level 1 proficiency in mathematics.

In Latvia and Liechtenstein there are less than 5% of students ranked at below level 1 proficiency in mathematics.

In Albania, Bulgaria, Cyprus, Romania there are more than 10% of students ranked at below level 1 proficiency in mathematics.

In Albania and in European OECD members and partners in PISA 2012 the minimum value of students ranked at below level 1 proficiency in mathematics is 2.0% and regards Estonia; the maximum is 32.5% and regards Albania.

In Switzerland, Finland, Estonia there are less than 10% of students ranked at level 1 proficiency in mathematics,

In Albania, Turkey, Greece there are more than 20% of students ranked at level 1 proficiency in mathematics,

In other European OECD members there are between 10% and 20% of students ranked at level 1 proficiency in mathematics.

In Liechtenstein there are equal to 10% of students ranked at level 1 proficiency in mathematics.

In Albania, Bulgaria, Croatia, Cyprus, Romania there are more than 20% of students ranked at level 1 proficiency in mathematics.

In other European OECD partners there are between 10% and 20% of students ranked at level 1 proficiency in mathematics.

In Albania and in European OECD members and partners in PISA 2012 the minimum value of students ranked at level 1 proficiency in mathematics is 8.6% and regards Estonia; the maximum is 28.1% and regards Albania.

In Albania, Bulgaria, Cyprus, Romania and Turkey there are less than 20% of students ranked at level 3 proficiency in mathematics.

In Spain, Norway, Ireland, Finland, Estonia, Denmark, and Latvia there are more than 25% of students ranked at level 3 proficiency in mathematics.

In Albania and in European OECD members and partners in PISA 2012 the minimum at level 3 proficiency in mathematics is 12.0% and regards Albania; the maximum is 29.4% and regards Estonia.

In Albania, Turkey, Greece, Bulgaria, Cyprus, Romania there are less than 5% of students ranked at level 5 proficiency in mathematics.

In Switzerland, Slovenia, Poland, Netherlands, Germany, Finland, Estonia, Belgium, Austria, Liechtenstein there are more than 10% of students ranked at level 5 proficiency in mathematics.

In Albania and in European OECD members and partners in PISA 2012 the minimum at level 5 proficiency in mathematics is 0.8% and regards Albania; the maximum is 17.4% and regards Liechtenstein.

In Albania and in European OECD members and partners in PISA 2012 at below level 1 there are 7.2% of ranked students from European OECD members, 32.5% of Albania ranked students, and 14.0% of European OECD partners

In Albania and in European OECD members and partners in PISA 2012 at level 1 there are 14.4% of ranked students from European OECD members, 28.1% of Albania ranked students, and 20.6% of European OECD partners.

In Albania and in European OECD members and partners in PISA 2012 at level 3 there are 24.6% of ranked students from European OECD members, 12.0% of Albania ranked students, and 20.8% of European OECD partners.

In Albania and in European OECD members and partners in PISA 2012 at level 5 there are 9.3% of ranked students from European OECD members, 0.8% of Albania ranked students, and, 8.70% of European OECD partners.

Between annual math classes and PISA below level 1 there is a negative linear correlation; between annual math classes and PISA level 1, 3, and 5 there is a positive linear correlation

Increasing of annual math classes influences decreasing of student's number ranked at below level 1 in PISA.

Increasing of annual math classes influences increasing of students number ranked at level 1, 3 and 5 in PISA.

7.4% of variance on PISA below level 1 is been influenced by annual math classes; the other part of variance is been influenced by other variables.

6.0% of variance on PISA level 1 dependent variable is been influenced by annual math classes; the other part of variance is been influenced by other variables.

0.7% of variance on PISA level 3 dependent variable is been influenced by annual math classes; the other part of variance is been influenced by other variables.

12.9% of variance on PISA level 5 is been influenced by annual math classes; the other part of variance is been influenced by other variables.

## Recommendations

Institutions of curriculum design should consider increasing of the annual math classes in compulsory education in Albania as well as the many of European OECD members and partners.

Institutions of curriculum design should consider narrowing of the difference of the annual math classes in compulsory education in Albania compared with the mean of annual math classes in European OECD members and partners.

Institutions of education as well as the math teachers should consider increasing of teaching level in mathematics curriculum in order to decrease percentage of students ranked at below level 1 and level 1 in PISA.

Institutions of education as well as the math teachers should consider increasing of teaching level in mathematics curriculum in order to reach the mean of students ranked at below level 1 and level 1 in PISA of European OECD members and partners.

Institutions of education as well as the math teachers should consider increasing of teaching level in mathematics curriculum in order to increase percentage of students ranked at level 3 in PISA.

Institutions of education as well as the math teachers should consider increasing of teaching level in mathematics curriculum in order to reach the mean of students ranked at level 3 in PISA of European OECD members and partners.

Institutions of education as well as the math teachers should consider increasing of teaching level in mathematics curriculum in order to increase percentage of students ranked at level 5 in PISA.

Institutions of education as well as the math teachers should consider increasing of teaching level in mathematics curriculum in order to reach the mean of students ranked at level 5 in PISA of European OECD members and partners.

Institutions of education as well as the math teachers should consider increasing of teaching level in mathematics curriculum in order to implement competency based curriculum as well as in many European OECD members and partners.

Institutions of assessment as well as the math teachers should consider implementing of tests in mathematics curriculum teaching referred PISA tests.

Institutions of assessment as well as the math teachers should consider implementing of tests in mathematics curriculum teaching that measure skills and competencies avoiding measure of knowledge.

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# The effects of the social network use in the self-esteem of young people

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## Abstract

*The use of social networks and the problematic associated with it are on the increase in today's society where information technology is an integral part of everyday life. This study aims to investigate whether there is a link between the use of Facebook and self-esteem levels among Albanian young. The study was carried out online with a total number of 101 participants. The instruments used were the Facebook Intensity Scale and the Albanian translated version of Rosenberg Self-esteem Scale. Results show that males displayed higher self-esteem levels than females. There also exists a negative correlation among the use of Facebook and self-esteem. The findings are similar to those from several other studies that point to the fact that individuals displaying low levels of self-esteem spend more time on Facebook as compared to those displaying higher self-esteem levels. The findings from the study contribute to a better understanding of social networks use within the Albanian context, as well as suggest further studies, particularly to address the spread of the problematic at population level.*

**Key words:** self-esteem, social-networks, young people

## Introduction

Social networks such as Facebook, Twitter, Instagram, etc. have become very popular, providing the grounds for a new field of study in psychology. According to Internet World Stat, by March 2017 an estimated number of 1,823,233 report being internet users in Albania, and by June 2016 a number of 1,400,000 people were internet users. All these social networks enable their users to maintain relations with friends and partners, while "Facebook, by its very nature, provides easy access to friends' and partners' information, including changes to their profile, additions of new contacts (termed "friends"), and messages posted on their page (on their virtual "wall")" (Muise, Christofides, & Desmarais, 2009).

Social relationships are very important to human beings and are some of the most significant components of our existence. With the increased use of social networks, people are divided in their attitudes on how social networks impact human relationships. Some think that an interaction of this kind would be a substitute to face-to-face contacts among individuals. Others point to the fact that social networks make it possible for people to be closer and keep contacts with others. Social networks, such as Facebook, enable users to add friends and leave their "traces" through statuses, photos, likes, and update with others' news in the cybernetic realm.

It goes without saying that internet use has its pros and cons, and to understand the effects better, not only the time spent on internet but also how exactly it is used should be subject to analysis. Among the positive effects, the low risk of being refused by others, a reduction of the anxiety experienced as a result of face-to-face contacts, involvement in issues concerning the community, etc. are only a few that could be mentioned. While depression, cyberbullying, exposure to inappropriate people and situations are some of the negative effects derived from the use of social networks. Spending considerable time on the internet and unsupervised by parents in the case of young children has been related to a high risk of being potential victims of cyberbullying (Navarro & Jasinski, 2012).

Furthermore, those who reveal more personal information online, are more likely to become victims of cyberbullying. Studies have also investigated the link between the time spent on electronic media and results of students at school, which have come out to be negatively correlated (Jacobsen & Forste, 2011).

Students having a higher number of Facebook friends displayed greater social adaption levels and a stronger attachment to college than students who had fewer friends.

The groups of happy and unhappy people are visible in the network, and the relationship between people's happiness extends up to three degrees of separation (for example, to the friends of one's friends' friends). People who are surrounded by many happy people and those who are central in the network are more likely to become happy in the future. According to the longitudinal statistical models group of happiness result from the spread of happiness and not just a tendency for people to associate with similar individuals. A friend who lives within a mile (about 1.6 km) and who becomes happy increases the probability that a person is happy by 25% (95% confidence interval 1% to 57%). Similar effects are seen resident spouses (8%, 0.2% to 16%), siblings who live within a mile (14%, 1% to 28%), and next door neighbors (34%, 7% to 70%). Effects are not seen between coworkers. The effect changes with time and with geographical separation. People's happiness depends on the happiness of people that they stay with.

According to a study made by Faraon and Kaipainen (2014) to examine the relationship between Facebook use and self-esteem, the data confirmed that there is a relationship between Facebook use and self-esteem. The results expressed that participants with low Facebook intensity reported on average higher self-esteem than those who did not use Facebook or those with high Facebook intensity, while those with medium Facebook intensity had significantly higher self-esteem compared to the participants with high Facebook intensity.

According to Valkenburg, Schouten and Peter (2006), the frequency with which adolescents used the site had an indirect effect on their social self-esteem and well-being. The use of the friend networking site stimulated the number of relationships formed on the site, the frequency with which adolescents received feedback on their profiles, and the tone (i.e., positive vs. negative) of this feedback. Positive feedback on the profiles enhanced adolescents' social self-esteem and well-being, whereas negative feedback decreased their self-esteem and well-being.

## Facebook Use among Individuals with Low Self-Esteem

Based on the Chen and Lee's (2013) study communication overload links Facebook interaction with reduced self-esteem. However, some research suggests that self-esteem level is related to one's on-line social behavior. It was found that those with lower levels of self-esteem benefited more and had greater social capital due to Facebook use than those with higher levels of self-esteem (Tazghini & Siedlecki, 2013).

According to different studies, individuals with low self-esteem try to compensate by becoming active in on-line activities, such as spending more time on Facebook, increasing the frequency of logging on to Facebook, and having more friends on Facebook. According to Amichai-Hamburger & Vinitzky, (2010) on the Internet, it seems, "the poor can get richer," meaning that introverts can compensate for the difficulties they experience in face-to-face interactions through on-line social networks. Those with lower self-esteem attempt to compensate by seeking more friends on social media in order to establish a sense of belonging and increase perception of popularity.

However, research indicates that those with low self-esteem tend to accept more friend requests from people they do not know very well (Tazghini & Siedlecki, 2013). For those with lower self-esteem, it is easier to connect with new friends and communicate through Facebook than having direct contact with peers. This can be to their benefit, though, as it helps new college students build social capital, as Facebook lowers the barriers of participation and allows users who may initially shy away from initiating communication to respond to others and forge ties with others online (Ellison, Steinfield, & Lampe, 2007).

In an interesting study by Lee, Moore, Park, and Park (2012), it was found that the association between people with low self-esteem and the number of Facebook friends was presented only among people with higher levels of public self-consciousness. Those who tend to be more concerned with their public self-image may engage more in the act of friending other Facebook users to fulfill their need for social compensation. They may also view the number of Facebook friends as an indication of popularity and attempt to expand their Facebook connections to compensate for their lack of self-esteem.

Further, Facebook allows users with lower self-esteem to create an image of themselves that they want others to perceive. They tend to frequently "un-tag" themselves from unflattering pictures in order to preserve this image (Tazghini & Siedlecki, 2013). Results from a study of one hundred Facebook users at York University implied that individuals with low self-esteem spend more time online and have more self-promotional content on their social networking profiles (Pantic, 2014). Also, socially anxious individuals seem to prefer those online settings because it allows them to control message construction and be prepared for interaction ahead of time (Valkenburg & Peter, 2009).

Additionally, research has indicated that individuals with low self-esteem tend to frequently log in to Facebook and spend more time on the social networking site than those with higher levels of self-esteem. This can be due to their attempt to compensate for their lack of self-esteem by increasing their number of online friends to feel a greater sense of belonging and heighten their perceived popularity. However, studies show that excessive friending can lead to negative evaluation of these "friend-rich" users and can be detrimental to one's well-being by being under the constant stress of being exposed to a large audience (Lee, Moore, Park & Park, 2012).

## Facebook Use among Individuals with High Self-Esteem

On the other hand, in a study by Valerie Barker, it was discovered that people with reportedly high self-esteem use Facebook more as a means to communicate with peer group members and pass time (Barker, 2009). In a similar study by Skues, Williams, and Wise (2012), it was discovered that extroverts tend to engage more in social activities on Facebook and use the site to enhance and maintain social ties. Extroverts do not use the site as an alternate to social activities but as a means to enhance their social relationships. Findings by Kalpidou, Costin, & Morris, (2011) indicate that introverts using the Internet experienced decreased involvement in the community and increased levels of loneliness, whereas extroverts experience decreased loneliness and more community involvement.

In a study by Amichai-Hamburger and Vinitzky, it was discovered that introverts tend to disclose more information about themselves on their Facebook profiles than extroverts. It seems that extroverts rely more on their social skills and do not feel the need to promote themselves the way introverts do in order to make friends on social networking sites.

It appears that people with high levels of self-esteem use Facebook for different purposes than people with low self-esteem. They also tend to have a more positive experience with Facebook than people with low self-esteem, using the site more as a tool to enhance the relationships they already have rather than using the site to build social capital. According to a study people who are more secure in face-to-face interaction, such as extroverts, tend to use Facebook more for social interaction, in comparison to those who do not feel connected to their peer group and use the site to seek social compensation (Barker, 2009).

This was reinforced by a study conducted by Ellison, Steinfield, and Lampe (2007). They found that Facebook is much less useful for creating social capital among those with high self-esteem and life satisfaction. However, Facebook is useful for maintaining pre-existing friendships or close relationships.

In addition, in a study by Tazghini and Siedlecki (2013), people with high self-esteem reported that they like the ability to share pictures, thoughts, and ideas with others compared to individuals with low self-esteem. Furthermore, individuals with high self-esteem tend to find that what others post becomes annoying. Tazghini and Siedlecki posited that this may be that those with higher self-esteem place less importance on Facebook interaction.

## Negative Impact of Facebook on Self-Esteem and Well-Being

Besides having a negative impact on academic achievement, Facebook poses a much larger threat to one's feelings of self-esteem and well-being. Of the variables most studied in the behavioral sciences is subjective well-being, which affects health and longevity.

In a study by Kross et al., (2013), the effects of Facebook on subjective well-being were tested by addressing two components: affective well-being and cognitive well-being. It was found that people felt worse the more they used Facebook, but people do not use Facebook any more or any less depending on their emotions or mood. It was also discovered that there is a link between more Facebook usage and a decline in life satisfaction. Loneliness was a significant contributor to Facebook use. The more people felt lonely, the more they used Facebook. Thus, this study shows how Facebook use is linked to declines in subjective well-being, including how people feel from moment to moment and how satisfied they feel with their lives.

The association between Facebook and loneliness is complex. While Facebook is used as a tool to minimize loneliness for some, the amount of time spent on Facebook paradoxically can increase loneliness as well. In a survey of 1,193 participants in 2010, it was found that Facebook users who left posts on other user's wall or messaged friends reported lower feelings of loneliness and increased social capital. However, users who spent more time passively viewing other's profiles and content without actively engaging in some type of interaction reported feelings of increased loneliness and reduced social capital (Wilson, Gosling, & Graham, 2012).

Additional research suggests that Facebook and online social networking is associated with several psychiatric disorders, including depression, anxiety, and low self-esteem (Pantic, 2014). In studies by Kraut et al., more time spent online leads to a decline in communication with family members and friends, which can cause increased feelings of depression and loneliness. In another study of a high school population, more time spent on social networking sites was positively correlated to signs and symptoms of depression (Pantic, 2014).

In a study by Steers, Wickham, and Acitelli (2014), results indicate that social comparisons made on Facebook are associated with depressive symptoms. Engaging in frequent social comparisons can negatively impact one's mental well-being. Even further, individuals with low self-esteem may end up feeling worse due to the effects of social comparison on social networking sites such as Facebook.

Results from a study by Moreno et al. (2011) suggest that approximately twenty-five percent of college students disclose symptoms of depression in comments on Facebook. Many adolescents report that they share more personal information about themselves on Facebook than they do in person. A quarter of the profiles reviewed in this research demonstrated references of depression. Another study of college students found that one third reported symptoms of depression. Students who demonstrate more use of Facebook tended to report more symptoms of depression. Facebook users with a more involved social network are more likely to disclose feelings of depression.

Another study found that Facebook use is linked to people's perceptions of other 18 people's lives. Studying undergraduate students at a state university in Utah, it was found that Facebook use was directly related to people perceiving other users as happier and more successful. For individuals who are already predisposed to depressive behaviors, Facebook may further negatively impact mental health (Pantic, 2014). Constant self-evaluation, competition with other users, and incorrectly perceiving other users' lives invoke feelings of jealousy and narcissistic behavior, both of which can lower self-esteem.

Further studies by Chen and Lee (2013) focused on two particular mechanisms that link Facebook interaction and psychological distress: communication overload and self-esteem. Social media increases communication overload. Facebook users uploaded over 250 million photos and clicked the "like" button over 2.7 billion times daily by the end of 2011, indicating that Facebook interaction increases the volume and complexity of communication leading to communication overload. More time spent on Facebook and self-promotional activity is negatively related to self-esteem. Thus, Chen and Lee (2013) discovered that Facebook interaction is indirectly related to psychological distress due to increased communication overload which reduces self-esteem.

Among adolescents, Facebook and social networking sites pose a threat to their well-being due to an increase in cyberbullying. Cyberbullying includes name calling, spreading rumors, distributing pictures without consent, and making threats. Significant psychosocial effects on the victims of cyberbullying include depression, anxiety, social isolation, and suicide attempts (Moreno & Kolb, 2012).

## Positive Impact of Facebook on Self-Esteem and Well-Being

However it should be noted that some studies, possibly due to the duration of the study, indicate that there is not a significant correlation between Facebook use and depression, such as a study conducted over a one-week period of older adolescents at a university in 2011 (Jelenchick, Eickhoff, & Moreno, 2012). Research has indicated that there are some positive effects of Facebook use on self-esteem. One study found that Facebook can enhance "social self-esteem," including perceptions of one's physical appearance, relationships, and romantic appeal, especially when one receives positive feedback from their peers, notably their friends on Facebook (Gonzalez & Hancock, 2011).

Additionally, by allowing users to control what is uploaded and shared online, Facebook profiles can increase self-esteem through self-presentation. In their study, Gonzales and Hancock found that Facebook can enhance self-esteem, especially if a person is allowed to edit the information shared on their profile. It seems that Facebook allows one to present their ideal self, and since it is one's optimal self on display, this leads to positive feelings of self-esteem.

## Gender Differences in Facebook Use

There is much documentation supporting that there is a significant gender difference in utilizing social networking sites. One study by Boneva and Kraut found that females are more likely than males to use online tools such as Facebook to maintain and establish their social networks. Another study by Rosen et al. found that women share more photos and spend more time on social networking sites than men (Stefanone, Lackaff, and Rosen, 2011).

In a study by Strayhorn in 2012, first year female college students tend to use social networking sites more frequently than males. Findings suggest that female college students tend to fare better than males during their first year and report a greater sense of belonging than males. Additional research has found that on average young adults report an average of 358 Facebook friends, with females reporting an average of 401 friends compared to males reporting 269 friends on average (Pempek, Yermolayeva, & Calvert, 2009). Even further, a higher percentage of women tend to use Facebook more than once per day, and females tend to spend more time on the site than males, according to a study by Kittinger, Correia, & Irons (2012).

Additional research by McAndrew and Jeong (2012) indicates that females are more interested in the relationship status of others and keeping up with other people's activities than males. They also spend more time using their profile pictures as a means for impression management, and they are more interested in the educational and career accomplishments of others compared to males. Males tend to be more interested in the number of Facebook friends other users have compared to females (McAndrew & Jeong, 2012). Males also tend to post more self-promotional photos of themselves engaging in risqué behaviors compared to females whose photo uploads tend to more romantic (Peluchette & Karl, 2008).

Research suggests that males focus more on features and entertainment on social networking sites, while females are more interested in maintaining relationships. It seems that females use social networking sites like Facebook to stay in contact with their friends, while males use it more to make new friends (Barker, 2009). In her study, Valerie Barker noted that males are more likely to use Facebook for social compensation and social identification, especially in young males transitioning from high school to college. This was further validated in another study in which it was found that females use Facebook as a way to maintain relationships, pass time, and be entertained; whereas males use the site to develop new relationships (Nazir, 2012).

Tests reveal that females tend to upload more photos than males and are tagged in more photos than males; however, females also untag themselves more frequently from pictures than males due to displeasure with their appearance (Pempek, Yermolayeva, & Calvert, 2009). In a study by Raacke and Bonds-Raacke, it was discovered that females tend to change the appearance of their social networking sites more often than males (Nazir, 2012).



In their study of contingencies of self-worth and social networking behavior, Stefanone, Lackaff, and Rosen (2011) discovered that females tend to have a significantly larger network of strong ties than males. Females spend more time maintaining their Facebook profiles and also are more strongly concerned about appearance.

## Methodology

This study aims to look into the effects that exposure to Facebook might have on self-esteem among a sample of Albanian young people.

### Research question

The research question of the study is as follows:

*Does there exist a correlation among Facebook use and self-esteem?*

### Respondents and Procedure

The study was carried out online; the questionnaire was designed using Google Docs and was handed out through Facebook and email to the respective contacts of the researcher. The respondents were also asked to distribute the link among their contacts. Therefore the sample had the characteristics of both convenience and snowball sampling. The total number of participants was 101 of whom 23 males and 78 females. The mean age of the sample was relatively young,  $M = 23.6$  years. As regards the level of education 72.7% of the sample reported having university education. When asked about their marital status 74% reported being single.

### Measuring instruments

In spite of the numerous questionnaires to measure the level of intensity of Facebook use, for the purpose of this study we have used "Facebook Intensity Scale" questionnaire designed and used in a study by Ellison, Steinfield & Lampe (2007). The questionnaire consists of 8 questions. The scale measures time spent on Facebook where 1= less than 10 minutes, 2= 10-30 min, 3=31-60 min, 5=1-2 hours, etc., number of Facebook friends where 1=10 or less; 2=11-50; 3= 51-100; 4= 101-150, 5= 151-200; 6=201-205, etc. Six statements were included to measure the emotional connectedness of respondents to the site (e.g. "I would be sorry if Facebook shut down") and its integration in the individuals' daily activities (e.g. "Facebook is part of my everyday activity"). Items were answered using a 5-point Likert scale, ranging from 1-strongly disagree and 5-strongly agree.

Another measuring instrument used is Rosenberg self-esteem scale. This is a short but well-known questionnaire which consists of 10 items and which is widely used to measure self-worth when investigating emotional and behavioral problems among adolescents. The items mainly refer to self-respect and self-acceptance and are answered using a 4-point scale ranging from 1=strongly agree, 2=agree, 3=disagree, 4=strongly disagree. For items 1, 2, 6, 7, 10 scores are calculated as follows; Strongly agree=3 points, Agree=2 points, Disagree=1 point, Strongly disagree=0 points. Items 3, 4, 5, 7, 9 are reversed in balance; Strongly agree=0 points, Agree=1 point, Disagree=2 points, Strongly disagree=3 points. The scale ranges from 0-30. Scores between 25 and 30 suggest high levels of self-esteem. Scores between 15 and 25 suggest normal levels of self-esteem, while scores lower than 15 suggest low levels of self-esteem.

## Results

Descriptive data of this study showed that an average Facebook user had 151-200 Facebook friends and spent 31-60 minutes daily on Facebook. Based on gender differences data show that males ( $M=4.10$ ,  $DS=.53$ ) have higher self-esteem levels than females ( $M=3.85$ ,  $DS=.70$ ). No significant differences have been reported as regards education level.

Through this study we aim to prove there exist any links between Facebook use (time spent on it, number of Facebook friends and its integration in the daily routine of users) and self-esteem. Data showed that self-esteem and any other component of Facebook Intensity Scale are negatively correlated. Time spent in Facebook,  $r=-.32$ ,  $p<.01$ , number of Facebook friends,  $r=-.20$ ,  $p=.05$ , result in a negative correlation with self-esteem, suggesting that time spent on Facebook and number of Facebook friends are linked to low levels of self-esteem. The lower the self-esteem, the bigger is the number of Facebook friends and the longer the time spent on social networks.

Other items of the questionnaire such as Facebook is part of my everyday activity,  $r=-.36$ ,  $p<.01$ , I am proud to tell people I'm on Facebook,  $r=-.29$ ,  $p<.01$ , Facebook has become part of my daily routine,  $r=-.39$ ,  $p<.01$ , I feel out of touch when I haven't logged onto Facebook for a while,  $r=-.45$ ,  $p<.01$ ; I feel I am part of the Facebook community,  $r=-.07$ ,  $p=.60$ , and I would be sorry if Facebook shut down,  $r=-.35$ ,  $p<.01$ , are all negatively correlated to self-esteem.



## Discussion

Witnessing the spread and the effects of using social networks, this study aimed to investigate whether a correlation existed between Facebook use and self-esteem. Gathered data suggest that a negative correlation exists between Facebook use and self-esteem, which means that individuals who spend more time on Facebook display lower levels of self-esteem. The reverse is also true.

These data comply with those obtained from the study of Amichai-Hamburger & Vinitzky (2010). People with a low self-esteem try to make up for the absence by searching for more friends on social networks, as a way to develop a feeling of belonging and increase popularity.

The study by Ellison, Steinfield, & Lampe (2007), demonstrated that people with low self-esteem find it easier to make new friends and communicate with them through Facebook rather than through face-to-face contact. On one side this can be seen as having a positive effect as it eliminates barriers to participation and enables shy users to interact with other people online. While those with high self-esteem, use Facebook less to add to their social capital. However, they use Facebook to maintain their existing friendships or close relations.

The data from the study by Tazghini and Siedlecki (2013), suggest that people with self-esteem tend to find others' posts boring, which may be explained by the fact that this category gives little importance to Facebook interaction.

Another result from the study suggests that males display higher levels of self-esteem than females. This could be explained by the idea of body image, which is more pronounced among females.

The theory of self-objectification describes the way women epitomize the female image on media and then reflect it towards themselves. On Facebook this can be observed through posting of pictures, receiving or not the approval of others in the form of likes and comments (Meier & Gray, 2014).

Furthermore the theory of social comparison points to the natural tendency that people have to compare themselves with others. Females tend to compare themselves with weak, unreal images from the world of media as often as they compare themselves to their peers. The frequent comparison of females in terms of their appearance can lead to dissatisfaction with their bodies. In a study Myers and Crowther found that individuals involved in social comparisons report higher levels of dissatisfaction with their bodies, females especially. The data are backed by the study of Wilcox and Liard (2002), which found that females who tend to compare themselves with the images of weak women displayed low self-esteem.

## Conclusions

In conclusion it could be said that this study makes a contribution in understanding the use of social networks by young people within the Albanian reality. The results obtained are only a first step in understanding the problematic, while further studies need to be carried out. Of particular importance are studies on prevalence to investigate the spread of the specific problematic at population level, and to inspect how self-esteem levels vary depending on Facebook use, etc. Finally, identifying protection and risk factors is extremely important especially within the context of developing specific intervention for the prevention of psychological effects, but not only (e.g. eating disorders) among adolescents and young adults.

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# The best techniques and strategies for foreign language acquisition; a case study at the European University of Tirana

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## Abstract

*Teaching is considered to be one of the most important aspects for the future of the human beings. What is really important is the fact that teaching is an art based on techniques and strategies. The aim of this paper is to study the appropriate techniques and strategies on foreign language acquisition. To achieve this aim I made a survey at the "European University of Tirana". The sample was 100 students of the BA Degree and three English Lecturers. The instrument used was questionnaire for student and semi-structure interview for Lecturer. The results are based on Descriptive analyses. Lecturers say that based on their practice the best way of a foreign language acquisition is through communication. They also stressed the fact that they should co-relate four skills for an effective class. The most important finding was related to the students. According to them the main way to acquire the English language was by writing.*

**Key Words:** Strategies and techniques; Lecturer; students; communication; writing

## Teaching Skills

### Teaching writing

While speech has a greater range of non-verbal means to express meaning writing will need a greater accuracy as no immediate feedback is given to the writer. Writing is more precise and it should be more accurate than speech. Bergstrom (1982) claims that: As someone who teaches composition regularly and who is always aware of and interested in his students writing, I have come to think that the most serious problem students have with their writing is a general inability to structure their thoughts with logical clarity. There are various stages of writing. At the first stage writing is a mechanic process during which all the technical aspects of writing can be acquired. The second stage of writing can be called teaching composition which practically means individual creative work.

Some methodologist thought that writing is only a practice of grammar. It was the first step in teaching writing when the focus of teaching English fell from the result of writing to the process of writing. By the 90s it had been achieved that language teachers accepted that writing was a very complex thinking process which could be taught and learnt but it had to meet a lot of requirements. The teacher is supposed to provide students with techniques making it possible for him to meet modern demands.

Teaching writing teachers are supposed to keep the principle of graduality. Writing can be considered as free or expressive writing which mean writing compositions in which a language learner can use the language code with necessary awareness and for a certain purpose. (Keith. Pritchard, Roesch) (2006) define stages of teaching writing.

1. Controlled - controlled writing activities are copying and dictation. It is a good idea to use copying in a way which encourages students to think. Teachers are expected to choose texts either for copying or for dictation which are

relevant and interesting. Copying is a challenging task during which the teacher writes a word or a sentence on the board, gives the students a few seconds to look at it and sees if the students can write it down.

2. Dictation is a very safe type of exercise to keep the language elementary and simple. For beginners dictation should be short and interesting.
3. Semi-controlled – fill-in exercises are useful activities, especially at the beginner stages. They do not require much active production of language, since most of the language is given but they require understanding. The purpose of this stage is to make students practice spelling and learn new vocabulary.
4. Free-Free writing activities are to be prepared with warm-up and pre-writing activities. Pre-writing activities can be reading about the subject. Students are asked to write down all the words and the expressions they can think in connection with the topic. Picture descriptions or writing a report or an article can be a very good exercise. But before dealing with the exercises teachers should give explanations of words and expressions.
5. Expressive/creative – this type needs a lot of creativity and imagination. Students can be asked to write a short story, or an article based on their previous experience

## Teaching speaking

Writing and speaking belong to the output stage of language teaching process. When students are working on their language production they are operating towards communication. Language production means that students are supposed to use all part of language at their disposal to achieve a communicative purpose.

Brown (2007) believes that students should focus on both fluency and accuracy. Of all the four skills (listening, writing, speaking, reading) speaking seems to be the most important as people who know a language are referred to as „speakers“ of that language. Traditional classroom speaking practice often takes the form of drills in which one person asks a question and another gives an answer. The questions and the answer are predictable and often there is a correct alternative.

The purpose of asking and answering the question is to demonstrate the ability to ask and answer the question. Students think that the ability to speak a language is the product of language learning. To create classroom speaking activities that will develop communicative competence, teachers need to incorporate a purpose.

Teachers help students develop speaking skills by making them aware for the different situations so that they can predict what they will hear and what they will need to say in response. The importance of speaking has always been recognized but the various methods put different emphasis on it. (Keith. Pritchard. Roesch) (2006) believe that speaking can be developed through many sub-skills:

1. Organic basis of skills (articulation) – from sound formation to accurate respiration.
2. Rapid speech – to achieve fluent speech at the required speed
3. Parts of speech – for a speaker it is necessary to have language competence including the categories mentioned above.
4. Collocation – a competent speaker has to be aware of the collocations used in the target language.
5. Stress, intonation – belong to the pronunciation close to that of native speakers where learners are supposed to acquire.
6. Speech functions – students are expected to be aware of language patterns used in various communicative situations such as greetings, introduction, etc.
7. Gestures, non-verbal means – a person who wants to communicate, is supposed to use non-verbal means as well such as facial expressions, gestures, etc
8. Compensation strategies – while focusing on developing speaking skills teachers are expected to prepare students for compensating their lack of knowledge in the act of speech.
9. Coherence – if the speaker wants to deliver a speech, he is expected to connect the sentences and the paragraphs to make the text cohesive.

Speaking goes on according certain rules and time limits. Speakers use certain strategies to overcome their difficulties.

## Types of speech

According to the persons participating in the act of speech we can distinguish three types of speech: monologue, dialogue, discourse. In a monologue there is only one participant; the person speaking about something or presenting something. In a dialogue there are two participants; a person giving information and the other person receiving information. In the discourse there are more than two participants talking about the topic. Also it is mention various types that students use. Mostly they use:

1. Questions-answers – students are expected to distinguish the differences between the given texts, pictures, etc.
2. Imitative performance (repetition) – in this case the procedure is to listen and repeat what is said.
3. Intensive performance – in this case the process is by reading aloud.
4. Extensive performance (monologue\_ - retelling a story
5. Drama activities – the students are asked to listen and participate.
6. Role play – this means repeating the words of certain characters in a story and at the same time means to add something new

7. Simulation – is a problem – solving activity in which several students can take part.
8. Memory games – this activity is very important for developing students thinking.
9. Debates – students can be prepared for arguing for and against something.

Words may have different meanings depending on the context. Teachers have to teach only one meaning at a time. We can say that students know the meaning if they understand it in context. Sometimes words have meaning in relation to other words. Students need to be able to produce the word in the right way, they need to be aware of how the meaning is expanded depending on how the word is used. English words can be used both as nouns and verbs which makes it a bit more difficult to teach which part of speech they belong to. Sometimes learners are embarrassed or shy to say anything when they do not understand another person or when they realize that a conversation partner has not understood them. Teachers can help students overcome this problem by assuming them that misunderstanding and the need for clarification can occur in any type of interaction. By encouraging student to use clarification phrases in class when misunderstanding occurs, teachers create an authentic environment within the classroom. As they develop control of various strategies students will gain confidence in their ability to manage the situation.

## Teaching reading

Reading is the fundamental skill upon which all education depends. Indeed the future success of all students relies upon their ability to become proficient readers. Reading is about understanding written texts. It is a complex activity that involves both perception and thought. Learning to read is not natural or easy for most children. Reading is an acquired skill. It consists of two processes: word recognition and comprehension.

Word recognition refers to the process of how written symbols correspond to one's spoken language. Comprehension is the process of making sense of words, sentences. Dilbeck (1995) believes that modeling reading for my students helps them see the strategies that I employ while reading<sup>14</sup>. Readers typically make use of background knowledge, experience with text and other strategies to help them understand written text. Moreover teaching reading requires considerable knowledge and skill acquired over several years through practice.

Children's interest in reading must be stimulated through regular exposure to interesting books and through discussions in which students respond to many kinds of texts. For best results, the teacher must instruct most students directly, keeping in mind the purpose of reading. She must interpret errors give corrective feedback, select examples to illustrate concepts, and explain new ideas to several ways. Reading happens too fast. We read, but we cannot watch how our mind makes sense out of print. The linkage of sounds and symbols occurs very rapidly and unconsciously. Because our attention is on meaning we are not aware of the code translation process by which meaning is conveyed. Until we are faced with a class of children who are learning how to read symbols that represent sounds and word parts, we may never have analyzed language at the level required for explaining and teaching it.

Similarly we may not know how a paragraph is organized or how a story is put together until we teach writing to students who don't know how to organize their thoughts. The teacher must be reflective and knowledgeable about the content they are teaching, that is its relationship to meaning. Research has shown that good readers do not skim the text. They process the letters of each word in detail.

Learning to read is an important educational goal. For both children and adults, the ability to read opens up new worlds and opportunities. It enables us to gain new knowledge, enjoy literature and do every day things that are part of modern life such as reading the newspapers. People deals with different aspects of reading that are important in the planning of the materials.

Rosenblatt (1978) views the reading process as a unique event involving the reader and text at a particular time. The context of learning is also important. For instance, children and adults who are learning to read in a language different from their native language will also need to learn about the culture of the second or foreign language.

Because texts are written with a specific audience in mind, cultural knowledge is present in texts and it assumes that the reader is familiar with such knowledge.

There are many practical applications like:

- Teachers can provide opportunities for children to develop their language through story telling.
- Students should be encouraged to use language to express themselves while learning about books.

Class dictated stories make use of children's oral language with the help of the teacher. First, the students tell a story in their own words. The teacher writes this down on the blackboard and then reads the story back to them. Students take turns practicing reading the story as well.

For older students learning to read in a second or foreign language, developing proficiency in the target language is very important. This means having opportunities to speak and use the language extensively. Teachers can develop students reading skills through a wide variety of activities, such as the use of poetry for example, that draws students' attention to individual words in the language. They can focus on individual syllables and sound in language in the context of book reading. It does not have to be taught in total separation from other reading activities. What is also important to notice in reading is fluency.



Fluency is important because it is closely related to comprehension. Fluency means being able to read the text accurately, quickly and with expression. Fluent readers can do this because they do not have problems with word recognition. As a result they can focus on the meaning of a text. Fluency also depends on the ability to group words appropriately during reading. This means, fluent readers recognize words quickly, but also know where to place emphasis or pause during reading. The reader must construct meaning from the recognized words. Guided practice in reading generally increases fluency. To assess fluency, teachers need to listen to their students reading aloud. They should provide feedback to the students about their reading. They also need to determine how much is understood. The reading of text will encourage fluency if the texts are interesting and meaningful to the reader. Repeated reading and paired reading are examples of activities that promote fluency through practice.

## Teaching listening

Listening is the language modality that is used most frequently. It has been estimated that adults spend half of their communication time listening. (O'Malley, Chamot, Kupper) (1987) view listening as an active process in which individuals focus on selected aspects of input, construct meaning from passages and relate what they hear to existing knowledge.

One way to do that is to use a simple dialogue. First, students could listen for the main idea. Listening for main ideas means that the listener wants to get a general idea of what is being said. The details are less important. We sometimes need to listen for details. For example we need the details when we are getting directions to some place, like a friend's home.

A third important reason for listening is listening and making inferences. Speakers do not always say exactly what they mean. That is, important aspects of meaning are sometimes implied rather than stated.

Presenting listening for main ideas, listening for details and listening and making inferences helps students to develop a sense of why they listen and which skill to use to listen better. Teachers can ask students to focus on their reason for listening each time they listen.

The idea of knowing the purpose of listening is a very effective strategy to teach because it helps students organize and reflect on their learning. If students know what they are listening, they are more focused. When we think of listening we have the tendency to think of students listening to a recording. They overhear other people talk and then

Participate to the conversation. This can be considered important because it allows teachers to notice the progress the students are making on listening skills.

## Strategies and teaching techniques

We face many problems working with children and youth. Providing them with feedback is considered very important nowadays. To realize this task teachers need to have effective strategies and techniques. It is important to mention that techniques and strategies have changed over time. Different teachers use different techniques to make an hour effective.

According to Meador an effective teacher is the one who identifies the characteristics of effective hours, the one who understands why children misbehave and identify effective strategies for dealing with student misbehavior. He/she is also able to identify techniques and strategies for an effective learning.

Greive (1992) mentions the above strategies to follow:

1. The effective teacher establishes a good control of the class. She knows exactly what to do in the right moment.
2. Does things right. She pays too much attention to the whole class and is concentrated to every student who is talking. She clarifies every misunderstanding that may occur during the lesson.
3. Exhibits positive expectations for all students.
4. Establishes good classroom management techniques
5. Works cooperatively and learns from colleagues
6. Designs lesson for students
7. Realizes that teaching is not a private practice
8. Is flexible and adaptable
9. Understands the process of learning
10. Teaches with proven research – based practices
11. Knows the difference between an effective teacher and an ineffective one.

**Some general strategies that are suggested for the teacher by Weimer (2009) are:**

In the first day she introduces herself, she should stay away from the predictable (good morning, we talked about, etc.) instead:

- Begin with a provocative question or current event.
- Ask someone in the class to summarize what happened in the last class.
- Set up a problem the promise that they will be given a solution by the end of the class.
- Plan a lecture to cover less than the entire period. Usually questions take up more time than teachers expect.

- Decide what is important, essential, and what is helpful. Be conversational, be yourself, speak naturally.
- Use gestures to emphasize points. They consider gestures to be a mirror of their voice. Repeat critical points if it is necessary.
- They use their voice to underline important points. Pause before new points
- Look at the audience.
- Try out in your class techniques that she admires in others.
- Ask students to consider issues with the person sitting next to him/her. Then she discusses with the whole group.
- Use the board if necessary.
- Answer questions as directly as possible.
- Ask students to spend the last five minutes to write down the most important things they learned.

### **Another important point to mention is the classroom management. What is a classroom management?**

Classroom management is all of the things that a teacher does to organize students, space, time and materials so that instruction in content and student learning can take place. This method includes teaching expectations, that means what, how, and when expectations will be taught. Weimer mentions two major goals involved.

- To foster student involvement and cooperation in all classroom activities.
- To establish a productive working environment.

Some strategies that (Sarosdy, Bencze, Poor, Vadnay) (2006) believe that teachers should consider are:

- Connect the material given to previous situations, give background knowledge.
- Develop questions that seems interesting for the students
- Make predictions about the topic of the lesson.
- Build new understandings about questions and hypothesis.
- Communicate new ideas, and apply understandings to a new situation or context.
- Reflect on one's own process of learning.

When teachers find tools to increase motivation, they will also find solutions to behavior problems. According to Mendler (2000) under the assumption that every student who is able to learn, will be motivated when adults treat them with care and respect. A teacher can motivate students who don't care by applying five key aspects:

- Emphasizing effort.
- Creating hope
- Respecting power
- Building relationship
- Expressing enthusiasm

Goal setting is another important strategy. Goal setting can be used to motivate students in all aspects of their lives. Students can develop individual goals and group goals. There exist six steps to make goal setting successful:

- It starts with the choosing of a specific or certain goal and then documenting it.
- The next step is to define the time when the goal will be reached. Setting the time requires energy for the goal to be reached.
- The third step is to develop a plan to reach the goal. In this case students identify their obstacles, recognizes specific things they need to achieve, etc.
- The student should then work hard and the teacher must provide positive feedback and encouragement so that students feel a self-esteem.
- The fifth step is self-evaluation. This step identifies effective practices of their experience
- Expressing enthusiasm is the last key aspect for strengthening student motivation. Teachers should express and share their love for the subject to capture the student interest. When a student is interested, they become more motivated in learning.

The presence of humor in a classroom can be very beneficial. But sometimes humor in the class is not seen in the positive way. Not all humor can be considered appropriate

What is important to notice is that teacher who plan instruction based on the student performance and interest level meet with the needs of the students. Since students read at different rates, the teacher plans or gives different opportunities for the student. Based on the knowledge of the student, it is possible to offer alternatives to a student or a small group of students who have mastered the material faster than the rest of the class. These students can study the concept on a deeper level or apply the concept in a different way. Students who don't have this ability on this knowledge or skills need the teacher to give them time to learn the material once more in order to build the new piece. What should an effective teacher do is: expect students

to do their work, and not to accept excuses, make sure that every minute that passes the student is learning, plan for a variety of activities, use time well in the classroom, identifying clear lesson and learning objectives while linking it with activities, etc. Using a variety of classroom activities can be considered as a beneficial and effective way, because it enhances students learning, says (Vygotski. Hanfmann) (2012):

- In a “warm” classroom students are deeply involved with their work.
- Students know what is expected of them and are generally successful.
- There is little wasted time, confusion.

## Methodology

The methodology belongs to a quantitative and qualitative data collection, which aimed to measure the appropriate techniques and strategies for an effective class. The study helped gather quantitative data from a large sample of students and facilitate the comparison of data. For conducting this study I used a variety of methods, starting with the study of various studies on the subject, and with the use of questionnaires to students and semi structured interview with Lecturers at the European University of Tirana.

Sample: For the collection of the data about the appropriate techniques and strategies for an effective class at “EUT”, it is pursued in the following way:

Once decided the topic, I decided the University, at the city of Tirana, intentionally, because I had access to fill out questionnaires. The Questionnaires are handed at “EUT”. There were chosen 100 students and 3 lecturers.

After, I chose the number of population  $N = 100$ , I decided the number of questionnaires that will fill out. Based on the formula, with the number of population 100, a margin of error of 5% and 95% confidence level, sample size is 95.

Thus, the number of students who have responded to questionnaires was 95.

The sample that I used in this study is intentional (random) sample, as when I went to University to fill out the questionnaire, I asked students who were there and who full fill the following criteria:

- Students who are studying English at University

The Target-group of respondents, as I have mentioned above, were Students at “EUT”. The reason I chose students of “EUT” is because it is a university and students are from different cities and most of them have studied English which means they are part of another culture and can use different techniques and strategies. I also used semi structure interview with 3 Lectures. I interview the whole target at the university. Implementation of the data collection was conducted during May 2016 and consisted of:

- Identification of the institutions where I will gather the data.
- Implementation of data collection.

Instrument: Questionnaire/ Semi Structured Interview- the questionnaires that are used for teachers and students are questionnaires prepared, so I do not build it themselves. Their answers are:

- Liker-type Yes/ No Question.
- Circle the best option.

## Findings and discussion

### According to lectures grammar/communication reinforces vocabulary

Most of the lectures believe that this was a good method for strengthening students’ capacity of learning and vocabulary reinforcement. Some of them used this kind of method, and they found it a good method to reinforce vocabulary.

### According to students writing skill/Essay reinforces vocabulary

Most of the students believe that essays reinforce their vocabulary, provides original materials of the usage of language.

### According to my opinion writing skill reinforce vocabulary because it helps you to remind new words.

Lectures say that using different examples for teaching techniques do not always provide a real process.

Most of the Lectures believe that the usage of different techniques in each class do not always provide a good way of teaching. They are supposed to be focused more on techniques that rely on reading skills and fluency. It focuses more on the way students uses the language and how fast do they speak that language.

I think teachers should use different techniques and include all the skills four an effective class and to develop four skills not to focus on two of them.

Reading skills help students to acquire a foreign language.

Half of the teachers believe that literary texts develop reading skills. Of course this is an effective way of making students read more about something. The more they read the better they become, not only for the foreign language they are learning but also intellectually. Most of the students find really interesting the idea of reading text in English. According to them it helps a lot to learn vocabulary and become fluent in expressing thoughts in English.

### **According to my opinion reading skill helps students to learn a foreign language.**

English Plays

I notice that most of students didn't like poetry at all, most of them have read stories, and also a few had read novels.

To the eighth question only three of the students declared that have read poetry, Shakespeare the rest, did not. As it regards to the stories, one had read "Embrace the Night", another one had read "The Rich", someone else "The Observatory", "The Count of Monte Cristo". In total from 70 students fifty of them have read stories. For the novels, three of them had read "The Picture of Dorian Gray", another one "dollhouse", two of them had read "Romeo and Juliet", "Dead Man don't ski", "Juliet joins the Guide", "The Vow", "Shopaholic", "Street children", "Dear John", "The Vampire Diary"

### **According to teachers some techniques helps students to reinforce speaking**

Most of the teachers say that different activities help student to reinforce speaking. Most of them believe that different games and role-playing help students to acquire speaking.

Half of the students find more interesting and are attracted most by DVD. They believe that this activity makes speaking more interesting and easier.

I share the same opinion with the teachers because role-playing is a really effective activity to develop speaking.

More than half of the students wanted to read addition material in class because it improves their English and helps them to expand their vocabulary and improve grammar. They think that Lectures should share their materials in order to create vitality.

I share the same opinion with students. It is necessary to share materials and opinions to create vitality.

## **Conclusion**

What is important to mention is that, without education society as a whole would gradually fall apart. Considering the importance of teaching I focused my paper on the strategies and techniques of teaching.

In the research paper I have included many strategies and techniques which I consider them as vital for an effective way of teaching based on the most well known authors which shares their opinion about the process of teaching, and recommend some strategies and techniques for the lectures to follow.

Teaching strategies are methods used to allow learners to access the information the teacher is teaching. Some of them are: the lecturers should establish a good control of the class, which means to create a positive atmosphere where all students can feel free to express their own opinion, decides what is important, essential and helpful for the students, that is, considering what materials attracts their interest, involving so the most interesting topics and at the same time meaningful.

The questionnaire realized made me able to understand the best way (techniques and strategies) for the foreign language acquisition. A lecture has many and various responsibilities but a productive a productive teacher isn't someone who only gives facts, but increases the desire to learn and become continuously more productive. A lecture's job extends beyond his/her content area.

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# PANEL 3

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UET - MAJOR RESEARCH PROGRAM / INNOVATIVE ALBANIA 2015-2020

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RP / **LAW BETWEEN EFFICIENCY AND JUSTICE**

Prof. Asoc. Dr. Selami Xhepa



# Food trade efficiency measurement and development in a retail environment

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## Abstract

*Efficiency is a key parameter in business competitiveness, contributing to retail competitive advantage and success. The application of a marketing controlling approach supports the identification and development of organizational processes and corporate efficiency. The main aim of this paper is to explore methods of measuring efficiency in food retail practice. Further targets include delineating the role of the customer in efficiency-related decisions, and examining the opportunities for connecting consumers and enterprise skills. The research uses qualitative in-depth interviews to reveal the tools and purpose of efficiency measurement, facilitate the analysis of practice, and propose strategies for further development. The outcome of the research relates to recommended planning, methods of evaluation and opportunities for development. It also contributes to creating a better understanding of commercial processes and identifying value co-creation factors. However, the internal and external environment and other endowments also influence the strategies of any given retailer. Keywords: marketing metrics; marketing controlling; food retail trade; customer-dominant logic; grounded theory*

## Introduction

Business success is determined by the market and the customer, thus their inputs into planning involve enterprise development. Co-creation and the opportunity to connect consumer competences with corporate capabilities during the process of development can lead to the creation of knowledge about customer wants and needs, while shaping and refining business profiles in food business. Accordingly, this research employs a customer-dominant logic framework. Service-dominant logic (SDL, service-oriented marketing) is a marketing-related theoretical framework which can be used to interpret the relationship approach, resource integration and the creation of innovation (Colurcio et al. 2012), as well as the allocation of so-called operant resources which contribute to enhancing the customer experience, which may increase a company's competitive advantage (Arnould et al., 2006). Value co-creation for all company stakeholders, particularly "competing through service", increases competitive advantage (Lusch - Vargo, 2012: 109). In addition to SDL, the customer/consumer-dominant logic (CDL) approach awards a more prominent role to consumer evaluation. The consumer may participate in the co-creation process if they desire to; however, their perceptions are the main determinants in the evaluation of goods and services (Heinonen et al., 2010). The aim of this research is to highlight the connections between the competences of the customer, the manufacturer, and the retailer that create value throughout the retailing process. A further goal is to offer an analysis of competitive advantage in practice to provide a strategy toolkit for practitioners. In this framework, the research explores methods of measurement (marketing metrics) for evaluating efficiency.

## Literature review

In the food retail market, competitive advantage mainly refers to uniqueness, such as private labels for consumable goods (Ivanov - Mayorova, 2015) and intangible resources such as the core competences of a company and its added value, value creation and innovation, as well as its relationships (Colurcio et al. 2012, Matzler et al., 2013). 'Relationship' refers not only

to a company's place in the supply chain and its bargaining power with suppliers, but also to long-term relationships with customers. The ability to create customer experience is also an exclusive factor in a company's competitive advantage that is based on brand and service experience, and post-purchasing experience. These elements can be evaluated based on perceived customer value, potentially leading to an increase in profit and customer share-of-wallet (Klaus, 2014).

However, there is no single method which can be used to support business efficiency across the board (by applying the same processes and technology), as the capacity and scale of human resources are variable (Powell - Dent-Micallef, 1997).

Sustainability should be part of the retail strategy framework, or should even be integrated into strategy. Food retail companies are not making noteworthy efforts to improve their sustainability in Britain (Jones et al. 2017), and because of the nature of globalization and the existence of multinational chains (which have a presence in many regions), the impact of this can be felt in other countries too.

## Method

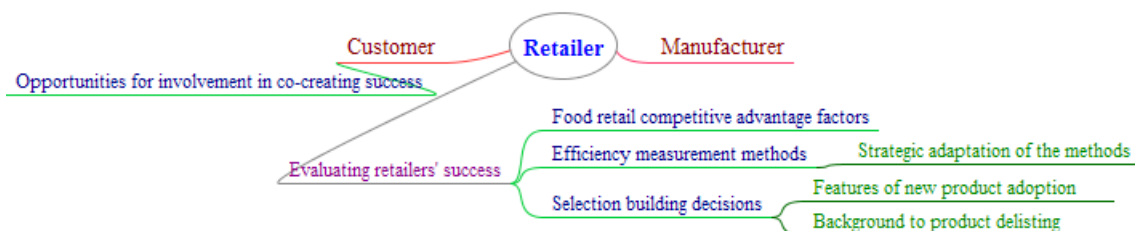
The research highlights factors involved in retail trade success and efficiency, which is why it approaches the topic from the retailers' point of view. The role of the retailer is within the supply chain, even though they are in direct contact with customers.

In line with the research objective, it is claimed that the indicators used to measure the effectiveness of food retailers, and thus their competitive advantage, can be determined through a qualitative research approach. Such qualitative methods may capture real decision-making processes and help create practical recommendations (Ardley, 2005). In this paper, the market success of a company is approached using success stories, on the one hand, and comparisons with competitors, on the other. The counterpart to success is failure, which highlights the consequences of default and draws attention to the risk of poor decision-making. Failure in this sector is determined by the underperformance of stock-keeping-units (delisting), which refers to the removal of a product from the shelves. The listing of a product does not automatically guarantee success, as the development of a range of products depends on a company's innovation capacity. An interesting research question is whether the involvement of customers can influence retailers' decisions and contribute to value co-creation. Grounded theory and content analysis are applied in the research described in this paper to ensure a qualitative scientific approach. Following the grounded theory approach, respondents' spontaneous responses to questions were coded and compared, (Strauss, Corbin, 2008; Miles, Huberman, 1994). An abductive approach is used to enhance the reliability of the research (Charmaz, 2006). After applying an inductive approach (forming categories after referring to on-site interviews) the abductive perspective was employed by conducting an assessment using the SDL and CDL framework. In the framework of content analysis, the research concentrates on exploring and understanding retail processes and decisions. Based on Kvale (2005), the validity of the research is supported by the formulation of the main research questions (which are in line with the research objectives), as follows:

- K1. What are the main factors in the competitive advantage of food retailers?
- K2. How do the food retailers perceive success?
- K3. How can efficiency be measured in practice?
- K4. What strategies are used with successful products? How can the door to success be opened?
- K5. How are the results of measurements applied, and in what areas?
- K6. How can customers be involved in co-creating success?

In accordance with these questions, the research was designed as depicted in Figure 1.

FIGURE 1.



Source: Author's construction using the mind-mapping software Free mind

Please note that outcomes are only hypothetical because of the sample size and the research method.

## Data

Ten expert on-site interviews were made with actors from the food trade industry between November 2016 and February 2017. A hypermarket, three supermarkets, a discount store, two regional store chains, two small stores, and one specialist shop were chosen as the objects of investigation. From these, three are situated in the Hungarian capital of Budapest, another three



in the area surrounding Budapest, and four were rural commercial units. Five men and five women (all store managers, except for in the case of one regional chain and a private shop, owners) between the ages of 32-56 years were interviewed.

The results of the research show that the freedom, competence and the decision-making powers of shop managers are significantly different in each case. In the case of national chains, operations are often centralized and measuring efficiency involves providing store data to central management, although stores often do not receive further information about how such data are being applied. Pricing policies, especially for larger quantities of products, are also centralized. In this way, the direct results of efficiency measures are limited.

Grounded theory promotes the parallelism of data collection and analysis in terms of the development of theory (Strauss - Corbin, 2008). The new issues which arose during the seven interviews undertaken in November 2016 were included in the next phase of the research in January-February 2017. Because of the qualitative research methodology used in this study, the results cannot be generalized and findings are tentative. However, they may be of use in future research efforts.

## Results

### Success as retailers perceive it

Retailers were asked to state what they thought was their company's greatest success so far. Using a global approach to success is undoubtedly a difficult task, so interviewees mentioned only a few all-round examples. In the form of milestones, they reported on a few major, memorable events: *"The greatest example of business success was clearly in 2008, as the company had the highest turnover in its history."* (regional store chain). *"In 2013, operating profit was positive."* (international chain). Success tended to be identified using specific and unique situations (including 'survival'), or by recent major achievements.

In addition to these examples, an increase in turnover, profitability and the number of customers, as well as an increase in the selection and scope of activities, the renovation and opening of stores, and overall vertical and horizontal expansion were evaluated as decisive events. *"I think our biggest success was that we were able to renew our store, [...] I cannot give more concrete examples."* (International discount store).

Designing market strategy based around a niche can also create a favorable situation for stores: *"Getting ahead is always a good, great challenge. [...] has become extremely popular in our country, so there is enough demand for new stores to continue to open. When we opened our first store on [...], we were the first [...] food retailer in the country. Since then, a number of shops have been opened across the country with similar profiles, and most of them have followed our example. It's a great success for us to open a second business in September ..."* (specialty shop).

Success can be evaluated with reference to operational processes as well: *"There are international standards for shop appearance: first end-of-aisle display (end-of-aisle display near the cashier). Better business model: good quality with aggressive pricing policy. Processes are well optimized: with few people working efficiently, stocks are always available (no empty shelves)"* (international discount). *"Every day we are better off, and I think it's a great success that we have increased our revenue."* (Hungarian chain).

### Food Retail Competitive Advantage Factors

One of the determining factors of retail competitive advantage that the present research examined was by what means a company could outperform its competitors. The defining characteristics of competitive advantage fundamentally differ due to the variation in store type, which itself is sometimes enough to create competitive advantage, as the results of the research indicate (Table 1). For example, in hypermarkets and specialty stores product range is a determining factor; although in almost all cases the uniqueness and renewability of product selection was highlighted ('renewability' refers to the existence of a wide variety of seasonal, continuously available, fresh goods - especially pastries baked on-site).

Competitive advantage among the companies under analysis may also refer to the existence of an aggressive pricing policy and a high level of workforce effectiveness. *"We have an enormous, seasonal supply, we try to keep the prices at their lowest as there are a lot of price-sensitive people in this county."* (Hungarian regional supermarket chain). Further advantages may include having an international reputation and high quality, although the latter is a less tangible category. *"We strive to provide quality products at lower prices, we place great emphasis on satisfying our customers."* (International discount chain); *"The most people served, and that everyone gets what they want. A regularly frequented location, and having shops that are normally rarely found outside settlements, as well as outstanding service."* (Hungarian regional supermarket chain). The latter refers to a quasi-monopoly situation in which retailers are sheltered from market pressure.

**TABLE 1.** Factors that influence competitive advantage in food retailing practice

Factor	Competitive advantage factor, relevance to practice
international recognition	customers trust the store and its selection of goods
high quality	service and quality of products are recognized

customer orientation	based on customer need, and affects range of goods
workforce efficiency	ongoing attempts to improve efficiency
assortment	unique, seasonal, fresh, especially pastries baked on-site
pricing policy	aggressive
communication	specific, targeted
service	unique, wide-ranging
location	spatial location of shops, local monopolies
portal, store atmosphere	high standard, clean
traditional values	shelf-space allocation, wide availability of products, "price labelling", "old school" (international chain); the last two factors were specifically mentioned in the interviews

Source: Author's construction

A unique and wide range of services, *"for example, shopping trolleys for the disabled and a quick cashier"* (international chain), location, and a discerning ("clean") environment (in terms of the design of the portal and store atmosphere) may also contribute to the development of competitive advantage. It can also be expedient to do business using traditional, commercial "old school" (international chain) values, which refer to market-following behavior, as well as making short-term profitable investments and considering factors such as "implantation, and price labelling" (international chain), including ensuring the availability of products, which is a prerequisite for meeting and satisfying consumer needs. Lack of product availability can mean that customers seek out other competitors' offerings - for example, in the case of inadequate substitution or high involvement purchases when the customer is highly motivated to obtain a particular product.

On the basis of novel marketing approaches (SDL, CDL), it might be expected that the most important component of competitive advantage would be customer orientation. However, there is a noteworthy difference between traders as regards their degree of customer orientation. While personal customer relationships appear to be the primary competitive advantage in the case of small and specialist shops, the larger companies focus on post-purchase process effectiveness and customer satisfaction. Rural stores emphasize the importance of personal relationships.

## Methods of Measuring Efficiency

Retailers are clearly differentiated according to whether they have IT support. Moreover, some retailers have appointed external companies who obtain and utilize customer information for them.

Revenue and turnover data were analyzed at almost each company in different levels of depth. Product sales are measured at all businesses which were surveyed, and at stores which use more advanced systems some data about sales traffic are examined on a daily, weekly, monthly and yearly basis. Daily turnover is compared with the same day of the previous year or similar average period. These data are complemented with additional information by some companies in order to more accurately evaluate the influence of commercial shopping situational factors. Data about the characteristics of the weather (e.g. temperature, precipitation) are collected on a daily basis, for example, as this may affect shop choice, time spent by customers in-store, as well as sales of certain products. In rainy weather, customers often shop at the nearest place, sometimes for longer.

Data about traffic is analyzed not only in terms of value, but in terms of unit sales over a certain time (product/hours, product/day, product/week, product/month, product/year, etc.). Sales volume is also calculated for groups of articles.

Turnover and stock returns are important indicators due to liquidity concerns. At some stores, the sales target is approximately 75% turnover within one week. The market share of a product category (as a proportion of the total revenue) of certain stores is also measured and of the total Hungarian market. This total metric is calculated by Nielsen, a syndicated research institute which collects turnover data from retailers and analyses it for them.

In addition to this, statements are prepared about traffic-margins, losses and costs on a daily, weekly, monthly and an annual basis. Waste reduces margins, so it is calculated based on gross sales (per cent) as a projected value (Description=cull/percentage of gross sales value).

Price sensitivity can be measured live in store, as a store manager reported. The number of customers is measured at all respondents' commercial units, as well as the value of the average shopping basket. These data vary considerably according to business type and geographical location, and range from an average of 20-40 customers on a daily basis at specialist shops, through supermarkets and discount sites which may have 1000-1200 shoppers, to hypermarkets with 7000-8000 buyers.

Interestingly, one important measure for food retailers in particular is the number of products processed by a cashier in a specified time (scanning average). More than fifteen products/minute is considered a good average. However, one interviewee emphasized that it was more important to care for customers and provide them with information about special offers than increase the speed of processing purchases. *"Somewhere, there is a very serious investment in terms of wages which should be counted as well. So, the success of a marketing initiative also means, for example, that we spend more on cashier time. I would like to ask our cashiers to initially pay attention to customers' souls and feelings, and then start working a bit faster if they see that three or four customers are standing in the queue, and when they are less busy, then to pay more attention to the buyer, to communicate to a greater extent, and so deal with sales promotions. So it's a bit more straightforward."* (International store chain).

The efficiency of the workforce is also measured relative to the number of products and to turnover (product number/working hours; turnover/working hours). Employee fluctuation is reported to be high in the capital and its agglomeration; therefore its extent, as well as health indicators, are used as methods of quantification to determine the size of the healthy workforce. Payment time includes a period of idleness when there is no need to use the tills, so a cashier can log out and engage in other activities.

An essential element of process control (monitoring) is stocktaking, which is done at almost every commercial unit. Stock losses (and gains) are generally tending to decrease because of electronic product-tracking and inventory systems, although losses are a major problem because they reduce retail margins and profits. Food retailers are increasingly often using card-based loyalty systems, but with variable depths of data analysis, and integrated into strategy at various levels, a fact which is dealt with in more detail in the next section.

## The Strategic Adaptation of Methods of Measurement

Data for loyalty systems are used differently by traders. Some interviewees indicated that maintaining loyalty is essential for creating long-term relationships, so in an increasing number of cases personalized coupons are being provided to regular customers. In addition to this approach, data may be relevant to other members of the supply chain and can facilitate collaboration, for example between product developers and manufacturers. Purchasing data is also used to enhance the effectiveness of product placement. The secondary placement of consumer baskets of commonly co-purchased products can also be used to encourage product sales.

Analysis of the demographic data of regular customers contributes to the more effective formulation of target groups and selections *"...55-60% of customers are pensioners, while their population in the catchment area is just 25-30%. The goal is to generate new customers, primarily younger ones, so [...] we are expanding our assortment"* (international chain).

Analysis of turnover data is undertaken by almost all respondents - even the smallest shops - for the purposes of procurement, determining order quantity, and in sales for defining prices. Larger companies mentioned that turnover data can be *"a compelling argument"* (international chains) when negotiating about annual and special purchase prices, but can also foster the development of private labels. Turnover data from stock-keeping-units can thus affect the development of the overall picture of the shelf, but this also requires negotiation with suppliers. These data are also used in communication to support products with a higher turnover, and to promote products with lower sales. The other previously mentioned factors are used to measure efficiency and viability.

Some retailers are trying to increase their sustainability, preferring to create and sustain long-term relationships. This approach means that increasing efficiency is not the only aim, but efforts are also made to improve relationships with sales personnel and customer satisfaction. As mentioned above, in this case, it is not the effectiveness of the workforce that is considered most important, but their attitudes towards customers and how carefully they deal with company promotions.

## Selection Building Decisions

### Features of New Product Adoption

Product listings and range of supply vary widely. New product adoption is usually based on the 'voice of the customer' (i.e. customer demand), but may involve analysis of a competitors' range, or be due to a manufacturer/producer's request to widen the product assortment, for which listing charges are usually applied.

In addition to these typical cases, it was repeatedly reported that the cost of products (*"cheapness"*, international chain) is a criterion which on the one hand refers to products of a less risky nature, but on the other may lead to higher margins for the seller. Successful internal product development ideas were reported in sales areas such as bakery products.

Some stores do not emphasize product launches but prefer to let customers discover new items in store. However, larger introductory campaigns were also mentioned in reference to introductory pricing and communication activities coupled with end-of-aisle and / or point-of-sales displays.

One interesting question, however, is whether successful or failing products should be located in well frequented store spots to encourage more traffic and dispose of stock which has accumulated. Respondents are more attracted to successful, discounted or seasonal items which are placed in end-of-aisle displays or at eye level, or in the cashier zone and isolated 'islands' in front of ticket counters. Discounts are primarily applied to renewable nonfood assortments at specific locations within a store where customers know to look for them. The area of a shop floor determines the possibilities. Some stores use secondary placement only in very rare cases, although the majority of respondents endeavor to do this, while hypermarkets commonly use between one and five specific locations for product placement at certain stock-keeping-units.

The most successful products are promotional products, private label products and cheaper FMCG products (e.g. low-cost beer), as well as seasonal items, and home appliances and chemicals that have been advertised on leaflets. Seasonal products are both preferred and expected. Based on respondents' feedback, the food market primarily attracts price-conscious consumers, although seasonal supply is able to stimulate demand. The research did not explore to what extent companies are built through a strategy of loss-leader pricing that attracts price-sensitive customers, to whom other products are then sold (cross-selling).

### Background to Product Delisting

Besides the obvious reason of poor turnover, the factors that lead to the destocking of a product and the factors that may cause a product to fail were also investigated. Tastes may vary in different districts and stores.

In the period under review, the following products were delisted: cane sugar, foreign wines, exotic foods (e.g. chickpeas), lactose-free cottage cheese, aloe vera drinks, bulbs, and books. Poor quality, low interest in a product, a lack of communication, and taste can cause a product to fail. Another problem may be packaging and presentation. In such cases, in the first instance profit margins are foregone and the products are sold at purchase price in order to minimize losses.

Interestingly, in some cases after a company engaged in a regional, multi-country sourcing policy, products were delisted not at the shop level but across an entire region (sometimes country level) so that a product was not stocked although customers were looking for it.

Data about the turnover of a given product should be combined with knowledge about consumer baskets. If customers with a higher basket level buy specific products in lesser quantities, such products should still be maintained as part of the selection in order to increase the level of satisfaction of these consumers with higher purchasing power, even if in extreme cases these products are always subject to discounting, *“...and it is hard to understand why they should be kept in stock”* (international chain). Expiration dates are treated differently in stores: in some cases they are assessed using software. For example, one company uses a strategy of stocking different products with a similar shelf life in close proximity, removing products from the range before the expiry date. However, this concept of freshness may lead to markdowns of 30% prior to expiry. In the case of a short date, products are placed in the cashier zone. One store chain applies no other incentives to move short-dated products than cashier zone placement. However, many business managers sell short-dated products at a discount and/or bulk discount (rebates). If stocks of the item in question are significant, other members of the chain store may be asked to help make sales, while in some cases it is possible to return products to manufacturers.

### Customer Involvement to Co-create Success

In summary, by building on elements of success and avoiding failure certain features can become part of the successful retail strategy. The main success factors can be classified into three categories through applying an abductive approach, in line with a service-dominant logic and customer-dominant logic framework (Table 2.):

- (1) Customer competences, demand characteristics;
- (2) Manufacturer competences, product characteristics;
- (3) Retailers' competence and activity.

**TABLE 2.** Features of Product Success

Determining Factors of Product Success		
Customer competences, demand characteristics	Manufacturer competences, product characteristics	Retailers' competences and activity
"Voice of the customer" Taste Subjective preferences, such as interest in specific products (market trends, fashion,...etc.)	Unique, seasonal products Quality Packaging	Selection-building (including private labels) Promotional price reductions Communication Presentation Secondary placement

Source: Author's construction based on in-depth interviews

The involvement of customer competences contributes to retailers' market performance, and thus success. Creating and maintaining personal contact can support the involvement of customer competences. This usually takes the form of conversations with the customer which are often initiated by customers who are searching for a product which is not located in an obvious position, or of which there is a shortage. These may be situations for complaint, but are also the most common way of obtaining information. *"We collect details about products which are searched for by buyers, but which are not included in their assortments. These lists are requested every few months in electronic form, but procurement (including product listings) is centrally controlled."* (international discount). In other cases, stocks are redistributed between chain members to meet the needs of customers. *"If a customer wishes to have a product, we contact other stores, and, if they have it, and the customer can wait, then we can bring it to them within two or three days."* (International store chain).

As reported in two interviews, surveys are used to collect feedback from customers about their opinions and satisfaction, but they generally neglect to ask for customers' ideas. However, one step towards more customer involvement is characteristic of smaller and rural shops: *"I spend a lot of time in the sales space and talk to buyers, resellers, and other people who are shopping with us, and I usually get information from them."* (Regional store chain). Another good example is accompanied shopping, which was mentioned in one case as part of regular analytical activity. Managers ask customers if they can follow them during their shopping experience, and then make a lot of valuable observations.



## Conclusion

In this paper the competitive advantages of food retailers were assessed based on a series of interviews. Different perspectives were employed in the analysis with a specific focus on practice.

Results show that uniqueness and differentiation are very important elements of retail practice, and may manifest themselves in the assortment of products on shelves and even in the strategies of retailers.

Food retailers continually endeavor to raise their level of efficiency, and also view success in terms of this indicator. Within this, turnover and workforce effectiveness play a prominent role.

Retailers focus on customer satisfaction, but there are only a few signs of customer involvement in marketing processes which could be worth enhancing in the future. Accompanied shopping may be an appropriate tactic for better understanding customer choices and obtaining more information about preferences.

The findings presented here can help contribute to the development of strategy and market processes in food retailing.

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# Transparency dhe competition in the banking system

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## Purpose

This paper argues that competition in the banking system has increased, many factors, among which the most important is transparency.

## Method

The method of analysis of respective data and the literature of the field. Competition in the banking system helps in good management of the banks and increases the quality of their services. Whether there is competition, and if it is strengthened or weakened, determined by interest rates on deposits and loans, as well as banking services that apply the second-tier banks. In case the cost is covered by additional income, interest rate increase due to asset growth, but whether the cost is not covered, the increase was imposed on banks due to increased competition. We will compare the differences between the some services (as interest rate for loans, deposits, etc.) that second level banks offers to clients, to judge for competition, if it is strength or not during last years. Are analyzed changes in banking legislation?

- The regulation of the Bank of Albania on the transparency.
- The decision to publish the official website of the Bank of Albania services costs, especially interest rates.

## The results

From the analysis for the years 2007-2016's, it appears that a healthy competition in the banking system, increases the quality of services provided, which helps strengthen the economy by reducing the cost of bank loans.

**The key words:** Banking system, A banking Competition, The Transparency, The Interest Rates,

## Introduction

Albania has a relatively new financial system, where banking system is the most developed financial service in our country, with a share of 94, 4% of the total financial services. This is a phenomenon of countries with emerging economies, which proves that there is greater reliance on the state economic development of the banking sector, by effecting from the households to the biggest investors and the government. As in any market, competition is an important aspect also in banking system. It affects the efficiency of the market and the variety and quality of products. But, as the banking system has great influence on the Economic growth and the development of a country, the level of competition definitely affects their performance too. The

main motive for the realization of this work is the great importance that the banking system, and competition in this market, plays in developing countries, including here Albania.

Competition policy in the banking sector is complicated by the necessity of maintaining financial stability. Greater competition may be good for (static) efficiency, but bad for financial stability. The issues regarding banking competition and its effects are of particular interest in transition countries, as bank credit there is by far the largest source of external finance for companies. This paper investigates the interrelationships among bank competition, efficiency and stability in Albania banking system and it compare with other transition countries. Initially had an increase in banking competition where the level of efficiency also has been growing and stability indicators have been generally good, but further intensifying competition has been associated with increased fragility of the banking system and reduced the level of efficiency. In the case of Albania the margin net interest as an efficiency indicator reacts negatively against the increase of non-performing loans degree. So, their levels and dynamics should be constantly supervised by policy-makers, assessing their implications and preparing the necessary measures.

The financial system, and in particular the banking sector, is the “heart” of good functioning of the free market economy, but also one of the most discussed issues in the conditions of a global crisis that began precisely from bank failures. Broadly today it is acknowledged that banks are a particular “business species” and the competition in this sector should be closely linked to the stability of the financial system due to the chain-leading consequences of bank failures in the real economy.

Marking the market structure from a competition perspective is indispensable to address competition concerns and its connection with the stability of the banking system. A series of works by different authors have come to the conclusion that the Albanian banking market is in monopoly competition? The essence of monopoly competition is related to non-price competition, which is not the price, but the product characteristics. So in this structure, the market competes with product differentiation rather than its price. Money has the same meaning, regardless of banks as in the case when it is considered as interest from deposits and when it is cost for loans or bonds / treasury bonds.

## Literature review

Several theoretical and empirical studies show that the monopoly position gives the bank the opportunity to invest and provide loans with maximizing interest rates on income. The particularity of the banking system is related to the effects of a market structure in the stability (Goodhart [1987a] and [1998]) and in the case of Albania, it is important the relationship between the market structure and the concentrations that have occurred over the years.

The high level of competition in banking markets is expected to secure growth through welfare through the reducing the price of financial services, thus accelerating investments and growth. Economists choose the competition, even because it stimulates market actors to be more efficient. Efficiency means achieving a more closed cost goal. This is quite important in a world of scarce resources. In the perfect competition, all opportunities are utilized to gain and allocate resources efficiently. These conditions encounter difficulties in reality so it is the task of economists to clarify how many deviations does the real world markets from the ideal and what are their social consequences.

Some research findings relate to the impact of banking system competition in the stability of the banking system and bank supervisory problems (from Allen and Gale [2000b] and Canoy [2001]). Pagano (1993) argues that market power allows banks to apply higher interest rates (and/ or securities) and lower interest rates on deposits, while Guzman (2000) confirms the negative effect of market power in the general equilibrium of capital accumulation. Other authors such as Petersen and Raian (1995) focused on the role of bank financing for new businesses, which have better access and lower interest rates, while it is now acknowledged that the degree of concentration of the banking system affects the access to business loans (Vives 2001).

In standard texts, firms with monopoly power set higher prices and produce less than the optimal amount of goods and services. Also, if they enjoy monopolistic benefits, their encouragement to rejuvenation tends to be lower than those of firms exposed to competitive pressure. Further, the exercise of monopoly power in a market deforms the allocation of resources to other markets.

However, observing the degree of concentration on banks is not sufficient to show how aggressive is the competition between banks and what interest on credit and deposits are unduly distorted by the exercise of market power. For example, Vives (2010) argues that the liberalization of the banking market and progress technological development has led to increased competition in banking markets but on the other side banks' restructuring has generally led to an increase in their concentration. However, it is likely that over time, other important developments in the industry of banking sector have influenced the development of competition. Shifting continuously on time from traditional, to more complex new sophisticated products, may have reduced competition. Consequently, the price competition in these markets is more limited than traditional trades.

The analysis of the effects of bank concentrations should also take into account other factors such as the level of development of a country, the business cycle, and so forth. Hughes (1996), in his empirical analysis, takes into account the correlation between liquidity and competition in lending. Empirical evidence suggests that a higher level of competition in the banking system leads to faster growth of other sectors of the economy relying on financing from the banking system (Claessens and Laeven, 2005). Deidda and Fattouh (2002) suggest that developing countries need a more competitive banking system to stimulate economic growth while Vives (2001) argues that a high competition in the banking system can lead to overtaking an excessive risk from banks, which increases the likelihood of bankruptcy.

Literature on the measurement of competition is divided into two main directions: Structural treatment and non-structural treatment. Structural treatment connects competition with concentration. Basically by Mason (1939) and popular by Bain in a series of publications in the years 1948-1951 is largely based on the assumption that the concentration weakens competition to strengthen cartels between firms. According to this, increased market concentration is associated with higher prices and bigger profits than normal.

Efficiency hypothesis, originally developed by Demsetz (1973) and Peltzman (1977) offers a competing explanation about linking the market structure to performance. This hypothesis shows that if a bank reaches a higher degree of efficiency than other market banks, its profit maximizing behavior will allow the bank itself to gain market share by lowering prices (Molyneux And Forbes, 1995). The market structure in this way is formed by the performance of the bank itself, so concentration is a result of the higher efficiency of leading banks (Vesala, 1995).

These indicators derive from the theory of industrial organization. One of the most important indicators to measure the competition in the banking system is the Index Of Herffindahl-Hirschman (HHI) and the Concentration Ratio (CR) of the largest banks; which appears more often, both in theory and in practice. It's the simple structure of these indicators and limited data requirements that contribute to this success.

The theoretical CR and HHI as a concentration gauge is derived from the linkage between the structure market and its performance (S-P).. These indicators are used almost in all empirical studies around the world to measure the competition of banks.

## Albania case

Generally, during the 1990s, the Albanian banking system represented a low level of intermediation, whereby the level of credit and payment system transactions through accounts at different branches of the same bank were at levels quite low. For this reason, money outside the banks was at very high levels. The privatization and licensing of new banks gave a more dynamic development to this market.

Even more dynamic after the privatization of the Savings Bank. The banking sector came expanding along with the expansion of the banking network with new branches and agencies. Geographic spread of branches is different for different banks, this is explained with the investment power, longevity in the market, also with the strategies they follow in the early years of their existence, etc.

This expansion increased assets, the level of financial intermediation and the quality of banking services itself. However, the galloping increase of the use of banking services in our country have been accompanied by acute asymmetry information problems, even more evident than in other European countries. New products which banks sell to customers are often complicated and unclear even to more informed customer, thus conditioning and hindering the decision-making related with the product or the bank itself.

Given that the financial system is dominated by the banking system, banks are the main channel for the transfer of funds from the lender to the borrower. Also investments are very sensitive to interest rates, the level of competition reflected in prices, quantities and types of products and services, which will definitely affect the level of investments and economic growth. The goal is to understand the characteristics of competition in our banking system and study the relationship between the level of concentration, competition and the level of interest rates in the banking market. Defining the characteristics of banking market will be fulfilled in two main directions: first, in describing the characteristics of the banking market, trying to see with which market structure it resembles the most, and secondly by reference to empirical studies held for our market as well as comparison with the region. By comparison with the region we found that in Albania operates a smaller number of banks and higher fees are applied. Also lending interest rates are higher than in the region, although the differences are not very large. Albanian banking system is more concentrated than the systems of most European Union countries; however, the concentration level is justified to some extent by the short lifespan of our banking system and its level of development, compared with EU countries. Economic theories of competition in the banking system study the linkage of the financial stability and its efficiency. From our observations, we have noted that the increase of the concentration was associated with increased efficiency (and vice versa). This finding supports the idea of efficient markets, whereby the concentration increase is due to higher efficiency. Also, a link between stability and competition was noticed, where the reduction of market power and the increasing competition, increased the undertaken risk by the banking sector, jeopardizing stability.

Many banks operating in a very small informal market, trying to get as quick as possible the access to a limited number of private businesses, which could reach the minimum requirement for the lending practices. This is typical for the bank competition in Albania especially during the first wave of the banking activity expansion. Too much cheap funds need to be lent, in order to make profit out of cost deposit from the banks. While the economy was over funded enough from other sources coming from remittances, donations, which altogether were far beyond the capacity of the market to absorb in the most efficient way. In this situation many banks which already had cheaper funds, especially of the foreign capital, put high targets on lending by competing with low interest rate, and parallel neglecting the basic principal in the lending practices.

Banking sector developments were also accompanied by foreign investments from Banks that have experience in foreign markets. At the end of December 2009, the structure of the capital in the banking system shows a large foreign capital participation in the mass of 92.3% of the system's capital. Analysis of the share capital performance over the years according to

the system banks, shows that the share capital weight of G3 and G2 groups has generally been growing against the weight loss of G1 group. So the differences tend to be even more profound over time.

Group G1 0-2% of total Active of sector	Group G2 2-7% of total Active of sector	Group G3 <7 % of total Active of sector
United Bank of Albania Veneto Bank International Commercial Bank, First Investment Bank, Albania Credit Bank Union Bank	Procredit Bank, Emporiky Bank, National Commercial Bank of Greece, Credins Bank, Societee Bank;	Raiffeisen Bank, National Commercial Bank Intesa-Sanpaolo Bank - Albania Tirana Bank Alpha- Bank

From the observation of the performance of CR3 and CR5 on assets, deposits and loans in the first years of the last decade distinguishes positive trends in the best distribution of financial resources and consequently also a better distribution of the assets among banks. However their values continue to be far from the optimum level of concentration and in recent years this tendency has stopped with the slightest tendency to grow, demonstrating a reduction in competition according to the traditional theory of industrial organization.

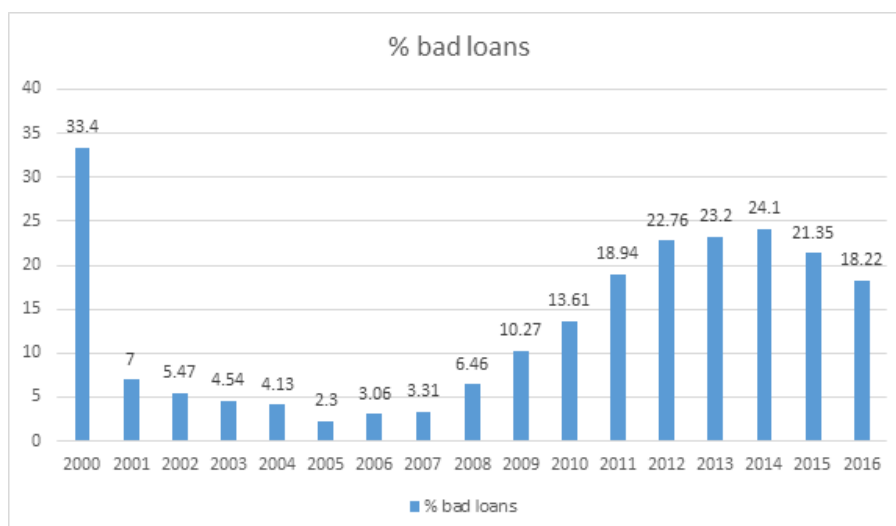
The highest values of these indicators are achieved in the treasury bills market, where Raiffeisen Bank has a weight almost as much as the weight of all other banks taken together. On the other hand, the share of Raiffeisen bank in securities is 54.8% which represents more than half, and the other 5 largest banks occupy 94% of the securities market, making this market a lot concentrated. From the point of view of the banking groups, it seems that big banks are trying to be further strengthened in the credit market (which appears as the less concentrated market) making this market even more concentrated as it is for the other products.

Compared with some of the Central and Eastern European countries, the CR5 indicator puts us in place close to the countries with the highest indicator and even higher is the difference with the countries of the European Union. So the concentration of bank assets and loans in some banks of the second level carries the risk of creating an oligopolistic environment where most banks with Raiffeisen leading plays the lead role in the market. Such a situation certainly leads to a decrease in well-being.

The fear that bankruptcy of banks may cause a systemic crisis has led to a high degree of regulation. Over the last few years, the banking sector has had sensitive adjustments such as: interest rate, payments and interest rate controls commissions.

The growth rates of non - performing loans are considered worrying for the banking system. The rate of non-performing loans / Total loans at bank level during 2007-2016 show generally a growing trend of them. The largest values of this indicator at the end of 2009 is a problem of these banks: EU, BR, BP, BBSH and BKG. The growth of non-performing loans in net terms was accompanied by increasing their share to capital indicators. Consequently, the system's ability to cover with regulatory capital potential losses from the loan result to be reduced evidently throughout these years.

**FIGURE 1.** The ratio of non-performing loans / total loans



Source: Bank of Albania

These 2 last years bad loans in the Albanian banking system increased to 21.35 percent of the total loan portfolio in October, according to statistics from the Bank of Albania. Bad credit has been increasing steadily since December 2015, reflecting both the bad quality of the portfolio and the not-so-inspiring performance of the real economy.

In December 2015, bad loans fell to 18.22 percent of total loans after a balance-sheet clearing campaign in which banks, upon request by the Bank of Albania, erased hundreds of thousands of euros of unpaid loans for years, moving them to the category of lost assets. But deleting bad credit did not end the problem as other loans fell into the category of toxic assets.

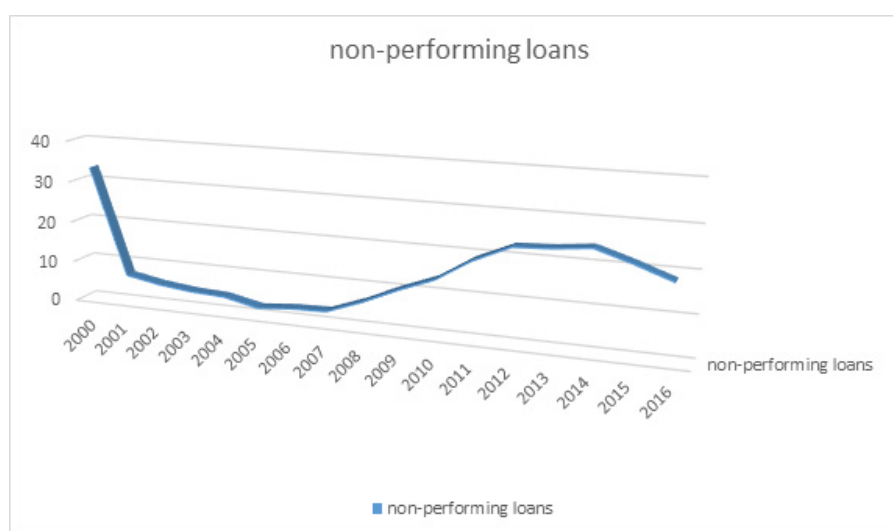
The problem of bad loans has been considered for years as the main obstacle to revitalizing Albania's economic growth and the government together with the Bank of Albania have undertaken several initiatives to reduce banks' risk of lending but the measures taken so far have been ineffective.

At the end of October, the portfolio of loans granted by banks was ALL 532.8 billion (about EUR 3.8 billion, of which about EUR 800 million were classified as bad loans).

Most of the bad credit in Albania is related to a limited number of large companies whose names are kept secret. Only 35 major companies are estimated to be responsible for more than half of the bad loans. Some of these companies have entered into mandatory collateral enforcement processes but have succeeded in dragging the procedures.

Although, before 2010 there was such a ranking where the second group had the worse portfolio. After that come G3 and finally G1, in the first and second semester of the year 2010 this ranking has changed and it is noticed that the first group banks have a stronger trend in the deterioration of the portfolio, while those of the third group continue with the same trend. Capital adequacy ratio seems more stable in time for the whole system and the banks of the G2 and G3 groups but not so for the first group banks. The same situation seems generally with regard to the financial leverage, where the decline of level leverage for the system is influenced by the G3 group. Non-performing loans and capital adequacy rate exhibit moderate value compared to CEE countries, pointing to relatively prudent policies of giving of credits. While the loan / deposit indicator for our banking system is still presented at low levels if compared to most countries in the region or countries European Union. The low rate of this indicator for Albania is associated with the simple structure of the resources of our banks, where deposits dominate. While the debt taken by banks at home or abroad is limited.

**FIGURE 2.** The progress of non-performing loans



Source: Bank of Albania

The Bank of Albania (BOA) has tightened supervision rules over banks as a result of the global financial crisis and the contagion risks posed by regional banks. In the fall of 2011, the BOA adopted new regulations on credit risk management and introduced several amendments to the Law on Banks that bolstered the independence of local branches from their international parent company. In 2012, local branches of two Greek banks were transformed into subsidiaries, in line with other foreign banks in Albania. Thus, Albania's banking sector has relatively low exposure to the Greek banking sector compared to other regional economies.

There are 25 non-banking financial institutions and four savings and loan associations in Albania. These institutions target medium sized businesses that are not primarily served by the commercial banking sector. They offer loans from \$1,000 to \$500,000.

During 2008-2010, the Competition Authority conducted a thorough investigation into the T-bills market, as the behavior of the largest bank of the system had changed after privatization. The bank inherited from the privatization process a dominant individual position in the treasury bills market, but this dominance declined year after year. During the analysis of the yield dynamics of treasury bills, a noticeable increase in yield was noted in the third quarter of 2006, which was the cause of this investigation. Unlike the investigative group's conclusions on abusing the dominant position of the bank by imposing very high fees as an unfair price versus cost, the Competition Commission did not evaluate as an abuse the predominant bank's behavior. According to the Commission's decision, from the analysis of the evidence on the factors that have influenced, the report ascertained that: (i) directly and systematically between the bank's participation or not and the dynamics of the yield change in auctions conducted during the investigation period (during the period in which the bank had significant market power). The bank argued that non-participation in auction, which was followed by yield increase, was due to lower deposits, credit growth and participation in 2-year bond auctions. These factors have led to a lack of liquidity, which did not enable participation and / or participation in the primary Treasury Bill market.



According to the Competition Commission's decision, "the commissions applied by the Bank for transferring funds from its account to the Bank of Albania are high. According to FSA data (for 2008), the Dominant Bank applies a 1.2% commission on the fund for individuals to participate in the primary treasury bill market, while other banks apply a 0.2% commission for the same service. "Thus, the bank applied tariffs 6 times higher than competitors for the same service, but according to the decision "it is not proven the potential abuse of the Bank in the primary and secondary Treasury bills during the investigation period. The decision cites that in the primary market "there are noticed high-level, unarguably high commissions from an economic point of view. The Bank has voiced some commitment, which will improve the level of competition and reduce costs for consumers. "

In some Albanian studies the banks that exercise more power are more efficient and manage to better manage their business by rejecting the hypothesis "quiet life" (though not strong). Such a link was also seen where the more active power-sharing banks were more efficient (but with differences in deeper powers than the differences in efficiency). On the other hand, the size of the bank is not statistically significant.

So, finally, the results obtained show that the growth of competition in the loan market has increased risk taking, but the impact on the overall level of banking stability is not clear. The result is encountered by various authors who believe that aggressive competition is more detrimental to the loan market, while at the level of the overall risk to banks is doubtful. Therefore, it would be necessary prudential policies regarding the loan market, while for the other products, banks need more incentive policies for competition.

## Conclusion

Banking market structure is oligopoly. Indicators that we analyzed show that their concentration level is high. The situation of the banking market dominance has caused some negative consequences. It has reduced the effectiveness of monetary policy of the Bank of Albania in the field of transmission the effect of interest rate. There have pursued policies BOA but the interest rates are set according to their policies and interests. So based on interest rates, which have decreased from 6.25% in 2009 to 2.5% in May 2014 are not associated with declining interest rates in domestic credit. They have remained high while quotas are cut deposits rates. In this way, the financing of the economy remains costly. Reduced effectiveness of the transmission mechanism of decisions on the economy and is hampering implementation faster pace of indirect instruments of monetary policy. Lowering key interest rates is not accompanied by increased inflation rate but is associated with decreased it. In this regard, the Bank of Albania has lost its control over the monetary market. This not only of concentration but also on the traffic in the form of deposits and loans of the euro dollar. They kept high costs of providing services to customers, not only high rates of loans and deposits lower commissions but also banking and other services. Recommended to gradually decrease the amount of credit in euros and dollars. Establish a wholly-owned agricultural bank in the state so that it can allow transmission effect.

The market concentration for deposits is higher compared to the history of assets and loans. Two banks account for more than 50% of the market for deposits. The long-term trend shows a decrease in the HHI (Index of Herffindahl-Hirschman) index in all three types of products, suggesting an improvement in market competition. Overall market status remains "moderate concentration" The conclusions of the studies so far show that the competition between Albanian banks is monopolistic, which means that banks in Albania differ from one another, focusing on different market segments and offering products with different characteristics within the same segment. According to this methodology, the competition of the Albanian banking system is of an average level.

The data presented in the yield chart versus the main bank's core market shares show a direct link between the weight loss of the main competitor with the significant fall in Treasury bill yields. It is understandable that there are a number of other variables that have affected the decline in treasury bill yields, such as the Bank of Albania's easing monetary policy, the decline in lending after the boom of some years ago (currently the new credit converges towards 0), the change of the main bank's investment policy to the foundations and the reduction of exposure to government debt instruments, etc. But since the fall of the main bank part of the system below 40%, which is the Theoretical bottom line for dominance, it is clear that the tendency of Treasury bill yields has fallen sharply.

As in the literature, in this paper we cannot say for sure what structure optimizes efficiency and stability. But surely we can say that: important is that the banking market should function in the most efficient way possible, so that social well-being which depends on it, to be in the maximum level. Regulatory policies should therefore choose the most efficient structure, although it would require more competition, as long as these policies are able to encourage banks to behave cautiously in any kind of structure.

## Recommendations to the Competition Authority and the Central Bank

Great costing and lack of competition, requires definitely fostering a competitive and open environment without any limitations unjustified ownership, inputs or exits.

As the analysis led to the conclusion that this market is dominated by few firms great leaders who play the role of the leader is also necessary to do the analysis as well to deeper into this market. Competent bodies, which have the possibility of receiving more complete and detailed data, should evaluate the possibility of abuse of the dominant position of these banks.

The methods of assessing competition or the efficiency of the banking market should be more than traditional and simple indicators.

Central Bank should promote a relative price reduction for financial services and growth productivity of the banking system as a whole.

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# The “state of welfare”, human rights and the duties of government in post-communist countries – the case of Albania

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Lecturer

## Abstract

*The paper “The State of welfare, human rights and the duties of government in post-communist countries - the case of Albania”, addresses the way in which the government should exercise its power to ensure that citizens have equal access to social welfare services, enjoying their rights. The role of government in post-communist countries has attracted the researchers’ attention since the beginning of transformation, from centrally planned to market economy. The cases of transition reforms in Central and Eastern European countries, including Albania have shown that the rapid process from the centralized to a liberal model cannot be realized without a strong and courageous intervention of the government.*

*Albania, like other Central and Eastern European countries experienced the past socialist system, which failed. The failure of the socialist system was the failure of the state: in political, economic and social terms. From a political point of view, it was a failure because the political power of the government was based on the oppression of human rights, dictatorship and authority. As far as economic policies are concerned, all data demonstrate the collapse of socialism, because the system was based on inefficiency, which eroded growth. Regardless the principles of communist regimes adopted in CEE<sup>1</sup> countries’ Constitutions, the past system did not bring neither equity nor justice, therefore rather than of “social cohesion”, the contradictions among social groups and categories, deepened.*

*Artur M. Okun<sup>2</sup>, less than a half century ago argued that “Although capitalism and democracy are really a most improbable mixture, maybe that is why they need each other – to put some rationality into equality and some humanity into efficiency”. Due to complexity of political, economic and social transition reforms, CEE countries needed “strong governments” to confront with “Pareto Efficiency Theorems” and guarantee their effective implementation. However, crisis, political tensions and wars in the region as well as poverty, social exclusion and corruption, force us to challenge some of our conventional theories on the state, society and the economy.*

*The radical nature and rapid pace of transformation in the former communist countries has unleashed new forces for both positive and negative change, particularly in the fields of economic growth and social development. After the failure of socialism, Albania embarked on the new path aimed at establishing democratic regimes through the protection of human rights and at raising the standard of living. Albania has been proactive in ratifying international conventions relating to human rights in general and to vulnerable groups. Very recently, on June 2014, the European Council granted Albania candidate status, as a recognition for the reform steps undertaken in harmonizing its domestic organic laws and legislation with international standards. As part of these twin obligations from UN intergovernmental and EU processes, Albanian governments after the 90s have been progressively taking measures vis-à-vis efficient allocation of resources and effective distribution of social welfare. Nevertheless, Albanian citizens live in a dire reality.*

*Albania remains one of the poorest countries in Europe with high absolute and relative poverty rates. The number of people living in poverty even increased from 12.4 percent in 2008 to 14.3 percent in 2012<sup>3</sup>, and extreme poverty rose from 1.2 percent in 2008 to 2 percent for both urban and rural areas in 2012 as well as child poverty from 18, 5 to 20, 1 percent. Despite the country’s*

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<sup>1</sup> Central and Eastern European countries

<sup>2</sup> Okun M. Artur, Equality and Efficiency – The big trade off (1975).

<sup>3</sup> CCA Albania, UN Country Team, 2015.

achievements in terms of economic growth, the benefits of economic development have not been evenly distributed. The country's Gini coefficient of 34, 5 (2013) is the third highest in the region and the pattern of the Gini index in the last two decades seem to be indicating growing inequalities<sup>4</sup>.

Albania also remains one of the most corrupted countries of the world and the most corrupted in the Balkans, together with Kosovo, ranked 110 out of 175 countries<sup>5</sup>. The October 2016 EU Progress report on Albania recognizes that law enforcement remains a particularly serious problem, whilst the politicization of public services, dominates the functioning of public administration at all levels of governance. Beyond lack of coordination and other management constraints, the existing monitoring mechanisms of social welfare policies fail to reduce social exclusion, especially among vulnerable groups, whose rights are neglected.

Therefore, after 25 years of transition, one of the main goals of reforms, “Efficient allocation of resources to boost growth and effective distribution of social welfare to enhance equity”, seems not to have been achieved. Undoubtedly, this influences the controversial opinions about the government's control vis-à-vis government's mode of functioning, advancing arguments that examine on whether it is a question of abuse rather than of concentration of power.

The paper is composed of four sections in addition to abstract. Section 1 explains whether Central and Eastern European countries need a government and of which type. Section 2 deals with the reasons why the government should intervene in CEE countries. Section 3 examines the Albanian experience, advancing some arguments which emphasize the crucial role that the government must play to ensure law enforcement, while the last section formulates some conclusions, tackling the multidimensionality of reforms as well as the shared responsibilities among all stakeholders, which again should be encouraged by the government.

**Key words:** government, human rights, welfare, transition reforms.

## Section I: Do the Eastern European countries need a government?

Whereas the theory of the state's role in capitalism is developed and many arguments are known, the role of the state in post-communist countries is still unclear. During socialism, the socialist state was the perfect model of an authoritarian regime, in which the government ran the country through a strict hierarchical system of decision making. Despite the strict measures to control the implementation of all political, economic and social policies, this system failed. So, why is the government important? What is its role?

Some politicians do not understand that the socialist system did not fail because the state had too much power, but because it was badly organized. Other politicians argue that the economic role of the state must be separated from its political role, contending that the state in the past failed because of its inability to separate economic issues from the political ones. But, as long as political power stems from economic power, it is not possible to separate economics and politics. They are linked with each other. It was true in the past and it is so today. “Economics will remain profoundly political, not only because this is the case in every politico-economic system, but because in the specific context of Central and Eastern European countries, the task of economic transformation presents unprecedented political challenges”<sup>6</sup>

Underlining that economics and politics are linked with each other, raises another question: where is the line between the state and the market. In a totally free market economy based on the model of liberals, there is only the market. In socialist systems, there was only the state. What lies in between? What are the features on which the role of the state vis-à-vis the market depends? It is the efficiency of the government to implement its duties, to provide institutions and appropriate legal framework, to supervise how they are working and to ensure that citizens can equally access public services. Therefore, only the government bears the responsibility to provide welfare, to distribute and re-distribute revenues, to find and implement policies which promote economic growth and harmonize it with social development.

Central and Eastern European countries in the process of transition from a centrally planned to a market economy face similar political, social and economic challenges. Whereas political transformation is desirable for the people, economic and social transformation is painful. From a public opinion point of view, the economic and social role of the state are considered more important. The implementation of transition reforms requires strict macroeconomic stabilization policies implemented alongside privatization, liberalization of prices and trade, fiscal and monetary policy; banking reform and opening of the economy. The social pain which accompanies the implementation of these policies is the natural outcome of transition. But people are not prepared to tolerate such a situation. They have other expectations. “For a considerable part of the society the understanding and accepting of the rules of market economy finishes at the level of expectations of quick success and reaching a Western standard of consumption”<sup>7</sup>. Moreover, there were strong expectations that the new ‘democratic’ governments, supported by International Institutions, would have been capable to bring CEE countries closed to the most developed countries. Unfortunately, this belief did not come true. Figure 1 shows the differences in GNI per capita in some CEE countries, including the best performing ones, compared to OECD and High Developed countries. As we can observe, even Slovenia, Slovakia and the Czech Republic (the best performing economies among CEE) lag behind OECD and High Developed Countries.

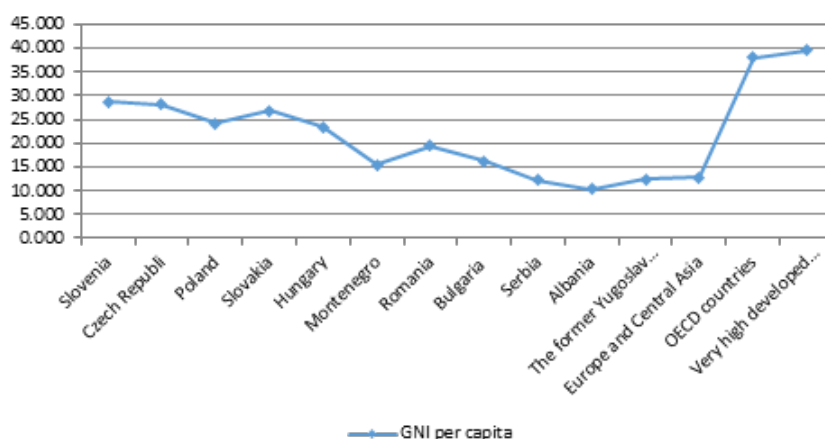
<sup>4</sup> Ibid

<sup>5</sup> <http://www.transparency.org/>

<sup>6</sup> Judy Batt; East Central Europe from reform to transformation; pg. 73

<sup>7</sup> J. Hausner, “The new interests structure” in Polish Economy in Transition, pg. 41



**FIGURE 1:** GNI per capita, 2015

Source: Human Development Report, 2016

In such a challenging environment, the economic and social goals of transformation can be reached only by strong governments. A “strong government” in the new reality of CEE countries<sup>8</sup> has nothing in common with the past models of political and ideological power concentration. In the deep transition process, such as Central and Eastern European countries are undergoing, a strong government is the one which takes courageous decisions leaving alone superficial and short term interests.

## Section II: Why should intervene a government?

“The duties of the state are.....first...that of protecting the society from the violence and invasion of other independent societies;.....second...that of protecting, as far as possible, every member of it;...third.....that of erecting and maintaining those public institutions and those public works which, though they may be in the highest degree advantageous to a great society, are of such a nature, that the profit could never repay the expence to any individual or small number of individuals”<sup>9</sup>

One of the greatest liberal thinkers, Adam Smith, underlines three important duties of the state, namely economic, social protection and developmental roles, although he was a strong advocate of “laissez faire” and considered individual freedom and initiative, the best alternatives to develop the world in harmonization. Despite the changes in the international political economy and environment, these three fundamental responsibilities of the state stand at the basis of every social system.

The question of the role of the state in the market economy has been and continues to be a controversial one. There are many advocates who explain the reasons why the state should intervene. There are also opponents who support the idea that the role of the state must be reduced. Despite ongoing debate, the modern theory of the state advances some arguments why the state should intervene in the market economy. However, there is a big distinction between the government’s challenges in developed countries and in countries which very recently embarked into market economy.

In developed countries, let’s say in classical market economies, the government intervenes to regulate, to adjust, to improve the general functions of the economy, fueling in this way the prosperity of the whole society. Progress has been gradual and based on the contribution of previous generations. In former socialist countries, the government needs to intervene to establish and at the same time to improve the functions of the economy, in a rapid process, in which the legacy from the past is poor. Figure 2 shows the gaps in Human Development Index and Gender Development Index among CEE, OECD and High Developed countries.

In modern societies, the government is accountable to ensure that every citizen enjoys its rights, while in developing countries, governments must establish the institutional frameworks in which human rights take place, and then struggle to realize them. Regardless the ratification of the most important UN Conventions, in addition to the Human Rights Declaration by all CEE countries, many people’s rights are denied.

Data show that alongside the transformation, inequalities increased. Figure 3 demonstrates gaps in some key welfare indicators like income, life expectancy and education. With some exceptions, like Slovenia, Czech Republic and Slovakia, almost all CEE countries experience similar problems.

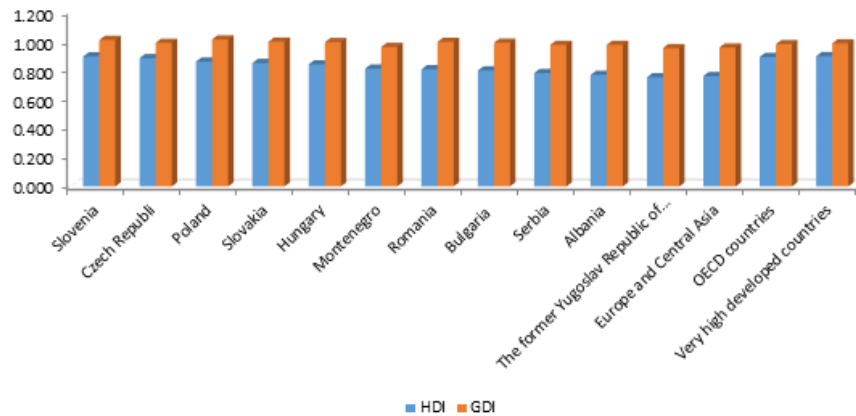
The government is responsible for the success of transition period. From this difficult task stems the triple role of the state in post-communist countries: it has economic role, because it establishes and improves a new economic system, to encourage the development of markets and competition; it founds the systems which protect citizens from the shocks of transition (social

<sup>8</sup> Central and Eastern European countries

<sup>9</sup> Adam Smith, 1776. In this paper this paragraph is cited by “The economics of the Welfare State”, Barr. N, pg. 3.

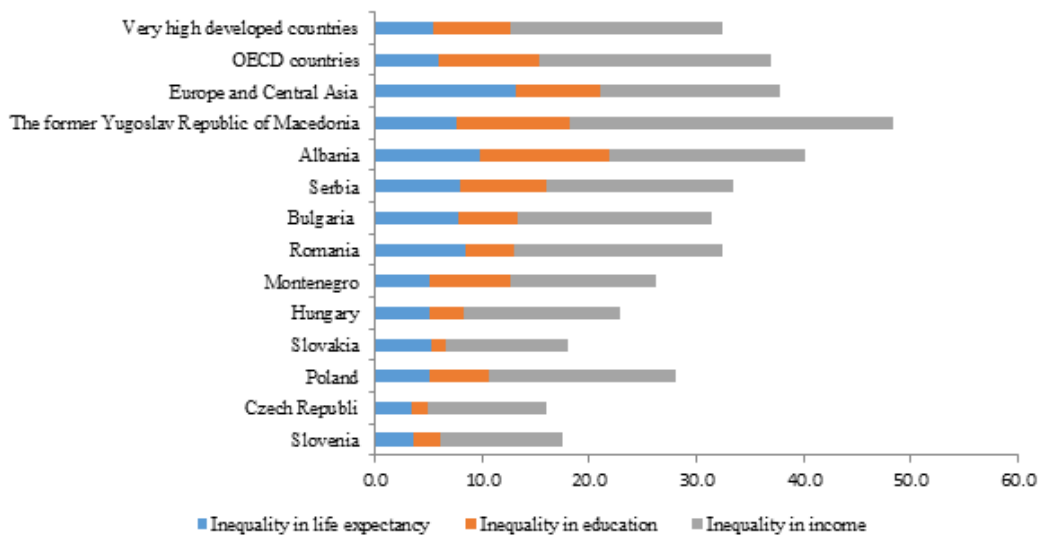
protection role); it supports institutions and civil society to interact to educate people with the rules of democracy, while encouraging them be socially included (social development role).

**FIGURE 2:** HDI<sup>10</sup> and GDI<sup>11</sup> in some EEC compared with OECD and Very High Developed countries, 2015



Source: Human Development Report, 2016

**FIGURE 3:** Inequalities in welfare indicators in EEC<sup>12</sup> countries compared with OECD and High Developed countries, 2015



Source: Human Development Report, 2016

### Section 3: The three fundamental roles of government in CEE countries

#### A. The economic role of the state in post-socialist countries

Although the economic role of the state in post socialist countries is still undefined, some lessons from western experience can be applied. The government and not political parties or separate social groups is the author of economic changes. These changes lay the foundation for all the major transformations from the former system to the new one. The economic role of the state in post-communist countries is very complex and multi-dimensional, totally different from the past. During transition and later, state should strongly intervene to distribute and redistribute revenues and ensure the citizens' equal access to economic resources. Only the government can co-ordinate stakeholders' goals, assessing short term advantages of economic policies versus sustainable growth as well as their impact on people's welfare.

<sup>10</sup> Human Development Index

<sup>11</sup> Gender Development Index

<sup>12</sup> Eastern European countries.

It seems there is no difference between the economic role of the government in developed countries and in those which have recently embarked on market economy. Notwithstanding, the implementation mode of policies, the functioning of government and the breadth of the process, are different. In post-socialist countries, the government must create and regulate at the same time. Although economic tools are the same, like the liberalization of prices and trade, the privatization of state ownership properties, tax policy, encouragement of savings or investments, banking reform and the tight control over public expenditures, their effective use and the citizens' equal access to economic opportunities, are not the same. Whereas in Western countries, the government takes decisions and implements policies to improve the people's welfare, in CEE countries, the government has to implement those policies which should create the affluence in the future, for the next coming generation. Therefore, a stronger political will is required.

## **B. The social protection role of the government in CEE countries**

The real challenge that Central and Eastern European countries faced was social reform. There are several different social policy models, which have all emerged from the historical inheritance of its countries of origin. Scholars are talking about the "Germany-, Great Britain-, Scandinavian- and Japanese- models". The post-socialist countries in the CEE do not have a model yet as it is still emerging. It is a society in transition, still finding its way.

The new economic and social situation that followed the collapse of the communist regime has exposed the problem of poverty, which required manifest and urgent treatment. Analysis suggests that the institutional framework for social policy in countries in transition had to be transformed to respond to the changes occurring from processes of international economic integration. In particular, the state's role in regulation of social policy depended on profound governance reform.

Literature of the mid-1990 argues for the necessity of social protection systems in the newly emerging market economies. The literature that describes some of the models of social policy systems in Eastern European countries also describes the main goal of the transitional reforms in these countries. Despite the important steps taken by respective governments to transform social relationships, the key objective was 'maintaining the macroeconomic balance', meaning 'there was a need for policies to contain costs'. Thus, the social protection was focused more on keeping down social unrest than promoting people to shift actively from their situation. It was argued by the necessity to protect quantitatively the people, because of the spread of poverty in these countries. Given the peculiarities of the first stage of the transition, the models worked well.

During the last years of transition, the situation changed from an initial focus on helping people cope with massive unemployment due to the closing of large state enterprises, to a focus on development and poverty alleviation. While some progress has been made, overall the reform efforts have missed their mark and there is a continuous high risk of increasing poverty, inequality and social exclusion. Despite broad legislative reform related to human rights, the existing mechanism of sectoral social policy has little effect on the reduction of social exclusion, especially among vulnerable groups whose rights are neglected due to their fragmentation and absence of coordination in their implementation. The Government should take all necessary measures to ensure that all legislation and policies are harmonized and priority is given to disadvantaged groups in national social and economic plans with budgetary allocation.

## **C. The social development role of the government**

Education and health services have existed in the socialist system. Even more, they have been considered as one of the advantages of the socialist economy. Thus, it seemed that there was no need for an intervention from the government in these fields, because there was nothing to change. Nevertheless, two issues had to be considered: first, the quantity in which these public goods must be produced and second, their quality. Government's intervention is required to ensure that all citizens have equal access to education's opportunities and can benefit pertinent health care services.

Although the spread of literacy was an advantage of the socialist system, central planning and political control of programs and teachers in the schools of all levels limited individual choices, encouraged dogmatic teaching and affected in this way the destruction of society values. Therefore, improving the quality of education and training is vital for the future economic development of former communist countries.

Last, but not the least, the role of the government is important to lay the foundation for the development of civil society, for the encouragement of partnerships and harmonization of stakeholder's strategies and frameworks.

These three main duties cannot be separated, because on the one hand they reflect the role of the government in the establishment and regulation of the new political, economic and social order and on the other hand, they affect the creation of a new relationship between the state and citizen, which is crucial for the success of reforms.

## **Section III: The case of Albania**

### **A. The state of welfare and human rights**

Albania, a small country in the Balkan peninsula, with an area of 28.748 square kilometers and a population of 2.774<sup>13</sup> million (2013), despite its wealth of natural resources, was and remains one of the poorest countries in Europe with high absolute and

<sup>13</sup> <https://www.google.com/search?q=population+of+albania&ie=utf-8&oe=utf-8&client=firefox-b>

relative poverty rates. The number of people living in poverty increased from 12.4percent in 2008 to 14.3percent in 2012, and extreme poverty rose from 1.2percent in 2008 to 2percent<sup>14</sup> for both urban and rural areas in 2012 as well as child poverty from 18,5 to 20,1percent<sup>15</sup>.

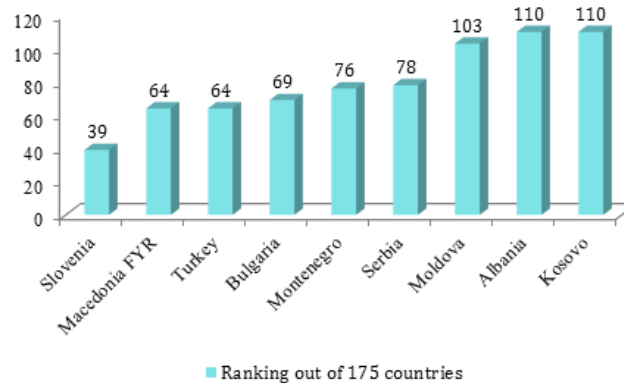
Despite the country’s achievements in terms of economic growth (GDP Annual Growth Rate in Albania averaged 4.16 percent from 1996 until 2016)<sup>16</sup>, the benefits of economic development have not been evenly distributed. The country’s Gini coefficient of 34,5 (2013) is the third highest in the region and the pattern of the Gini index in the last two decades seem to be indicating growing inequalities<sup>17</sup>. Moreover, inequalities in income also prompted a major loss in inequality adjusted Human Development Index (Figure 1 and 2).

Health and education indicators are among the lowest within CEE countries. Although life expectancy in Albania has increased steadily in the past twenty years in both sexes (in males: from 67 years in 1990 to 73 years in 2012; in females: from 71 years in 1990 to 75 years in 2012<sup>18</sup>, child mortality, infant mortality and maternal mortality rates are high in comparison with average rates for EU countries<sup>19</sup>.

In Albania, the education system lags behind of being “inclusive for all”. Discrimination partly stem from mentality / social norms as well as the low attention to the implementation of antidiscrimination law and other normative disposition on disability. However, social protection mechanism bears the burden of not providing adequate support to groups of children already excluded or at risk of exclusion from the enjoyment of the right to education.

Corruption (figure 4) and organized crime are the most recurring themes throughout the citizens’ considerations. Mismanagement of the system, lack of law enforcement, poor infrastructure, education and training, and poverty lay the foundation for informal capital flows and labor as well as corruption. This influences other development challenges, mainly on health care, judicial reform, employment and public management.

**FIGURE 4: Corruption Perception Index, 2014**



Source : <http://www.transparency.org/>

Although Albania has ratified almost all important international conventions and acts and has reported to several UN human rights committees, periodic reviews as well as data mentioned above demonstrate that Albanians’ citizens do not equally enjoy their rights.

On July 2003, the Albanian Parliament passed a resolution in support of the Millennium Declaration “... encouraging all stakeholders to track progress in achieving the MDGs<sup>20</sup> on a regular basis through national monitoring and evaluation systems and the preparation of annual progress reports that encourage public debate and offer recommendations on ways to improve national... development policies.”<sup>21</sup>

The government has reported on MDG progress since 2002 until 2010. By 2004, the eighth goal on developing a global partnership for development was formally adapted to the Albania MDGs, and a special 9th goal to establish and strengthen good governance was included. MDG reporting was nationally owned and helped to ensure that the promise of 2015 is kept by government by providing all stakeholders with a common, nationally owned framework for continued action towards the MDGs, which in turn feed directly into Albanian National Strategy for Development and Integration (NSDI).

However, with a HDI of 0,764 and GDI of 0,969, Albania ranked respectively 95<sup>th</sup> and 72<sup>nd</sup> out of 187 countries on the 2016 Human Development Index (HDI)<sup>22</sup>. In general, the fragile growth rates as well as structural economic reform are not

<sup>14</sup> Albania: Trends in Poverty 2002-2005-2008-2012, INSTAT/World Bank, 2013

<sup>15</sup> Analysis of policies and reforms affecting the situation of children in Albania, UNICEF, 2015.

<sup>16</sup> <http://www.tradingeconomics.com/albania/gdp-growth-annual>

<sup>17</sup> Analysis of policies and reforms affecting the situation of children in Albania, UNICEF, November 2014 (report not published yet)

<sup>18</sup> World Health Statistics, World Health Organization (WHO), 2014.

<sup>19</sup> Common Country Assessment, UN, 2015

<sup>20</sup> [Millennium Development Goals]

<sup>21</sup> Albania National Report on progress toward achieving the MDGs, UNDP, 2010

<sup>22</sup> <http://hdr.undp.org/en/countries/profiles/ALB>

sufficient to ensure the achievement of the MDGs. The failure to address chronic and extensive unemployment, disparities and social exclusion, poor levels of government investments in social and human development as well as informality of the economy, are considered critical weaknesses vis-a-vis the sustainable development of the country.

## **B. The legacy from the past and the “political economy” of transition**

From a political point of view, Albania has been characterized by historically heterogeneous governance, marked by striking disregard of the stages of social development, which have had a huge impact on the development of economic and social factors. In 1991, Albania embarked on a deep political and economic reform aimed at establishing a democratic regime through the protection of individual rights and at raising the standard of living through a free market economy. From that time until 1995, it was considered a successful country with great prospects for the future. “Stabilization was soon reached and the good performance of the macro-economic indicators identified Albania as the model pupil of the IMF”<sup>23</sup> Unfortunately, in early 1997, the state collapsed and political instability ensued.

The collapse of the state was not a sudden phenomenon. Rather, it was a process, in which government’s policies bear the burden. Albania’s case is one of the most difficult compared to other Eastern European countries which experienced transition reforms before Albania because:

Albania’s economic performance in the past was different from some Central and Eastern European countries, (such as Czech Republic, Poland and Hungary) models of which Albania chose to copy during transition. Unlike those countries (which were considered highly industrialized and developed), at the end of the Second World War, Albania was an agricultural country, with practically no industrial base, widespread illiteracy (almost 85 percent of population) and with no infrastructure. During the five decades after the Second World War, thanks to the interest of the communist regime in heavy industry, the share between agricultural and industrial sectors changed, but the agricultural sector continued to play a major role. Although industry was developed comparable to the level in the past, it was backward compared to other Central and Eastern European countries. Albanian productivity of capital was the lowest among former socialist countries.<sup>24</sup> On the eve of transformation from socialism to capitalism, the data about economic performance of the former socialist bloc showed the gap between Albania and other former socialist countries. Albania was described as “the poorest country in Europe with standards of living resembling third world countries”.<sup>25</sup>

Albania, officially, belonged to the former socialist bloc, but in fact it was totally isolated, the least known country in Europe and perhaps one of the least known in the world. Whereas other Eastern European countries strengthened economic relations inside the bloc, implementing the division of labor, specialization and a better harmonization between the resources of raw materials and the development of sectors of industry, developing foreign trade, the Albanian authoritarian regime imposed self-isolation for political reasons, limiting external contacts and trade.

The Albanian authoritarian regime implemented an economic model which evolved strictly along the lines of the classic Stalinist model, totally influenced by political and ideological factors. Other Eastern European countries, after the 60s, undertook some steps to liberalize economic relations and to privatize a few activities, thus creating a little space for a market economy, especially in the agricultural sector, small business and retail trade. By contrast, the political regime in Albania was strengthened over time. The former socialist bloc also allowed some limited foreign investments, deviating from strict Stalinist principles of economic development, whereas Albania abolished totally private ownership, foreign investments and loans.

During the last years of socialism, the political and economic crisis in Albania was deeper than that experienced by other reforming socialist countries because of sharp social problems and the lack of protection structures. Most of other Central and Eastern European countries had initiated some basic social services for vulnerable groups and people at high risk of exclusion, based on the old tradition of social work, which used to exist before the WWII. In contrast, Albanian government did not acknowledge the existence of poverty or social disparities, therefore when Albania embarked on the new path, the institutions were totally unprepared to help the people in need and protect them from the shocks of transition.

## **C. Governments’ responsibilities vis-à-vis the results of transition reforms**

The last 25 years saw a multifaceted development of the country, associated by a radical transformation of the market, institutions and social relations. However, the evidence and facts provided here advance the idea that the results should have been different. The transition reforms could not bring in wealth and prosperity for people.

The imitation of the Czech and Hungarian experiences without confronting them with the Albania’s mentality, traditions and institutional culture inherited from the past, on the one hand and the weak implementing and monitoring capacities of the government institutions, on the other, contributed to the failures and time to time to crisis. In particular:

- i) The liberalization of the relations between state and citizen, state and market, economy and politics affected the new attitude of the people, the idea that democracy is a system in which everybody has only rights and no responsibilities. As it was described above, the economic and political development of Albania is characterized by the historically

<sup>23</sup> Luisa Giurato, *Quaderni di economia e finanza*-Anno VI - N.2/1997, page 63

<sup>24</sup> IMF - September 1992-Albania: from isolation toward reform, page 26

<sup>25</sup> IMF - September 1992-Albania: from isolation toward reform, page 1



heterogeneous governance marked by striking disregard of the stages. Albania passed from the most centralized to the most opened market economy, while the government’s pattern shifted from a “controller” to an “observer”.

- ii) The fast development of the informal sector, including the informal labour market substituted the role of institutions. Over the years, the governments as they were not able to provide affluence for citizens in a short time and without much effort supported informal economy hoping that in this way it would secure the necessary political support to continue the reforms and the governance in stable conditions. Although the government has gradually reduced the size of informal economy, it still is an important producer of GDP. Moreover, the government legal actions have not yet touched “informality of labor market”.
- iii) The psychology of wealth at any cost, including illegal and criminal activities affected the establishment of “the new class of rich people”, less educated and more arrogant. In addition to deep polarization of the society and the “growing gap” between the former middle class of intellectuals” and the” new class of entrepreneurs”, the earned capital was invested in politics, instead of production. The governments’ position of “observation” rather than of “the confrontation with the law” gradually transformed into “a dangerous governance model” characterized by the abuse of power.
- iv) The lack of a democratic political culture and of trust on institutions hampered civic participation in decision making and governance. It is unlikely to believe that in such an unfriendly environment, civic watchdog mechanisms would ever function effectively.
- v) The lack of critical thinking as a teaching methodology, combined with the abolishment of the alternative forms of education brought about a vacuum in educational system, which gradually destroyed the attitudes of shared responsibilities.

The Albania’s case clearly describes a rapid process of transformation from a pure Marxist to a pure liberal model hence the new political system could not avoid crisis. The Albanian society missed the appropriate culture and knowledge to face with such a deep transformation, that is why the government would have guided the reforms intertwined with a broad and extensive civic education process.

## Conclusions

Central and Eastern European countries vary from each other not only in terms of economic development but in general. The differences in their levels of development are linked with the legacy from the past and the role of the government during transition.

However, could the transition have been different in Albania? The acknowledgement of this alternative does not seem feasible, because the whole transformative processes are linked with the legacy from the past. Nevertheless, it was the government’s task to assess the pros and cons of reforms and the context in which these reforms would take place. Notwithstanding, beyond the governance model, there is the government’s mode of functioning, recognizing that weak institutional capacities vis-à-vis law enforcement left room to abuse with power.

The cases of transition reforms in Central and Eastern European countries have shown that the rapid process from the centralized to a liberal model cannot be realized without a strong and courageous intervention of the government, because success of this process depends on the policies that the government followed and the abilities to implement them. The government is the linkage between privatization, foreign investments, financial policies etc. and the management that ensure their implementation. The role of government is not only to focus on the legal framework, but also to apply this framework through the decentralization of services and the consolidation of individual responsibilities. In contrast, the establishment of a legal system does not have any useful function and the triple role of the government, namely the economic, social and development one can’t be harmonized.

By no accident these reforms are called “transition reforms”. This means that the old system cannot be destroyed immediately. The process of evolution must follow in a natural and gradual way, substituting old relations slowly only when the new relations are created. The socialist system came to power through violence, damaging all values of the previous society, whereas the new system which aims to respect all human rights cannot be based on imposed transformation. Whether the government is able and is willing to respect this principle, can understand the domestic conditions and of reacting to them, depends on government itself as well as on the people’s accountability.

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# Consumer Preferences Analysis Through Experimental Auctions: A literature Review

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PhD Elena Kokthi

## Abstract

*Consumer behavior and more precisely preference analysis in developed countries are developed using a variety of instruments such as focus groups, interviews, and experimental auctions. Often in these studies, hypothetical methods such as contingent valuation are used. These methods are also used in Albania for different attributes of agro-food products.*

*However economic literature indicates that in hypothetical methods consumers tends to overestimate the willingness to pay (WTP) for a given product or quality attribute. While experimental auctions valuations are much closer to reality because the method imitates real transaction situations. The experience of using these instruments is limited in Albania. .*

*This paper aims to provide a review of the literature on these instruments, their development protocol, as well as cost and data analysis. The objective will be attained by analysing and reviewing scientific papers from 1995-2016, mainly contributions that apply auctions in consumer preferences in food sector marketing. The analysis will give insights on the most appropriate instrument which can be applied in the case of Albania.*

**Key words:** Consumer behaviour, experimental auction, willingness to pay

## Introduction

Consumer preference analysis are widely used to predict buyer behavior in the case of agri-food products. Many researchers have analyzed the effect that the organic product attribute product has on consumer preferences and the impact of the latter on their willingness to pay (WTP). The contingent valuation, conjoint analysis, choice experiment, hedonic price, experimental auctions are some of the methods used to determine customer extra premium for organic attributes. Also sensorial experiments with products are increasingly used by researchers to assess preferences for sensorial attributes and intrinsic characteristics of the product. Instead of using WTP evaluation, preferences are evaluated through hedonic scores (Bazoche et al, (2009); Combris et al,(2007); D’Hauteville, et al (2006); Ginon et al., (2010); Lange et al., (2002); Lusk et al, (2007); Stefani et al., (2006) in the lowermiddle\range segment of the market. In order to assess the respective values of these\ndifferent characteristics for consumers, the experiments compares wine made from the\name grape variety, “Pinot Noir”, which is the grape variety of red Burgundy wines.\nSessions were carried out in France, and Germany. Real sales at a random selling price,\nbased on the Becker, DeGroot, Marschak (BDM. These type of assessments require the consumer’s level of liking and not WTP estimation. In these cases consumer preferences are expressed with statements such as : I do not like it, I like it etc, depending on the specified attitude measurement scale applied by the researcher. The combination of sensorial experiments with experimental auctions is turning into a more and more consistent trend in consumer preference analysis. This combined approach helps to obtain a simultaneous assessment of preferences both in terms of external characteristics of the product and its internal characteristic. However the application of an experimental auction is a costly setup and can be successfully developed in markets where consumers have previous experiences with such experimental instruments. In this context is to a great interest

to find out what are the main instruments used, their advantages and disadvantages compared to other methods and which of them can be suitable in developing countries and more specifically in Albania.

The experimental economics is a research field that uses the experiment as a key instrument for studying consumer behavior. These methods use economic incentives and involve customers in the experiment and observe their behavior. Through these methods, researchers have complete control over the situation by observing how consumers behave in relation to a given product or attribute of the product. Through these methods, researchers, are able to determine the monetary value that an individual places to a product or attribute when information level given to them changes. As previously stated the application of these methods requires an active participation of consumers and it's decision will have economic consequences on them, quite different from declarative methods that simply rely on a statement that the customer makes about his preference (Fox et al., 1996). These mechanisms encourage survey participants to develop strategies to win. They must show their real willingness to pay. The economic incentive is that the consumer will buy the product if the price offer is higher according to the auction's principle. If for a product he/she offers a low price, he will lose the auction, if he/she offers a higher price than the price that actually pays, it risks losing a sum of money for a product that it does not think is worth the stated price.

This literature review on these instruments will give some insight regarding the most appropriate instrument to be implemented in the Albanian context. The objective of this paper is to present in more details the most used methods in literature in consumer behavioral analysis with a particular focus on the methods of estimating willingness to pay for a product, attribute or service in food sector. The analysis of the experimental methods, their development protocol, strengths and weaknesses in the evaluation process, the characteristics of implementation not only in the experienced countries but also in developing countries will provide a clear picture of these instruments for future applications in Albania.

## Literature review

Although auctions have been mostly used to sell and buy products, they are also used to evaluate the consumer reserve price of a given product/attribute. Researchers refer to a "no-biased method to describe a method where each participant shows his true WTP through the reserve price. The most frequently used auctions are: English auction, Dutch auction, Becker DeGroot&Marschak (1964), Vickrey auction (the auction with the second winning prize). English and Dutch auctions are considered as open auctions while the last two are sealed-bid auctions.

According to Guth et al (1982) experimental auctions represents an important instrument for defining the WTP for the analysed product/attribute and is considered a more accurate alternative compared to declarative methods such as contingent valuation (Lusk et al., 2007). Experimental auctions such as Becker De Groot Marschak and second prize (Vickrey) auction, are widely used in western countries to evaluate WTP for new products or modified feature of a product, a new technology, etcetera. These auctions are often used in combination with declarative methods (Alfnes and Rickertsen 2007; Chang, Lusk, and Norwood 2009; Buzby et al 1998; Ginon 2010; Green, Jacowitz; and Kahneman 1998; Loureiro and Hine 2001; Norwood and Lusk 2008; Mahé 2009). Various analyses indicate that depending on the information provided, these methods provide different results product of the method protocol and consumer behavior (Fox et al., 1996; Lusk et al., 2007; Muller and Ruffieux, 2010; Norwood and Lusk, 2008; Tagbata and Sirieux, 2010) nous mesurons à partir d'une expérimentation de type BDM (Becker-DeGroot-Marschak.

## English Auction

This method is widely used for selling art products, wines and also for real estate. Unlike sealed-bid auctions (such as BDM or Vickrey auction), an English auction is "open" or fully transparent, as the identity of all bidders is disclosed to each other during the auction. More generally, an auction mechanism is considered "English" if it involves an iterative process of adjusting the price in a direction that is unfavorable to the bidders (increasing in price if the item is being sold to competing buyers or decreasing in price in a reverse auction with competing sellers). The auction organizer gives opens the auction with an initial price and, the following each participant makes his bid, the bid is higher than the initial prize. The person making the highest bid is declared the winner and becomes the holder of the product/ facility. In this method, the reserve price of each participant is not shown and it may happen that the winner's price is much higher than the price that the individual actually pays. There is another variant of this auction that works as follows: the organizer sets a low price at the beginning of the auction and systematically increases the prize, each participant decides to stay or leave the auction. The last remaining person wins and pays the second highest prize (Lusk and Schroder, 2004). Theoretically, this type of auction has the characteristics of a non-biased mechanism, the participant has no interest in abandoning the auction until it has reached his reserve price, as soon as this price is reached the customer has no interest to remain in the auction. The price for which the participant abandons the auction represents its reserve price. But despite this feature, its use for WTP evaluation is rare because public bids can influence the decision process and customer choice. As conclusion when the auction involves a single item for sale and each participant has as an independent private value for the item auctioned, the expected payment and expected revenues of an English auction is theoretically equivalent to that of the Vickrey auction (Lusk and Schroder, 2004). Both the Vickrey and English auction, although very different procedures, award the item to the bidder with the highest value at a price equal to the value of the second highest bidder.

## Dutch auction

The Dutch auction is the opposite of the English auction, the auction starts at a very high price and drops until buyers express their interest to buy the product. This auction is faster than other auctions and used for perishable products like flowers and fish. Buyers should expect, it reduces the chances that they earn or receive the prize and the risk to pay a higher price. Voice auctions are tested by experimental economics literature but they are not used to test consumer preferences.

## First winner auction

First price auction winner is an award-winning sealed-bid auction, participants offer simultaneously their reserve price in an envelope. The individual who offers the highest price gets the product and pays the price offered. Like the Dutch auction participant faces a dilemma win product or offer a much lower price. The main problem associated with this type of auction, is the reserve price, the buyer is always interested to offer a lower price than its reserve price. In this type of auction there is a risk of not winning, if he/she declares a low price or loses if the price offered is equal to or higher than the reserve price. This type of auction does not find much use in WTP estimations.

## Second price auction

This type of auction is known as Vickrey auction (Vickrey, 1961) in this auction price bids are submitted in closed envelopes. The winner is who makes the highest bid, but unlike the first price auction, the winner pays the second price. This mechanism is widely used to determine the WTP for several product/attributes (Alfnes and Rickertsen 2003; Roosen et al 1998). The dominant strategy of this auction is that each participant offers its reserve price. However, this method has some problems because participants offer a high price only to be declared the winner, others do not commit because they do not believe they can win as their price is not as high as the reserve price.

**TABLE 1:** Vickrey auction and WTP estimation

Year	Author	products	method	attribute
1995	Hayes et al	Mishi i derrat	Vickrey	food irradiation
1996	Fox et al	Ushqime	Vickrey	Siguria ushqimore
1998	Roosen	Molla	Vickrey	Reduktimi i pesticideve
2002	Fox et al	Mishi i derrat	Vickrey	Rrezatimi i ushqimit
2003	Umberger et al	Mishi i lopes	Vickrey	Origjina e mishit
2006	Carrasco et al	Portokallet	Vickrey	Preferenca per portokallen spanjolle

Source:author elaboration

## BDM auction

This mechanism was developed by Becker DeGroot&Marschak (1964). The procedure developed in this mechanism is as follows: the participants offer a price for the product and then the organizer withdraws a price randomly in a predetermined interval. All participants who have offered a higher price than the selected price are declared winners and should buy the product. While those who have offered a lower price cannot buy the product. This procedure can also be developed individually with customers on laboratory conditions or/and at product sales points. According to Lusk&Fox (2003) this mechanism is considered as incentive compatible because WTP evaluation is not biased. The main difficulty in applying this method is the determination of the interval at which prices will be withdrawn; literature indicates that this may influence the reserve price of auction participants (Bohm et al., (1997). According to Bohm et al.,(1997) when the minimum auction winner price, was higher than market prices, participants tend to increase their implicit price. While in cases where minimum auction winner price was lower/equal to the market price, the average of reserve/implicit prices was not significant. As previously mentioned the BDM mechanism is designated as “incentive compatible”, which means it is a mechanism that encourages the consumer to reveal the truth about their willingness to pay. Horowitz (2006) disagrees with the fact that BDM is “incentive compatible” because the value an individual places on a product/attribute is not independent of the context in which the experiment is conducted. In this mechanism, the individual is uncertain about the amount he will be required to pay. Thus the reserve price offered will be conditioned by the distribution of potential prices. Under these conditions, this mechanism cannot be labeled as “incentive compatible”. “Real value” is influenced by many problems such as the mechanism itself, rounds number, the choice of winning prices, customer behavior concerning their unwillingness to buy or/and when not engaged, etc. Corrigan and Rousu (2011)



indicates the factors that significantly influence the auction results are; a) difficulty of understanding the mechanism, b) distrust of participants in the auction procedure, c) the effect of excessive spending, d) pre-auction practices influence etc.

**TABLE 2:** BDM Auction and WTP estimation

Year	Author	Products	Method	Attribute
2001	Noussair et al	Food	BDM	Genetic modified organisms
2008	Bazoche et al	Wine	BDM	Pesticide reduction
2008	Mahé	Chocolate	BDM	Fair-trade
2008	Norwood dhe Lusk	Eggs, porc meat	BDM	Animal welfare
2009	Bazoche et al	Wine	BDM	Geographical origin
2009	Jahaveri	Carrots	BDM	Organic agriculture
2011	Ginon et al	Bread, cheese, sausage	BDM	Different level of information
2012	Henry et al	4 products	BDM	Organic production
2012	Osorio et al	apple/milk/bread	BDM	Buying behaviour

Source: author elaboration

## N-random price auction

This auction method is developed the same as the second winning bid (Vickrey), but the way the prices are setted is different. The winning price is the  $n^{\text{th}}$  price. This auction works as follows: participants offer their prices in secret in enclosed envelopes. The auctioneer orders from the lowest to the largest prices by assigning it a number, from 1 to “n” as the number of participants. To select the winner, the auctioneer draws a price randomly. The withdrawn price will be the winning bid price. All participants who have offered a higher price than the drawn one are declared winners. Thus by randomly withdrawing the price, the probability to win the auction is the same as for those who offer high prices as well as for those who offer low prices. According to Shogren et al (2001) participants who have offered a low price have the opportunity to earn through this mechanism. As a conclusion unlike Vickrey auction, this kind of auction motivates participants to take part in the auction and not play with the non-participation strategy. Several researches used this method by combining it with the BDM auction (Alfnes and Rickertsen, 2006) (Carrasco et al 2006), (Shogren et al 2001).

**TABLE 3:** Random price auction and WTP estimation

Year	Author	Products	Method	Attribute
1999	Lusk et al	Beef	Random prices	Beef lean
2003	Huffman et al	Potato and oil	Random prices	Genetic modified organisms (GMO)
2004	Rozan et al	Food	Random prices	Food security
2006	Stefani et al	Gruri	Random prices analyze sensorial analysis	Geographical origin
2007	Alfnes dhe Rickertsen	Beef	Random prices	Origin + hormones
2007	Feux et al	Beef	Random prices	Origin
2007	Alfnes et Rickertsen	Beef	Random prices +choice experiment	Origin + hormones
2012	Carrasco et al	Tomato	Random prices	(GMO)tomato

Source: author elaboration

## Auctions comparison and reserve price quality determination

According to Lusk et al, (2007) whatever the auction method used, the incentive given to the participant to tell the truth about the monetary equivalent of their preferences is theoretically the same. However, many other authors have tried to make the comparison between these methods regarding the results produced, which are different, depending on the criteria used for comparison. The comparisons are based on difference between the implicit price - as determined by the organizer of the mechanism - and the reserve price declared by the participants in the experiment. The more reserve price is closer to close implicit price, the more accurate the method is.

Referring to the average willingness to pay (Rozan et al., 2004) indicate that the BDM mechanism results in the highest WTP and a greater number of potential buyers than the second winning mechanism (Vickrey). Rustrom (1998) shows that English auction and the BDM mechanism lead to the same results and that Vickrey mechanism offers a higher price

than the first two. Combris et al., (2007) show in his study that other auction methods reveal higher prices than the BDM mechanism. However, other authors did not notice differences between the BDM price, Vickrey and the random price auction.

Lusk and Schroder, (2004) show that during the first round the reserve price throughout the three mechanisms are very small, but in other rounds the reserve price at the second winning bid is several times higher than reserve price revealed from BDM mechanism. This price increase occurs because: the publication of prices after each round have an influence on the prices stated in the next rounds, secondly, after several rounds there is a possible learning effect, the better the participants understand the mechanism the more accurate are the results (Lusk et al., 2007). Noussair, et al (2003), show that while comparing the implicit price to the reserve price, Vickrey auction and the Random price auction are closer to the implicit price than the BDM mechanism.

The competitive environment in the Vickrey auction push the participants to offer a higher reserve price to increase the possibility to win (Rozan et al., 2004). In the case of BDM there is a little incentive because there are fewer winners and consequently there is less interest shown from the participants. The lower values in the BDM mechanism may be due to participant secret agreements. Many individuals participating in the auction make deals between them to lower the offered value. But this is not the case when these mechanisms are used for research purposes.

Compared to other mechanisms, BDM mechanism can be developed with limited number of participants and under non-laboratory conditions (Fox et al., 2002, 1996). This mechanism is easier to understand because the participants consider it as a sale-purchase process. Finally the selection of the appropriate mechanism should reflect the characteristics of the product and research context (Lusk et al., 2007).

### **The combination of different methods in WTP estimation**

The main concern researchers face in the process of selecting the method to assess willingness to pay, lies in the quality of the results produced and the possibility to use them in decision making. Many authors combine hypothetical methods with experimental methods to exploit the advantages of each of them. Thus an incentive compatible mechanism encourages consumers to reveal their real WTP, but when there is a shortage of products (when products do not exist) it is difficult to be developed. While declarative methods are not incentive compatible but have the advantage to be developed even when the product does not exist in the market.

(Alfnes and Rickertsen, 2007) used auction method with preliminary data collected through a hypothetical method such as choice experiment, to determine Norwegian consumers preferences to origin attribute and the presence of hormones on beef meat. According to them, two of the main problems of the experimental methods are: i) they cannot be developed without the products and ii) the implementation in laboratory conditions limits the sample of participants even though no experimental economy paper claims for representative sampling (Alfnes Rickertsen 2007).

Contrary to auctions, hypothetical methods can be developed even when the product does not exist. This methods involve a greater number of participants (via phone, mail, etc.) with lower costs. Several works have shown the difference of WTP yielded from hypothetical and non hypothetical methods. The difference is due to mechanism itself, their application, etc. One reason that explain the differences in WTP estimation is the method used - the experimental auctions, use the auction format while the choice models such as Choice Experiment and Conjoint Analysis represent the price as an alternative to the different product attributes that are under evaluation. According to Lusk and Schroder, (2004), prices can influence decision process because consumers are sensitive to price information. Indeed when the quality of products is unclear and from consumer's point of view if the offered products are not differentiated (they do not perceive any change), the price can serve as a quality indicator (Shapiro 1982). Secondly, experimental auctions are incentive compatible that push consumer to engage in winning strategies while declarative methods are not incentive compatible, the response is contingent of the scenario elaborated by the researcher. Thirdly, in hypothetical methods products are evaluated through a list of attributes hypothetically itemized by the researcher while in auctions the full product is presented, this can be one the reasons of differences in WTP.

## **Conclusions**

Experimental economics is an instrument generally used to test economic theories, however these methods are not limited only in testing theories but they are also widely used to study consumer behavior as complementary of contingent evaluation method. These methods are also used to evaluate WTP for a particular product or attribute by using of real money and products in a laboratory setup.

These methods offer a number of advantages: Firstly, because participants have a budget available, their choices are not hypothetical; secondly, these methods gives the opportunity to reproduce experiment conditions, better understanding of auction mechanism effects and comparing results. Another advantage of the experimental methods is that they can be repeated in several rounds for the same product. Under these conditions, the researcher can provide additional information and analyse the effect on WTP due to the information level changement. Also if the number of rounds increases the probability that the individual offers a value close to reality as far as the WTP is concerned, this is because there is no presure to win since there are

other rounds. However, these methods also present some disadvantages because: a) they have high participation costs; b) low participation due to the time required; c) financial compensation for the winners. For these reasons, researchers often combine these methods with other methods, this combination play a role of calibration which increases the quality of the results.

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# Students' behavioral intentions toward the university

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## Abstract

*Customer's behavior intention to choose the same service provider and to engage in positive word-of-mouth is considered very important from marketers and scholars. As so, the empirical measurement of customer intentions has attracted the attention of many researchers. This study aims to offer an empirical assessment of students' behavior intentions to frequent the other level of study to the same university and their engagement in positive word of mouth and recommendations as determinants that influence these intentions. A questionnaire is developed based on literature review which is used as a self-administered one by bachelor's students. The data collected are analyzed with the appropriate statistical techniques. Data analyses have shown the perception of students about perceived service quality, student satisfaction and their intentions to re-frequent the same university and to spread positive word-of-mouth about it. At the end, recommendations for the appropriate institutions are discussed.*

**Key words:** service quality, satisfaction, behavioral intentions, higher education

## Introduction

Services have increasingly gained a significant place in the economy of many nations. Their proportion in the economy has continually increased and they are considered an important wealth creator and job producer in the last years. The alterations associated with this change have seriously shaped the industry of many nations and regions. Improvement in the service offer has determined the competition by determining the main forces/leaders. In response to this shift, the research aiming at significant elements of service improvement has attracted the attention of many studies. Research on the service sector has tried to understand the variables that improve and reinforce the experience of the service. It has been focused on variables such as service quality and customer satisfaction which are significant on generating growth, profitability and differentiating one service provider from the others (Anderson, Fornell & Rust 1997).

The education sector, as part of the service industry, has experienced a lot of challenges in the recent years (competition, change of funding formulas, e-learning etc.). It has also experienced internationalization which in fact is a demonstration of higher education globalization, a phenomenon that has influenced almost every industry in the contemporary world economy (Wang & Tseng, 2011). Rivalry has strengthened and institutions are continually trying to improve in order to deliver the best offer. Competition is no more between institutions within one's country borders. It has broadened to more regions and institutions to choose, despite the physical frontiers. This process has a significant impact on the management of universities and the service quality perceived by their students. It will continue to transform and reform the universities themselves in order to maintain competitive positioning in the higher education market. Attributes such as high service quality, good professional expertise and high level in institutional ranking have determined the demand for the education need. Many institutions of higher education have aimed membership in international education and research alliances as an indication of high standards. These standards became more difficult to evaluate in the education sector as the core offer is a service. As part of the service

industry, education services are often intangible and thus difficult to measure. What the recipients attain cannot be assessed in short time but at most in the long run as the knowledge and behavior in the future based on what is received during the education years.

This paper will focus in one part of the education sector; the higher education level. The studies on higher education have increased in the last decades. This is in line with the public interest associated with it and the significant impact it has on the present and the future of the people, countries, regions and the entire world. People and institutions are dedicating more attention to variables such as quality and satisfaction. Institutions in particular, are realizing that by focusing more on what they are delivering, can generate satisfaction, positive intentions and positive word of mouth. The majority of these studies are done in the developed countries, particularly USA, while few of them have assessed these variables in the developing ones and in empirical examinations of these variables (ex. Dado et al. 2012).

The education sector in Albania has always been considered as very important from the institutions and the population. It has experienced different changes and challenges in the last decades. Several reforms, such as the Bologna chart, have been experimented and put in action posing new difficulties for institutions and students. The appropriate institutions have performed evaluations and accreditations of higher institutions from national agencies. An accreditation from an international agency is currently being performed in the higher institutions in Albania. The education sector has passed from an only state-owned sector to the creation and development of non-state institutions operating in all the levels of the academic structure. This has created more competition and has intensified it within the sector. To deal with this rivalry it has become imperative for higher education institutions to differentiate from the others and deliver the best offer. Prior research suggests that service quality, customer satisfaction and intentions are valuable elements that can make the difference between these institutions from the customer perspective. Students' opinions about significant aspects of academic experiences are significant elements of differentiation and research. So, despite the evaluation from the specialized agencies, universities should understand and outperform based on their students' perceptions about the academic services.

This study aims to offer an empirical evaluation of service quality and customer satisfaction and the effect they have on students' intentions to frequent the other level of study in the same university and engage in positive word-of-mouth. It is based on students' perceptions about the variables of the study. It grounds from the literature review and discusses the different theories related to service quality, customer satisfaction and students' intentions. At the end, the results of the analysis are discussed and recommendations for the higher education institutions are offered.

## Literature review

The research of students' intentions to frequent the other level of study in the same university has rooted on the review of the existing literature. The variable of service quality has been considered very important in the service delivery. It can be a significant competitive advantage in the service sector. It can also have significant effects on other variables such as customer satisfaction and intentions.

### Service quality

Service quality has attracted much attention in the marketing literature. It poses challenges for many service offers as it is considered difficult to assess, achieve and retain. But once a company has achieved it, it can assure significant benefits. It is considered an elusive and indistinct construct and as such it cannot be defined and measured in an objective manner (as product quality can) (Parasuraman, Zeithaml & Berry 1985, p: 41). The difficulty of defining and measuring service quality is related to the distinctive characteristics of the services, i.e. intangibility, heterogeneity, perishability and inseparability of production and consumption (Parasuraman, Zeithaml & Berry 1985).

The services in the higher education are almost intangible and heterogeneous, are inseparable as they are produced and consumed at the same time and are perishable as presume the students' participation in the delivery process (Hennig-Thurau, Langer & Hansen 2001). Researchers have developed different instruments of measuring it during the years. Some of the most used ones are presented below. The SERVQUAL model is developed by Parasuraman, Zeithaml & Berry (1985). These authors developed a scale of 22 items to measure service quality from 5 dimensions named tangibles, responsiveness, reliability, assurance and empathy. They based their model on the gap (gap model) between expectations and perceptions of service performance levels. Other authors (Cronin & Taylor 1992; 1994) suggested that perceptions only may generate good evaluations of service quality. They argued that performance-only measurement of service quality explains more of the variance in the overall measure of service quality than the use of both expectations and performance. These authors developed an instrument of service performance called SERVPERF, which is composed of the same dimensions and items used from SERVQUAL scale but measures perceptions only.

Grönroos (1984) studied service quality and established the Nordic model of service quality. He included in the model technical quality, functional quality and image as dimensions of service quality. Technical quality is related to the result of the service performance so what the customer receives from the provider. While functional quality is related to subjective perceptions of the way the service is offered from the employees. Image of the organization serves as a moderator of the expected and perceived quality. Later on, Brady & Cronin (2001) reexamined the measurement instruments of service quality and developed a



hierarchical approach of service quality based on performance. This approach conceptualizes service quality as three-order factor model and the three dimensions are interaction or functional quality, physical environment and the result.

However, there is no general agreement on marketing literature about the best model to assess service quality (Seth, Deshmukh & Vrat 2005). Prior research on the evaluation of service quality in the higher education sector (ex. Brown & Mazzarol 2009; Firdaus 2006) has used the 5-dimension scale of Parasuraman, Zeithaml & Berry (1985) by using the gap model or perceptions only on evaluating service quality and its dimensions. Meanwhile, the study of Brochado (2009) on evaluating the different models of assessing service quality in higher education showed that the SERVPERF model offers better capabilities on evaluating service quality in higher education institutions. Despite that, it becomes even more difficult to evaluate service quality in higher education because the results of this service can be seen only later on in time, in the knowledge and behavior of students (Tsinidou, Gerogiannis & Fitsilis 2010). SERVPERF model is used in the present research.

## Customer satisfaction

Customer satisfaction is an important element in the marketing literature. Every business wants to have satisfied customers as they bring many benefits to it. During the recent years, customer satisfaction has been assessed in different studies and different sectors. Despite the numerous studies (ex. Assaker & Hallak 2013; Nam, Ekinci & Whyatt 2011; Yang & Peterson, 2004) that have attempted to define and measure customer satisfaction there is no consensus on its definition (Giese & Cote, 2000). This is because the different conceptualizations of customer satisfaction in the marketing literature. Andreassen & Lindestad (1998) stated that satisfaction is the result of comparison of prior expectations and consumption perceptions with service performance. Among the different theories that have tried to explore customer satisfaction, the theory of expectancy disconfirmation developed by Oliver (1980) is the most used in different studies. According to this theory, positive disconfirmation increases or maintains satisfaction while negative disconfirmation creates dissatisfaction. The literature review shows that customer satisfaction is mainly analyzed from two conceptualizations; as satisfaction related with a given transaction and as overall satisfaction (Nam, Ekinci & Whyatt 2011; Yang & Peterson 2004). The first one gives specific information about a given product or service. The overall satisfaction is an indicator of the total experience; the past, the present and the future one with the organization (Rust & Oliver 1994). Total satisfaction reflects the general impression and attitude of the customer toward the specific products and different aspects of an organization and it is the sum of the satisfaction with specific transactions (Ladhari 2009; Yang & Peterson 2004).

Customer satisfaction is very important to businesses because satisfied customers tend to be more tolerant to price increases, because they perceive to attain more benefits from the company and for that they are willing to pay more. Satisfied customers are more willing to long-term relationships with the organization leading so to repurchase intentions and customer loyalty. They buy more frequently to the same provider, buy in greater volumes and are more prone to try other goods and services from the company they are satisfied with (Anderson, Fornell & Rust 1997). Satisfied customers are easily engaged in positive word of mouth helping in this way the company with its marketing and reducing its costs. Whereas, unsatisfied customers are a danger to any organization as they may switch to another one but also may contribute to negative word of mouth about the organization, its products and services. However, researchers (Oliver 1999) highlight that although satisfaction is a necessary antecedent of repurchase intentions and customer loyalty, it does not necessarily translate into purchase action and loyalty.

## Behavioral and repurchase intentions

There are several studies about customers' behavioral and repurchase intentions. This is because of the benefits associated with these variables. Scholars and practitioners have aimed to understand their formation although it is a very complicated process. Particularly, practitioners are interested in understanding how intentions to repurchase are formed and which are the factors that empirically affect such a process. Repeat customers are very important to the overall aim of every business; to make a positive financial return and to maximize it through their purchases and also because they are engaged in positive word-of-mouth by generating other ones. As a result, the measurement of customer repurchase intention has become critical to managers and researchers. Zeithaml, Berry & Parasuraman (1996) view the individual's intention to repurchase as being part of their attitude while Oliver (1997) described behavioral intention as stated likelihood to engage in a particular behavior. Other researchers (Bagozzi, Baumgartner & Yi 1989; Soderlund, Vilgon & Gunnarsson 2001) view it as something distinct from attitude, as a particular form of willing that transforms the attitude into guided responses.

In the higher education sector, behavioral intention referred to the intention to revisit the institution in the future and to recommend it to the others (Alves & Raposo 2007; Sheu 2011). Understanding students' intention to re-frequent the institutions directly linked to retaining and attracting prospective students and ensuring survival in an increasingly competitive market place (Marzo Navarro, Pedraja Iglesias & Rivera Torres 2005).

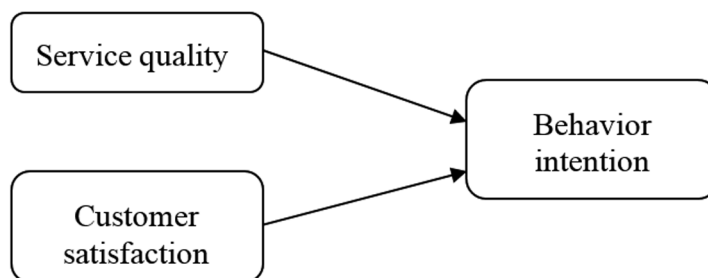
Different studies have tried to explore the antecedents of customers repurchase intentions and the outcomes of it. These studies examine the relationship of repurchase intention on shareholder value outcomes. Some of them (ex. Keiningham, Andreassen & Aksoy 2007b; Morgan & Rego 2006) found that this relationship is either nonexistent or at best inconsistent. For example, Morgan & Rego (2006) found that repurchase intention demonstrates no managerial value in predicting net operating cash flows and total shareholder returns. Other ones (Anderson & Mittal 2000) demonstrated that it is an important determinant of a company's profitability. Repurchase intentions are considered among the most widely used indicators of customer loyalty in company customer feedback systems (Morgan & Rego 2006, p: 436).

## Relationships between variables

Establishing the effects of these variables on metrics such as profit, share price, firm value, etc., is the most important demonstration of the positive link between service qualities, customer satisfaction and repurchase intention from the company executives. The evaluation of these variables and their relationships has been the focus of different empirical studies. Perceived service quality is found to have an influence on repurchase intentions in different studies such as Anderson & Sullivan (1993), Oliver (1980) and Olorunniwo, Hsu & Udo (2006). However, still there is confusion regarding whether perceived quality is directly or indirectly linked to repurchase intentions via other intermediary variables such as customer satisfaction. So, Baker & Crompton (2000) investigated the relationship between these variables and found that higher perception of service quality not only enhanced customer satisfaction, but also encouraged increased re-visitation through the positive word-of-mouth effect. In the study of Cronin, Brady & Hult (2000) it was empirically showed that quality plays a direct role in predicting purchase intentions. The study of Ekinici (2004) recognized the influence of service quality on repurchase intention and showed that this influence is exerted through satisfaction, i.e., satisfaction is a mediator between service quality and repurchase intentions. Fewer studies have examined these variables simultaneously in relation to their relative effects on subsequent variables (Cronin Brady & Hult 2000; Lee, Petrick & Crompton 2007).

In the field of marketing, researchers have found a strong positive association between customer satisfaction and repurchase intentions in different contexts. So, these positive relationships are found in the context of both consumer goods and services (Clemes, Gan & Kao 2008; Ladhari 2009) and also in business-to-business interactions (Patterson & Spreng 1997). Some of them stated that satisfaction is found to be the most important variable leading directly to customer repurchase intentions (Chan et al. 2003). Studies on the relationship between satisfaction and re-purchase intention showed that satisfaction is a strong driver of revisit intention across a wide variety of service industries and in the specific context of higher education institutions (Alves & Raposo 2007; Clemes et al. 2008; Dado et al. 2012; Sheu 2011). These authors proved that satisfied students are more willing to show positive re-enroll intention, at least, by word of-mouth or recommendations to others or may undertake further study in the future, compared to dissatisfied ones. Consequently, the following conceptual model and hypotheses are proposed:

**FIGURE 1.** The conceptual model



H1: Student perceived service quality is positively associated with student satisfaction.

H2: Students perceived service quality is positively associated with repurchase intention.

H2: Students satisfaction is positively associated with repurchase intention.

## Research Methodology

### Questionnaire Design

Based on the above literature review, a self-administered questionnaire was developed and used to gather empirical data from students of the bachelor level in the faculty of Economy and Information Technology in the European University of Tirana. The items were adjusted for the specific research goal of this study. The questionnaire was pretested through a pilot study with 30 students studying at the same faculty and it was revised to ensure content validity. The final questionnaire was distributed to the students. Student's participation was voluntary and anonymous. The questionnaire consists of four sections and 30 items at all. The first section collects the respondent's demographic data. The second section consists of 23 items covering 5 dimensions of service quality named tangibles, reliability, responsiveness, assurance and empathy in higher education and overall service quality. These items are based on the SERVPERF scale and are adapted to the higher education context. The third section deals with the assessment of customer satisfaction using 3 items adapted from other studies. The four section consists of 4 items by assessing student's intentions to re-frequent the university and to recommend it to others. A five-point Likert scale was used for data collection – with '1' representing 'strongly disagree' and '5' representing 'strongly agree'. The items of the questionnaire are presented in the table below.

**TABLE 1.** Questionnaire items for service quality, customer satisfaction and behavioral intentions

Variable / Dimension	Item
Tangibles	TAN1: The appearance of the physical facilities of the university is attractive. TAN2: The university has modern and latest equipment. TAN3: Staff (professors and administrative) is well dressed and neat in appearance TAN4: Materials and equipment used are attractive.
Reliability	REL1: When something is promised by a certain time, it always is provided by the university. REL2: When students have problems, staff is courteous in helping to resolve them.. REL3: Courses are taught by highly knowledgeable professors. REL4: The university offers the service in the time it has promised to do it. REL5: The staff (professors and administrative) insists in accurate service.
Responsiveness	RES1: Students are informed of schedules and changes in schedules in advance. RES2: The university has appropriate service hours for all students RES3: Administrative staff are never too busy respond to student requests promptly RES4: The university staff is always willing to help students.
Assurance	ASS1: The staff (professors and administrative) offer fast service to students. ASS2: Staff (professors and administrative) behavior instills confidence in students. ASS3: University staff is friendly and polite ASS4: University staff (professors and students) has the necessary knowledge to answer students.
Empathy	EMP1: University staff (professor and administrative) provide personal attention to every student EMP2: The university has students' best interest as a major objective EMP3: The staff (professor and administrative) understands the specific needs of students.
Overall Service Quality	SQ1: Faculty provides excellent overall service SQ2: Faculty provides superior service in every way SQ3: The quality of service in this faculty is very high
Customer satisfaction	CS1: Overall, I am satisfied with the services offered from the university CS2: I'm satisfied with my decision to study in this university CS3: Overall, the services offered from the university fulfill my expectations
Customer intentions	CI1: I think to re-frequent the university in the next level of study CI2: I'll say positive things about the university to others CI3: I'll recommend the university to others CI4: I'll encourage people I know to frequent this university

A total of 250 questionnaires were distributed to students. Out of these, 223 questionnaires were returned completed, representing a response rate of 89.2%. After that, the data analysis begun. The first step was scale purification. The data were checked for missing values, normality, and outliers. The missing values were replaced using multiple imputation method in SPSS 20.0, while very few outliers were present. The data resulted linear, and the values of skewness and kurtosis were within the acceptable range. Then, in order to assess the dimensionality of the scales used in the study, factor analysis was conducted. Exploratory factor analysis (EFA) is an inter-dependency technique which aims to determine the underlying structure between variables in a statistical analysis (Hair et al. 2009). After conducting EFA, the overall factor solutions resulted in good loading patterns and explain 67.72% of the variation; also the factor structure complied with the proposed instrument. After that, in order to further evaluate the dimensionality, reliability and validity of the generated structure of factors, Confirmatory Factor Analysis (CFA) was conducted. Reliability was evaluated through the standardized Cronbach's alpha (Cronbach 1951). Nunnally (1978) suggests that a scale with alpha greater than 0.7 is considered as reliable. After examining every dimension, the Cronbach's alpha was calculated for every distinct construct generated from factorial analysis. The values were above 0.7, suggesting good internal consistency between items of every construct and construct reliability. Factor structure was also considered as stable. Overall, the proposed model had very good reliability and validity (both convergent and discriminant) indicators.

## Data analysis

**Service quality dimensions and service quality.** After confirming the factor structure, dimensionality, reliability, and validity of the constructs, a standard multiple regression was performed in order to uncover the relative impact of service quality dimensions on higher education service quality. All five dimensions were found as significant predictors of overall service quality in the higher education. Multicollinearity was assessed by VIF and its values vary from 1.089 to 1.581, much lower than the threshold of 10, indicating the lack of multicollinearity among regression constructs.

## Relationships between variables

The results of the analyses for the relationships between service quality, student satisfaction and their behavioral / repurchase intentions are presented in table 2.

**TABLE 2.** Standardized regression weights

Construct	Service quality	Customer satisfaction	Customer intentions
SQ1	0.692		
SQ2	0.587		
SQ3	0.395		
SQ4	0.680		
SQ5	0.636		
SQ6	0.746		
SQ7	0.509		
SQ8	0.536		
SQ9	0.549		
SQ10	0.367		
SQ11	0.311		
SQ12	0.739		
SQ13	0.724		
SQ14	0.892		
SQ15	0.599		
SQ16	0.393		
SQ17	0.262		
SQ18	0.777		
SQ19	0.526		
SQ20	0.604		
SQ21	0.897		
SQ22	0.641		
SQ23	0.518		
CS1		0.324	
CS2		0.411	
CS3		0.456	
CI1			0.247
CI2			0.422
CI3			0.285
CI4			0.557

**TABLE 3.** The indicators of dimensionality, reliability and convergent validity

The construct	Nr. of items	GFI indicator of uni-dimensionality	Cronbach alpha	Bentler-Bonnet $\Delta$
Service quality	23	0.902	0.736	0.911
Customer satisfaction	3	0.981	0.754	0.947
Customer intentions	4	0.973	0.7545	0.928

**TABLE 4.** Estimated results of the structural model and hypothesis test

Path	Standardized coefficient	p-value	Hypothesis testing
H1: SQ→CS	0.354	0.001	Supported
H2: SQ→CI	0.401	0.000	Supported
H3: CS→CI	0.365	0.000	Supported

As the results of the analysis show, the three paths of the hypothesized relationships are supported, showing the positive relationship between these variables.

## Conclusion

This study aimed to assess the relationship between perceived service quality, customer satisfaction and behavior intentions in higher education. Service quality was assessed by the five dimensions of Parasuraman, Zeithaml & Berry (1985) scale and they were found to be applicable in the higher education settings. The SERVPERF scale successfully maintains its dimensionality, reliability and validity. It showed that student satisfaction is an important element that is positively linked to their intention to re-frequent the next level of study in the same university and to their positive word-of-mouth recommendations. The use of the measure instrument provides useful information to higher education authorities for developing quality improvement strategies and for delivering satisfaction and positive behavior intentions to their students.

The results of this study have practical implications for the higher education sector. As the institutions of higher education have realized the competitive setting where they are operating, it has become vital for them to attract more students by delivering high service quality and creating and maintaining students' satisfaction. By doing so, they will increase the number of their enrollments through actual students positive word-of-mouth and recommendations. So, variables such as service quality and customer satisfaction should be considered key elements of their strategies of attracting and maintain students. The findings of this study are important for higher education institutions which should understand that students continuously increase their demands about quality and satisfaction. By offering high service quality perceived by the students, they increase their chances to create and reinforce students' satisfaction and their positive intentions toward the university. In this way they can benefit from students who want to frequent the next level of study to the same university and from positive recommendations and word of mouth.

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# Economic and environmental aspects of energy security - the case of Albania

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## Abstract

*The main objective of this research is to identify the key indicators used to assess the energy security and the impact of energy production in economy and environment. At the same time, the study aims to assess how countries in the region, specifically Albania, are dependent on energy and how they can be affected by fluctuations in the price of energy due to supply shocks. The study is focused on the security of electricity supply and its reliance on important indicators such as the dependence of the electricity supply from imports, the degree of geographic diversification of imports of electricity (supply from a single country), degree of the diversification of sources of electricity through the energy mix and the impact of energy production on the environment.*

*Beside the limited resources of energy supply, especially those based on carbon (energy fossil), important developments are occurring because of the policies that are being pursued to protect the environment, which are affecting the cost of energy supply and substantially are modifying the energy mix. In this context, the energy consumption is a variable which serves as a link between two other variables in the calculation for energy needs in the future. The impact of energy production and consumption in GDP (where GDP serves as a variable measuring the level of economic development), and the level of CO<sub>2</sub> emission in the atmosphere (which serves as a variable to measure the level of environmental pollution), are two important aspects of energy security.*

**Key Words:** Energy security, diversification, environment, economy, Albania

## Introduction

Energy security is one of the main issues of the global agenda. Countries, regardless of their development level, need to get involved in electricity as a prerequisite for their development. Countries may be interested in these markets as consumers, manufacturers or even transit of energy infrastructure.

Such a need, which comes as a result of internal and external factors combination, is associated with multiple implications. Among the most important internal factors we can mention the available resources of a country, their type, quantity, economic development level, supply-demand relation, geographic position and the energy policies pursued.

While external factors are related to regional and international markets access, the actor's position within these markets (as producer, consumer or transit), social, economic, political and geopolitical contexts of the region. The combination of these factors determines the level of energy security of a country.

According to contemporary literature, the term "energy security means "... continuous/uninterrupted availability of energy resources and an affordable price [...the uninterrupted availability of energy sources at an affordable price...] (IEA, 2008; Ebinger, 2011). Such a definition defines basic energy security criteria, which are:

- Available and accessible energy by the user;
- Competitive and reasonably priced energy;
- Uninterrupted and reliable energy

It is necessary to emphasize that, traditionally, energy security is referred to guarantee oil supply. Although oil remains one of the most important sources of energy, it is necessary to take into account the increasing complexity of systems and energy sources. Energy security can be defined as a condition in which a nation, its citizens and industry have access to appropriate energy sources at a reasonable price for future predictability, released from the lack of this service risk. (Hancher & Jansen, 2004: 5). Insecurity/Uncertainty comes as a result of geopolitical instability, natural disasters, terrorism or lack of investment (Redegwell, 2004). Another important definition is the one used by the Asia Pacific Energy Research Center, which can be summed up in 4 A's of energy (APEREC, 2007). According to them, energy security is defined as "the economy ability to ensure the energy supplies availability in a sustainable way and at a price level that would not affect the economy performance" (APEREC, 2007: 6). The same line of thought regarding the definition of energy security is widespread in the literature that addresses this issue (Kruyet, Vuuren, Vries & Groenenberg, 2009; Verrastro & Ladislav, 2007; European Commission, 2000).

## Energy dependence - indicators and impacts

The importance of energy security shows the importance and impact of energy dependence. Energy dependence in contemporary literature is defined as the ratio difference between energy import and export to energy consumption:  $V = (\text{Import} - \text{Export}) / \text{Consumption}$ . In other words, the higher the V value, the higher the energy dependence of a country compared to other countries. The issue of a high dependency or low independence as an indicator of a country's development and security is mainly related to limited import sources and / or further price increases at unsustainable levels for a country's economy. Energy dependence is conditioned by these factors:

- Economic - economic power of a country is a very important element in ensuring energy security, being connected with - Affordability - Affordability of financial costs to available energy resources. The components of this dimension are energy markets, international trade [related to energy infrastructure] and technological leadership.
- Geopolitical - considering the geographical distribution of energy resources, the relationship between system actors [producer, consumer, transit] and energy transport infrastructure, we say that geopolitics plays a very important role in ensuring energy security. The main components of this dimension are: 1 - international networks and international agreements; 2 - re-nationalization of energy infrastructure; 3 - the use of soft power by importing countries, in relations with exporting countries and energy transit.
- Nature - related to natural resources (energy resources), climate (rainfall, average annual temperatures, etc.), Climate change as well as natural disasters.

Energy dependence on imports can be classified into:

- Energy dependence by source type - mix energy;
- Energy dependence on the origin of the source of domestic energy import;
- Energy dependence on the origin of the source of energy import from abroad - transmission lines

Another important indicator in assessing a country's energy security level is the Herfindahl Index - an indicator that shows the ratio of one of the energy components to the total amount of energy (produced, consumed, imported, etc.). It is given by the formula: Provided by the formula:

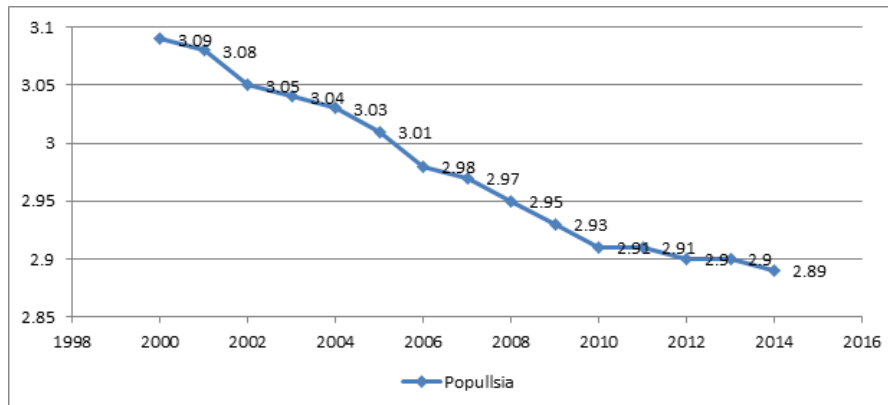
$$H = \frac{E_x}{E_T}$$

All of these elements / indicators serve to analyse the level of energy security, to identify the situation and the energy policies that are required to be taken by the actors, with the main goal of guaranteeing energy security. What is the energy security situation in Albania? What are the main issues and what implications do they have? How does Albania stand in relation to other countries related to energy security? These are some of the key issues that will be addressed in the next section of this paper.

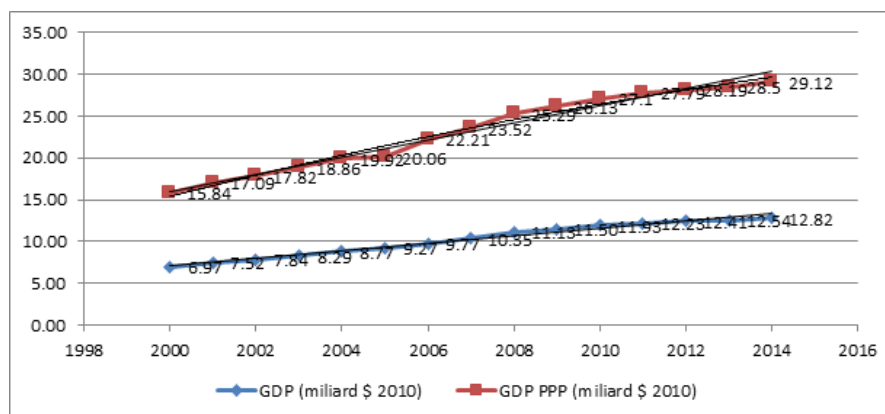
## Energy dependence in Albania - comparative analysis

When we talk about energy security, one of the key elements that determines its level, its level is the relationship between demand and supply. Demand is determined by a number of factors ranging from the level of economic development to the population. If we focus on the population factor, a basic principle is that energy demand is proportionate to the number of population, the growth of population increases and demand for energy. This is not an absolute principle, because association with a high development level may have a higher demand, but as long as energy is a public good that is indispensable for every individual, then the above principle always remains valid.

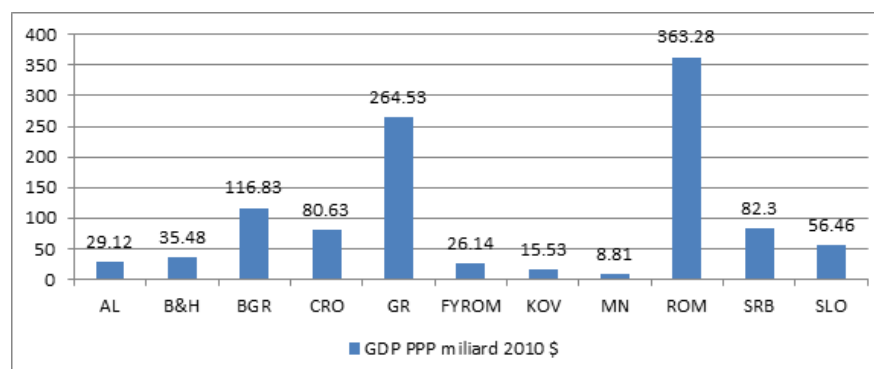
INSTAT data, the World Bank and the International Energy Agency include a wide range of indicators related to economic, population and energy development. According to these data, the Albanian population in recent decades has been declining. The detailed performance of this indicator are reflected in the first graphic.

**FIGURE 1: Population (Albania)**

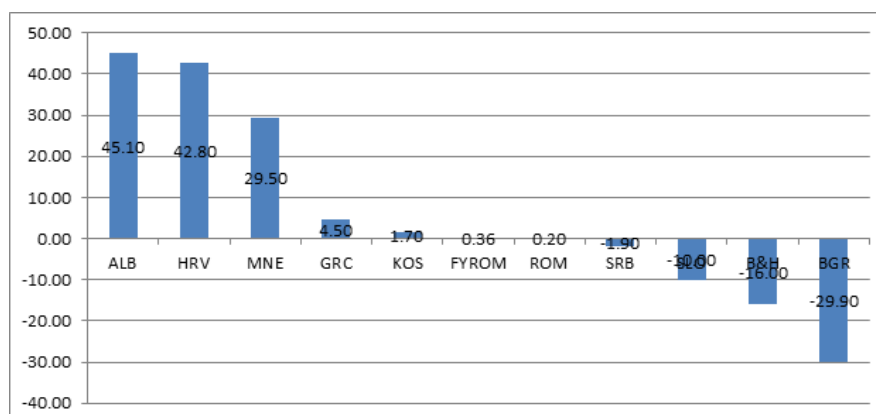
If we refer to the first principle, “the link between energy demand and the population”, seems that this demand should decrease as long as the population of Albania has had such a trend, from a population of about 3.09 million in 2000 in a population of about 2.289 million in 2014. But that is not true, and this can be explained through the second principle according to which the demand for energy increases with the economic development of a country in a right relationship. As in recent decades Albania has been characterized by an economic development growth, expressed through GDP growth, demand for energy has also been increased. The economic development is reflected in second figure.

**FIGURE 2: GDP) - Albania**

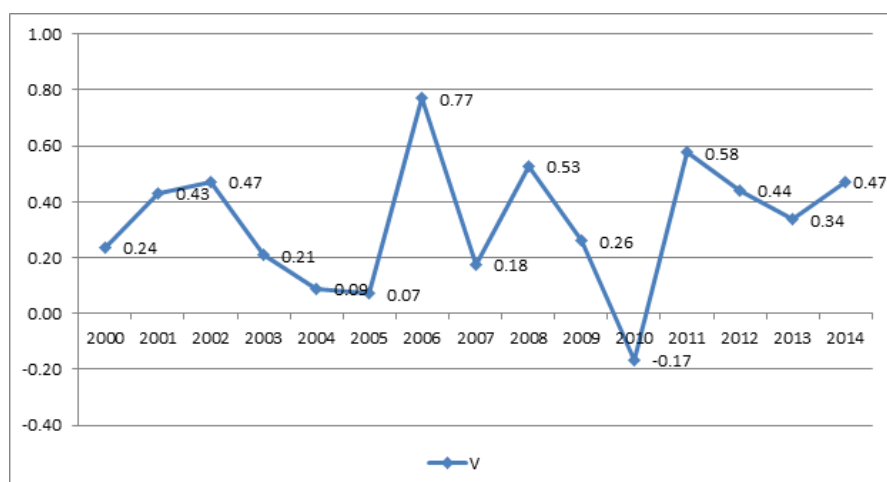
In 2000, Albania’s GDP was estimated at about 15.84 billion dollars, while data for 2014 show a GDP of \$ 29.12 million. Although Albania has been characterized by a GDP growth in recent decades, it is necessary to emphasize the fact that this development is still insufficient compared with the countries of the region or the EU average where Albania aims to be integrated. Graph No. 3 on Gross Domestic Product, reflects the data of the GDP level for the region.

**FIGURE 3: GDP**

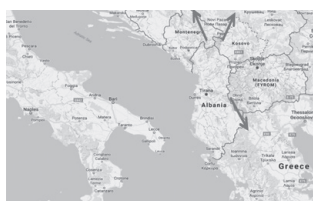
As noted in the graphic, Albania’s GDP is very low compared to countries such as Bulgaria, Croatia, Greece, Romania, Serbia and Slovenia. Data show a comparable or higher GDP level than other region countries. Albania presented not a good position compared with other regional countries about energy dependence, an indicator directly related to energy security of the country. Energy dependency data for the regional countries o are shown in fourth figure.

**FIGURE 4: Energy Dependence**

Energy dependence reaches on 45%, a high level compared to other countries, such as Bulgaria, Romania and Slovenia that possess nuclear power and B & H that has significant energy output from fossil and hydro power sources. Albania, along with Croatia (42.8) and Montenegro (29.5), are the countries with the highest energy dependency, which can be translated as the countries with the lowest level of energy security. This low level can be related to high dependence on a single source of energy or from a limited number of external sources of energy. Greece, Kosovo, Macedonia and Romania have a much lower dependency than these countries, but in their case the level of energy security in terms of energy dependence is not at the right level. Otherwise, the situation is presented for countries such as Slovenia, Bosnia and Herzegovina and Bulgaria, which are characterized by a more satisfactory level of energy security. Regarding the case of Albania, energy dependence has been fluctuating in different years. The data of this progress is reflected in the fifth graphic.

**FIGURE 5: Energy dependence in Albania (in years)**

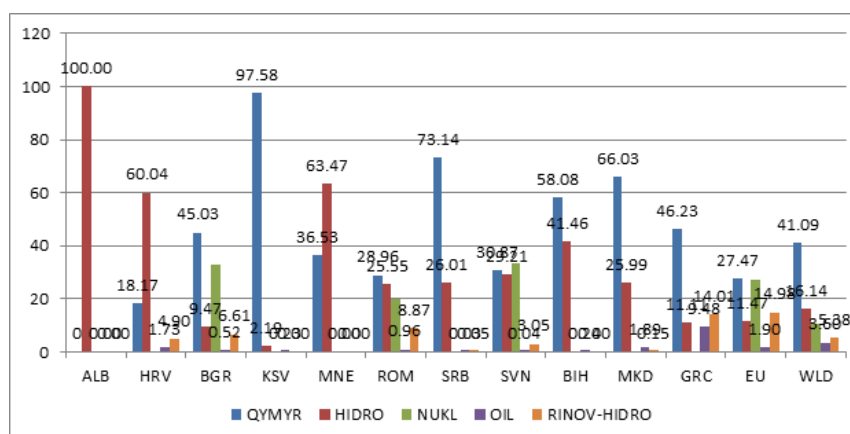
Energy dependence over the years has been fluctuating in the range of 24-50%. An exception is the 2010. That show high production and export. The energy system in Albania is relatively small, with a hydro power-based electricity production. Due to high and rising consumption, electricity imports are high as a result of not meeting demand from domestic energy sources. Limited investments in the energy sector and large network losses makes difficult Albania energy security. In this situation, it is necessary to go on with the reformation of the energy sector and improving energy supply. Diversification of energy sources and reducing dependence on climatic elements are important issues. A threatened energy security and the import increasing needs directly affect economy sectors and the state budget. The construction of small hydropower stations, improvements to the transmission network and ongoing efforts to liberalize the electricity market are some positive elements but cannot solve the energy problem in Albania.

**FIGURE 6: Dependence on import source**



Albania is connected to the energy market through three main directions: MN with two-lines (1 of 400 kV and the other 200 kV), with Kosovo (1 line 400 kV) and with Greece (2 lines, 1 of 400 kV and the other 200 kV). There is a lack of lines that are directly connected to the strong energy sources of the Balkans, such as nuclear power plants in Bulgaria and Romania, as well as more vulnerable if there is an aggravated. Relations or situations between Montenegro, Kosovo and Greece.

**FIGURE 7: Energy Mix**



In addition to interconnection lines, special attention should be paid to resource diversification, mix energy, which is related to real or potential access to a variety of energy sources, without being dependent on a single source, the access that in different circumstances and reasons can be limited or even interrupted. Diversifying generating capacities means “a well-balanced energy system, that includes various power generation technologies and appropriate capacities that maximize the benefits of each of the resources while maintaining a reasonable price level and providing a continuing supply for the customer” (WCA, 2011). The lower number of energy sources available, the higher the threats to the energy security of a country or region. While countries in the region have a balanced distribution of energy resources, Albania and Kosovo are 100% dependent from whatever source, the hydro power in the case of Albania and coal in the case of Kosovo. The most balanced are Bulgaria, Romania and Slovenia, as they have more than 2 types of energy in use.

Characteristics of energy dependence in Albania can be grouped into:

- Dependence on a single source of energy - hydropower
- Dependence on a single energy cascade - Drin cascade
- Dependence on electricity transportation lines - through MN, KO and Gr
- Lack of transport lines to exchange energy with powerful energy

## Conclusions

Ensuring energy security should be an important issue not only for the state but even for private sectors or international institutions. Economic growth is directly linked to the growth of energy demand. Since energy resources are limited, then actors need to undertake appropriate and long-term energy policies, in order to overcome the problems that may arise from a low level of energy security. To fulfil such a purpose, it is necessary that actors previously recognize their situation, to design future requirements and analyse all possible alternatives that can be used to guarantee energy security. One of the main elements relating to energy security is energy dependence, which may be dependent on a single type of internal source or from a small number of external sources.

Albania is characterized by a high level of energy dependence, which is due to the high energy dependence on imports, the type of energy (100% hydro), the domestic resource (mainly from the Drin cascade) and the source of imports (limited interconnection lines). Diversification of energy sources, not only based on hydropower for electricity production depending on the weather condition should be one of national priorities. The main measures to be taken in this regard are related to the development of energy infrastructure, where interconnection lines would play a very important role. Also, it is necessary to maintain existing hydropower plants, but also to build new large hydropower plants, as the construction of small hydropower plants not only does not guarantee energy security, but can also turn into problematic issues as they can damage the area around they are built, thus having environmental problems.

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# The application of costumer based brand equity (CBBE) for a tourist destination

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## Abstract

*The branding process in tourist destination management has received considerable attention in recent years. Destinations can be considered as one of the most difficult elements to be marked due to their complexity. Creating experiences that last and are properly managed, can serve as a basis for building tourist destination brands, which are considered as specific aspects of marketing destinations in order to identify the main destinations and the trend to attract more visitors.*

*In Albania, specific studies on the destination brand management are few. It is worth noting that it is of particular importance to measure the effectiveness of branding for a long-term management of destinations. Many studies use the Costumer Based Brand Equity (CBBE) to measure the effectiveness of the brand. This study, through a critical literature review, will explore conceptual aspects of branding in marketing perspective and concept of branding destinations, based on contemporary foreign and Albanian literature. The paper proposes a conceptual model, which will be tested in future studies.*

**Keywords:** tourist destination, tourist destination brand, brand equity, CBBE

## Introduction

Recently, brands are used as the main tool of differentiation, as the most competitive marketing strategy in market (Kotler, 1988; Keller, 2003; Pappu et al., 2005). The concept of brand and branding, mainly known for goods and services of a company, has been expanded and used to service industries (Ritchie and Ritchie, 1998; Buhalis, 2000; d’Hauteserre, 2001; Williams et al., 2004; Konecnik and Gartner, 2007). Destination branding is an important process of destination management practices, as a result of expansion of tourist’s opportunities and the lack of destination’s differentiation (Pike, 2005). The main challenge of destination branding is related to their complexity (Cai, 2002, Dredge and Jenkins, 2003, Gnoth, 2002 and Murphy et al., 2000). In terms of destinations brand management, more suggestions from different studies have been related to the effective way of brand communication. Though, concrete researches that try to measure the brand impact are a few (Jago et al., 2003, Morgan et al., 2002 and Ooi, 2004). Measuring the brand effectiveness is an essential and critical for long run destination management (Blain, Levy, & Ritchie, 2005). Blain et al., (2005), Kaplanidou and Vogt, (2003) and Ritchie and Ritchie, (1998) stressed that to measure brand effects; you have to focus to experienced tourists and their perceptions for the brand destination. In accordance with the growing importance of the brand destinations, the interest for research focused on destination image has increased (Cai, 2002; Hall, 2002; Hankinson, 2004; Hankinson, 2005; Pritchard and Morgan, 2001). Recently, with the application of customer-based brand equity (CBBE) to tourist destinations, Konecnik and Gartner (2007) propose 4 brand-size dimensions, such as awareness, image, quality, and loyalty. The main conclusion of their study highlights that destination image is the essential element of brand equity evaluation, backed by other dimensions, to measure the real costumer – based brand equity. The main purpose of this study is the application of concepts of costumer – based brand equity in destination brand management. Its specific objectives include the evaluation of dimensions of destinations brand structures and the development of a trustworthy model of costumer – based brand equity for a tourist destination.

## Literature Review

### Tourist destination

Tourism is based on production, reproduction and image enhancement. Ringer (1998: 8) emphasizes that “differences between tourist destinations include time and space aspects, since globalization and cultural homogenization are increasing”. Speaking about tourist branding destinations is not an easy topic. Different authors have tried to study how the branding of tourist destinations is realized. The difficulty lies in understanding the concept of tourist destination and then branding it. Different scholars have given their definitions regarding this concept.

McInture (1993) defines destinations as the location of a variety of attractions related to various leisure facilities and services that a tourist or a group of tourists prefer to visit. Buhalis (2000) points out that tourist destinations are presented as a combination of tourist products and services grouped under a brand name of destination. A destination is considered as a trademark of a product, service and experience ensured in that particular place. Tourists consume the destinations as a full experience of their entire stay in that place.

In support of these findings, it is underlined that “tourist destinations are a set of individual elements and opportunities mixed together to ensure visitors with a great experience” (Murphy, Pritchard, & Smith, 2000: 44). The entirety of these elements of a destination poses the challenge of branding them (Cai, 2002) and also the creation of marketing activities that produce a competitive brand in the market (Dredge & Jenkins, 2003). Competitiveness is a relative and multi-dimensional concept (Spence & Hazard, 1988). Dwyer and Kim (2003: 369) point out that “to achieve a competitive edge in the tourism industry, each destination should provide superior tourist experiences compared to other alternative destinations open to potential visitors.

### Brand / Branding

Marking is the process of creating the identity of goods and services and differentiating them from competitors (Kapferer, 1998; Kotler, 1988). Branding is considered a good way of creating competitive advantages in product, service and corporate marketing (Pappu, Quester & Cooksey, 2005). Also, branding is referred to as the transferring process of functional assets in the assets of the relationship (Knowles, 2001) or the process that adds value to the products / services (Aaker, 1991, Dinnie, 2015).

The ability to create value for the development and retention of attributes, which attract emotionally consumers, is becoming one of the major branding focus (Murphy, 1998, Knowles, 2001).

Branding is the ability to differentiate one product from another by creating different brand elements, as it creates value for a firm not only in financial parameters but also awareness, reputation and loyalty in market (Keller, 1993, 1998; Murphy, 1998; Keller, Parameswaran, Jacob, 2011; Baumeister, Scherer & Wangenheim, 2015).

Branding process includes the steps of creating a positive identity and image of a destination that connects emotionally with tourists (Cai, 2002; Gnoth et al., 2007; Jin, Rashad Yazdaniford, 2015).

The branding process tends to attract customers related to brand equity (Negoita, Negoita, Ghituleasa, Purcarea, 2015; Kavaratzis, 2017). The brand concept emphasizes the emotional benefits of consumers through the purchase experience (Ambler, 1997; Bhat & Reddy, 1998; Lond & Schiffman, 2000; Berry, 2000; Jago, Chalip, Brown, Mules & Clip, 2003; Todor, 2014). A positive brand image can be very desirable by consumers who associate themselves with the company, products and services, and branding is the process that measures the success of a brand (Kaplanidou & Vogt, 2003). More and more, marketers are paying a great deal of attention to how brands are created, strengthened, changed, and maintained (Jago et al., 2003).

### Destination Brand / Branding

The concept of branding involved the visitor experience through a brand process and is supported by the context of tourist destinations (Blain et al., 2005). “Destination Branding is a strategic process”, it provides different elements to identify a destination, it helps building a positive image” (Cai, 2002: 722). A destination brand is likely to be a corporation brand, because it allows brands of individual tour operators to have their qualities and attributes (Gnoth, 2007). A destination brand has its effects on stakeholders of a particular destination.

Destination branding is considered a vital aspect of current destination management practices. Expansion of tourism opportunities has increased the lack of differentiation of destinations (Pike, 2005). The complex features of a destination present a challenge to be branded (Cai, 2002; Dredge & Jenkins, 2003; Gnoth, 2002; Murphy, Pritchard & Smith, 2000; Pike, Bianchi, Kerr & Patti, 2010).

Consumers are ahead of many opportunities and alternatives to tourist destinations and therefore it is very difficult to differentiate them (Pike, 2005; Florek, 2015). Tourist destinations, like products, should be branded to identify and isolate from substitute destinations, as well as to create a positive image and provide the customer with a unique experience (Aaker, 1991).

Though branding is a relatively new concept in tourism marketing (Cai, 2002; Pike, 2005), the interest in tourist destinations branding is growing (William, Gill, & Chura, 2004). Buhalis (2000) points out that the number of consumers is increasing, recognizing that a destination can be a concept that can be interpreted objectively through the process of experience.

Destination Branding is an important aspect of destination marketing efforts to identify tourist destinations and attract a large number of visitors (d'Hautesserre, 2001; Zenker, Braun, Petersen, 2017). Various studies present the main branding functions of a destination. Concretely, to shape the perceptions of consumers for a country; create a package of services for the destination; enabling this destination to compete with other destinations in the global tourism market; and give shape to tourist experiences (Medway, Swanson, Delpy Neirotti, Pasquinelli & Zenker, 2015). These branding functions play an essential role in customer's decision for the destination they will choose (Ritchie & Ritchie, 1998; Knowles, 2001; Ooi, 2004; Horner, Swarbrooke, 2016).

Keller (2003) emphasized that geographic locations, like products / services, can be branded through campaigns to create a sense of well-being and awareness of a destination. Different researchers are consistent in their statement that destinations can be branded. But, in support of these statements, it is said that it is much harder to brand a destination than a corporate, product or service, because of their complexity (Cai, 2002; Gnoth, 2002; Morgan, Pritchard, 2014). The researchers suggest that all elements should be branded within a destination, not just the specific destination features.

Identifying major assets of destinations that represent core value are of particular importance because of limited tourists' experience about the destinations in the decision-making process (Chekalina, Fuchs & Lexhagen, 2014, 2016). They also have a special value to help marketers attract a large number of tourists from competitors (Miličević, Mihalič & Sever, 2016). The destination brand is a combination of the characteristics of a destination that identify it from competitors (Campelo, Aitken, Thyne & Gnoth, 2014; Dioko, 2016). In terms of the prospect of the tourist, the perception of the destination brand can be formed through the experience of the destination visit (Lim & Weaver, 2014; Oliveira & Panyik, 2015; Tukamushaba, Xiao, Ladkin, 2016).

Meanwhile, destination branding refers to the process of creating the brand equity, which impacts future behaviors. This process is presented as a set of marketing activities that create a name, symbol, logo, etc., that identifies and differentiates it; Consistent fulfillment of a travel experience that is unique to that destination; Serves to consolidate and strengthen the emotional connection of visitors and destinations; Reduces Costs for Consumer Search and Expected Risk (Blain, Levy & Ritchie, 2005; Morgan et al., 2002).

Cai (2002) emphasizes that destination branding is the mixing of brand's elements that identify a destination through a positive image construction. In support of these findings, Kaplanidou & Vogt (2003) state that destination branding is a combination of attributes that accompany a country compared to another to create an identity and personality, easily differentiated from other destinations. The concept of branding can include tangible and intangible elements (Aaker, 1991; Murphy, 1998; Ward, Light & Goldstine, 1999; Clifton & Simmons, 2003; Wong, 2015; Wong & Teoh, 2015). Morgan et al. (2002: 355) states that "destination branding is a powerful marketing weapon that serves to increase productivity and competitiveness".

## CBBE

Brand equity is seen both from the financial and marketing perspective. In the context of marketing decisions making, it focuses on the goal of improving efficiency in the marketing process. In financial terms, it estimates the total value of the brand for investment purposes, such as merging, buying or diversifying (Motameni & Shahrokhi, 1998). In recent years, return on investment has been translated into other less vulnerable brand attributes. Brand Equity Research deals with the measurement of intangible marketing concepts (Motameni & Shahrokhi, 1998). Keller (2003) defines brand equity as the effect of the difference between brand awareness in consumer responses and brand marketing. This perspective is labeled costumer-based brand equity. This is operationalized in: consumer perceptions and behaviors (Pike, 2014). Marketing studies show that costumer-based brand equity happens when the brand is well known from the costumer (Kamakura & Russell, 1991). This type of model is implemented to measure brand effectiveness. Measurement of brand equity has been one of the most important issues for academics and managers (Ailawad & Keller, 2004; Pike, 2015), because the brand is a complex phenomenon (Murphy, 1990) and brand equity is multi-dimensional (de Chematonty & McDonald, 1998; Yoo & Donthu, 2001; Pappu & Quester, 2017).

The brand equity is based on perceptions. The brand image of the destination, the quality of the destination brand and the value of the destination brand are considered as the brand equity components of the destination. Dimanche (2002) defined the brand equity as the brand-name assets associated with the name and symbol of a destination, which is added (or subtracted) to the services and experiences provided. Customer-based brand equity refers to tourist perceptions more than any objective indicator. This model approaches brand equity from the consumer's perspective. It provides a unique view of what brand equity is and how it should be built, measured and managed (Keller, 2003; Kladou, Kavaratzis, Rigopoulou & Salonika, 2016).

Different scholars tried to conceptualize the brand of similar brand marketing direction; Such as brand personality, brand value and brand essence (Hankinson, 2004; Kaplanidou & Vogt, 2003; Morgan et al., 2002; Liu & Fang, 2016). This means that there is a tendency toward a more systematic approach to the conceptual level, in relation to what a destination brand introduces and including particular components. However, there is no general agreement between researchers regarding destination brand ingredients.



Costumer-based brand equity models derive from the consumer's perspective and are critical to understanding their behaviors (Keller, 2003). Linked to branding techniques, the costumer-based brand equity concept has been adapted as a strategic marketing tool. Marketers try to reach positive brand equity, as consumers who have positive brand equity react to the brand's favor and are loyal to it. For this reason, destination marketers try to build a strong customer-based brand equity for their destinations.

Konecnik and Gartner (2007) and Pike (2007) identified costumer-based brand equity dimensions for a tourist destination. Dimensions are awareness, image, quality and loyalty. Between the proposed dimensions of costumer-based brand equity for a tourist destination, image size has the greatest influence on building brand equity (Konecnik and Gartner, 2007). De Chernatony (1999) argues that modern analyzis should address more the concept of brand identity (Aaker and Joachimsthaler 2000; Kapferer 1998) and the concept of brand equity (Aaker 1991; Keller 1993) as attached. By equity is meant the sum of the factors (or dimensions) that contribute to the brand value in the mind of the consumer.

## Five Proposed Dimensions

### Destination Brand Awareness

Destination Marketing aims to increase the awareness of the destination by creating a unique brand (Jago et al., 2003). Aaker (1991) defines brand awareness as a potential buyer's ability to recognize that a brand is a member of a particular product category. He mentions several levels of brand awareness, ranging from brand recognition to dominance, which refers to the situation where the brand involved is the only one that is recognized from the consumer. The strength of the presence of the brand in costumer's mind is explained by the term of brand awareness (Aaker, 1996).

Keller (1993) suggested that brand awareness consists of brand recognition and brand image as well as brand awareness is considered as a sub-component of brand equity. De Chematonty and McDonald (2003) considered brand awareness as one of the main brand attributes. Motameni & Shahrokhi (1998) provided that brand awareness can be measured by examining consumer's recognition and recall.

The image of the destination starts with destination brand awareness (Gartner 1993). Firstly, a destination must achieve tourist awareness and then a positive image (Milman and Pizam 1995). Destination image represents the concept of familiarity.

Brand awareness is the first component of the impact of brands in hospitality and tourism (Kim & Kim, 2005; Kaplanidou&Vogt, 2003; Lee & Back, 2008; Oh, 2000) and in the decision making related to costumer's purchase (Belonax& Javalgi, 1989; Kwun& Oh, 2004; Oh,2000; Sivakumar& Raj, 1997; Webster, 2000). Brand awareness is one of the elements of brand equity (Keller, 2003) and a main attribute of a brand (de Chernatony& McDonald, 2003; Motameni& Shahrokhi, 1998). Brand awareness is linked with other dimensions, it is the important antecedent of customer value (Oh, 2000; Kwun& Oh, 2004; Webster, 2000) and contributed to the performance of the hospitality (Kim & Kim, 2005). Konecnik and Gartner (2007) noted that brand awareness is one of the customer-based brand equity model's dimensions.

### Destination Brand Image

Consumers project their own personality characteristic onto the brands. Brand image in general marketing is defined as perceptions about a brand (Keller, 1993). Brand image is the total set of all reasonable and emotional perception of costumers related to a specific place (Dobni&Zinkhan, 1990). Researchers identified brand images as the most important dimension of CBBE.

Brand image has been considered in terms of brand personality provided that brand image and brand personality have been used interchangeably to measure consumer perceptions of brands.

However, Martinez and de Chernatony (2004) noted that the existing literature shows that brand image is a multi-dimensional concept, but there is no consensus on how to empirically measure it. In tourism marketing, destination brand image can also be expected to play an important role, especially where it is difficult to differentiate tangible or intangible attributes without visiting the experiences.

Etchner and Ritchie (1991) classified image attributes into functional attributes and symbolic attributes and Morgan et al. (2002) added a holistic image. Hankinson (2005) identified eight clusters of destination brand image attributes in terms of business tourism: physical environment; economic activity; business tourism facilities; accessibility; social facilities; strength of reputation; people characteristics and size of the destination.

Destination image generally refers to 'the sum of beliefs, ideas and impressions that a person has for a destination' (Crompton, 1979, p.18). Lin, Morais, Kerstetter & Hou (2007) stated that destination image impacts to shape the preferences of costumers and help them make the decision for a specific destination.

### Destination brand loyalty

Tendency to be loyal to a specific destination; brand loyalty is limited to both attitudinal and behavioral. The ability to create customer loyalty is the major outcome of branding (Gilmore, 2002). The core of brand equity is destination brand loyalty

(Aaker, 1991). Also, Keller (2003) highlighted that brand loyalty is the main source of customer-based brand equity. Brand loyalty represents the relationship between a brand and a costumer (Aaker, 1991, p.39) or the commitment to redo the process of buying a product in a consistent way, despite different impacts that have the power to change behavior (Oliver, 1997, p. 392). Also, Back and Parks (2003) noted that brand loyalty has been considered as a consequence of multidimensional cognitive attitudes toward a specific brand. Odin et al. (2001) operationalized brand loyalty with strong brand sensitivity and examined its impact on repeat purchasing behavior.

Behavioral loyalty is one the main elements that impacts costumer's decision making. Attitudinal loyalty considers a person's attitude (affective image component) of a destination's attributes, which can further influence their intention to visit or recommend a place to others (Bigne et al 2001). The ability to create consumer loyalty is one of the main missions of the managing brand process. Generally, brand loyalty includes attitude and behavior (Odin, Odin & Valetter-Florence, 2001; Liu et al. 2016). In addition, Kim and Kim (2005) found that brand loyalty, is the dimension that impacts on company's performance. This study includes both aspects of brand loyalty, attitudinal and behavioral. Opperman (2000) described destination loyalty as having the intention to revisit the destination and highlighted a significant relationship between brand value and brand loyalty.

## Destination brand quality

Tourists' perception of the functional benefits and performance of the destination. Perceived quality has been defined as customer's perception of the overall quality or superiority of a product or service with respect to its intended purpose, and relative alternatives (Zeithaml, 1988; Aaker, 1991, Chekalina, Fuchs & Lexhagen, 2016).

Perceived quality is a global assessment based on consumer perceptions of what constitutes a quality product and how well the brand rates on those dimensions (Keller, 2003). Keller (2003) considered brand quality as one important type of brand judgments.

Murphy et al. (2000) discussed a conceptual model of the destination product to include destination environments and service infrastructure. These two conceptual models help to understand destination branding elements (Williams et al., 2004). Therefore, these elements can be considered in measuring destination brand's performance.

The majority of researches include an empirical measurement of the concept (Pike 2002). Quality is a vital element affecting consumer behavior. It is difficult to operationalize the concept of destination brand quality.

Aaker, 1991; Keller, 2003; & Zeithaml, 1988 identified seven dimensions of product quality: performance; features; conformation quality; reliability; durability; serviceability; style and design. In discussing destination brands, elements including environment and service infrastructure should be considered in measuring destination brand performance (Buhalis, 2000; Murphy et al., 2000; Williams et al., 2004).

Perceived quality is a direct antecedent of perceived value (Dodds, Monroe, & Grewal, 1991; Oh, 2000; Teas & Lacziak, 2004).

Deslandes (2005) found that quality of a tourist destination has a relationship with the value of that destination. Konecnik and Gartner (2007) identified brand quality as a main dimension of customer-based brand equity when applied to a destination. In addition, a positive relationship between perceived quality and brand loyalty has been found (Kashyap and Bojanic, 2000; Michell et al., 2001; Cretu & Brodie, 2007; Cardona, 2016).

## Destination brand value

The perceived destination utility relative to tour costs, valued by the tourist and based on consideration of what is received and what is given up to receive it. It is related to how tourists evaluate the destination value with economic and monetary consideration. The most popular definition of customer value has been price-based definition (Sweeny et al., 1999). An economic definition of perceived brand value was prevalent among marketers (Tsai, 2005). However, there has been no generally accepted or consistent definition of consumer value (Parasuraman, 1997; Day & Crask, 2000; Flint, Woodruff & Gardial, 2002). Destination brands are designed to create a unique value. Williams et al. (2004) noted that a tourism destination brand represents a simplification and focusing on the core values.

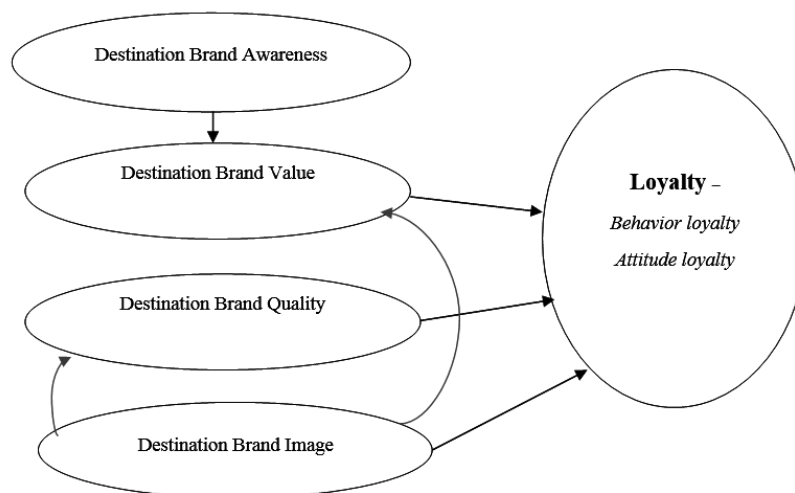
Sweeny and Soutar (2001) divided brand value into four components including emotional value, social value, functional value (price value for money), another functional value (performance/quality), and were measured with a consumer survey. Their scale was designed to determine what consumption values drive purchase attitudes and behaviors. They found the measure to be reliable and valid. Studies have shown that destination value can be treated as a multi-dimensional construct (Hall et al., 2001). There is a positive relationship between the perceived value of a product's brand and future behavioral intentions characterized as repurchase intention (Woodruff, 1997; Petrick, Backman, & Bixler, 1999; Teas & Laczniak, 2004; Tsai, 2005). Also, customer value was positively associated with future behaviors, such as purchase and search intentions and willingness to buy (Haemoon, 2000). There is also a positive relationship between brand value and customers' brand loyalty (Barrows, Latuoca, & Bosselmanc, 1989; Chiou, 2004; Kwun & Oh, 2004).

Value in use is created when goods or services are used (Vargo and Lusch 2004). So, value for a consumer is created as a result of interaction between company and consumer, as a result of total experience, including company's sources, like goods; information and interaction with employees, systems, infrastructure and consumers (Gronroos 2008). Value in use represents

tourist's conditions as a result of a destination visit. Value in use is considered as the dimension of "judgment and feelings" (Sheth et al. 1991; Holbrook 2006). Connection between destination sources and value in use is confirmed by Pike et al. (2010), as a positive influence of destination attributes toward tourists.

Value conceptualization used in a destination visit is defined in emotional value of the visit, as the main important factor of alpine tourism (Holbrook, 2006). Value in use of destination is a direct predecessor of destination loyalty (Chekalina, Fuchs & Lexhagen, 2016). Based on above literature review we propose the following conceptual model.

**FIGURE 1.** Conceptual Model



In our future studies, this model will be tested for different market segments, based on psychographic, demographic and attitude variables.

## Conclusions

We can conclude that brand creation is connected with offering of superior value to the consumers and following a differentiable specific strategy which helps positioning in a competitive statue. Like marketing, branding is the process which can be taken to reach the goals of the company, creating loyalty relationship with consumers. The evolution of destination phenomenon from consumer's point of view has attracted researcher's attention. Although, most of the studies are focused only in investigating image concept. By the fact that destination can be treated as brand, this research tries to identify brand equity evaluation dimensions, which are used also for touristic destinations. This study researched conceptualization of brand evaluation, in dimensions as awareness, image, quality, value and loyalty. Theory representation of any proposed dimension is a synthesized review of early studies in marketing and tourism, which will be tested empirically in the next studies.

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# The impact of the effectiveness of the Kosovo Pension System in its stability

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## Abstract

*This study is focused on assessing the impact of the effectiveness and efficiency in improving the quality of the Pension System in Kosovo. The object of this study is to determine the impact of the effectiveness of Kosovo Pension System in its stability. Analysis will focus on; measurement of ability, selecting the appropriate objectives, and the use of appropriate and proper methods. The thesis of the study is: How effective has the Pension System in Kosovo been in maintaining its sustainability. The study will be based on the views of theorists on the impact of the effectiveness and efficiency sustainability of the Pension System , taking into account the views that put in proportion to the influential variables to pension funds and their financial performance. The study will analyze the effectiveness of the Kosovo Pension System, and assess the impact which determinant factors have in its sustainability. It will also analyze the structure of management factors associated with the effectiveness of the functioning of the Pension System and measure these (governance, human resources or staff work, partnerships and human resources, contributors, legislation and regulations, communication, transparency, ethics, processes, asset management, investment, risk management, financial operations, pensions, results of performance measurement results of the audit, the results of social responsibility, etc.). The study will particularly analyze the costs of the operation of the Pension System in relation to the management of financial assets and the benefits of pension from contributors. Also, the efficiency of the pension system in Kosovo will be measured by comparing it with pension systems in other countries in the region, giving consideration to; distribution of pension contributions of employees in the region, management fees as well as the investment performance of pension funds in the region. The study will also consider the process which affects the building plan to improve the quality of the Pension System, based on the principles defining the excellence of the quality of the Pension System (measuring permanently the quality of the sustainability of the Pension System, continuing improvements in methods and funds for the development of efficient operations). In its conclusion the study will examine experiences on the development of pension funds in the world and how they carry numerous economic benefits based on their degree of efficiency.*

**Keywords:** effectiveness, efficiency, quality, financial resources, pension contributions, investment rate of return, cost, pension funds, performance, durability.

## The effectiveness of the new Pension System in Kosovo

The effectiveness<sup>1</sup> of the new Pension System in Kosovo has an impact on the stability and socio-economics of the country through the implementation of socio-economic objectives that relate to the relationship between the actual results and outcomes. Therefore, to be effective it is important that the right socio-economic goals are selected, using available resources to

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<sup>1</sup> Effectiveness is the ability to select appropriate goals and means for their realization. Effectiveness - The express success in achieving the goal set ("do the right thing"). Effectiveness means, you do the things you need, at the right time and in the right way (Effective adequate Fulfilled a goal, the product of a target score).

the maximum realization of the objectives<sup>2</sup>. That in itself summarizes effectiveness; resources, tools, method of implementation of planned activities in order to achieve planned results<sup>3</sup>. The effectiveness of the Pension System capabilities depend on the available resources being in the right proportion as in the realization of the socio-economic goals that have been set.

The effectiveness of the Pension Scheme depends on several factors; ways of governance and management characteristics of the pension system, the financial resources available, the rules of the financial system of the country, the rate of economic development and employment, seniority structure of the population, the financial capital market, etc.

The model of the Pension System is a conditioning factor of its effectiveness directly dictates its chance to determine the availability of financial resources, to choose the methods of governance and their management, realize the objectives appropriate to achieve the goals set, sustainable and quality<sup>4</sup>.

### The effectiveness of implementation of objectives

It is important to determine an objective for each operation of the Pension System plan of activities with implementation targets and appropriate interventions, and create opportunities to achieve the goals specified. Action must be taken to intervene in the realization of the development objectives and action plans of the Pension System to ensure the desired results are achieved, particularly where an evaluation has shown this to be necessary. Evaluation of the objectives serves to measure the effectiveness of the functioning of the Pension System, in order to achieve the optimal results intended. Appropriate targets and their realization must be selected these result in the development of activities which measure;

- Increases in the population (the population of working age)<sup>5</sup>
- The extent of employment,
- Movement of GDP,
- The cost of the consumer basket<sup>6</sup>,
- Operation of government pension schemes<sup>7</sup> (quality of corporate governance, professional training, experience, honesty, loyalty and transparency) policy<sup>8</sup>,
- Management of financial income (wages, % of contributions, pay contributions, equalizer, etc.)
- Investment assets under the management of the Pension Funds (Pension Fund Assets, investments, return on investment) the role of the owner of the capital of the Pension Fund<sup>9</sup>,
- The cost of management of the Pension System,
- Redemption of pension annuities, pensions,
- Etc.

### The efficiency of financial operations of the Pension System

Factors affecting the efficiency of the operation and development of pension funds include; governmental policies, the legal framework, development of management, the volume of operations, the use of technical and technological means for processing

<sup>2</sup> Effectiveness is the act of influencing factors in relation to achieve the goals envisaged and implemented.

<sup>3</sup> Mr Vladan Radlovački, Dr Bato Kamberović, Dr Nikola Radaković, "Principi opšteg modela ocene efikasnosti i efektivnosti sistema menadžmenta kvalitetom podržane računarom" Fakultet tehničkih nauka Novi Sad, Institut za industrijsko inženjerstvo i menadžment, Pregledni rad.

<sup>4</sup> It is important to bear Pension Funds as a low cost, to provide pension benefits payable from individual contributions (Brady 2009. Crane, Heller and Yakoboski 2008: FAKTUM 2009); Efficiency increases by way of involvement of Governing Board members in decision-making (Hess and Impavido 2003; Choi, Laibson and Madryn 2006).

<sup>5</sup> The age of employees determine the pension obligations fulfilled by the Pension Funds. Course of employment so provide various promises to employees (contributors) new addition to the oldest (Friedberg and Webb 2004; Lusardi and Mitchell 2007), which affect the amount and type of pension. Pension funds with younger members, will be in a stronger position on their investments, while pension funds with older members, will tend to be conservative, limiting the amount of returns on their investments (Charles, Mc Guinan and Kretlow 2006)

<sup>6</sup> Kosovo consumer basket individual monthly measured by the Statistical Agency of Kosovo through Price Index (CPI), which depends on the change in consumer prices of a fixed basket of goods and services in a current period, which shows that on domestic sources in 2016 it was 116 Euro, while household consumption is about 7500 euro. The old age pension 75 euro per month. The basic pension is 158 Euros, and higher pension is 240 Euros, depending on educational qualifications and work experience. The average salary for employees in public institutions was 206 Euros, whilst it is currently 429 euro and in the private sector, the average salary is around 349 Euros. The minimum wage in Kosovo is 130 euro for employees aged under 35 years, and 170 Euros for employees aged over 35 years. The unemployment rate in 2015 is around 30%, the overall poverty rate is around 20%.

<sup>7</sup> Corporate governance reduces the risk of Pension Funds (Yang 2005), because it is not based on the principles of individual professional but based on the principles that previously approved by the Governing Board (corporate governance).

<sup>8</sup> Transparency is very important in decision-making and communication with members of the respective contribution increases the reliability factor of business success (Nyce, 2005; Clark and Mitchell 2005).

<sup>9</sup> The owner of the equity of privately owned Pension Fund (defined contribution), has an impact on the majority of its members is transferred to the Governing Board with expert status (Yang 2005).

the data, cost management, quality coverage needs of annuity pension payment, which affected the normal functioning of the Pension Fund and value-added tax <sup>10</sup> (capitalization)<sup>11</sup>.

The concept of efficiency is often understood as a concept of savings related to results compared with costs for planned activities. The finances of Pension Systems lead to achieving minimal costs for maximum targets (the ratio between the minimum use of financial resources available and maximum performance goals)<sup>12</sup>.

The efficiency of a Pension Fund depends on their size and this affects the financial sustainability through; height performance benefits from investments in financial and capital markets, costs (cost management and operational costs) associated with different operations respectively<sup>13</sup>.

The efficiency<sup>14</sup> of financial operations of the Pension System in Kosovo represents the ratio between the results (returns) and investment (inputs), expressed in the unit investment results or input.

The 'efficiency of investment returns ratio' expresses the maximum annual investment, or acts for the better planning and implementation of financial operations on the use of financial inputs with minimal costs (achieving rational goals for the future).

The Pension Fund of the Pension Savings Trust of Kosovo in 2015 had net assets under management of 1,229,333,328 €, while the realized net income from returns was an amount of 28,389,646 €<sup>15</sup>. Assets under management increased by 13.0% compared with the previous year, and the share capital destined for the payments of annual pension was 19,299,443 €<sup>16</sup>. So, the realization of net income from returns that were achieved in 2015 was an amount of 28,389,646€ which covered obligations of the Pension Trust Fund of the Kosovo Pension Savings Annuity penalty in the amount of 19,299,443€. If you compare the amount of annual return on the investment of funds of the Pension Fund of Pension Savings of Kosovo to the amount necessary for the payments of pension Annuity then the annual results show that the amount of return is greater than the need for retaliation of annuities pension by 0.47 times ( $28,389,646 / 19,299,443 = 1.47$ ), indicating that the Pension Fund has a very high degree of liquidity and efficiency of maintaining assets under management. So Revenues KPST Pension Fund expresses the relationship between invested assets and investment returns.

Therefore, to calculate the efficiency of the use of financial resources, it is necessary to define; Net Income, Total Revenues, Total Expenses.

*Net Income earned-* are the amounts of pension funds, as the total revenues are deducted from total costs, including depreciation and taxes<sup>17</sup>.

*Net income = Pension Fund Assets under management- (Fees charged + Expenses + Operating expenses + Investment payback pension annuities + Unallocated contributions at the end of the year)*

*Net Income Pension Fund KPST<sup>18</sup>* = 1,229,333,328 € - (5,819,478 € + 4,442,773 € + 1,282,483 + 9,971,270 € + 19,299,443 €) = 1,229,333,328 € - 1,188,517,881 € = 40,815,447 €

While equity shareholders of assets includes the Pension Fund, after deducting (minus) on its obligations.

*Shareholders equity = Assets under management- (Value of attracted funds for the year + Fees charged in investment expenditures for the year + Operating expenses for the year unallocated contributions at the end of the year).*

*Shareholders equity* = € 1,229,333,328 - (€ 19,299,443 + € 5,819,478 + € 4,442,773 + 9,971,270 € 1,282,483 €) = € 1,229,333,328 - 1,188,517,881 = 40,815,447 €

$ROE^{19} = \text{Net Income} / \text{Average Equity Shareholders}$

$ROE = € 1,207,817,324 / 1,188,517,881 € = € 1.016$

So we can conclude that, for every 1 Euro invested, the returns rate is € 1.016.

Sustainable rate of growth (ROE)<sup>20</sup> KPST Pension Fund for 2015 is calculated as follows;

<sup>10</sup> Members of the Governing Board of the Pension Fund Investment determine risk because it depends on possible measures they take to avoid losing and increase the rate of return (Brady 2009).

<sup>11</sup> Financial efficiency is conceived as the ratio between the balance of costs and benefits of the operation (Cinca et al 2002; Barros and Garcia 2006; Serrano and mar Molinero 2001), which is provided through a plan that guides the development of efficient operations (Harris 2006).

<sup>12</sup> Mr Vladan Radlovački, Dr Bato Kamberović, Dr Nikola Radaković, "Principi opšteg modela ocene efikasnosti i efektivnosti sistema menadžmenta kvalitetom podržane računarom" Fakultet tehničkih nauka Novi Sad, Institut za industrijsko inženjerstvo i menadžment, Pregledni rad.

<sup>13</sup> Theorists see the relationship between the size of Pension Funds and efficiency in two views; a) positive and b) negative. a) The view of the positive view of the report entitled put influential variables (Gallagher and Martin, 2005). b) places on the negative view of the sizes of Pension Funds report and financial performance (Cicotello and Grant, 1996, Droms and Walker, 2001 and Grinblatt and Titman, 1994). This indicates that the experiences that larger pension funds can achieve the greatest benefits (Cheong 2007, Mahon, Donohoe 2006, Chon, Hong Huang, Kubik 2004, Bikker, Dreu, 2009 and Ardon, 2006).

<sup>14</sup> Effectiveness - the express right to use the resources available in relation to costs. Efficiency (eng.: Efficiency) - similarly to express the relation between productivity and output and resources used, or with minimal use of resources within the shortest time possible, maximum results (qualitatively higher), which means the use of available resources in realizing the maximal goal (Perform a function in the best way possible, with much less beat or loss).

<sup>15</sup> Gross investment return of KPST FP for 2015 was € 28,389,646, while the other returns were € 1,165,138 = 29,554,784 €

<sup>16</sup> Annual Report 2015 Pension Fund Trust Kosovo Pension Savings

<sup>17</sup> [http://www.financeformulas.net/Return\\_on\\_Assets.html#calcHeader](http://www.financeformulas.net/Return_on_Assets.html#calcHeader)

<sup>18</sup> Pension Fund Kosovo Pension Savings Trust

<sup>19</sup> Return on Equity (ROE) - expresses the ratio between net income and average shareholders' equity.

<sup>20</sup> <http://accountingexplained.com/financial/ratios/return-on-equity>



$ROE = 2.3\% \times (1,229,333,328 \text{ €} / 19,299,443\text{€}) = 6,369\%$  growth rate stability =  
 $= 6,369\% \times 13.0\% = 8,279\%$  average growth rate of stability.

The rate of return of assets (ROA) resulting from the ratio between the net income of the Pension Fund of average total KPST and its assets.

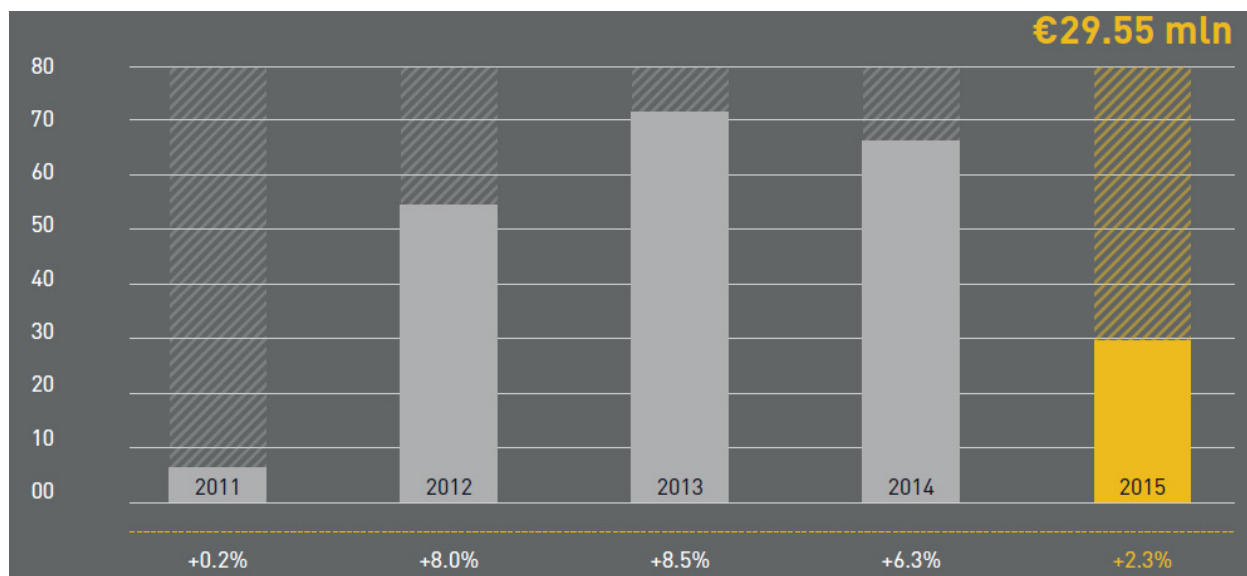
$ROA^{21} = \text{Net income} / \text{Average total assets} = 28,389,646\text{€} / 1,158,546,963 \text{ €} \times 100 = 2,45\%$

ROA growth rate and the rate of internal growth KPST Pension Fund is calculated as follows;

$ROA = \text{€} 28,389,646 / 1,229,333,328\text{€} \times 100 = 2,3\%$

Internal Growth Rate =  $2.3\% \times 13\%^{22} = 2.99\%$

**FIG. NO.1.** Annual growth of prices of action and gross investment return of KPST FP 2011- 2015



From Chart No.1. it is seen that the real investment returns to the KPST Pension Fund in 2015 were 2.35% or 29,554,784€ (gross return on investments and returns 28,389,646€ Other 1,165,138 €) which are used to increase the amount of assets under management and evaluate the success of the realization of returns from invested assets. The efficiency in pension benefits depends on the financial ability of reaching each individual to pension portfolio (this depends on the amount of pension contributions from their capitalization as important factors) and the cost of its administration.

### The efficiency of the management structure of the Pension System

The current structure of the Pension System management dealing with the implementation of financial plans and decision making, aims to meet its obligations in a timely manner. The effectiveness of the management structure of the Pension System depends on; government policies, principles of management, rules management, human capacity adequacy, adequacy and level of technical and technological capacities engaged in the management and cost of their engagement.

So that efficiency and productivity<sup>23</sup> can be seen as the same economic principles which are used to achieve a much higher level of management efficiency. To enhance the efficiency of management it is necessary to ; rate the permanent operation of the Pension System, enhance methods of management, capacity building of human resources management, involvement of advisors or experts in various fields to improve process management, application techniques and advanced technology in information system etc. After checking the results in all relevant parts of the functioning of the Pension System, it is necessary to take the corrective actions and remedies required to raise the level of efficiency of management in order to achieve the desired results.

### Defining principles of quality excellence in the Pension System

The main principles which are used to achieve excellence of quality in the Pension System are;

- 1) Focus on contributors
- 2) The goal of leadership in achieving objectives

<sup>21</sup> Return On Assets (ROA) - expresses the ratio between net income and the real (average total assets).

<sup>22</sup> Calculating the amount of asset growth the overall FP KPST during 2015  $(1,229,333.328 / 1,087,760,598 = 1.1301506326 \times 100 = 113.051$  or 13%).

<sup>23</sup> Productivity expresses the relationship between all human input in the process of working dh working capital.



- 3) Management processes
- 4) Development of human resources and their involvement in the process
- 5) Developing partnerships
- 6) Social Responsibility
- 7) Continuous Innovation and Improvement
- 8) Orientation towards achieving planned results
- 9) Construction of continuous sustainability

### Factors that condition the level of efficiency

Factors that condition the level of efficiency of management actions may include:

*Governing Board* - Which is responsible for policy-making and governance of the Pension System? Their responsibilities include; governance principles, regulations, mission and vision values. They govern the Pension System and build performance and continuously improvement the functioning.

*Management*- The leadership role of the Pension Fund responsible to implement policies drafted by the Governing Board, engage staff to work through motivation and support for the establishment of professional capacity to perform their professional tasks, increasing the prestige of other interested parties. In particular, the asset management by the management bodies (professional, careful and reliable), which develop policies to conform to the Governing Board of the Pension System, improve efficiency and functionality.

*Human resources*- Development the operation of the pension system based on professional competence, focusing on achievement of the Pension System. Those involved in the performance of professional duties effectively, developing their skills and creativity to achieve the goals set.

*Contributors* - Potential contributors and their trust in the Pension System affect the efficiency of its operations. The contributions of the members of the Pension Scheme and the efficient collection are a vital component.

*Partnerships with other institutions*- cooperation with commercial banks Pension Fund, the Tax Administration and Central Bank affecting the degree of efficiency of the Pension Funds Financial flows.

*Information Technology System*- This is one of the factors essential to the efficient functioning of the Pension Fund's Information System, which affects the efficiency of the management of the Pension System, by providing information in a timely, accurate, reliable, affordable manner.

*Legislations and Regulations* - Norms enshrined in the general legal acts are very important instruments and regulate the efficient functioning of the Pension System through; complexity, inclusion of clarity, accuracy, adequacy of plans and applicability of legal norms prescribed in legal acts.

*Communication*- This is an effective management tool in implementing the strategy of the Pension System and allows for the publication of planning, and reporting of the operational state of flow of the Pension System, and provides information about the implementation of innovations or changes on a regular basis.

*Transparency*- This is necessary to express the activities organized by the Pension System, through the publication of information on important issues on its website (such as legislation, regulations, decisions, collection of contributions, investment, administrative costs and management, handling complaints, pensions, etc.) and other forms of direct communication (issues considered important by taxpayers, contributors, which will arise from observations, surveys), etc.

*Ethic*- Regulation of ethical behavior and the governing bodies of the Pension System management through the implementation of normative acts makes reliable operation of contributors to the pension system, i.e. to pension beneficiaries.

*Processes*- Usual development processes and innovations on a continuous basis, ways of managing them (providing services to contributors, coordination and control of processes) affect the level of the degree of efficiency.

*Investment*- Develop investment strategy in the financial capital market by Pension Funds, based on the "Manual of investment principles"<sup>24</sup> harmonized with the rules of the OECD framework, makes for the most efficient pension system during the investment.

*Management risk*- of Pension Funds The primary task is; management of financial resources, the preservation of the amount and quality of the contributions, the creation of individual contributor's portfolios, the investment of pension funds, the distribution of returns from investments in individual portfolios, portfolios maintenance, protection from the potential risks of injury; the financial amount, value, foreign exchange, information (the loss or deviation), coordination of activities and information with partners of law (commercial banks, Tax Administration, Central Bank, Public Services on evidence of population, etc.), creating portfolio balance periodically and providing permanent access to the control of individual portfolios by contributors. This form of protection from the risk adjustment makes the management of the pension system more efficient.

*Financial operations* - the main operations of a Pension System are dealing with the collection of pension contributions, their administration, allocation of investments, operating costs, management costs, pension annuities, etc. So their complexity influences the efficiency of operation of the Pension System.

*Pensions* - The regulation of the manner of obtaining pension benefits by contributors Regulations and the Law on Pensions, defined mechanisms for pension annuities penalty, all affect the efficiency of the functioning of the Pension System in Kosovo.

<sup>24</sup> www.trusti.org

*Performance results* - Are indicators of the quality of the Pension System's operation against targets set. Performance evaluation is based on performance measurement, which focuses on; quality of human resource expertise, partnership connections with other institutions at home and abroad, the development of the process of administrative operations, the results achieved from investments and opportunities for building excellence)<sup>25</sup>.

*The measurement results of auditing* - Checks provided by auditors who produce opinions regarding; the legal framework and criteria for the establishment of performance indicators, which will help to achieve better quality performance, determining the issuance of economy, efficiency and effectiveness of the cash value of the Pension System.

*Results of socio responsibility* - Are indicators that measure and indicate trends of relevant targets and the chance of reaching the target, with substantial progress. The results of the present social responsibility; the degree of involvement of human resources in the pension system, the quality of their welfare, equality and inclusion in pension benefits, opportunities for improving Pension System, etc.

If we look at those factors which condition the effectiveness of the Pension System in Kosovo it shows that Kosovo's pension system has built approaches chosen for increasing the efficiency of the development of operations by reducing costs in general, without damaging the quality of the process of the operation of the Pension System.

## Relationship between efficiency and effectiveness

The key issue is the study of the relationship of efficiency and effectiveness in the development of the operations of the Pension System and the point of balance between them. While efficiency has to do with job performance, effectiveness has to do with the accessibility of resources. Effectiveness and efficiency together show ably the Pension fund has been allocated. Effectiveness can be defined as an attempt to select the appropriate areas of its activity ("doing things right"), because it represents the degree of realization of the objectives. Efficiency can be defined as an effort to select tasks that must be performed better ("doing things right"), or an indicator of fulfilling the objectives of Pension Funds.

So, efficiency expresses the ratio between the results (output) and investment (input).

**FIG. NO.2.** The balance of effectiveness and efficiency of the Pension System in Kosovo

Effectiveness- success for achieving the goal (Measures for the implementation of planned activities and the planned results)	Efficiency- rational use of resources (The ratio between results achieved and resources used)
The involvement of contributors in the size of the Pension System.	The collection of pension contributions.
The administration of pension contributions..	Processing of data on pension contributions
Profit goal to be achieved.	Realization of Returns on investments and costs incurred.
The use of financial resources for investment Pension Fund.	Reducing management costs and operational costs.
Increase profits by increasing productivity.	Realization of high resource prices in relation to costs.
Regular distribution of pension annuities.	Quality management tools Pension Fund.
Realization of the right goals.	Insurance soundness and stability of pension funds.

Relationship between the efficiency and effectiveness of the quality of processes represents the functioning of the Pension System which shows;

- The ability to provide pension plans that meet the needs of pension contributors.
- Increases in the satisfaction of contributors during the operation of the Pension System, which makes continuous improvements in the interest of pension contributors.

The quality of the Pension System in Kosovo lies in; independence from government interference, a multi pillar model, mode of governance, the size of the pension funds, quality and structure of financial assets of Pension Funds, processing independent data pension contributions and pension data storage in servers with high security, etc. So the construction quality model of the functioning of the Pension System in Kosovo is based primarily on the relationship between effectiveness and efficiency. The chart above shows that the main burden for realizing the effectiveness and efficiency falls on the Governing Board and the responsible management of the Pension System.

## Comparison of New Pension System in Kosovo with the pension systems of the countries in the region

The Kosovo Pension System includes defined contribution and can be compared with other systems in the region; Macedonia, Croatia, Bulgaria and Romania.

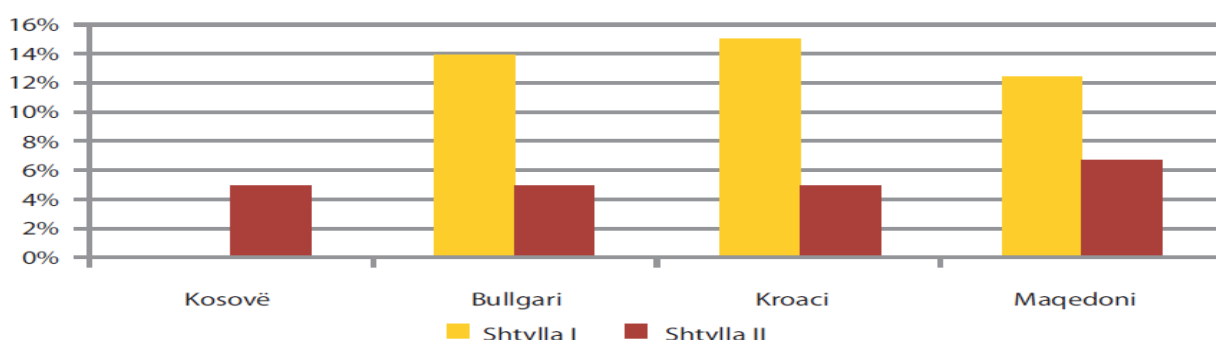
<sup>25</sup> The efficiency of information has to do with the value of the use of information and information technology for the reduction of administrative barriers, improve service quality, reduce costs and reduce expenses.

**FIG. NO.3.** Contribution rates of employees in the region was attributable gross salary. (\* Source: <http://www.mapas.gov.mk> and <http://www.coe.int>)

Country	First Mandatory Pillar			Second Mandatory Pillar			Total
	System	Main Finance	Rate Contributions	System	Main Finance	Rate Contributions	
Kosovo	PAYG	State budget	-	Invested	Pension Contributions	5%	5%
Bulgaria	PAYG	Pension Contributions	14%	Invested	Pension Contributions	5%	19%
Croatia	PAYG	Pension Contributions	15%	Invested	Pension Contributions	5%	20%
Macedonia	PAYG	Pension Contributions	12.4%	Invested	Pension Contributions	6.7%	19%

The three-pillar pension system of pension contributions in Kosovo is similar to the pension systems of the countries in the region.

**FIG. NO.4.** Chart contributions Pillar I and II in the countries of the region.



Examination of the pension systems of the countries in the region shows that Hungary had this model Pension System from 1998, but did not use it after 2011 because it needed to cover the budget deficit caused by nationalization so about 14 billion dollars was collected from the pension savings of about 3 million contributors to the pension Pay As you Go System<sup>26</sup>.

**FIG. NO.5.** Main information of mandatory Funds defined in the region in 2012<sup>27</sup> (\* Sources: <http://www.mapas.gov.mk> and <http://www.coe.int>).

Country	Assets under management	Number of Contributors	Since	The rate of contribution of employees
Kosovo	€ 739,753,940	418 064	2002	5%
Bulgaria	€ 2,916,762,823	3 239 401	2001	22,30%
Croatia	€ 6,737,773,203	1 652 802	2002	20%
Macedonia	€ 179,848,960	323 480	2005	21,20%
Rumania	2,197,215,747	5 772 514	2007	16%

### Distribution of regional employee contribution

Pension contribution rates charged to income Employees (TAP) in Kosovo in 2012 were the lowest in the entire region. Under the Kosovo Pension System the current employees do not contribute at all to the Pension contributions to fund current retirees<sup>28</sup>.

**FIG. NO.6.** Nr. Employee contribution rates in Kosovo and the region<sup>29</sup>

Country	First Pillar	Second Pillar	Total
Kosovo	-	5%	5%

<sup>26</sup> Szabolcs Szikszai "The Hungarian Financial System", No.8. This project is funded by the European Union under the 7th Research Framework Programme (SSH theme) Grant Agreement No. 266800, Hungary.

<sup>27</sup> Source: [www.mapas.gov.mk](http://www.mapas.gov.mk), [www.regos.hr](http://www.regos.hr), [www.hanfa.hr](http://www.hanfa.hr), [www.fsc.bg](http://www.fsc.bg), [www.csspp.ro](http://www.csspp.ro)

<sup>28</sup> Since 1999, no Kosovo Pension Scheme finances benefits of current pensioners, but the primarily funding of the basic scheme pension is done from the Kosovo Budget.

<sup>29</sup> Source: [www.mapas.gov.mk](http://www.mapas.gov.mk), [www.fsc.bg](http://www.fsc.bg), [www.ijf.hr](http://www.ijf.hr), [www.csspp.ro](http://www.csspp.ro)

Croatia	15%	5%	20%
Rumania	5,5%	10,5%	16%
Macedonia	13,78%	7,42%	21,20%
Bulgaria	17,30%	5,00%	22,30%

### The investment performance of pension funds in the region

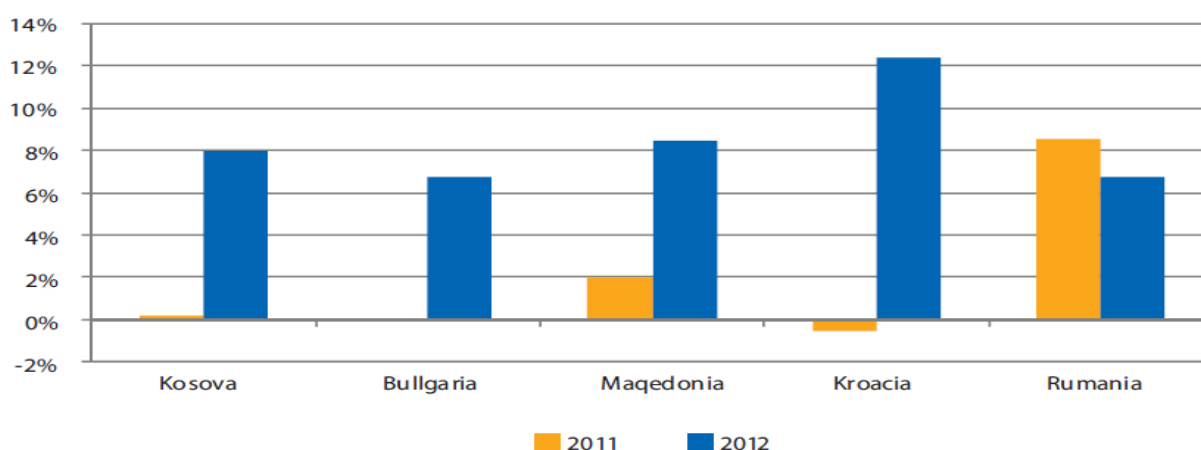
In order for a Pension system to be most effective, it is necessary to become quality managed, through several activities directed and controlled by pension funds, in order to improve the effectiveness and efficiency of their performance on a continuous basis.

Performance management is a model of determination and control of the realization of objectives, based on; planning, development of financial operations, adjusting the available resources and the realization of the intended results.

The basic idea of performance management in the operations of the Pension Fund is to balance available resources and the intended targets, namely the creation of efficiency and quality, thereby providing the desired effects with minimal cost.

Key performance results are used to evaluate the condition of Pension Funds and make the necessary improvements in order to achieve the strategies of pension funds. In 2012 the Pension Fund Trust of the Kosovo Pension Savings had a net investment return of 7.96%, compared with the regional countries that investment performance was better than the average investment performance of pension funds in the region. The rate of pension investment returns of pension funds in 2012 was as follows; Kosovo 7.96%, Romania 6.71%, Bulgaria 7.39%, Macedonia 8.43 to 12.34% and Croatia ??%<sup>30</sup>.

**FIG. NR.7.** Graph of the FP investment performance of KPST and pension funds in the region.



From the graph it is clear that the Kosovo Pension System has a high performance, compared to other countries in the region. This because the reform of the Pension System in Kosovo resulted in construction of the Solidarity Pension System which was totally not against; (A) the poor, (b) those who have experience of working in the PAYG system, and (c) those unable to work.

Reform of the Pension System in Kosovo has created many advantages: (a) with capable to cope with the aging potential of the population, (b) offers better rates of return on pension contributions, (c) removes some of the distortions of the market, (d) reduce the politicization of the pension system and (e) removes fiscal uncertainty resulting from increases in the number of pensioners versus the number of contributors.

### The process of building an improved quality Pension System plan

The construction planning process to improve the quality of the Pension System requires structuring the management plan by collecting ideas to make continuous improvements in their respective fields, prioritizing corrective actions and using criteria to calculate their impact on the strategic objectives of the pension system.

The process of building improved plan aims to bring enhanced performance in all areas that relate to the key strategic objectives of the Pension System. Areas for improvement focus on the opportunities and influence the results of the Pension System, and facilitate the implementation of actions, reduce the level of difficulty, use the resources needed and the speed of implementation of activities to achieve the objectives of the strategic plan of the Pension System. To make the improved performance that is required it is necessary; to define the conditional factors, define ways of realization and determine executable tasks for personnel, and obtain organizational commitment of management to supervise the implementation.

<sup>30</sup> Source: [www.mapas.gov.mk](http://www.mapas.gov.mk), [www.apapr.ro](http://www.apapr.ro), [www.rm.f.hr](http://www.rm.f.hr), [www.pbzco.fond.hr](http://www.pbzco.fond.hr), [www.azfond.hr](http://www.azfond.hr), [www.erstepilavi.hr](http://www.erstepilavi.hr)

The goal of improving the performance of the Pension Fund is raising the level of sustainability by: managing the pension contributions effectively, administering contributions correctly, store value qualitative contributions capitalize contributions, provide portfolios of pensioners, and within reason, the Government must improve the quality of welfare beneficiaries of pensions to create sustainable stability of socio-economic development.

Estimates of planning must be undertaken on a regular basis, to ensure their implementation, to assess the resources available and secure the necessary financial resources, to provide those necessary and appropriate to achieve the objectives compared with the results for a period of long-term impact, which are the elements that will ensure the sustainability of the implementation of the objectives.

## Conclusions

Based on measurement the performance of pension systems in the region, it is clear that the level of quality (based on effectiveness and efficiency) of the Pension System in Kosovo is the highest in the region.

In 2015 FP KPST realized net income from returns on invested assets in the amount of 28,389,646 €, which cover obligations of the Pension Fund KPST for recompense of pension annuity annual amount of 19,299,443 € and expenses of 7,101,961 € (expenses charged fees of € 5,819,478 and operating expenses of € 1,282,483).

The efficient management model of the Pension System in Kosovo has resulted in; compliance with legal procedures, continuous improvement of the organizational system, reducing total expenditure, growth of capital adequacy ratio, increase in the level of liquidity and solvency (increased ability to recompense the annuity pension to contributory pension trust in contributory insurance the capital adequacy to meet financial obligations), flexible and rapid response to new contributors requirements to third parties, and the continuous improvement of performance.

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# PANEL 4

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UET - MAJOR RESEARCH PROGRAM / INNOVATIVE ALBANIA 2015-2020

RP / **LAW AND PUBLIC INSTITUTIONS IN TRANSFORMATION**

Prof. Dr. Romeo Gurakuqi



# Issues of individual contracts in the field of consumer law

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## Abstract

*The principle of contractual freedom is one of the fundamental principles of obligation and contract law. The parties that are seeking to participate in a contract, through the free expression of the will, can freely express their interests. Limitation of this will is found to the adhesion contracts or otherwise contracts with standard conditions. These contracts can not be negotiated because the terms are defined by one - party. Legal and economic developments put the emphasis on the rights of the consumer, as a party that participates in various agreements, that aren't completely favorable conditions and often treated as "oppressive".*

*Consumer law is a relative right to the Albanian positive law, where in recent years there has been a wide spread due to the category of subjects which guarantees legal protection. In Albania there is not much literature in this field, except the official law for the protection of the consumer, and several EU directives for implementation, as a result of SAA.*

*This paper will be focused on the rights of costumers as a result of specific contracts applied by traders and companies with customers. A special attention is paid to the Albanian and European standards in the context of consumer protection, focusing on contracts concluded between the parties, and the protection offered by legislation. The paper aims to treat the violation of contractual freedom, the relationship established between traders, suppliers and providers of goods and services to consumers, as well as interventions and measures to protect the highest possible levels of customer category.*

**Key words:** consumer, legal relations, standard contract, company, the principle of contractual freedom.

## Introduction

Contracts are a very important instrument for the materialization of agreements between individuals. Both in civil and commercial law, legal actions of natural and legal persons are subject to specific laws that regulate the legal relationship. Consequently, the contracts are different from each other depending on the purpose to which they relate and depending on the object or subjects.

In business law there are often standard contracts, which date back to the 20th century. These types of contracts are defined as non- negotiable in terms and conditions as a result of their provision by the bidding party or either party. Industrialization of businesses required standardization of contractual conditions so that businesses did not need to negotiate for each transaction. In this way, the bidding party imposes conditions that are more suited to its interests, thus making the most disadvantaged party deny the right to negotiate the terms, pass more risks, which requires protection by legal systems. (Nuni 2009: 274)

It should be noted that these types of contracts also have as it is seen, their advantages, the ease of reducing transaction costs and their realization, bringing less attention and routine. From a theoretical point of view, there is an opinion that the customer may be heading elsewhere when faced with completely unbiased terms, despite the fact that many of the businesses offer these contracts, if they do not have a monopoly status, they have a dominant position in the market, thus resulting in a very low competition protection. Under these conditions, there is a legal or institutional intervention to protect the consumer from the standard terms and conditions that affect it. For this reason, the United Colleges of the High Court have identified the

judicial practice by Unifying Decision no. 932, dated 22.06.2000, which has identified a case of limiting contractual freedom. The interference of economic and social factors undermines the contractual freedom of economic interests that are not equilibrated between the entities in certain agreements.

The right of the consumer has a wide spread due to the category of subjects, which guarantees legal protection, as the wide range of consumers is lying in every person. This right is also sanctioned in Community law, guaranteeing the efficiency and effectiveness of the application of this right by EU legal instruments or structures. In Albania, with the democratic developments and the opening of the economy, the Parliament of Albania adopted the Law no. 8192, dated 06.02.1997, "On Consumer Protection". The basis of this law was the regulation of new legal relationships, created between producers, sellers, suppliers of goods, service providers and consumers. Referring to the Consumer Protection Law, "consumer" is considered any person who buys or uses goods or services to meet his / her personal needs for purposes that are not related to commercial activity or pursuit of the profession. The customer in most cases is a natural person. However, the legislator foresees the possibility for a category of private legal entities, with non-profit organizations which enjoy the quality of the customer, such as various associations, foundations, etc. All these entities have the right to enter into legal relationships through contracts, contracts that may also violate the rights of persons enjoying that status. (Article 3/6, Law No. 9902, dated 17.04.2008) The use of terms, goods and services, shows that this right not only covers a wide range of cases but also applies to a variety of situations. "Consumer Goods", including the goods used in terms of providing a service, is any movable or immovable item, whether or not it is new, used or repaired, provided for use by consumers or which may be used by them, even if it is not foreseen for them, under reasonable, predictable conditions, made available on the market during a commercial activity. "Services" are services designed to approach customers, in any manner envisaged in the Civil Code. "Trader" means any natural or legal person who acts for purposes relating to his or her economic activity, trade, business, profession or craft and whoever acts in the name and / or interest of the trader. So, the trader is a natural person, in the sense of the Civil Code that exercises an independent economic activity, which requires an ordinary trade organization. (Article 2 of Law No. 9901, dated 14.04.2008) "Commercial Practice" means any action, exception, conduct or representation, commercial communication, including publicity and trading by a trader, directly related to the promotion, sale or supply of goods to consumers.

The right of the consumer consists of commercial entities, the above mentioned persons and is subject to the protection of consumers within the goods and services mentioned above.

## **"Unfair" terms of contract in the consumer's right**

The principle of contract freedom consists in several elements such as the expression of the will of the parties, the freedom of choice of the type of contract that the parties seek to bind, as well as the freedom to define the terms and conditions that the persons seek to conclude. (Galgano 2006: 267)

In case of a violation of one of the elements, it would bring the violation of the principle. The legal changes that have taken place in recent years have produced contracts with standard terms or otherwise boilerplate, which, by their very nature have the effect of violating the principle of contractual freedom by not having the possibility for the parties to decide freely, expressing their will on the terms of contract. As a consequence of these improvements, there was a need to make special changes in civilian circulation, as the parties were no longer on equal terms.

Freedom to express, change and abolish certain legal relationships was violated, as well as the exercise of rights, and the taking over of obligations was not in a self-regulating balance due to the fact of intervening economic and social factors in the contractual relationship. (Semini (Tutulani) 2006: 33)

In order to prevent this new juridical fact of the party's inequality and the imposition of "repressive" or "binding" conditions, intervention was made through appropriate legal and judicial arrangements in order to protect the weaker party in terms of contracts with commercial entities. In this way, the right of the consumer was created by a level of equality of positions between natural and legal persons. The consumer's right consists on the entirety of the rights of consumers and obligations of producers, sellers, suppliers and service providers or goods. The main reason of the consumer's right is to balance the relationship between the two subjects of this right, which aims to protect the consumer who in many cases is in a disadvantaged position. The law carries with responsibility not only the state organs but also the merchants or trade companies. Substantially, the consumer law is based on a threefold finding, which is related to the weak position facing the trader, the priority that gives the law to the weaker party in the legal relation, and the lack of legislation on guaranteeing complete protection for the consumers. This law consists on rules that are applied in several directions:

1. Their application has an effect on the legal relations established between consumers and traders;
2. Their purpose is to protect the consumer;

For a rule to be part of the consumer law, it must be applied mainly to the trade-consumer relationship, and it is not necessary to apply exclusively to these relationships. Concrete examples may be the responsibility for harmful products, forged products, advertising fraud, etc., which, although having extensive use in theory, are closely related to the right and are implemented in its function. It is difficult to definitively determine the legal rules aimed to protect the consumers. It may be happen that in the legal relationship created by consumers and traders, sometimes they give the opportunity to apply rules that are not intended for the consumer, but they can have a negative or positive effect on it. As such may be mentioned the legal

rules guaranteeing protection, in case of non-execution of the contract, judicial powers, etc. These rules are not designed to protect customers but are closely related to it.

Consumer safety is provided in the law that protects the right treated. The law sanctions the liability of the producer for damages caused by the goods or services, referring to the regulation of the consequences that arise as a result of this responsibility towards the general rules of the Civil Code. The application of this right also includes the European directive on “General Product Safety”, where basic principles are reflected in the law, making this right more effective, as well as the laying and the trading of safe products only, in the domestic market. When it comes to buying goods or benefiting from a service, the customer in most cases creates a legal relationship with the dealer through signing the contracts. Concerning the contractor who is in a weaker negotiating position, since the general conditions of the contracts are determined from the first stage of their connection, civil legislation has two phases of contract signing, whereby the first phase is the proposal and the second phase is the acceptance. (Mustafaj 2016: 169-170) In the above-mentioned contracts, the subjects are not in the same conditions, the proposer knows very well the respective clauses, but the opposite happens to the recipient, who is at a potential risk of misunderstanding or being in conditions that he can not refuse. For this reason, based on the principle of contractual autonomy, the legislator has set some rules to balance the weak position of the receiving party. These rules can be grouped into two categories:

*The first category* includes legal rules of a preventive character, which aim to clarify before the conclusion of the contract, the will of the person who will adhere to that contract. Thus, the provisions of the Civil Code provide for sanctions, with emphasis on trust between the parties and the right of one party to withdraw from the contract within 7 days of its termination. Termination of the contract will mean the moment when it begins the legal consequences. (Articles 672, 674, 675 of the Civil Code) Preventive rules are also covered by the provisions of the Law “On Consumer Protection”, whereby in this law a deadline of 14 calendar days is left to the consumer to withdraw from the contract. These expectations are based on the fact of recognizing the terms of the contract by the customer, the ability to verify the conformity of the product’s qualities with the bidding party’s promises, etc.

*The second category* includes legal rules of a sanctioning nature, which prevent the legal consequences of a created will, in objective, unequal conditions, not recognizing his will because of his vice. These rules have two subdivisions:

1. Rules defining those cases in which the general conditions do not have legal effects;
2. Rules defining those cases in which the general conditions are invalid;

On the other side, referring to the implementation of EU legal norms, we will see when the unfair terms will be considered: (Directive 93/13)

- Nature of goods and services to which the contract will be concluded;
- Moment of contract signing;
- Circumstances surrounding the conclusion of the contract;
- The terms of another contract, in cases when the moment of entering into or executing the two contracts is legally bound;

The invalidity of an unfair condition can only be decided by the court, but the associations before being sent to court have the right to address the respective entities or state bodies responsible for consumer protection, so the unfair terms of contracts can be removed. If the court assesses a contract that has unfair terms for the consumer, based on the provisions of the law „On Consumer Protection“, it decides to abolish these conditions from the contract and the decision is erga omnes.

## Particular contracts in Consumer Law

The Civil Code, in contrast to the Law “On Consumer Protection”, considers the parties with equal positions giving the decisive importance to the qualities of the contracting parties. This legal arrangement comes as a reason for giving priority to protecting the interests and rights of consumers, against abusive practices of traders, balancing the relationship between consumers and commercial entities.

Related contracts are connected between the seller and the customer. The trader supplies the consumer with goods or services, starting from a monetary value stipulated in the law „On Consumer Protection“, by performing a sale under the conditions of an excursion, promotion outside the center where it exercises the activity, without the consumer’s request, on its own initiative of trader. (Article 34/1, Law No. 9902, dated 17.04.2008)

In cases when two parties are not present at the conclusion of the contract, legal provisions are applied for the contractual relations at a distance. The merchant, supplier, or provider of goods / services is obliged to comply with the special obligations of the law. The trader is obliged to notify the consumer in writing of the right to renounce the contract, with the name and any necessary information to which the right of renouncement will be exercised. The discrepancy between the obligations of the trader, the supplier, or the service provider constitutes administrative offenses sanctioned with a penalty. Legislation in force by applying ratio legis to the law „On Consumer Protection“, which uses the services provided through such contracts.



One aspect to consider is for the provision of services on the market, who act as state operators or private operators. Under these conditions, the market may be in a dominant position by some societies, or under monopoly conditions. Here we can mention the case of companies that have taken over electricity supply, water, as well as telephone companies. The legislator to protect consumer interests has taken care of regulating the way these companies operate by creating regulatory bodies and billing methods for energy and wastewater, spent telephone impulses, obligations of providers of these services, etc. (Article 40 of Law No. 9902, dated 17.04.2008) So, the law provides for cases in which the customer of telephone services and the supply of electricity and water is entitled to compensation, in cases of causing damage from the abusive behavior of these companies. However, the cases provided by law are specific only to these contracts, however, the consumer enjoys the right to be compensated according to the general rules provided by the Civil Code, in any case of causing damage, which is a basis for the protection of the rights of persons who have the status of a consumer, excluding some exceptions to technical service interruptions. In these cases, the burden of proof for the alleged facts lies with the consumer, while the service operator has the burden of proof to prove that the technical outages were caused by force majeure, or by setting a state of emergency, or how it has previously informed the customer of technical service outages. With the signing of the Stabilization and Association Agreement, issues of consumer protection and market surveillance are addressed. (Article 78 of the Stabilization and Association Agreement) One of the evidence that is presented is also in terms of the capacity of the judicial system for the correct implementation of the law, including the law „On Consumer Protection“, a law that is aligned with European legislation. There are several directives and regulations in Community Law, in particular Directive 85/577/EEC, aimed at protecting consumers against abusive commercial practices, in contracts concluded between commercial entities and consumers. (Article 2, 3 of Directive 85/577/EEC). Another important directive is Directive 97/7 / EEC, „On Consumer Protection for Distance Contracts“. (Received from: <http://eur-lex.europa.eu>) EU Law also envisages other consumer protection directives, which have been implemented in the Albanian legislation regarding the protection of consumer rights.

Courts should interpret domestic legislation, aligned with Community legislation, on the standards and principles set by the decisions of the Court of Justice on Community law. This could ensure fairer justice for consumers as a whole and for the efficiency of law enforcement in particular.

## Conclusions

The right of the consumer is among the legal disciplines that have been developed in modern times in the field of civil law. Nowadays, consumer right has a widespread dissemination due to the category of subjects that guarantees legal protection. The law has a very important role as it takes into consideration protective measures for domestic consumers and consumers outside it. In the civil circulation and in the conditions of a free market economy, the principle of free contractual autonomy can not be exercised arbitrarily or unlimitedly, as it would lead to the abuse of the party with the strongest position towards the weaker party or to the disadvantage of the interests of the community. In order to protect the public interest in general and to protect the interests of the parties with a weaker position in contract law, the legislator has interfered with restrictions on the elements of contractual autonomy. These restrictions arise in the freedom of choice, the freedom to determine the terms and conditions of the contract, where many legal conditions are binding on the parties, even though they are not part of the set of rights and obligations set forth by the parties.

The principle of contractual autonomy is also limited by contracts with standard terms, as a result of their necessity and the problems they cause in relation to the parties' disparity. Consequently, in the framework of balancing legal relations and eliminating the negative consequences, it is considered that the legal norms of a preventive nature are adopted, sanctioning the protection of the consumer. The legislator does not invalidate the adhesion contracts by not imposing on trading operators „conditions“ to carry out their respective activity because it would be indirect intervention in the market. But solutions have been applied through modification of legislation, in order to protect more the position of the weaker party. Regulatory and supervisory entities, exercise a controlling activity on the activities of companies that have a dominant position or monopoly status on the market. In this way, it is possible to supervise the activities of these companies operating under standard contracts, enabling the protection of consumer interests not only theoretically from the law but also practically by the regulatory bodies that help the justice system be more functional and in general to the interests of the people. So the legislator has intervened with a reshuffle of legal relations in order to increase the efficiency of the market economy, especially in the conditions of an open market, where a higher level of protection of consumer interests is required, resulting thus in an economic well-being. A raised issue for discussion is the fact that the protection of the presumed consumer as a weaker party, through increasingly legal norms, achieves the weakening of the party with the strongest position, creating a disorder in the balance between the contracting parties. These claims are growing up by companies operating in certain markets where their right to set contractual terms is minimized, and all are argued on the basis of a free market economy bringing the trade legislation into the attention. However, the claims of commercial companies and traders have a legal basis since the principles of legal equality of the subjects of law and their non-discrimination should not be ignored. Under such conditions, the legislator remains in the hands of managing the legal relations between these entities, considering that one party may be in more favorable positions than the other, where despite the interventions so far, there is also a lot of space for improvement of the legal framework for the protection of domestic consumers as well as for those coming from abroad.

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# Funding of Political Parties in Albania and Transparency as a Preventative of the Corruption

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## Abstract

*The progress of political activity within the financing of the Albanian political parties, remains an indicator of national importance for the strengthening of democracy, rule of law and the decriminalization policy towards illegal political practice in the country. The issue of financing of political parties is an important element of constitutional, legal, political and public. The Constitution establishes the obligation of political parties to always make public their financing. Funding of political parties is governed by the principle of transparency. The data for the financial resources of the parties, as well as their costs are always published. Referring to the practice over the last 24 years, never have albanian political parties made their financial resources public, in reference to the spirit and responsibility, described by the constitution. To us and the other countries of our region, excluding corruption, the financing of political parties is also threatened by sources coming from a criminal background. Since political parties are a crucial point in modern pluralist democracy, the gradual loss of their independence is a serious and disturbing situation. The collapsing authority of political parties as a result of their connection to their business interests, the coming into light of their corruptive connections and affairs requires an urgent intervention to restore the faith of the citizens in the political system. Despite legal changes that are made to the Law on Political Parties, it noted that there is a permanent solution to all financial problems and transparency in this area, which raises doubts about the unfair political competition and consumption of unfair practices or their criminal nature.*

**Keywords:** Transparency, decriminalization, corruption, financing, rule of law, organized crime.

## Introduction

The issue of financing of political parties is an important element of constitutional, legal, political and public. The Constitution establishes the obligation of political parties to always make public their financing. Referring to the practice over the last 24 years, never have albanian political parties made their financial resources public, in reference to the spirit and responsibility, described by the constitution.<sup>1</sup>

Also, despite the legal changes in 2011 and 2014 in the Law on Political Parties, it is noticed that there is a permanent solution to all funding and transparency problems in this area, which raises many doubts about a unfair political competition and consumption of unfair practices or of their criminal nature.

To us and the other countries of our region, excluding corruption, the financing of political parties is also threatened by sources coming from a criminal background. Since political parties are a crucial point in modern pluralist democracy, the gradual loss of their independence is a serious and disturbing situation. The collapsing authority of political parties as a result of their connection to their business interests, the coming into light of their corruptive connections and affairs requires an urgent intervention to restore the faith of the citizens in the political system.<sup>2</sup>

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<sup>1</sup> According to the Albanians and the European Social Model, Domestic Democracy in Albanian political parties, Afrim Krasniqi, Ardian Hackaj

<sup>2</sup> According to the Report on Financing in Albanian Political Parties 2016, Institute of Political Studies ([www.isp.com.al](http://www.isp.com.al)) - part of the database [www.politike.al](http://www.politike.al)

Article 9 of the Albanian Constitution provides that political parties should be organized in accordance with democratic principles, and that financial resources and their expenditures must be made whenever public.<sup>3</sup>

For the implementation of this provision, the legislation on the parties specifies principles and standards that relate to democratic rules of functioning, but has not established institutional mechanisms of law enforcement monitoring, except for the Central Election Commission which controls party self-declarations Policy through licensed auditors.

According to the Law on Political Parties, the financing of political parties is guided by the principle of transparency. Data on party financial resources as well as on their expenditures are always published.<sup>4</sup>

The Law „On Political Parties“ forces political parties in Albania to keep their internal accounting books and report on disposable assets, income and expenses.

Parties must submit financial reports once a year to the Central Election Commission (CEC), along with the audit report prepared by certified accountants. The annual financial reports are prepared, signed and submitted by the person in charge of finance in the political party or the person elected according to the definition in the party statute. In electoral year cases, the party's annual financial report must be submitted along with the financial report of the electoral campaign. The annual financial report, audit report and CEC report should be published on the CEC official website no later than 30 days from the date of their submission to the CEC.<sup>5</sup>

The Electoral Code stipulates that the Central Election Commission is the body responsible for monitoring and overseeing party financing and election campaigns. The CEC selects the list of licensed accounting experts and assigns lots to audit funds and expenditures of political parties, and oversees the financing of political parties through the audit of financial documents and accounting records of political parties. The CEC imposes sanctions when it finds a violation of the law and determines the amount of the public fund benefiting any political party in the form of annual financial assistance. This institution is also responsible for the organization of awareness programs and trainings for the financing of political parties and entities involved in this process, in accordance with the provisions of this law. Each electoral subject must register in a special register, approved as a model by a CEC decision, the amount of funds received for each physical or legal person, and any other data related to the explicit identification of the donor.

At the time of donation, the donor signs a statement, where he vows that he is not in one of the prohibitive circumstances of the Electoral Code and holds personal responsibility for false statement. Campaign funding sources for electoral subjects are funds provided by the State Budget to political parties registered as electoral subjects, the revenues of the electoral subject created under the law, gifts in monetary value, nature or services provided and credits Taken by political parties according to the law.

## Purpose and objectives of the study

The issue of financing of political parties is an important element of constitutional, legal, political and public. Since political parties are a crucial point in modern pluralist democracy, the gradual loss of their independence is a serious and disturbing situation. The collapsing authority of political parties as a result of their connection to their business interests, the coming into light of their corruptive connections and affairs requires an urgent intervention to restore the faith of the citizens in the political system.

Article 9 of the Albanian Constitution provides that political parties should be organized in accordance with democratic principles, and that financial resources and their expenditures must be made whenever public.

On the basis and for the implementation of this provision, the legislation on the parties specifies principles and standards that relate to democratic rules of functioning, but has not established institutional mechanisms of law enforcement monitoring, except for the Central Election Commission which controls party self-declarations Policy through licensed auditors.

Is there a capacity for the Central Election Commission to carry out control of the political activities of political parties, and to ensure that the funding of political parties is transparent?

The Law „On Political Parties“, through Article 21, prohibits political parties from benefiting financial and material donations from governments, foreign public or private entities.

On the other hand, this Article allows gifts or aids that come from parties or international party organizations, political organizations or foundations, Albanian and foreign, individuals, Albanian natural or legal person.

The law states that the donation of non-public funds worth more than 100,000 Lek (approximately 720 Euros) should be made only on a special account opened in a bank by the political party. It also prohibits the benefit of non-public funds, carried out by entities that do not declare their identity or whose identity is clearly undefined by the benefiting political party of the non-public fund.

How transparent are the funding being made to political parties in Albania today? Are the constitutional principles and provisions of the law on political parties in the Republic of Albania respected?

<sup>3</sup> According to the Constitution of the Republic of Albania article 9.

<sup>4</sup> According to Law No. 8580, dated 17.02.2000, On Political Parties, as amended, Article 15 \ 2

<sup>5</sup> According to Law No. 8580, dated 17.02.2000, On Political Parties, as amended

## Research question, hypothesis and methodology of the paper

Is there a capacity for the Central Election Commission to carry out control of the political activities of political parties, and to ensure that the funding of political parties is transparent?

How right is the decision of the Constitutional Court, which excludes the Supreme State Audit, as the body that controlled the financial and economic activity of political parties?

How transparent are the funding being made to political parties in Albania today? Are the constitutional principles and provisions of the law on political parties in the Republic of Albania respected?

These are the elements that will be treated in this work according to a cumulative interpretative method where the primary source is the interpretation of the articles of the Law on Political Parties in the Republic of Albania, the electoral code and the secondary source is the decision of the Constitutional Court which excludes the high state control From the control of political-financial activity of political parties. Which are the institutions or other bodies that should be involved in the control that becomes political parties in the Republic of Albania to give as much transparency as possible to the financing that is made to the political parties?

What is the positive impact that will bring transparency regarding the financing of political parties in the Republic of Albania, shed light on the funding and transparency regarding donations or donations to political parties?

This will be accomplished by taking as a measuring indicator, the opinions expressed by the experts of the field of law, and the decision of the Constitutional Court.

## Analysis, interpretation of data

The issue of financing of political parties is an important element of constitutional, legal, political and public. The Constitution establishes the obligation of political parties to always make public their financing.

Political parties need financial resources to continue their efficient functioning in the spirit of supporting a democratic society, gain expertise, develop their programs and distribute them, maintain a stable organizational structure, to cultivate communication with members and last but not least, to conduct election campaigns. Ideally, this funding should enable the parties to continue their duties without being financially dependent on an interest group or person.<sup>6</sup>

Article 9 of the Albanian Constitution provides that political parties should be organized in accordance with democratic principles, and that financial resources and their expenditures must be made whenever public.<sup>7</sup> On the basis and for the implementation of this provision, the legislation on the parties specifies principles and standards that relate to democratic rules of functioning.

Referring to the practice over the last 24 years, never have Albanian political parties made their financial resources public, in reference to the spirit and responsibility, described by the constitution.<sup>8</sup>

In the early party legislation, the control of finances was mainly based on control exercised by the Supreme State Audit (SSA). Pursuant to Article 9 of the 1998 Constitution, the new law in Article 23 defines that „The Supreme State Audit is the competent body in charge of the party's financial control function. This control will not be limited to the part of the budget of the parties that are secured by public funds, but will also cover the gifts and benefits obtained in other ways. The Supreme State Audit has the right to exercise financial control over political parties before and after electoral campaigns. „<sup>9</sup>

So there is a new concept of control, not just in the public part that coincides with the funding derived from the state budget, but also in the secondary income associated with the aids and gifts obtained in other ways. That expansion of the scope of control served as the basis of a lawsuit addressed to the Constitutional Court.

According to the final decision of the Court, „Political parties, being voluntary unions of citizens on the basis of common beliefs, views and common political interests, in the constitutional and legal aspects can not be unified with state institutions or with other state legal entities. In terms of the constitutional provision (Article 163), political parties remain outside the grouping of these legal entities to be controlled for their economic and financial activity. She judged that gifts and aids, „that political parties come from parties or international party affiliations, domestic or foreign political or foundational organizations and foundations that are known as their financial and material resources, can not be the subject of control of this constitutional body „

The new Law „On Political Parties“<sup>10</sup> stipulates that the sources of funding are threefold: a) from the state budget by law, b) membership fees, and c) from any legally secured estate. The intervention of the Constitutional Court resolved

<sup>6</sup> According to Political Parties, Functioning and Organization in Democratic Societies Wilhelm Hofmeister dhe Karsten Grabow

<sup>7</sup> According to the Constitution of the Republic of Albania article 9.

<sup>8</sup> According to the Albanians and the European Social Model, Domestic Democracy in Albanian Political Parties, Afrim Krasniqi, Ardian Hackaj

<sup>9</sup> Law No. 8599, dated 01.06.2000 “On some additions and amendments to Law No. 8270, dated 23.12.1997” On State Supreme Audit „, Official Journal no.15, 2000.

<sup>10</sup> Musa Ulqini. “Elections, Money and Democracy”, Albanian Committee for Foreign Relations, Tirana, 2010. pg.14



the conflict between the SAI and the political parties regarding gifts and aids, but did not provide a final solution to the funding problem and the full financial transparency of political parties and electoral campaigns. The parliament itself, although requested by the Constitutional Court, did not take legal action to regulate the law and the gap created by the Court's decision.<sup>11</sup>

With the changes in the Law "On Political Parties" (2011) and in the Electoral Code in the Republic of Albania (2012) a new control mechanism was established on party finance and their expenditures. The new law (amended) made positive changes in Chapter III „Financial and Material Resources of the Parties“. According to Article 15/2 „The CEC is the body responsible for monitoring and overseeing party financing“.<sup>12</sup>

The law forces the parties to submit financial reports once a year to the CEC. These reports should contain detailed information on: a) funding sources based on the standardized format approved by the CEC; B) expenditure on a standardized format; C) entities related, directly or indirectly, to political parties or controlled by them; D) Include the annual financial report, etc. Article 23/2 establishes the new practice of independent auditing through accounting experts, selected by lot in the CEC and with the obligation to audit the political parties within 45 days after the submission of the financial report.

Their report is evaluated by the CEC within 30 more days, and depending on the outcome, follow the relevant procedures.<sup>13</sup>

The new practice, despite innovations, has left uncovered spaces and, consequently, the constitutional obligation for financial transparency of political parties is still unfulfilled. According to reports drafted by the CEC, the EC and the OSCE, political parties in Albania do not make available to the public, members or voters their financial records.<sup>14</sup>

The Electoral Code stipulates that the Central Election Commission is the body responsible for monitoring and overseeing party financing and election campaigns. The CEC selects the list of licensed accounting experts and sets them out to audit the funds and expenditures of political parties, and oversees the financing of political parties through the audit of financial documents and accounting records of political parties. The CEC imposes sanctions when it finds a violation of the law and determines the amount of the public fund benefiting any political party in the form of annual financial assistance.

This institution is also responsible for the organization of awareness programs and trainings for the financing of political parties and entities involved in this process, in accordance with the provisions of this law.<sup>15</sup>

The Law „On Political Parties“<sup>16</sup> forces political parties in Albania to keep their internal accounting books and report on disposable assets, income and expenses.

Parties must submit financial reports once a year to the Central Election Commission (CEC), along with the audit report prepared by certified accountants. The annual financial reports are prepared, signed and submitted by the person in charge of finance in the political party or the person elected according to the definition in the party statute. In electoral year cases, the party's annual financial report must be submitted along with the financial report of the electoral campaign. The annual financial report, audit report and CEC report should be published on the CEC official website no later than 30 days from the date of their submission to the CEC.

Each electoral subject must register in a special register, approved as a model by a CEC decision, the amount of funds received for each natural or legal person, and any other data related to the explicit identification of the donor. At the time of donation, the donor signs a statement, where he vows that he is not in one of the prohibitive circumstances of the Electoral Code and holds personal responsibility for false statement.

Not later than 5 days after the announcement of the final election result for each political party registered as an electoral subject, the CEC appoints by lot one or more licensed accounting experts for the audit of the funds earned and spent for the election campaign. Electoral subjects shall make available to the CEC-appointed audit any information, documents or data relating to the funding and expenses of the election campaign. The CEC publishes audit reports for electoral subjects no later than 30 days from the date of submission of the report or, as the case may be, from the closing date of the respective verifications. The names of persons who donate an amount of not less than 100,000 Lek, as well as the respective value, are published together with the report.<sup>17</sup>

The Law „Electoral Code“<sup>18</sup> stipulates that the violation of the provisions on the financing of political parties by the person in charge of finances in the political party or the person responsible under its statute shall be fined from 50,000 to 100,000 Lek. The violation of the obligation to cooperate with the licensed auditor, appointed by the Central Election Commission, by the political party, is punishable by a fine of 1,000,000 to 2,000,000 Lek.

<sup>11</sup> Musa Ulqini. "Elections, Money and Democracy", Albanian Committee for Foreign Relations, Tirana, 2010. pg.14

<sup>12</sup> According to the Electoral Code of the Republic of Albania, approved by Law No. 10019, dated 29.12.2008, as amended

<sup>13</sup> Krasniqi, Afrim. Constitution: Missing Political and Electoral Transparency, MN, April 2014

<sup>14</sup> According to the Albanians and the European Social Model, Domestic Democracy in Albanian Political Parties, Afrim Krasniqi, Ardian Hackaj

<sup>15</sup> According to the Report on Financing in Albanian Political Parties 2016, Institute of Political Studies (www.isp.com.al) - part of the database www.politike.al

<sup>16</sup> Law No.10 374, dated 10.02.2011 "On some additions and amendments to Law No.8580, dated 17.2.2000" On political parties ", as amended, Official Journal, 12 March 2011.

<sup>17</sup> According to the Report on Financing in Albanian Political Parties 2016, Institute of Political Studies (www.isp.com.al) - part of the database www.politike.al

<sup>18</sup> According to the Electoral Code of the Republic of Albania, approved by Law No. 10019, dated 29.12.2008, as amended

Refusal to make the political party's funding sources transparent or to allow the exercise of control by the accounting expert licensed by the Central Election Commission shall be punished by a fine of 2,000,000 to 5,000,000 ALL and / or with a suspension of up to 5 years of public funding for the political party.<sup>19</sup>

Despite the changes that have been made, there are still uncovered spaces, and consequently, the constitutional obligation for financial transparency of political parties continues to be unfulfilled. According to reports drafted by the CEC, the EC and the OSCE, political parties in Albania do not make available to the public, members or voters their financial records. Also, despite the legal changes in 2011 and 2014 in the Law on Political Parties, it is noticed that there is no permanent solution to all funding and transparency problems in this area, which raises many doubts about a dishonest political race and consumption of irregular practices or of their criminal nature.

## Conclusions / Recommendations

Referring to the practice over the last 24 years, never have Albanian political parties made their financial resources public, in reference to the spirit and responsibility, described by the constitution. To us and the other countries of our region, excluding corruption, the financing of political parties is also threatened by sources coming from a criminal background. Since political parties are a crucial point in modern pluralist democracy, the gradual loss of their independence is a serious and disturbing situation. The collapsing authority of political parties as a result of their connection to their business interests, the coming into light of their corruptive connections and affairs requires an urgent intervention to restore the faith of the citizens in the political system.

The pursuit of political activity, within the financing of Albanian political parties, remains an indicator of national importance for strengthening democracy, rule of law and decriminalization of politics against illegal political practices in Albania.<sup>20</sup>

The reasons why it is required and it is necessary legal regulation of political party financing are numerous, as are the forms of legal regulation. To date, at least four categories of reasons are clearly identified:

- Prevent abuseism,
- Empowering a fair political competition,
- Empowering voters through the legal rules of transparency and punishment; and
- Empowering political parties as effective actors of democracy through increasing integrity and internal democracy.<sup>21</sup>

The issue of financing of political parties is an important element of constitutional, legal, political and public. Despite the legal changes in 2011 and 2014 in the Law on Political Parties, it is noticed that there is no permanent solution to all funding and transparency problems in this area, which raises many doubts about a dishonest political race and consumption of irregular practices or of their criminal nature.

According to reports drafted by the CEC, the EC and the OSCE, political parties in Albania do not make available to the public, members or voters their financial records.

Political parties in Albania do not publish the financial statements themselves to the general public as well and for their members. The only information is that enabled by the Central Commission Elections and published on the CEC official website. The lack of transparency in this aspect is flagrant and does not allow public access of citizens to political parties that tomorrow can take over the country's fortunes. With the law on the right of information, public transparency has become a benchmark criterion and a standard for every public institution, political parties such as organizations that perform constitutional activities and include public officials. The parties themselves are generating and Monitors of this law, but in the paradox of the above, they have not met any standard in this regard. Parties continue to be closed to the public and are hermetic for transparency and public accountability.

Albanian legislation on political parties is incomplete and confusing. From the monitoring performed by ISP only 12 out of 126 political parties registered in court reported periodically the changes required by law. The rest of the parties have ignored the legal obligation, some political parties are still active with leaders who neither live longer. Political party fictitism is also accepted by the CEC, which in its annual report 2015 states that out of the 118 political parties that were to be audited, 71 political parties were unable to be contacted by the accounting experts contracted by the Central Election Commission. Political parties in most cases have been identified as depositing with delay or never depositing financial statements at CEC. The law does not foresee a deadline for depositing financial statements of self-declaration by political parties and such a vacuum is abused by many political subjects. In these cases no sanctions or other administrative measures have been identified.

The legal provisions in force regarding the organization and functioning of political parties do not allow for detailed adjustments if financial records need to be kept for a predetermined time frame or should be immediately disposed of.

<sup>19</sup> According to the Report on Financing in Albanian Political Parties 2016, Institute of Political Studies ([www.isp.com.al](http://www.isp.com.al)) - part of the database [www.politike.al](http://www.politike.al)

<sup>20</sup> According to the Report on Financing in Albanian Political Parties 2016, Institute of Political Studies ([www.isp.com.al](http://www.isp.com.al)) - part of the database [www.politike.al](http://www.politike.al)

<sup>21</sup> According to the Finances of Political Parties and Candidates in Albania. Viktor Gumi, Legal Expert

Failure to provide this rule allows political entities in suspicious financing cases to easily escape the later investigations that may be conducted in such cases. The CEC has a significant role to play in auditing political parties, but its capacities are insufficient and such an oversight mission is unworkable. In essence, this is a statutory audit and as such it does not have the slightest impact on the discipline of political parties' finances. While *de facto* is clearly seen by all how luxurious the election campaigns are, *de jure* figures presented to the CEC in the reports made by the electoral subjects are of minimal value and certified as „legitimate“ by the accounting experts authorized by the CEC.

For this reason, it is necessary for the audit to be carried out in a new format and it must be carried out not only by reviewing the annual financial report documentation, but it should come to the ground during the election campaigns to closely monitor the management of finance during the campaigns and intervene at the right time and moment when they noticed a violation.<sup>22</sup>

The Law on Political Parties should be amended by additional mandatory provisions for political parties' activities related to the self-publication of financial statements, information about their members, the level of quotas that they shed, periodic balances, income and spending, as well as campaign donors and those offered over non-election years.

The General Prosecutor's Office, High Inspectorate of Declaration of Assets and Prevention of Conflict of Interest, General Directorate of Money Laundering, Directory of General Taxation as well as other law-enforcement bodies in this area should be more effective in comprehensive co-ordinated investigations related to funding cases suspicious of political parties, revealing the source of income.<sup>23</sup>

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<sup>22</sup> According to the Finances of Political Parties and Candidates in Albania. Viktor Gumi, Legal Expert

<sup>23</sup> According to the Finances of Political Parties and Candidates in Albania. Viktor Gumi, Legal Expert

# Legal framework analysis on public- private partnership, in particular concessions in Albania

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## **Abstract**

*In the period 2005-2013, in Albania we have taken a number of initiatives to encourage private investment such as business registration and licenses or online tax payment, but the most important one, was the approval of the new law on concessions. The way this kind of law classifies private investment, is a matter of strategy and economic policy of a country. At some point, it may be limited to streamline the format of concession or PPP. Correct classification of PPP and concessions transactions has an impact on the state budget and the calculation of the deficit. The purpose of this paper is to analyze the procedures to be followed for the adoption of concessionary contracts and above all to study judicial practice in determining the concessionaire exclusivity in a particular area leading to potential opportunities for abuse of market conditions, in terms of price and guaranteeing the quality of goods or designated services. The analysis consists of treating the legal framework that originates in the Civil Code, where the concession is not mentioned but compared with supply contracts such as franchizing or leasing, continuing further with special laws adopted over the last 10 years. The paper concludes with final conclusions on the causes of numerous violations in this area, as well as interpretations of the Albanian courts on the resolution of concession contracts.*

**Keywords:** Concessions, Public and Private Partnerships, Procedure, Types, Court Decisions.

## **Introduction**

The beginnings of the “ Private and Public Partnership” concept are found in the Anglo-Saxon law, in the 1970s and 1980s, where cooperation between private and public entities was extended in the sphere of project management or public services. (Malltezi, 2013). Public-Private Partnership is used as an umbrella for various types of cooperation between a public and a private entity, including concessionary relationships. In general, public procurement rules precede the rules for concessions because tendering or competition rules that apply to procurements, serve as minimum conditions for the performance of concessionary relationships.

## **Objectives of the study**

The purpose of the paper is to identify legal areas on concession issues through the identification of international legal mechanisms and review of the interpretation of concessions practice.

The creation of a clear, predictable and lawful institutional framework for private and public partnership, the law should be accompanied by the establishment of special structures and expertise. Thus, the use of budget-related processes in a transparent way, in order to minimize the risk. (OECD, 2012).

Principles such as clarity, consistency, predictability and flexibility, disclosure of data, technical, commercial and financial standards of bidders, the confidentiality of price negotiation or information that will be included in the concession agreement

are part of UNCITRAL. Whereas, Directive 93/38 EU covers competing processes such as public procurement and PPP / concession cases, emphasizing equality in treatment; Transparency of selection procedures; The proportionality of claims and outcome, the reasoning of the bids refusal decisions; Non-discrimination based on nationality.

## The Research Question, Hypothesis and the methodology

The paper sets out a series of questions relating, for example; Are the provisions of the Law “On Concessions and PPPs” in accordance with international standards? Does fair competition stand for legal changes on the anticipated race procedure between concession subjects?

**Hypothesis:** Based on the amended provisions of the law and the interpretation of judicial decisions, there are improvements to the standards, especially regarding the principle of transparency, but the most problematic aspect relates to its implementation in practice.

The research methods are based on a qualitative analysis of legal provisions and include jurisprudential elements of Albanian judicial practice as well as that of ECJ.

## Analysis, interpretation of data

The Albanian legal framework on Concessions is based on the Civil Code in the section of supply contracts, the 1995 concession law, the 2006 law, and the law adopted in 2013, where the latest changes date back to 2015.

There are some concepts preserved by repealed laws, where we emphasize the required proposals, that concessionary procedures are initiated by an authorized public authority, which makes public requests to all interested operators. Unsolicited proposals are the requirements that private operators make to public bodies, expressing their interest and the demand for realization of a certain concessionary project identified by them. The law of 1995 provided for a competition procedure only for the requested proposals, whereas unsolicited proposals were accepted or rejected without tendering. The disadvantages relate to the fact that the first bidder submitted to the public authority the unsolicited proposal had no motive to present the best financial or technical offer. In the absence of competition, any offer, other than abusive, could be accepted. This, significantly reduced the benefits of public authority, thus reducing the public interest as a whole. The scheme created the factual possibility that the first bidders submitting the unsolicited proposal to conclude the concession contract at a fairly low price and subsequently convey it to third parties for a higher price.

The general feature of the concession field is related to the reconciliation with the law on public procurement, for example under Article 8 of the Law “On Concessions and PPPs”, about contracts on public works and contracts on public service, differ from public procurements on the basis of the duration, search procedure, risk sharing, financing, and burden of risk. In the concession, the burden of risk is taken by the concessionaire except in cases where force majeure is dictated. There is a contracting authority in the procurement of the risk burden.

According to the Law “On Public Procurement”, Article 3, *Public Contracts are contractual remuneration related to public works and economic operators, which have as their object the performance of works, the supply of goods and services.*

The structure and bodies for the treatment of concessions are:

1. The Prime Minister (Council of Ministers)
2. Ministries
3. Assembly
4. Local government units

Supplementary Bodies:

- a. Concession Treatment Unit
- b. Ministry of Finance
- c. Public Procurement Agency
- d. Public Procurement Commission
- e. The court (as appropriate)

**The Council of Ministers** deals with concession contracts worth over 20 million euros should be approved by the Council of Ministers (Prime Minister’s Office), while those below this value entered into force with approval from the contracting authority. The contracting authority is considered the ministry or the local government unit, which according to law has the responsibility for the economic activity for which the concession is given.

The Concession Treatment Unit is the Concession Treatment Agency, where according to article 12, this unit is subordinate to the Minister responsible for the economy and has the duty to promote and assist contracting authorities in the preparation, evaluation and negotiation of private concessions/public partnerships.



**The functions of the Ministry of Finance** are mainly in cases of non-payment of the concession fee, where it issues an order for the collection of the required amount. This order is an executive title and executed by the bailiff in all banks. Among other things, it keeps a register of concessions, holds copies of the concession contract; Gives its opinion on cases of change, transfer or settlement;

**Concession Commission / Private and Public Partnerships;** It is created by the head of the responsible central or local Authority, as the commission for granting the concession / public private partnership; The Commission has a number of no more than 7 members with vocational training, lawyers, economists, technical professions and other relevant fields, depending on the scope and characteristics of the concession.

**The Public Procurement Agency** is the most important structure of the concession procedure, which has a wide range of competences in the field of procurement, including the award of concessions through the competition. Article 11 of the Law *“On Concessions / ppp”* gives the powers of the PPA and refers to the relevant provisions under the legislation on public procurement. Some of them are the compilation and publication of standard tender documents, the follow-up of measures for monitoring the concession procedures after the conclusion of the contract, the imposition of fines or the proposal to take administrative measures for the administrative or private entities that violate the legal provisions in force. Exclusion of an economic operator from participating in the competition procedures for obtaining a concession.

**The Public Procurement Commission** has competencies in reviewing race complaints that pass from APP to the PPC. The evaluation of Appeals for Selection of Winning Contest at the End of the Race. Administrative review of bidders' complaints to the race procedure, including concession / PPP competitions or decision-making for exemption from concession procedures. The parties may appeal the decisions of the Public Procurement Commission to the Court, but this action does not suspend the execution of the Commission's decision.

The Concession procedure stipulates that the initiating subjects of the procedure are the public authority but also the interested subject. So,

-**Firstly, the Public Authority**, under whose competence, the economic sphere belongs to the development of the project. This authority presents a series of information on the subject of the concession, type of procedure, duration, estimated value, deadline for submission of bids, criteria for exclusion of bidders, expected criteria regarding the legal status, technical and professional skills of the Private operator, as well as the type and value of the guarantee that the bidder must submit.

- **Secondly**, for the contract award, the concerned private entity, which has identified the project and on the basis of preliminary feasibility studies, estimates that the project development has an economic interest. The procedure envisaged in this case will be that provided for by Article 25 of the Law *“On Concessions and PPPs”* as an unsolicited proposal.

However, in both cases, the concession-granting procedure has little difference.

**The first stage** of the procedure is related to preparatory actions related to identifying possible projects, reviewing unsolicited proposals, appointing a concession grant/ppp commission and preparing a feasibility study. The feasibility study provides an assessment of the impact of this project on the environment, sustainability, project financial eligibility, money value indicators, project harmonization with national targets, strategic, risks and impacts on the state budget, technical and commercial feasibility. The value-based project is differentiated, stipulating that for projects with a value less than 300 million feasibility study is more simplified.

On the other hand, we have a subdivision of the types of procedure, which is divided into:

- i. Open Procedure
- ii. Limited Procedure
- iii. Negotiated procedure with prior notice of contract notice

The open procedure is used for concessions the value of which is above the low monetary threshold. This is decided by a decision of the Council of Ministers. With the enactment of this procedure, the contracting authority makes a public announcement giving information on the guarantees, criteria, etc... The announcement is made on the official website of the PPA and the Public Procurement Bulletin. When the contract is foreseen to have a higher value than the high monetary threshold, notice is made in the Public Procurement Bulletin and at least one European-disseminated newspaper. The deadline for submitting bids for public works concessions is at least 52 days. For other concession contracts / ppp not less than 20 days.

**The Restricted Procedure** applies when it is necessary for the race to take place between a group of potential private partners selected through a pre-qualification procedure. This occurs in two phases: the first phase, in which the contracting authority invites different operators to submit their bids for the prequalification stage (Article 40, Procurement Law). The second stage, where the authority selects pre-qualified candidates and sends them an invitation requesting to submit bids.

**According to Article 31 of the Law on Public Procurement**, *the restricted procedure applies when: goods, services or work, due to their very complex or particular character, may be supplied, provided or executed by economic, who have the appropriate technical, professional or financial capacity. It is economically more advantageous for the contracting authority to initially examine the capacity and qualifications of the interested economic operators and then invite those with specific minimum qualifications to submit bids.*

**The negotiated procedure with the prior announcement of the notice** is the procedure where, the selection of the private partner is done through an advisory and negotiating process on the terms of the contract. This form is used when the value of the concession contract / ppp is higher than the low monetary threshold. It is also used in the conditions when in response to two consecutive, open or restricted procedures all bids are invalid or do not meet the requirements of national legal provisions and as long as no

substantive change has been made in the contract, in public procurement rules. The nature of the works, goods or services or the risk associated with them does not allow the preliminary determination of the full price. This includes cases of service contracts, especially for intellectual services. The final hall is the selection of the winning bid and the contract signing. In any case, the law stipulates that the award criteria should not be discriminatory and should be proportionate to the scope of the concession.

Types of Concessionary Contracts are categorized as follows:

1. BOO - Built, Operate, Own, envisioning the construction, exploitation and ownership of the concession by the concessionaire at the end of the term of the agreement.
2. BOOT-Built, Own, Operate, Transfer, which provides for construction, takeover, use and transfer of ownership to the contracting authority at the end of the term.
3. BOLT-Built, Operate, Lease, Transfer, that is construction, use, lease and transfer at the end of the term
4. OMT- Operation, maintenance, transfer, which means usage, maintenance and transfer at the end of the deadline.

In Albania, BOT is the most widespread contract (BOT-Built, Operate, Transfer, ie, Construction, Use and Transfer.) The previous law provided for taxation in the case of hydropower plants in the form of BOT, so that the ownership remained to the state. The present law presupposes the BOT form, unless otherwise provided in the contract. According to me, this is a step back. The termination of the contract, the concession agreement is related to a certain duration, may be settled before the expiration of such period by mutual agreement between the parties or unilaterally. (Article 36)

The contracting authority may terminate the contract when it has reason to believe that the concessionaire will not be able to meet the obligations due to insolvency, serious breaches or other cases that impede or render impossible the continuation of the contract. For example, when the concessionaire fails to provide project financing within 12 months. The concessionaire may terminate the contract when the fulfillment of the obligations becomes impossible due to circumstances outside the reasonable control of each party. There are serious violations by the other party and its correction is not possible.

### **Case Law: ATU vs. MPWT**

Albanian Telecommunication Union sh.pk vs. The Ministry of Public Works and Transport is a court case where an agreement is made for conducting investments in the fiber optic network in defined axes. In this case, the MPWT issued an order, in 2010, on granting a permit for the use of public immovable property, the national road, with compensation. Through this order, ATU recognizes the right to use public property in order to realize, with its investments, the fiber optic network in defined axes. This was the exclusive right; No other public or private party would have another right to use this axis for information technology. In 2011, the Ministry of Innovation and Information and Communication Technology (MIICT) opened a competitive procedure for granting a concession to the project for the deployment, development, provision, installation, management and maintenance of the Broadband National Network, which is a special kind of network. This is a new national infrastructure for data transmission and provision of services throughout the territory of the Republic of Albania by issuing an appropriate order. According to MIICT, it was ordered to conduct procedures through special units.

In its framework, MIICT publishes in the bulletin of the Public Procurement Agency the invitation to participate in the competitive award procedure and a deadline had been set. ATU claimed that the administrative act issued by MIICT for the purpose of the concession procedure had essentially the same project with its own, which violates its rights of exclusivity and economic interests. The object of research was to take measures to secure the lawsuit and suspend the administrative act. The Court of the Tirana suspended the administrative act. The Court of Appeals and the High Court, dismissed the position of Tirana.

### **Pro ATU arguments**

Referring to the competition procedure documents and the 2010 order, of the Ministry of Public Works and Transport, ascertained that the winner of the competition will be granted the right to use public property, a right to be given free of charge to ATU which is the plaintiff, although he was granted the right of public property, set forth in the order (this right) with a payment. Exclusivity is guaranteed. No restriction on the right to use public property was provided. It is claimed from ATU that, according to its investment obligations, it has to absorb the value of 40m euros, investments that have been made to a considerable extent.

The plaintiff's claim was entirely based on the provisions of article 202 and the following, of the Civil Procedure Code. The administrative acts, object of this judgment, directly and immediately damaged the economic interests of the plaintiff, since they violated openly the conditions under which the Albanian state, represented from MPWT. The suspension of tendering procedures would protect the interests of all parties in the process, as the tender would be considered invalid, causing the potential winner to return to the previous state.

### **Arguments Against ATU**

The plaintiff does not argue and does not prove, the "existence of the risk", of causing a damage from the application of the administrative act, that is the subject of the request nor the occurrence of this serious and irreversible damage. Regardless of

the rights that the party receives through the administrative permission issued by the MPWT, these rights of an economic nature, are considered to be inherently recoverable, by virtue of its nature, so that we are not in front of an “irreplaceable damage” as is required by the law, for allowing the suspension of the administrative act. From the review of the acts issued after the second order by MIICT it is not ascertained, nor have the road axes been determined by the passing or installing the new broadband national infrastructure to justify the claim of the plaintiff in relation to the damage claimed. The respondent party, with its order, intends to conduct procedures as transparent as possible, under market economy conditions, without showing any purpose of violating the interests of the existing entity, that has a previous license, and more so, since from this order or procedure laid down, it results that the plaintiff has a real disadvantage to be irreplaceable.

## Conclusions /Recomandations

Private and Public partnerships especially, concessions, represent one of the most problematic and most important areas in Albania at the same time. Due to the impact they have, on the domestic economy and legal arrangements in this discipline, they require high accuracy and transparency. Based on our legal framework, we can conclude that it is strongly supported by all international parameters, by providing for transparency in procedures and equality between the competing parties. In their interpretations, Courts are discreet, but in certain cases ambiguous, regarding the right of competing subjects. This is due to the need to interpret concepts of legal and economic character at the same time, such as “damage”. However, we can conclude that access to concessionary procedures is such as to create equal conditions and non-abuse of economic freedom as a principle envisaged in the constitution of the Republic of Albania.

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# Economic consequences of judicial decisions against Albania in the European Court of Human Rights

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## Abstract

*The absence of an efficient solution to the problem of ownership with the judicial system, obliges the person to address the European Court of Human Rights. Although the courts have an obligation to respect the basic principles of the trial, often override the decisions of each -others . As a result of the exhaustion of internal roads, the final court that comes to a decision is the Strasbourg court. From all the cases law results that the economic cost when Albania is defeat by the other party is it very huge. The purpose of this paper is to reflect upon these issues and finding a balance between reforms that aimed to be efficient in legal and economic justice. It is important to understand that the basic principle of a normal economy, is the avoidance of loss from negligence and ignorance. On the other hand the person requires justice .State and individual interests are in permanent clash transistor in a country like Albania, which is difficult to achieve a harmony between society, economy and law. Through this study I will try to solve the paradox of why the judiciary and executive systems are not in the same frequencies. Reasons for this situation are often a mistaken policy, but it often happens to be a legal chaos and a crash between principles and laws that have always been justified by the unfortunate past of the isolation of the country. It is important to identify the problem and to run into the right direction as fast as we can.*

**Key words:** Effective instrument, human rights, economic cost, balance, court of European Rights

## Introduction

The acquisition of immovable property as a part of civil law but also as a key component of human life has always been at the center of attention in various social systems and development periods. Regardless of the legal regime or the various historical movements (migration, immigration, wars), property is treated in all legislation as an essential form of state establishment. The legal approach to all property components is challenging and complex, as in addition to its legal aspect, it also carries anthropological problems in relation to social behavior and the way it is treated. The analysis of the ownership phenomenon should be seen in a historical focus, especially referring to the period from 1991 in nowadays, where it is noticed an objective feature of social behavior in post-communist Albania and extra-legal modalities. Property gain not only has not been processed under the law, but in the majority, the individual has used customary laws and what is widely known as the occupation of property. In the early 1990s, after about 50 years of state economy, the political factor in Albania has made the deconstruction of the property and the assignment of property rights, which have been centralized for more than 45 years both for physical and juridical persons. The distribution of private property would prepare the ground for a completely different form from what has existed so far in the so-called market economy. Accordingly, the first laws were drafted, which would make such a change by incorporating modern legal concepts on ownership, intertwined with elements of the Albanian tradition.<sup>1</sup> Overcrowding created the individual after a few years of looking at the institutions of justice, even in the European ones. The European Court of Human Rights has now become the ultimate instance of legitimate expectations for the settlement of property disputes.

<sup>1</sup> Besnik, A., Lulo, K. & Myftiu, G. (2003), Tirana – the challenge of urban development. CETIS, Tirana

## Purpose and objectives of the study

**Purpose:** This study aims to identify the problem of property rights in its legal and economic aspect. It took more than two decades for an individual to address the Strasbourg Court as the ultimate solution to the conflict. Although this process goes through considerable time, psychological and financial costs for the party that sues the state, giving justice to this court has rewarded patience and legal investment. Adherence to the Convention does not only derive rights but also obligations. This is also the key point of work. What if the court by a final decision obliges the Albanian party to indemnify the individual to the extent determined? The legal answer is clear. By incorporating into the legal system, the legal basis from which this obligation arises is an internal part of Article 116 of the Constitution of the Republic of Albania. Although there is no coercive body in enforcing its decision, the European Court has full sovereignty over its power. The goal is to calculate the final cost incurred by the state from its malfunction and to come to an analytical conclusion on status quo.

### The objectives of the project

1. Analysing the property rights legislation over the years.
2. Study the concrete cases addressed to the European Court.
3. Calculation of loss and profit missing.

## The research question, hypothesis and methodology of the paper

**Hypothesis:** The laws that have been made so far to resolve the property problem have in fact added to confusion and have increased quantitatively the demands of the European Court of Human Rights.

**The research question** that follows this hypothesis is: Does Albanian legislation provide enough legal certainty to resolve conflicts between domestic courts?

**Methodology:** The data to be used in this study are part of the legislation and case law of specific property cases. These data will be collected through careful scrutiny of the doctrine and relevant legislation. The data will be analyzed using the comparative method. The data that will be used will be those of the applicable legislation as the study seeks to benefit from the most advanced legal practices.

Another effective method for the study would be logical analysis, as making such a interpretation is more clearly achieved by the legislator for any change in the law. The data that will be obtained and analyzed through the aforementioned methods will be subject to doctrinal interpretation. At this point, the theoretical perspective chosen will become valid.

## Analysis, interpretation of data

In a state of law, the exercise of political power is defined and limited by laws. This excludes the exercise of political power for private and unconstitutional purposes. The discrepancy in political decision-making is expected to be very low, only in specific cases, even those often regulated by law. However, despite legal regulation of political power, in many countries of the world it is noted that political power is often abused (unconstitutional / illegal) and arbitrary (with high personal discretion). This destroys the functioning of the rule of law and has negative effects in all areas of social activity. For example, trust in justice system institutions falls to a very low level and people seek out-of-court alternatives to resolve conflicts, while increasingly resorting to rights (contracts) to regulate relationships between them. In the conditions when the constitution and the laws fail to regulate the exercise of political power, what could be the alternative to conditioning the exercise of political power in legal determination? This is the basic research question that orientates the whole study. The term 'alternative' used in this question does not mean that we should give up the constitution and the laws. Searching for an alternative means finding an effective regulator of political power, while society continues to function with its constitution and laws. This alternative would replace the constitution and the laws; On the contrary, would effectively condition the political power to be exercised under the constitution and the laws. Referring to this research question, it is necessary to clarify two other issues: (1) the assumption of the impossibility of constitution and laws to regulate the exercise of political power; And (2) a clear definition of the rule of law, since it is the concept that expresses the limitation of this study within a hypothetical interest field and, consequently, the boundaries within which the research question operates. To address the first issue can be seen some empirical data that express the relation between (a) the rule of law and the constitutionality of the constitution and (b) the rule of law and the manner of acting of the constitutional court. However, since the content of the constitution is complex and heterogeneous in its elements, the only way to look at the constitutional relation with the rule of law is to specify its components.



## Legal Framework for Property Rights

The Law for Restitution and Compensation of Property and Other Land Law Related to Social Welfare caused disproportions of the various clusters of individuals.<sup>2</sup> This process was accompanied by a problem, which is still ongoing. The program of compensation and return to former owners, whose properties were expropriated during the communist regime, was consolidated by law two years after the distribution of agricultural land and privatization. This arrangement initiated the conflict between new owners (those who gained rights under the law Privatization after 1991) and former owners, a conflict that over time was followed by major technical and legal problems.

## Real Consequences

After land distribution across the country, the local division suffered major changes. Despite the legal barriers to land ownership, physical separation is currently a key issue. This is one of the most controversial laws in Albanian legal and institutional history. The situation was compounded by the informal partition of the land. Owners who acquired the property under Law 7501 continued to sell some of their land to new owners, in many cases without legal documents. So there was overlapping, so for one parcel were claimed rights by more than two owners, who besides they built upon it illegally. This dual problem firstly requires clarification of the ownership of the land (which it owns lawfully and who does not) and, secondly, the illegal construction.

## Return of property

Laws on property restitution and compensation before 1946 proved insufficient because it was important that the law before the compensation phase be tested by alternative alternatives. Meanwhile, property restitution supporters began to focus attention on touristic areas as potential areas for its return. Finally, the compensation process was not applied and the claims of the former owners remained unfulfilled. Laws for restitution and compensation should be interpreted in the context of constitutional provisions on private law. The present constitution offers great legal guarantees in this area of law.<sup>3</sup> In the Civil Code of the Republic of Albania, ownership is defined as “the right to enjoy and possess within the limits set by law”. Property subjects may be natural, legal, and public entities. The legal definition and factual situation of the property are in oblique relation.<sup>4</sup>

## Legal Framework on Property Rights

After 1990, Albania has undergone radical changes as a result of its transition to a market economy. The population movement was not foreseen and can not be managed by previous laws and regulations governing the country before the transition. The protection of private property and the right to inheritance are essential for democracy and economic development, while protecting public interest is the basis for modern development.

Without intent to concentrate on informality and informal constructions, the subject of the study focuses on the acquisition of property and illustrations in cases where the law is erroneously interfered. This has escalated over the last 25 years 530 complaints received by the Strasbourg Court. Only in 2010 were made 26 decisions in favor of the owners ordering that the government should respect human rights and fundamental freedoms under the European Convention. On the basis of this Law, former proprietors of properties expropriated by the communist regime and their heirs were recognized the right to search property on original property. If ownership was deemed to exist, the former owners and their heirs had the right to return the original property, receive compensation in kind, or receive material compensation. The Council of Ministers of Albania was the body responsible for defining the rules for determining the compensation and the applicable timeframe. Regional Commissions for Restitution and Compensation of Property were the bodies responsible for addressing these claims. The 2004 Property Act, which abrogated the first version of the Law, provided for two forms of real estate return, namely the return of original property, or, if possible, compensation. The 2004 law provided for the implementation of decisions recognizing compensation within the first six months of each financial year. In 2005 the Parliament adopted an act that defined the real estate valuation method for compensation purposes. Its implementation was handed over to the State Committee for Compensation and Restitution of Property. The Property Act of 2004 was amended by the 2006 Property Law, which abrogated

<sup>2</sup> Pojani, D. (2011), Maintenance and Management of Communist-Era Privatized Flats and New Condominiums in Tirana: Legal Requirements and Actual Practices. Universiteti Epoka, Tiranë, Shqipëri.

<sup>3</sup> Gabriel B (2007) Informal Settlements in SEE – A Regional Support Approach. Paper presented at Informal Settlements – Real Estate Markets Needs Related to Good Land.

<sup>4</sup> Civil Code of Republic of Albania.

the provisions regarding the enforcement of compensation decisions. In *Ramadhi and Others*, the European Court noted that domestic legislation does not have provisions regarding the implementation of decisions of regional commissions for property restitution and compensation. In particular, property laws do not foresee a legal time limit for appealing these decisions to national courts nor do they envisage any specific effective legal remedy for their implementation. The Court further notes that on the date of its decision the Council of Ministers had no rules for compensation. The lack of necessary measures to provide the means to enforce the decisions of the regional commissions was found to be a denial of the applicants' rights to enjoy an effective legal remedy allowing them to apply their civil right to compensation Article 13). Article 46: The European Court noted that in the *Driza and Ramadhi and Others* cases the violations were rooted in the unjustified barrier to their right to the peaceful enjoyment of their property, which resulted from the non-enforcement of court decisions and Commission decisions that provided compensation on the basis of the provisions of the property law. 6 Finding that detected legal vacuum can lead to numerous other grounded issues, the Court granted the type of measures that the respondent State should take to 'Ending the nature and cause of the violations:

"Above all, the respondent State must present an effective legal remedy that provides for an effective and fair treatment for the violations of the Convention identified in the decision in question and in other similar matters under consideration [...] Introduced the effective legal remedy, the State should, inter alia, designate the competent body, provide for procedural rules, ensure compliance with these rules in practice and remove all obstacles to the granting of compensation under the property law. These objectives can be achieved by providing appropriate legal, administrative and budgetary measures. These measures include the drafting of property valuation maps in respect of the complainants who are entitled to receive compensation in kind and the allocation of an adequate fund with respect to the complainants who are eligible to receive compensation in value in order to It is possible for all complainants [who have judicial or administrative decisions in their favor to swiftly receive lands or the sums they belong to. "

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## Important steps taken by the defendant state

The recent amendments to the Property Law (Law No. 10207, dated December 23, 2009) removed the regional commissions.<sup>5</sup> The Property Restitution and Compensation Agency (PRCA), established on the basis of the 2006 Property Law, is the central administrative body tasked with the task of enforcing the property law and is the body responsible for deciding on returns

<sup>5</sup> Economist Intelligence Unit. 1993. Country Report for Albania.

and compensation claims. The Government has approved and issued a map of property valuation, which is used by the PRCA to calculate the value of expropriated properties and then any amount of compensation granted to the complainants. A law adopted on 25 February 2010 created a new and consolidated compensation fund. The PRCA administers the fund in accordance with the procedures established by the Council of Ministers and the proposals of the Minister of Finance. The Minister of Finance annually transfers the respective amounts to the Compensation Fund, while the unused amounts may be inherited in the following years. The property law provides for the right to receive interest on the amount determined by the period of recognition of the applicant's property rights up to the granting of financial compensation. Further, it foresees the creation of a Compensation Fund in Nature (cli is not yet functional). The government has developed criteria and procedures to determine which state properties fall into the fund's facility. AKKP is responsible for verifying the legal status of each property that is part of the fund. Albania has introduced the private bailiff service through Law No. 10031, dated 11/12/2008, which defines a two-tier system consisting of the state system and the private enforcement system, which are state bailiffs.

## Conclusions

From the point of view of the art of property relations, the different views and attitudes towards types and forms of ownership gain as social relations, we can conclude that these relations of primary importance should be regulated and protected by the norms of right Civilians in such a way as to serve both the interests of the individual and the collectivity. At the same time, these legal norms should ensure that they are always kept alive to their interests, as a condition for maintaining harmony and tolerance among the social strata. Also, the legal framework on property relations should go after and take into account the very high sensitivity of the individual regarding the property. Seeing in this perspective would help draft laws in this area to be very clear, leave no room for abuses or misinterpretations as this would also reduce the conflicts that arise between citizens and Sometimes even within the family, regarding property rights.

In reality, property laws, especially in our country, are difficult to understand in the application. This brings serious consequences for their subjects and for the country as a whole, since one of the most conflicting issues is still unresolved and at the same time a fundamental right, the property protected by the constitution and the international acts ratified by our country.

Although the legislation regulating immovable property after the 1990s has undergone changes, which certainly have brought about progress, it is not yet able to give way to some of the real demands of society. This is reflected in the many conflicts that exist today between former owners and pastores, among former owners and new owners as a result of privatizations, and so on. In that sense, he still needs interference in some of the laws we have dealt with in art. Abuse in the legal field of property use and ownership has given rise to its consequences by increasing the number of property disputes. According to the reports, the problems of current legislation related to ownership over property rights, though regulated in some way, apply in different ways and times and above all in conflict with one another. Already in Albania, the phenomenon of property and its acquisition is a legal concept that is often unknown and other times misinterpreted.

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# Implementing European rules into Albanian legislation. The right of Family Reunification

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## Abstract

*For the past 20 years, family reunification has been one of the main reasons for immigration into the EU. It is an entry channel enabling those who already reside legally in a Member State to be joined by their family members. Family reunification helps to create socio-cultural stability, facilitating the integration of third-country nationals residing in EU Member States, thus promoting economic and social cohesion – a fundamental EU objective. This study is focused on family reunion in European Union and in particular on Directive 2003/86/EC on family reunification and Directive 2004/38/EC on free movement of persons in the EU. The Directive 2003/86/EC on family reunification establishes common rules for exercising the right to family reunification in EU Member States. It determines the conditions under which family reunification is granted, establishes procedural guarantees and provides rights for the family members concerned. This study is focused in Albania as well. This Directive has been implemented in Albania. The aim of this paper is to analyse if this implementation has been conform to the European rules or not. Albanian legislation seems to be conform EU standards. However we will analyse the conditions before allowing family reunification such as economic criteria, adequate accommodation, the waiting period, integration measures etc.*

**Key words:** Directive 2003/86/EC on the right to family reunification, conditions, implementation, Albanian legislation.

## Introduction

For the past 20 years, family reunification has been one of the main reasons for immigration into the EU. It is an entry channel enabling those who already reside legally in a Member State (sponsor) to be joined by their family members. Family reunification is a recognized reason for immigration in many countries because of the presence of one or more family members in a certain country, therefore, enables the rest of the family to immigrate to that country as well. In this context, family reunification is a fundamental right and a social right as well. This is an important right in the general context of free movement and on migration. Family reunification helps to create socio-cultural stability, facilitating the integration of third-country nationals residing in EU Member States, thus promoting economic and social cohesion – a fundamental EU objective. Family reunification is the entry into and residence in an EU State by family members of a non-EU national residing lawfully in that EU State in order to preserve the family unit, whether the family relationship. Family reunification is a necessary way of making family life possible. It is a fundamental right and it is a social right. This article examines Albanian legislation on family reunification. The purpose of the Albanian new legislation (2013) is to create a complete legal framework, according to the European Union rules on family reunification. The aim of this study is to analyze, under Migration and Asylum Legislation of Republic of Albania, the procedures, the conditions and the beneficiaries of family reunification of migrants and refugees in Albanian territory. In particular, will be analyzed the definition of the family, conditions of entry and stay and rights conferred on members of the family. The aim of this study is to stimulate public discussion on family reunification in Albania given that this country has adopted new legislation in this field, in order to obtain an initial impression of this legislation, to compare and to analyze them in the context of the process of membership in the European Union. This process for Albania



started immediately after the fall of the totalitarian communist system (1991) and it has been a political and historical mission. On May 1992 Albania signed the Trade and Co-operation Agreement with European Community and on June 2006 the country has completed in Luxemburg a long cycle of negotiations regarding the signature of the Stabilization and Association Agreement (SAA) with the European Union<sup>1</sup>. Almost six years after the signature and the ratification of the SAA by all Member States, European Integration continues to be the paramount priority of the Republic of Albania.

The integration process of Albania is the main driving force for all reforms. Remarkable progress has been achieved and many efforts have been made on the way to streamlining country's policy towards a more rapid accommodation of EU policies and legislation. European Union is a space of common democratic values, composed of freedom and tolerance while it is becoming the most important partner for Albania. EU integration is a very demanding process and requires full commitment by the Albanian government: stable institutions guaranteeing democracy, a functioning market economy, ability to adopt the obligations of membership, the guarantee of the rule of law and, in particular, the respect of human rights. Thus, among other reforms in several fields, Albania has adopted, in this context, the new legislation on migration and new rules on family reunification. The purpose of the Albanian new legislation is to create a complete legal framework, according to the European Union rules on family reunification, and in particular according to the directive 2003/86/EC which regulates family reunification of migrants (workers, self-employers etc.) within the territory of European Union.

The intent is to examine the procedures, the conditions and the beneficiaries of family reunification of migrants and refugees that are located in the territory of Albania, in particular the Albanian Migration and Asylum Legislation (Law no. 9959/2008 "On Foreigners", Law no. 8432/1998 on Asylum in the Republic of Albania). In this perspective we will use the term "sponsor" for all migrants-foreigners (workers, self-employers, refugees etc.) that are lawfully residing and are entitled to the right of family reunification in the territory of the Republic of Albania.

## Family Reunification in the European Union

The list of legal instruments being in one way or another linked with the issue of family reunification is considerably large, because of the great number of aspects that affect family life. Just to mention a few, family life involves, on a basic definition level, the composition of the family, but may also involve the rights these family members may invoke (access to the labor market, schooling, social security etc.) and the rights they may still claim after the family relationship has come to an end. The right to family reunification is enshrined in many international instruments. We can mention here the Universal Declaration of Human Rights (Articles 12 and 16); UN International Covenant on Civil and Political Rights (Articles 17 and 23); UN International Covenant on Economic, Social and Cultural Rights (Article 2); International Convention on the Rights of the Child (Articles 9 and 10); European Convention on Human Rights (Article 8); European Social Charter (Articles 16 and 19); International Convention on the protection of the Rights of All Migrant Workers and Members of their families (Article 44); European Convention on the legal status of migrant workers (Article 12); the Charter of Fundamental Rights of the European Union (Article 7), etc.<sup>2</sup>. It can be said that family reunification, as a universal human rights instrument, is connected with the concept of migrant workers, in order to combat racism, xenophobia and to assure basic human rights. These international treaties were adopted mainly by ILO and the UN. Notwithstanding the unclear competence of the UN and ILO concerning the migrant workers, and moreover the vague wording of the legal instrument they have produced - which normally are not even legally binding for all States - one element of these instruments is constant and clear. The right to family life and family unit is important for everybody, including migrant workers, and this has to be taken into account by the assessment of the human rights component of European Union legislation on family reunification for migrant workers. The regional European human rights instruments do not grant a clearly defined right to family reunification for migrant workers, but allusions to the existence of such right, deriving in part from the importance of the right of family recognized by all instruments, can be inferred. The best promise for the future is in the EU Human Rights Charter, which is legally binding by the Treaty of Lisbon (2009). It actually guarantees the human right of family life and family unity to all legal residents in the European Union.

a) Family reunification for EU citizens in the European Union is a right seen as a corollary right of the provision of free movement. Thus, family reunification of EU citizens falls under the general regime of free movement of persons<sup>3</sup> that

<sup>1</sup> On June 12, 2006 Albania signed the Stabilization and Association Agreement (SAA) at the General Affairs and External Relations Council in Luxemburg and on December enters into force the Interim Agreement. On January 2009 the Procedures of ratification of the Stabilization and Association Agreement between the Republic of Albania and European Union and its Member States is completed by all Member States. The documents are available at [www.europa.eu](http://www.europa.eu) and [www.mic.gov.al](http://www.mic.gov.al). See *The Pre-Accession Dialogue EU-Albania*, Tiranë, 2009, p. 8-86.

<sup>2</sup> PEERS S., "Key legislative developments on migration", *European Journal of Migration and Law*, 2005, 265-266; GROENENDIJK K., "Legal concepts of integration in EU migration law", *European Journal of Migration and Law*, 2/2004, 119-124; COLACINO N., "Il diritto al ricongiungimento familiare e la disciplina introdotta dalla Direttiva 2003/86/CE", *L'Europa tra costituzione asilo e immigrazione* (a cura) di Saulle M.R., Napoli, 2004.

<sup>3</sup> ADINOLFI A., "La libertà di circolazione delle persone", G.Strozzi, (a cura di) *Diritto dell'Unione europea*, Torino, 2005, p. 69; id., "L'art. 39", M.SESTA (a cura di) *Il Codice della famiglia*, 2007, 370; L.S.ROSSI, "I beneficiari della libera circolazione delle persone", *Foro italiano*, 1994, 98; K. HAILBRONNER, "Free movement of EU nationals and Union citizenship", R.CHOLEWINSKI, R.PERRUCHOUD-E. MACDONALD, *International migration law*, The Hague, 2007, 320-322; GIUBBONI S.-G.ORLANDINI, *La libera circolazione dei lavoratori nell'Unione europea*, Torino, 2007, p. 64; VILLANI U., *Istituzioni di diritto dell'Unione europea*, Bari, 2008, 87; FERRARI BRAVO L.-E.MOAVERO MILANESI, *Lezioni di diritto comunitario*, Editoriale scientifica, 2000, 275.



constitutes one of the fundamental freedoms of the internal market, and comprises an area without internal frontiers in which freedom is ensured in accordance with the provisions of the Treaty<sup>4</sup>. The key body of relevant rules governing the free movement of persons is mainly found in Article 45 TFUE and Title IV of the European Union Treaty. The provisions of the EU Treaty relating to the freedom of movement of persons are supplemented by a considerable body of Community secondary legislation, such as Regulation (EEC) No 1612/68, Directive 68/360/EEC, Directive 73/148/EEC, Council Directive 90/365/EEC etc. One of these instruments is the directive 2004/38/EC<sup>5</sup> of the European Parliament and the Council of 29 April 2004 on the right of citizens of the Union and their family members to move and reside freely within the territory of the Member States.

This Directive lays down the conditions governing the exercise of the right of free movement and residence within the territory of Member States by the Union citizens and their family members, the right of permanent residence in the territory of the Member States for Union citizens and their family members as well as the limits placed with regard to the public policy, public security or public health. Directive 2004/38 summarizes in a single legal instrument the rules for the entry and residence of self-employed persons, employed persons, students, and persons and families with no economic sustainability, by extending this fundamental right to all EU citizens who exercise their right to free movement and residence. The right of all Union citizens to move and reside freely within the territory of the Member States, if it is to be exercised under objective conditions of freedom and dignity, is also granted to their family members, irrespective of nationality. It should be emphasized that the rights enjoyed by families due to the family reunification are enjoyed as long as they have the status “family member” of a national community that has exercised the right of free movement. In this context, “family member” is considered (a) the spouse; (b) the partner with whom the Union citizen has contracted a registered partnership, on the basis of the legislation of a Member State, if the legislation of the host Member State treats registered partnerships as equivalent to marriage and in accordance with the conditions laid down in the relevant legislation of the host Member State; (c) the direct descendants who are under the age of 21 or are dependents and those of the spouse or partner as defined in point (b); (d) the dependent direct relatives in the ascending line and those of the spouse or partner as defined in point (b). Without prejudice to any right to free movement and residence, the persons concerned may have in their own right, the host Member State, in accordance with its national legislation, facilitates entry and residence for the following persons: (a) any other family members, irrespective of their nationality, not falling under the definition in point 2 of Article 2 who, in the country from which they have come, are dependents or members of the household of the Union citizen having the primary right of residence, or where serious health grounds strictly require the personal care of the family member by the Union citizen; (b) the partner with whom the Union citizen has a durable relationship, duly attested. The directive also includes in an explicitly way the rights for family members, as part of the rights of the European citizen in respect to his family life. While it is true that the right of movement and residence of family members of Union citizens is not explicitly referred to by the Treaty, the right does flow from the right to preserve family unity, which is intrinsically connected with the right to the protection of family life, a fundamental right of the common constitutional traditions of the Member States, which are protected by the Community law and incorporated in the Charter of Fundamental Rights of the European Union. The human right’s approach toward the family is reflected in the provisions of the directive which enlarges the personal scope for family reunification<sup>6</sup>.

b) Family reunification of non-EU nationals has been always subject to domestic legislation and was uninfluenced by the Community law because European legislation lacked the legal acts that regulates family reunification<sup>7</sup>. In the last 20 years

<sup>4</sup> E.ADOBATI-CIMOLINO-POLO-SANTINI, *La libera circolazione delle persone che esercitano un'attività economica*, U.DRAETTA-N. PARISI, (a cura di) *Elementi di diritto dell'Unione europea*, Milano, 1999, p. 35 ss; L.DANIELE, *Diritto del mercato unico europeo*, Milano 2006, p. 30 ss

<sup>5</sup> The Directive amended Regulation (EEC) No 1612/68 on freedom of movement for workers within the Community and repealed Council Directive 68/360/EEC of 15 October 1968 on the abolition of restrictions on movement and residence within the Community for workers of Member States and their families, Council Directive 73/148/EEC of 21 May 1973 on the abolition of restrictions on movement and residence within the Community for nationals of Member States with regard to establishment and the provision of services Council Directive 90/364/EEC of 28 June 1990 on the right of residence Council Directive 90/365/EEC of 28 June 1990 on the right of residence for employees and self-employed persons who have ceased their occupational activity and Council Directive 93/96/EEC of 29 October 1993 on the right of residence for students. See C.SANNA, “La direttiva 2004/38/CE relativa al diritto dei cittadini dell’Unione e dei loro familiari di circolare e soggiornare liberamente nel territorio degli Stati membri”, *Rivista di diritto internazionale privato e processuale*, 42/2006, 1167; M.MISSORICI-C.ROMANO, “Libertà di circolazione e soggiorno: i cittadini degli Stati terzi tra cittadinanza europea e politica delle migrazioni”, *Rivista internazionale dei diritti dell’uomo*, n. 11/98, 44; S.GIUBBONI-G. ORLANDINI, *La libera circolazione dei lavoratori nell’Unione europea*, Bologna, 2007; A.LANG-B.NASCIMBENE, “L’attuazione in Italia della direttiva 2004/38/CE sulla libera circolazione dei cittadini dell’Unione europea”, *Diritto, immigrazione, cittadinanza*, 2/2007, 3-10; S.PEERS, “Key legislative developments on migration”, *European Journal of Migration and Law*, 2005, 265; S.IGLASIAS SÁNCHEZ, “Dos cuestiones suscitada por la transposición española de la directiva 2004/38/CE a través del RD 240/2007: el régimen aplicable a los ascendientes de españoles y la extensión a las parejas registradas del concepto de “miembros de la familia de los ciudadanos de la Unión””, *Revista de Derecho Comunitario Europeo*, 2007, 913; M.DI FILIPPO, “La libera circolazione dei cittadini comunitari e l’ordinamento italiano: (poche) luci e (molte) ombre nell’attuazione della direttiva 2004/38”, *Rivista di diritto internazionale*, 2008, 425.

<sup>6</sup> J.CARLIER-E.GUILD, (a cura di) *L’avenir de la libre circulation des personnes dans l’UE. Analyse de la directive 2004/38 du 29 avril 2004 relative au droit des citoyens de circuler et de séjourner librement*, Bryulant-Bruxelles, 2006, 21; GUILD E., *The legal elements of European Identity – EU citizenship and Migration Law*, Kluwer Law International, 2004; COSTELLO C., “Metock: Free movement and “Normal Family life” in the Union”, *Common Market Law Review*, 2009, 607-608; CURRIE, S. “Accelerated Justice or a step too Far? Residence rights for non EU-family Members and the Court’s Ruling in *Metock*”, *European Law Review*, 2009, pp. 324-325.

<sup>7</sup> GUILD E.-NIESSEN J., *The developing immigration and asylum policies of the European Union*, Kluwer Law International, 1996; id. *The*

family reunification has been one of the main reasons of immigration to the EU. On 1 May 1999, the Amsterdam Treaty entered into force, adding Head IV, "Visa, asylum, immigration and other policies related to free movement of persons", to the EC Treaty<sup>8</sup>. The new Articles 61 to 69 of the EC Treaty are designed to progressively establish an area of freedom, security and justice. According to Article 63 (3) (a) of the EC Treaty, the Council, acting unanimously on a proposal of the Commission or at the initiative of a Member State, after consulting the European Parliament, within a period of five years from the entry into force of the Treaty of Amsterdam, shall adopt measures regarding conditions of entry and residence and standards on procedures for the issue by Member States of long-term visas and residence permits, including those for the purpose of family reunion. The European Council, at its special meeting in Tampere on 15 and 16 October 1999, acknowledged the need for harmonization of national legislation on the conditions for admission and residence of third country nationals. In this context, it has in particular stated that the European Union should ensure fair treatment of third country nationals residing lawfully in the territory of Member States and that a more vigorous integration policy should aim at granting them the rights and obligations comparable to those of citizens of the European Union. The European Council accordingly asked the Council to rapidly adopt the legal instruments on the basis of the Commission's proposals. The need for achieving the objectives defined at Tampere has been reaffirmed by the Laeken European Council on 14 and 15 December 2001. The Council also acknowledged the need for the harmonization of national legislation on the conditions for admission and residence of third-country nationals. In December 1999, the European Commission presented a proposal for an EU Directive on the right to family reunification<sup>9</sup>. After years of negotiations the text agreed by the Council in February 2003 was finally adopted on 22 September 2003 and it entered into force on 3 October 2003<sup>10</sup>. Directive 2003/86, so called Family Reunification Directive, is the first major directive on legal migration adopted by the Council of Ministers after the Treaty of Amsterdam entered into force. Therefore, since 2006 the European Union has a regulation of family reunification of third-country nationals in the territory of the EU. Shortly after the Directive had been adopted by the Council, the European Parliament asked the Court<sup>11</sup> to annul three provisions of the Directive: the last sentence of Article 4 (1) on the admission of children over 12 years of age, Article 4 (5) on the admission of children over 15 years of age and Article 8 on the waiting period. The Parliament deemed those provisions to be in violation of Article 8 and 14 of the ECHR. In its judgment of June 2006<sup>12</sup>, the Court dismissed the action by the Parliament, but also used the opportunity to clarify that Directive 2003/86 grants a subjective right to family reunification to individuals and sets clear limits on the margin of appreciation of the Member States when making individual decisions concerning family reunifications<sup>13</sup>. The Directive lays down a set of rules governing the procedure for examination of applications for family reunification and for entry and residence of family members<sup>14</sup>. The personal scope of the Directive is stated in Article 3 (3) of the Directive which confines its scope of application to family members of third country nationals who are not EU citizens. At this regard family reunification is applied in any case to members of the nuclear family, that is to say the spouse and the minor children and it is for the Member States to decide whether they wish to authorize family reunification for relatives in the direct ascending line, adult unmarried children, unmarried or registered partners as well as, in the event of a polygamous marriage, minor children of a further spouse and the sponsor. Where a Member State authorizes family reunification of these persons, this has to be made without prejudice of the possibility for Member States, which do not recognize the existence of family ties in the cases covered by this provision, of not granting to the said persons the treatment of family members with regard to the right to reside in another Member State, as defined by the relevant EC legislation.

The right to family reunification is exercised in proper compliance with the values and principles recognized by the Member States, in particular with respect to the rights of women and of children; such compliance justifies the possible taking

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*legal elements of European Identity – EU citizenship and Migration Law*, Kluwer Law International, 2004; GUILD E.- HARLOW C. (ED.), *Implementing Amsterdam. Immigration and Asylum Rights in EC law*, Oxford, 2001; GROENENDIJK K.- FERNHOUT R. - VAN DAM D.- VAN OERS R. - STRIK T., *The family Reunification Directive in EU Member States*, Nijmegen, 2007.

<sup>8</sup> OJ C 340, 10 November 1997, pp. 173-306.

<sup>9</sup> COM (1999) 638, OJ C 116 E, 26 April 2000, p. 66.

<sup>10</sup> L 251, 3 October 2003, p. 12. COLACINO N., "Il diritto al ricongiungimento familiare e la disciplina introdotta dalla Direttiva 2003/86/CE", Saulle M.R (a cura di), *L'Europa tra costituzione asilo e immigrazione*, Napoli, 2004, 73-92; BOSCHIERO N., "Les unions homosexuelles à l'épreuve du droit international privé italien", *Rivista di diritto internazionale*, n. 1/2007", 50-59 ; CARACCIOLO DI TORELLA E.- MASSELOT A., "Under construction: EU family law", *European Journal Law*, 2005, 38-42.

<sup>11</sup> The European Parliament made use of its new competence for the first time to start legal action for annulment of a measure of secondary Community law. This new competence had been inserted by the Treaty of Nice on Article 230 EC Treaty.

<sup>12</sup> ECJ 27 June 2006, case C-450/03 *Parliament v. Council*, (2006) ECR, I-5769.

<sup>13</sup> The judgment illustrates the importance of the power granted to the Parliament by Article 230 Treaty as a means of supporting the rights granted by Community law to individuals, of clarifying the obligations of Member States and of enhancing respect for human rights and Community law by the Council and by the authorities of the Member States. The Court affirms that Article 4 (1) imposes precise positive obligations, with corresponding clearly defined individual rights, on the Member States, since it requires them, in the cases determined by the Directive, to authorize family reunification of certain members of the sponsor's family, without being left a margin of appreciation. This illustrates the important additional rights granted by the Directive to the family members mentioned in Article 4 (1): the spouse and minor children. Those rights go far beyond what has been guaranteed under Article 8 ECHR. The margin of appreciation allowed to Member States under Article 8 ECHR is restricted by the Directive to those situations where Directive explicitly preserves, "a limited margin of appreciation for those States" (paragraph 62). The three clauses attacked by the Parliament in its action are examples of such exceptions (paragraph 97).

<sup>14</sup> COLACINO N., "Il diritto al ricongiungimento familiare e la disciplina introdotta dalla Direttiva 2003/86/CE", Saulle M.R (a cura di), *L'Europa tra costituzione asilo e immigrazione*, 76.

of restrictive measures against applications for family reunification of polygamous households. Family reunification may be refused on duly justified grounds. In particular, the person who wishes to be granted family reunification should not constitute a threat to public policy or public security. The notion of public policy may cover a conviction for committing a serious crime. In this context it has to be noted that the notion of public policy and public security covers also cases in which a third country national belongs to an association which supports terrorism, supports such an association or has extremist aspirations.

## Family reunification in Albania

As we mentioned in the introduction, the aim of this study is to examine the procedures, the conditions and the beneficiaries of family reunification of migrants and refugees located in the territory of the Republic of Albania and in particular the examination of Albanian Migration and Asylum Legislation. The new legislation of this country is presented as a complete text relating to the legal status of foreigners and refugees: it provides for substantial protection of family life, the requirements for family reunification (in particular sufficient housing for family members and resources to support them) and the time period within which the administration must act, the family members which are entitled to follow a foreigner who has entered lawfully and is lawfully resident in Albania. However, this legislation has been subject to several criticisms, related to the contradict that brings the concept of family member, the procedures and the large discretion given to the administrative authorities that are designed to implement the provisions etc. Protection of family life is stated in Albania legislation. The legal framework, which deals with family reunification in Albania, is composed of the Constitution of the Republic of Albania, Law no. 9959 dated 18.07.2008 "On foreigners"<sup>15</sup> and Law no. 8432 dated 14.12.1998 "On Asylum in the Republic of Albania".

Constitution of Albania states that marriage and family enjoy special protection by the state: everyone has the right to get married and have a family; marriage and family enjoy special protection by the state<sup>16</sup>. Same protection to the family is guaranteed by the Constitution of Albania: everyone enjoys the right to marry and the right to have a family as provided by law and everyone enjoys the right to have her/his private and family life<sup>17</sup>. In accordance with the Constitution, Albania recognizes the right of family reunification. However, family reunification is regulated but not defined by the legislation of Albania.

## The Members of the Family

Albanian legislation grants a subjective right to family reunification to the spouse and minor children of the sponsor who fulfill the conditions set by this legislation. In particular art. 2 of Law 9959/08 of Albania is dedicated to "Family members". Members of the family are a) the spouse b) the minor children of the applicant and of his/her spouse under 18; adopted children or children in custody; c) dependent direct relatives in the ascending line of the spouse of the sponsor.

In Albania the categories of family members of the foreigners are limited to the spouse and minor children; these categories of family member are specified. As an extra condition, the legislation requires that the spouse and the children come to live with the sponsor.

The first category mentioned is the sponsor's spouse. In the context of spouses, a remark should also be made on the position of polygamous marriages. Only one spouse can apply for family reunification and where the sponsor already has a spouse living with him in the territory of the host State, the host State concerned shall not authorize the family reunification of a further spouse. The polygamous marriage is expressly forbidden by the Family Code of Albania as well<sup>18</sup>.

Albania legislations does not provide for the right for family reunification for unmarried partners. It is important to note that this legislation does not confer the right of family reunification to those who are in a duly attested stable long-term relationship nor to those, whose sponsor is bound by a registered partnership. Considering today reality, where many couples chose to live together in a stable relationship without getting married, this is to be seen as a move backward for the protection of personal rights of persons, especially for those persons who come from the European Union.

The category of minor children seems to have no complications. Albanian law provides that children must be under the age of 18. It has to be said that there are no special rules for minor children aged over 12 or 15. The descendants are divided in three categories: the minor children of the sponsor and of the spouse, including children adopted; minor children including adopted children of the sponsor where the sponsor has the custody and the children are depended on him or her; the third category is similar to the second, with the difference that it concerns children of the spouse. The aim of the legislation had been to avoid the differences between children born within the marriage, children born out of wedlock or from an earlier marriage

<sup>15</sup> Law no. 8432 dated 14.12.1998 "On Asylum in the Republic of Albania" has amended Law no. 9098 dated 03.7.2003 "On the integration and family of persons who have received asylum in the Republic of Albania".

<sup>16</sup> See articles 53-54 of the Constitution of Albania, art. 7 of Family Code and Law No. 9062 dated 8.05. 2003. See in general on this argument OMARI L., ANASTASI A., *E drejta kushtetuese*, Tiranë, 2008; ANASTASI A., *E drejta kushtetuese e krabasuar: raste nga praktika kushtetuese dhe leksione per studentet e drejtësisë*, Tiranë, 2009. KURTESH S., *E drejta kushtetuese*, Prishtinë, 2004; ALIU A., GASHI H., *E drejta familiare*, Prishtinë, 2007.

<sup>17</sup> According to art. 36: "1. Everyone enjoys the right to have her/his private and family life respected the inviolability of residence, and the confidentiality of correspondence, telecommunication and other communication.." and art. 37: "1. Based on free will, everyone enjoys the right to marry and the right to have a family as provided by law.. 3. Family enjoys special protection by the state in a manner provided by law."

<sup>18</sup> See MANDRO A., *E drejta familjare*, Tiranë, 2009, 15-16; MANDRO A., MECAJ V., ZAKA T., FULLANI A., *E drejta familjare*, Tiranë 2006, 32; OMARI S., *E drejta familjare*, Tiranë, 2008, 55.



or even adopted children. Another interesting remark concerns the age of majority. This age in these laws is specified to be 18 years old, while it was mentioned that the minor children should not be married. However it is not specified whether reference had to be made to general rules of private law, or to the alien's law of the specific State. In addition, Community law on family reunification, for European citizens provides that children must be under 21. This is not in accordance with the rules of family unit of European citizens but it is in line with the general regime of family reunification of third-country nationals that are in the territory of the EU, which states the majority age-limit to be 18 years old. The group of descendants is not enlarged by other descendants like nephews, adult unmarried children, children with handicap etc. There is also a general obligation that applications by a child or his/her parents to enter a State for the purpose of family reunification are to be dealt with by the State in a positive, humane and expeditious manner<sup>19</sup>. This results in a clear emphasis on the need for national authorities to take the interests of children into account when deciding individual cases.

As regards relatives in the ascending line it is specified that they can apply for family reunification if they are in direct ascending line of the sponsor (not of the spouse) when they are depended on the sponsor. It is not mentioned if they have to demonstrate that they do not enjoy proper family support in the country of the origin. A remark should be made here on the wording of the art. 2 of the Albanian Law. It is specified that the relatives must be *depended on the sponsor* and not on the sponsor's spouse. It can, in practice, be a very important difference because the relatives must be depended on the sponsor and not on the income of the entire family.

Asylum law in Albania guarantees the right to asylum to the spouse, children under 18 years of age and to any other relative under the legal custody of the refugee, who has been granted asylum, where provided they reside together. The person above the age of 18 cannot be granted asylum by application of the principle of family unity in accordance with paragraph 1 of this article, unless he/she is dependent of his refugee parents who have been granted asylum in the Republic of Albania. He/she should lodge an individual application in case he/she desires to be granted asylum in the Republic of Albania. In case of divorce, separation or death of the refugee granted asylum, the family members who have obtained asylum in accordance to paragraph 1 of this article, shall continue enjoying asylum. The same applies to children enjoying asylum in accordance with the principle of family unity when they reach the age of 18<sup>20</sup>.

## Formal Conditions

Non-nationals have the right to apply for a residence permit on the basis of family reunification if one of the family members is a non-national or a refugee, with a residence permit valid for not less than one year. With regard to the criteria of admission, the possibility of imposing a waiting period is recognized. Albanian Law reserves the right to require to the non-nationals to be lawfully present in their territory for certain period of time, one year, before family members may be reunited with them under the terms of family reunification. Thus, it is limited to non-nationals who are residing lawfully in the host State and holding a residence permit issued by that host State for a period of *at least one year*. Usually, host States are free to impose a "waiting period" before they allow family reunification. In Albania is defined in one year, and not two or three years like in some Member States of the European Union. This excludes by definition seasonal workers, students and temporary workers. The legislation includes refugees within the meaning of the Geneva Convention but it seems to exclude persons awaiting the decision on their asylum-claim as well as non-nationals who are authorized to reside in the host State on the basis of a temporary protection or persons who have applied for such a status<sup>21</sup>. Minister of Public Order (MRP) is the body responsible for issuing residence permits and for addressing applications for family reunification. MRP is the only authority that decides on the exclusion of family members of Albanian citizens or permanent residents while it is the competent institution that deals with work permits as well.

Regarding the administrative side of the procedure for family reunification, the application must normally be made by the member's family and must be made whilst the family member is outside the territory of the host State concerned. Also, the family member must be in the possession of a visa or other prior written authorization of entry for the purpose of family reunification, and of valid travel documents. Clearly, identity documents and documents validating the existing family relationship must be produced. Other documents that should accompany the application concern the compliance with the conditions of minors, such as the documents confirming adoption or custody over minor children, the dependency of relatives in the ascending line and the absence of family support in the state of origin etc. The legislation also mentions that the application for family reunification should be accompanied by documentary evidence of compliance with the conditions set by the legislation.

## Material conditions

The host State requires evidences from the sponsor, such as: stable and regular resources which are sufficient to maintain himself/herself and the members of his/her family; accommodation regarded as normal for his/her family; sickness insurance in respect of all risk normally covered for its own nationals in the host State concerned for himself/herself and the members of the family. The requirement of adequate housing is comparable to the Directive 2003/86/EC and

<sup>19</sup> Article 9 and 10 of the International Convention on the Rights of the Child.

<sup>20</sup> Article 6 of Law No 8432 on Asylum in the Republic of Albania. See IKONOMI L., *E drejta migratore*, Tiranë, 2011, p. 79.

<sup>21</sup> Article 6 of Law on Asylum in the Republic of Albania.

to Regulation 1612/68 (and not to the directive 2004/38/EC). Albanian Legislation requires that accommodation must meet general health and safety standards in force. The definition of the housing condition in Albania legislation has been amended, but has not really changed in its substance. The resources must be “stable and regular” but not excluding in this way persons who live with their capital. The resources are calculated by both the applicant and the spouse and are evaluated by reference to their nature and regularity. The host State has much more discretion to decide if the resources requirement is met. The reason of this condition is that the sponsor and his family are able to maintain and accommodate themselves without recourse to public funds. It is not specified however in these legislations the level of income required. In Albania, for instance, the level set of income support is considered an acceptable minimum standard of support, but each case is judged individually, depending on individual needs.

Other conditions mentioned by the legislations are facultative, which means that the applicant only has to come up with the documentary proof if the host State in question requires so. It is specified in the Decisions of the Council of Ministers<sup>22</sup>. The purpose of these conditions is to make sure the sponsor can host members of his family and that those persons will not become a financial burden for the host State.

However, States may refuse to allow the entry and residence of family members on grounds of public policy, domestic security and public health. It seems to imply that the burden of proof lies with the applicant for entry. The legislation may also withdraw or refuse to renew a family member’s residence permit for these reasons. When taking the decision, the host State is obliged to consider the severity or type of offence against public policy or public security committed by the family member, or the dangers posed by the person.

The practice is hard to establish on the basis of the law and regulations or decisions, as their formulations are rather vague. In any case, Albanian legislation requires a family member who wants to obtain a visa for family reunification to prove that he/she has not been sentenced for having committed a crime. Therefore, he/she must hand over a criminal record, issued by the country of residence for the previous years. Article 8 of Law 9959/08 of Albania specifies that membership of an organization which has “anti-constitutional” elements or supports terrorisms is one of the grounds of refusal. This new provision enables the authorities to automatically refuse the application of a family member if he or she constitutes a threat to the public order. According to the new rules, the decisions have to be better motivated, and personal circumstances have to be taken into account more explicitly than before.

The hosts State may reject an application for family reunification, or withdraw, refuse to renew a family member’s residence permit, if the sponsor and his/her family member(s) do not live or no longer live in a real marital or family relationship. The host States require a real marital or family relationship with spouses who apply for reunification. The residence permit is refused or withdrawn if the marriage was conducted for the sole purpose of obtaining a residence permit<sup>23</sup>. According to these legislations the authorities are competent to assess whether the marriage for which a residence permit is requested or issued is a marriage of convenience. The marriage has been estimated as a marriage of convenience by legislation of Albania when it is impossible for the spouse to live and communicate together, or one spouse does not know the personal details of the other. How and on which criteria this assessment is carried out or what powers the authorities have is not specified.

## Legal Position of Family Members

In this section will be made a study of the rights granted on reuniting family members of the foreigners in the territory of Albania. The rights included in this section are the right of residence; the right to take up an employment as a worker or as a self-employed person; the right to education and the right to social advantage. Albanian legislation grants the basic right that family members can claim. In Albania these rights are more evidenced. Art. 33 par. 2 of Law no. 9959 specifies that all family members enjoy the same rights and obligations just as the sponsor. Once the host State has accepted the application for family reunification it should make the effective exercise, i.e. the entry into the territory, relatively easy. The administrative hurdle should, at that point, be as low as possible and without costs.

The right of residence is the most obvious right to be conferred on members of the family, apart from the right of entry. All legal instruments explicitly mention this right even though in different wordings: “the right of residence is granted to”, “have the right to remain permanently in the territory of”, “be issued with a residence document” etc. The admission is, however, limited to the actual cohabitation with the sponsor. The duration of the first residence permit is at one year. An important question in this respect is in how far the right of residence of the family members is dependent on the sponsor. Can the family members remain in the host State after a divorce (in the case of spouses), or reaching the age of adulthood (in the case of descendants) etc.? In case of divorce or death of the sponsor, the familiar is not entitled to the residence permit unless a child is born and the spouse has the custody or if the family member has a previous residence permit of two years. However, after five years of residence are entitled to apply for an autonomous residence permit (art. 33)

Besides the right of residence, the family members, or at least the members of the nuclear family can claim a set of rights. The most important one is the right to take up an employment. The latter is clearly an accessory to the right of residence of family members. Therefore is limited or even absent when the right of residence is limited. It appears to be in the interest of the host State to allow persons, legally residing in their territory to take up an employment. It is important to note that this right is granted in Albania.

<sup>22</sup> See for example Decision No. 439/2000, Decision No. 532/2001 etc.

<sup>23</sup> See paragraph 2 of article 34 of Law. 9959.



Family members who are accepted for the purpose of family reunification, are treated in the same way as the sponsor is, in accordance to the human rights and fundamental freedoms and international agreements ratified by the Republic of Albania, respecting the principle of reciprocity, non-discrimination like Albanian citizens. This is mentioned as a general principle in art. 2 of Law no. 9959<sup>24</sup>. They have the right of free movement in the territory of these States, expressly mentioned in the Albanian legislation. A last remark regarding family member's rights must be made. Usually Community law for EU citizen or third country nationals, grants family members the right to access to education (primary or secondary) and vocational training and the social advantage. These kinds of rights in Albania are not explicitly granted.

## Conclusions and recommendations

The right to family life is very important for every person, including migrant workers and refugees. The right to respect family life and, in particular, family reunification, is among the fundamental rights protected by the Albanian legislation. This right to live with one's nuclear family results in obligations for the host State which may be negative, when the host State is required not to deport a person, or positive, when it is required to let a person enter and reside in its territory. There are some general principles applicable to family reunification. The extent's of the host State obligation to admit to its territory relatives of settled immigrants varies according to the particular circumstances of the persons involved and the general interest. As a matter of well-established international law and subject to its treaty and agreement's obligations, a State has the right to control the entry of non-nationals into its territory. In general, these principles are applied in the Republic of Albania as well. However, it is clear that family reunification, as in other countries, is a political issue. One might argue that family reunification in Albania, as analyzed in this paper, is perceived as in the old Europe, where the phenomenon of immigrants and mobility seems to raise "feelings of enmity". Family reunification is generally believed to account for a large proportion of immigration. This is not the case of Albania where the phenomenon of immigration is not so spread. Moreover, Albania is considered to be still a country of large emigration. Family reunification in this country is essentially about settling down and developing roots in a new environment. This study has shown that progress has been achieved and many efforts have been made on the way to streamline these countries' policy towards a more rapid accommodation of EU policies and legislation. Albania has adopted, in this context, new legislation on migration and new rules on family reunification. It is important to note that there is harmonization in this field with European Union law. This legislation, in principle has created a legal framework, according to the European Union rules on family reunification, but it is not a complete legal framework and still remains a low standard of protection of migrants and their family members. This low standard of protection of the "family life" and the rights conferred to the family member maybe is due to the fact that Albanian legislation only sets minimum standards which have to be respected. Comparing Albanian and European Union legislations we come to the conclusion that there are similarities in both these legislations but there are a lot of differences as well. Albanian legislation is presented complete, reliable and in line with European standards.

In conclusion it can be recommended that the level of protection of family life in these instruments should be significantly higher than the present one. Many flexible elements should be introduced to facilitate the process of family reunification and to force the protection of the rights of family members. In particular must be included in the category of family member the unmarried partner and to family members must be granted the right to take up an employment and other social rights as well.

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- UN International Covenant on Economic, Social and Cultural Rights
- International Convention on the Rights of the Child
- European Convention on Human Rights
- European Social Charter
- International Convention on the protection of the Rights of All Migrant Workers and Members of their families
- European Convention on the legal status of migrant workers
- Charter of Fundamental Rights of the European Union
- Constitution of the Republic of Albania
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# Ethical and legal issues in the Assisted Reproductive Technologies.

## Bio political consequences

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### Abstract

*The aim of this work is the study of the new “ways” to born connected with the assisted reproductive technologies. By giving a brief description of the principal techniques connected with IVF and motherhood surrogacy, the aim would not be the medical-scientific description, but the ethical issues and legal-political consequences. In the area of reproduction, the progress has been very fast since the birth of the first so-called test-tube baby, Louise Brown, through the pioneering scientist R G Edwards and Patrick Steptoe in 1978. If we consider infertility as a disease, it would when score as the most prevalent disease in the world, as between 10 and 15 percent couples around the world are infertile, but on this point not everybody agrees. The technique of in vitro fertilization and other assisted reproductive technologies today make it possible for 85 percent of infertility cases to be taken care of even if the procedure doesn't concludes with a baby for the couple. All over the world is considered to be born over 3 million IVF babies. This achievements have changed our anthropology and even religious dogma changing our human identity. It seems has given strong arguments against discrimination based on colour, race, creed, caste, social strata, nationality or language and generally of any factor based on circumstances of birth giving us the belief that human problems can be solved only through human effort. Apart from that, we have on the other side problems from an ethical-social point of view giving to birth to new areas of studies such as bioethics and bio-politics that with be treated in this paper.*

**Keywords:** assisted reproductive technologies, in vitro fertilization, bio-politics, surrogacy

### Introduction

The subject of this work regards the subject of Bioethics, particularly the Assisted Reproductive Technologies and Motherhood Surrogacy. Medical science continues to device new procedures and treatments that test the boundaries of law and ethics. One such result is exactly the modern surrogate motherhood, which has been made possible by Artificial Insemination and In Vitro Fertilization. I would like to study the ethical and legal issues of this “new way to born”.

What are the Assisted Reproductive Technologies (ART) in which the motherhood surrogacy is part? This techniques make possible the born of children in an artificial way. ART includes all fertility treatments in which both eggs and sperm are handled. In general, ART procedures involve surgically removing eggs from a woman's ovaries, combining them with sperm in the laboratory, and returning them to the woman's body or donating them to another woman. Just to specify, they do not include treatments in which only sperm are handled (i.e., intrauterine—or artificial—insemination) or procedures in which a woman takes medicine only to stimulate egg production without the intention of having eggs retrieved. ART has been used in the United States since 1981 to help women become pregnant, most commonly through the transfer of fertilized human eggs into a woman's uterus (in vitro fertilization). In Europe, with the exception of the Great Britain, the first ART cases appear in the end of the 80'-s.

However, deciding whether to undergo this expensive and time-consuming treatment can be difficult. According to Centers for Disease Control and Prevention (CDC) 2011 preliminary ART Fertility Clinic Success Rates Report, 163,038 ART

cycles were performed at 451 reporting clinics in the United States during 2011, resulting in 47,849 live births (deliveries of one or more living infants) and 61,610 live born infants. Although the use of ART is still relatively rare as compared to the potential demand, its use has doubled over the past decade. Today, over 1% of all infants born in the United States every year are conceived using ART.

## Ways to realize the IVF

The most famous technique is the “in vitro fertilization” (IVF) is the technique of letting fertilization of the male and female gametes (sperm and egg) occur outside the female body; the procedure is done in a laboratory inside a tube.

Then we have other techniques like the “intracytoplasmic sperm injection” (ICSI) that is beneficial in the case of male factor infertility where sperm counts are very low or failed fertilization occurred with previous IVF attempts.

The ICSI procedure involves a single sperm carefully injected into the center of an egg using a microneedle.

The “in zygote intrafallopian transfer” (ZIFT), egg cells are removed from the woman’s ovaries and fertilized in the laboratory; the resulting zygote is then placed into the fallopian tube.

The “in gamete intrafallopian transfer” (GIFT) a mixture of sperm and eggs is placed directly into a woman’s fallopian tubes using laparoscopy following a transvaginal ovum retrieval.

The “artificial insemination” (AI) is when sperm is placed into a female’s uterus (intrauterine) or cervix (intracervical) using artificial means rather than by natural copulation.

One of this techniques regards Surrogacy, in which I have been deeply working and is commonly known as an arrangement in which a woman carries and delivers a child for another couple or person. Surrogacy arrangements are categorized as either commercial or altruistic. In commercial surrogacy, the surrogate is paid a fee plus any expenses incurred in her pregnancy. In altruistic surrogacy, the surrogate is paid only for expenses incurred or is not paid at all<sup>1</sup>.

To understand the argument it’s important to resume the types of surrogacy that are made possible by the ART techniques. We can have:

Traditional surrogacy (TS). This involves artificially inseminating a surrogate mother with the intended father’s sperm via IUI (intra uterine insemination), IVF or home insemination. With this method, the child is genetically related to its father and the surrogate mother.

Traditional surrogacy & donor sperm (TS/DS). A surrogate mother is artificially inseminated with donor sperm via IUI, IVF or home insemination. The child born is genetically related to the sperm donor and the surrogate mother.

Gestational surrogacy (GS). When the intended mother is not able to carry a baby to term due to hysterectomy, diabetes, cancer, etc., her egg and the intended father’s sperm are used to create an embryo (via IVF) that is transferred into and carried by the surrogate mother. The resulting child is genetically related to its parents while the surrogate mother has no genetic relation.

Gestational surrogacy & egg donation (GS/ED). If there is no intended mother or the intended mother is unable to produce eggs, the surrogate mother carries the embryo developed from a donor egg that has been fertilized by sperm from the intended father. With this method, the child born is genetically related to the intended father and the surrogate mother has no genetic relation.

Gestational surrogacy & donor sperm (GS/DS). If there is no intended father or the intended father is unable to produce sperm, the surrogate mother carries an embryo developed from the intended mother’s egg (who is unable to carry a pregnancy herself) and donor sperm. With this method, the child born is genetically related to the intended mother and the surrogate mother has no genetic relation.

Gestational surrogacy & donor embryo (GS/DE). When the intended parents are unable to produce either sperm, egg, or embryo, the surrogate mother can carry a donated embryo (often from other couples who have completed IVF that have leftover embryos). The child born is genetically related neither to the intended parents nor the surrogate mother.

The first recognized surrogate mother arrangement was made in 1976. Between 1976 and 1988, roughly 600 children were born in the United States to surrogate mothers. Since the late 1980s, surrogacy has been more common: between 1987 and 1992, an estimated 5,000 surrogate births occurred in the United States. Nevertheless, the available reports from the CDC and the Society for Assisted Reproductive Technology (SART) clearly show that the number of infants born to gestational surrogates almost doubled from 2004 to 2008, from 748 born infants every year to 1400. These numbers are continuously rising.

## Debates on the Motherhood Surrogacy

Surrogate motherhood has both advocates and detractors, each with strong arguments in their favor. A number of important questions lie at the heart of the debate over the ethics and legality of surrogacy: Who is the real mother of the baby? Does surrogacy necessarily involve the exploitation of the woman serving as the surrogate mother, or turn her into a commodity? What rights does the surrogate mother have? Is surrogacy equivalent to baby selling? Should brokers or third parties be allowed to make a profit from surrogacy arrangements?

<sup>1</sup> A. Bompiani, *Le tecnologie di fecondazione assistita: una rassegna critica*, Vita e Pensiero, Milano 2006.



On this theme Country laws differ widely from one jurisdiction to another, with solutions against this practice, permissive solutions or compromise solutions. Above that, even in jurisdictions that do not recognize surrogacy arrangements, if the genetic parents and the birth mother proceed without any intervention from the government and have no changes of heart along the way, they will likely be able to achieve the effects of surrogacy by having the surrogate mother give birth and then give the child up for private adoption to the intended parents. However, if the jurisdiction specifically prohibits surrogacy, and finds out about the arrangement, there may be financial and legal consequences for the parties involved. Some jurisdictions specifically prohibit only commercial and not altruistic surrogacy. Even jurisdictions that do not prohibit surrogacy may rule that surrogacy contracts (commercial, altruistic, or both) are void. If the contract is either prohibited or void, then there is no recourse if party to the agreement has a change of heart: If a surrogate changes her mind and decides to keep the child, the intended mother has no claim to the child even if it is her genetic offspring, and they cannot get back any money they may have paid or reimbursed to the surrogate; If the intended parents change their mind and do not want the child after all, the surrogate cannot get any reimbursement for expenses, or any promised payment, and she will left with legal custody of the child.

Jurisdictions that permit surrogacy sometimes offer a way for the intended mother, especially if she is also the genetic mother, to be recognized as the legal mother without going through the process of abandonment and adoption. Often this is via a birth order in which a court rules on the legal parentage of a child. These orders usually require the consent of all parties involved, sometimes including even the husband of a married gestational surrogate. Most jurisdictions only provide for a post-birth order, often out of an unwillingness to force the surrogate mother to give up parental rights if she changes her mind after the birth.

A few jurisdictions do provide for pre-birth orders, generally only in cases when the surrogate mother is not genetically related to the expected child. Some jurisdictions impose other requirements in order to issue birth orders, for example, that the intended parents be heterosexual and married to one another. Jurisdictions that provide for pre-birth orders are also more likely to provide for some kind of enforcement of surrogacy contracts<sup>2</sup>.

In the case against Surrogacy nearly all opponents of surrogacy find it to be a morally repugnant practice, particularly when it involves a commercial transaction. Many base their opposition on religious grounds, whereas others judge it using philosophical, legal, or political criteria.

The Roman Catholic Church is just one of many religious institutions that oppose surrogacy. It is against all forms of surrogacy, even altruistic surrogacy, which does not involve the payment of a fee to the surrogate. It holds that surrogacy violates the sanctity of marriage and the spiritual connection between mother, father, and child. It finds commercial surrogacy to be especially offensive. Commercial surrogacy turns the miracle of human birth into a financial transaction, the church maintains, reducing the child and the woman bearing it to objects of negotiation and purchase. It turns women into reproductive machines and exploiters of children. The church argues that surrogacy also leads to a confused parent-child relationship that ultimately damages the institution of the family.

Some feminists oppose surrogacy because of its political and economic context. They disagree with the notion that women freely choose to become surrogates. They argue that coercion at the societal level, rather than the personal level, causes poor women to become surrogate mothers for rich women. If surrogacy contracts are legalized, they maintain, the reproductive abilities of a whole class of women will be turned into a brokered commodity. Some feminists have gone so far as to call surrogacy reproductive prostitution. Other critics join with catholics and feminists to decry surrogacy as baby selling and a vehicle for the exploitation of poor women.

In the case for Surrogacy advocates for surrogate motherhood propose it as a humane solution to the problem of infertility. They note that infertility is common, affecting almost one out of six couples, and that surrogacy may represent the only option for some couples who wish to have children to whom they are genetically related. Advocates also point out that infertility is likely to increase as more women enter the workforce and defer childbirth to a later age, when fertility problems are more common.

Advocates of surrogacy also argue that adoption does not adequately meet the needs of infertile couples who wish to have a baby. They point out that there are many times more couples than available infants. Moreover, couples must wait three to seven years on average to adopt an infant. Here, too, social trends have contributed to a greater call for alternative reproductive options. Most important, an increased use of contraceptives and Abortion and a greater acceptance of unwed mothers have led to a shortage of adoptable babies.

Those who favor commercial surrogacy object to characterizations of the practice as baby selling. A surrogacy contract, they assert, is a contract to bear a child, not to sell a child. Advocates of surrogacy see payment to a surrogate as a fee for gestational services, just like the fees paid to lawyers and doctors for their services. Some advocates even argue that the prohibition of commercial surrogacy infringes on a woman's constitutional right to contract.

Surrogacy is also supported by those who believe that society is served best when the liberty of individuals is maximized. They claim that women and society as a whole benefit from the increased opportunity of choice offered by surrogacy.

Advocates also maintain that in a successful surrogacy arrangement, all parties benefit. The intended parents take home a cherished child, and the surrogate receives a monetary reward and the satisfaction of knowing that she has helped someone realize a special goal.

<sup>2</sup> F. D'Agostino, L. Palazzani, *Bioetica. Nozioni fondamentali*, La Scuola, Brescia 2007, Fq. 82; E. Mayr, *Biologia ed evoluzione*, Universale Scientifica Boringhieri, Torino 1982, Fq. 25; B. Montanari, *Scienze biotecnologie e "impatto sociale"* in L. Palazzani (a cura di), *Nuove biotecnologie biodiritto e trasformazioni della soggettività*, Studium, Roma 2007, Fq. 18. [www.fecondazioneassistita.it](http://www.fecondazioneassistita.it).



## Conclusions

This studies are constructing new subject categories as the bio-politics and bio-power. This categories can be considered as an extension of state power over both the physical and political bodies of a population. It regards in particular the ratio of births to deaths, the rate of reproduction, the fertility of a population, and so on. This particular subject regarding bio-politics can be my focus studies trying to connect how the growth of technologies is enforcing the state power and its controlling governing mechanism, trying to the risk of new forms of power concentration. This can be a good start to build new ethics in politics and consequential laws.

Surely also Albania is involved in this kind of issues, and I think is necessary to create a debate about these themes, especially at University, in order to make correct decisions on these argument and choose laws that respect human integrity and dignity<sup>3</sup>.

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<sup>3</sup> P.J. Pauly, *Controllig life*, New York Oxford 1987, Fq. 28 ss.

# Inheritance institute (mortis causa) between efficiency and justice seen in comparative perspective in Albania and International Law

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## Abstract

*This paper will present a general framework to inheritance institute (mortis causa), relying on concepts and legal provisions that different countries give for inheritance. Going into retrospective to see how it was handled in certain periods the inheritance, focusing on Albanian legislation and see how it is treated at different times, analyzing ways that how could everyone benefit from legal and testamentary inheritance, by seen in a comparative view between some legislations that have different procedures, addressing and analyzing the most important legal acts for these countries. Finally analyzing the latest Regulation of European Union on jurisdiction, applicable law, recognition and enforcement of court decisions, as well as acceptance and enforcement of authentic instruments in inheritance issues and the creation of the European Inheritance Certificate, a necessary legal innovation for all states member inside and outside the EU. Inheritance institute (mortis causa) is an institute that unless appeared important in law, manifest importance in our life simply because it is exclusively legal relationship that will occur at least once in our life. All this paper will be followed by remarkable decisions court to present a domestic and foreign judicial practice. At the conclusion of this paper will reflect the judicial practice and the solution of problems arising from the inheritance institute in terms of international and domestic law, trying to approach Albania in a frame and consistent context with some conclusions drawn from this paper.*

**Key words:** inheritance institute, mortis causa, testamentary inheritance, legal inheritance, Regulation of European Union, applicable law, European Inheritance Certificate, judicial practice.

## Introduction

The mortis causa is an institute that, apart of its importance in legal sciences, also appears to be important in the life of every simple person, mainly because it is one of the only legal relationships that each one of us will face, at least once, in our lifetime. The passing of someone near and dear to our hearts, while it is a painful experience, is an inevitable natural phenomenon and precisely because of it we are confronted the inheritance institute. Moving towards to this logic, it is imperative that everyone knows how to dispose of his property by Will or in his absence, who will be the individuals gaining the property that the deceased has during his lifetime?

The migratory movement of the people has created different relationships between people of different nationalities, starting from marriage, adoption, making different contracts, and so on. Turning the focus to the sentence above, we see three relationships that significantly affect the right to inheritance and make this institute become a part of international law, by presenting an interest in dealing with inheritance problems internationally. Problems will appear regarding the applicable law to regulate inheritance issues.

A number of international conventions have been adopted to regulate and troubleshoot arising issues from various situations created by inheritance, which have the purpose of avoiding and reducing disagreements. Since it is a civil right that is regulated in a discretionary way by each state, the conventions try to unify the procedures followed to leave space the respective legal framework of each country.

## Purpose and study objectives

The purpose of this paper is to provide some solutions and recommendations through the theoretical and practical elaboration of the inheritance institute. Thanks to this institute, a Uniform Code was adopted in the United States many years ago, which applies until nowadays. In the same steps, the European Union adopted on July 4, 2012 the Brussels IV Regulation, which entered into force on 17 August 2015 and unified the hereditary right to the European area. Albania, as a country that continues to improve its legislation to align the *aqui comunitare*, has included this regulation in the national plan integration drafted by the Integration Ministry.

Research question, hypothesis and methodology of the paper

The paper sets out a series of questions relating, for example; which law will apply in determining the parts of the heirs, how does the decedent's nationality or other circumstances influence the determination of applicable law? Does the legacy of the decedent's nationality rule be governed by other international states? In a comparative plan, how does this institute compare in other countries? Having a not-developed economy in our country, does inheritance affect the distribution of property? According to the analysis of theoretical and practical issues what is the freedom given to a person to dispose of his property when he no longer exists?

**Hypothesis:** Based on the amended provisions of the law and the interpretation from judicial decisions there are improvements in terms of the costs that have been reduced in the case of inheritance issues, but the most problematic aspect relates to implementation in practice because there has been legal uncertainty for the persons concerned in inheritance issues.

Research methods rely on doctrinal research and analysis of legislation, including jurisprudential elements of Albanian judicial practice as well as that of ECHR.

## Analysis, interpretation of data

In civil law, the inheritance institute implies the entirety of legal relations governing the property relations that arise because of the death and after the death of a natural person<sup>1</sup> and regulating the transfer of property left by the decedent to his heirs. It is considered one of the most important law institutes, because is one of the main ways of gaining ownership by which is made the transfer of rights and obligations only as a result of the death of the holder of these rights and property obligations. This importance devoted to inheritance both in doctrine and in practical aspects is reflected in the fundamental law, the Constitution (Nuni, 2008: 589). In a specific provision, specifically Article 41/2 provides: "Property may be gained by gift, inheritance, purchase, or any other classical means provided by the Civil Code." This provision makes a general predication by making reference to the Civil Code to have a clearer and more detailed framework around the inheritance institute. Referring to the Civil Code, the institute of inheritance is foreseen in a separate section, Part III, to point out the importance that represents this institute. This is emphasized by the volume of provisions the lawmaker considered necessary to make a detailed regulation for the inheritance. The legal doctrine gives the inheritance institute the same importance and treats it as a separate part of civil law, just like the right of ownership.

When we talk about the death of a person, we need to clarify that the rights and obligations he enjoys with his life are extinguished at the moment of death, which bring to life the inheritance institute itself (Galgano, 2006: 970). So the deceased person's estate has lost its holder and is awaiting for the potential heirs (K.Civil, 1994: 316). The transfer of the ownership rights as a result of the inheritance is made in two ways: according to the legal provisions defined by the Civil Code which is the legal inheritance, and according to the will of the deceased person and in this case is applied the testamentary inheritance.

The Civil Code provides that legal inheritance is only enforced when the decedent has not made a Will or made it only for a part of his property, or when the Will is completely or partially null (K.Civil, 1994: 317). What is highlighted by this prediction is that testamentary inheritance is the rule applied in the case of the opening of an inheritance, and only in its absence the legal inheritance will apply. This institute has given the freedom to the person to dispose with Will and set the limits provided by the law in favor of whom he wants to dispose of his property after he can no longer enjoy it.

Beyond the great importance as a way of gaining ownership and determining the heirs, the right to inheritance is also important in preserving and protecting the family as a social community, because the inheritance right is influenced by the kinship relationship of the decedent (Galgano, 2006: 971).

## Inheritance Institute in domestic law and in international law

When it comes to domestic law and international law, the most interesting issue is the impact they have on each other and the prevalence of each when confronted by one another. The focus of this paper will not stop here but on the link between the domestic provision of inheritance and international law. The right to inheritance is governed by the domestic norms of private law, so it is one of the main institutions, but where is its connection with international law?

<sup>1</sup> Inheritance is only applicable to natural persons and does not apply to legal person. By nature, a legal person is not a natural creature that can be subject to physical death, but a creature created by right. Even if we would make a comparison with the termination of the status of a legal person, the provisions of the inheritance would not be apply, but those of the liquidation or termination of the legal personality.

Inheritance is a domestic law institute of every state, but seeing the migration of people around the world and the relationships they create, make this institute also a part of international law, presenting an interest in dealing with problems that come as a result of the inheritance relationship. Since international law is divided into public<sup>2</sup> and private<sup>3</sup>, therefore, this private law institute will find an adjustment by private international law, which regulates international relations between natural persons, as public international law provides an arrangement between states or international organizations.

Before a private international relationship comes the problem of choosing the country's legislation that will be applied to solve a legacy issue, because the goal is to solve the conflict between different legislation for the same legal situation created (Gutmann, 2009: 18). The way how does the private international law treat the institute of inheritance we will see it ongoing.

## Legal regulation of the inheritance institute under private international law based on the Law No.10428, dated 2.6.2011 "On Private International Law"

Legislation of private international law on legal and testamentary inheritance since 1964 has defined that "relationships arising from inheritance on a movable or immovable property are adjusted by the law of the State of which the deceased was a citizen at the moment of death" (Law No.3920/1964: Article 14). This legal provision supports the theory of Savinij regarding the personal criterion, that decedent's citizenship at the time of his death (Kalia, 2010: 168). So what our legislation provides is that Albanian law will be applied in a case of mortis causa for persons with Albanian citizenship, it doesn't matter the location of the inherited property. In addition to the priority given to the law of citizenship of the deceased, the law on the location of movable or immovable property is also envisaged.

With the entry into force of the new law and the abolition of the old law, the issue of jurisdiction has suffered some changes. According to law Law No.10428, dated 2.6.2011 "On Private International Law" gives a new notion for determining the jurisdiction of the *habitual residence*:

*"Inheritance on movable property is governed by the law of the State in which the decedent has his habitual residence at the time of death, while on immovable property is governed by the law of the State in whose territory the immovable property is located."* (Law No. 10428/2011: 33).

So, the substantive validity of the testament act will be governed by the law applicable to the inheritance as a whole. From the prevision of this law if we would bring it to the comparative level with the Civil Procedure Code we would see that "On Private International Law" are provided two cases of jurisdiction, the first at the place of residence of the decedent at the time of death and the second on the place where the property is located. According to the Civil Procedure Code, three cases are foreseen: the last residence of the decedent, the place where the estate is located and the deceased's citizenship (Civil Procedure Code, 1996: 46).

The ability to dispose a Will is a cause for invalidity and in fulfilling this legal obligation it must be ensured that the testator meets the conditions establishes by the law of citizenship at the time of making, changing or revoking the will. According "On Private International Law" is the court that classifies if it is an inheritance issue and this is done by the law of the trial place (*lex fori*<sup>4</sup>). To determine whether the objects are movable or immovable this is done by the law of the state in which the estate is located (Law No. 10428/2011: 80/dh).

In case of validity of the Will form, the legislator sets alternative criteria where it is sufficient to meet the criteria of one of the laws of the anticipated state and the Will will be valid. This law only decides for the applicable law and the number of clauses foreseen specific cases is reduced, by solving only the issues discussed above.

## Issues of inheritance provided on Brussels IV- Regulation (Eu) No. 650/2012

With the end of the Second World War, in 5 October 1961, the first unifying Convention of the Conflicts of Laws Relating to the Form of Testamentary Dispositions<sup>5</sup> designed to unite the 41 states that decided to sign, would have significantly reduced international hereditary conflicts. The Convention unified formal validity of testamentary acts. Based on this convention, the national normative laws concerning testamentary acts would change in favor of mutual recognition and cooperation. It was a convention that had success but its implementation was limited to implementation only for the European States. The „Washington Convention“, created in 1973, which dealt with the formal validity of international wills, had a cooperative function with the Hague Convention to unify a common right. Again will encounter the effort to establish a convention on the harmonization of international heredity acts, from the Hague Conference in 1989, which will never be implemented because it was not approved. This effort, although was not approved, was the main source and reference on which the drafters were based on the new Regulation (Eu) No. 650/2012 of the European Parliament and of the Council of 4 July 2012 on jurisdiction, applicable law, recognition and enforcement of decisions and acceptance and enforcement of authentic instruments in matters of succession and on the creation of a European Certificate of Succession.

<sup>2</sup> International Public Law regulates the relations between the subjects of international law, between states and international organizations.

<sup>3</sup> Private International Law is a set of legal norms that determine whether a civil legal relationship characterized by a foreign element should be regulated on the basis of the legal order of a state with which it represents a contact point.

<sup>4</sup> Lex fori - in private international law, the law of the court seized of the dispute.

<sup>5</sup> Convention on the Conflicts of Laws Relating to the Form of Testamentary Dispositions (*Concluded 5 October 1961*) [http://www.hcch.net/index\\_en.php?act=conventions.statusprint&cid=41](http://www.hcch.net/index_en.php?act=conventions.statusprint&cid=41).

One in ten cases of the opening of the inheritance, in European Union, has an international element and this percentage is increasing all the time. Thirteen million EU citizens live in a Member State different than their own, and twenty-three million citizens from third countries live in one of the Member States.<sup>6</sup> In order to adapt the rules to this growing migratory movement and to address the difficulties caused by non-compliance with the legislation, the EU approved on July 4, 2012 the Regulation No. 650 “On jurisdiction, applicable law, recognition and enforcement of decisions and acceptance and enforcement of authentic instruments in matters of succession and on the creation of a European Certificate of Succession”.<sup>7</sup> According to each country, the presence of different private international law systems, inside and outside of the borders of the European Union, highlight the profound changes that characterize the international inheritance institute (Bonomi, 2010: 91). This Regulation presents a simplified legislative framework for persons who have a private and financial interest in at least two states inside and outside the EU (Regulation 650/2012: 84/2), because the function of this Regulation is universal, “*erga omnes*”.

The regulation, which entered into force on 16 August 2012, applies only to legacies open from 17 August 2015, but in its transitional provisions the Regulation provides that “*If a disposition of property upon death was made prior to 17 August 2015 in accordance with the law which the deceased could have chosen in accordance with this Regulation, that law shall be deemed to have been chosen as the law applicable to the succession*” (Regulation 650/2012: 83/4). This legal deadline of 36 months has been left to the Member States to enable the recognition and enforceability of this Regulation. The new Regulation under Article 3 letter a, finds enforceability to inheritance which open as a cause of death “... *succession to the estate of a deceased person and covers all forms of transfer of assets, rights and obligations by reason of death, whether by way of a voluntary transfer under a disposition of property upon death or a transfer through intestate*”.

Through this regulation, each citizen has the possibility to select the applicable law by offering three options. First is the rule - the application of the law of the state in which the deceased had his habitual residence at the time of death, even if this is a law of a non-EU country (Regulation, 650/2012:4). Second is the exception- when, exceptionally, conditions present a situation where, at the time of death, the decedent has had close links with another state, the applicable law will be that State (Regulation 650/2012:10). Last is the alternative choice - the option to choose the law to govern the succession as a whole the law of the State whose nationality the decedent possesses at the time of making the choice or at the time of death.“ (Regulation 650/2012:22)

In accordance with Article 21 of Regulation No. 650/2012, in the absence of a criterion to resolve a particular issue, the criterion that will prevail shall be the law of the State in which the deceased had his habitual residence at the time of death.

Although the regulation applies to all aspects of inheritance, landing, division, asset management etc., it does not include in its prevision the issues related with the donation, life insurance contract, trusts, marital property regimes, food obligation, taxes and so on. Any State in which the decedent or one of the heirs has a habitual residence, or the country in which the property is located, has the right to charge the transfer tax. For all countries, in order to avoid double taxation problems, bilateral international conventions come into effect, but this is not included in the scope of application of this regulation. Article 31 of Regulation 650/2012 foresees another problem related to the rights claimed. For the purpose to adapt the law, Article 31 of the Regulation deals with a case “where a person invokes a right in rem to which he is entitled under the law applicable to the succession and the law of the Member State in which the right is invoked does not know the right in rem in question... will be adapted to the closest equivalent right in rem under the law of that State...”.

The one that constitutes an innovative and unifying step in the European area of inheritance is the European Inheritance Certificate, which is fully recognized in all Member States and enables the parties to defend their status as the heir or the inheritor administrator by avoiding the formalities in all EU states. A standard form is used, drafted by the local authorities, specifying the applicable law, the elements of fact, the parts and rights of each heir, the list of assets and rights conferred on the heirs, legatee, executor of the will or administrator of the estate shall be presumed to have the status mentioned in the Certificate and/or to hold the rights or the powers stated in the Certificate, with no conditions and/or restrictions being attached to those rights or powers other than those stated in the Certificate (Regulation, 650/2012: 69/2).

## Case study

### Negrepontis-Giannisis v. Greece (ECHR 2011)

Nikolaos Negrepontis-Giannisis was born in Athens in 1964. He had always been close with his uncle, who was born as Mikhail Negrepontis, but who was after renamed as Timotheos when he was ordained in the Greek Orthodox Church. At age 17, Nikolaos came to Michigan to study, and he lived with his uncle, who at the time was Bishop of Detroit. At age 20, Nikolaos was adopted by Timotheos. According to the opinion, Timotheos signed the court documents “in his capacity as bishop”. The bishop’s aim, according to the decision, was to have a legitimate son to inherit his fortune and his collection of religious texts and to ensure the survival of his family name. Nikolaos wanted to strengthen the emotional bond he had with his uncle and care for him in his old age. The Michigan judge approved the adoption in 1984. Nikolaos returned to Greece in 1985 and visited his adoptive father frequently in the US until 1996, when Timotheos returned to Greece permanently. Timotheos also regularly visited Nikolaos in Greece. Timotheos died in 1998 in Athens.

<sup>6</sup> [http://ec.europa.eu/eurostat/statistics-explained/index.php/Migration\\_and\\_migrant\\_population\\_statistics](http://ec.europa.eu/eurostat/statistics-explained/index.php/Migration_and_migrant_population_statistics)

<sup>7</sup> Consequently will be used with the term Regulation 650/2012.



After his death, Timotheos's sister obtained a judgment from a court in Syros to the effect that she and her siblings were Timotheos's heirs. But on Nikolaos's application, a court in Athens recognized the adoption decree, and he sought recognition as the heir. The siblings returned to the courts, seeking a declaration that since Timotheos had become a monk in 1950 and since, under Orthodox canon law a monk cannot adopt a child, the adoption could not be recognized. The Greek courts agreed and held that the adoption decree was contrary to public policy and could not be recognized.

Nikolaos sought relief from the European Court of Human Rights, arguing that the Greek decision was contrary to Article 8 of the European Convention for the Protection of Human Rights and Fundamental Freedoms, which provides: *"Everyone has the right to respect for his private and family life, his home and his correspondence."*

There shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others. The ECHR agreed with Nikolaos.

## Conclusions / Recommendations

The right of inheritance is a right closely linked to family relationships. Thus, it is a real interest to everyone, because in the future it most likely have an impact on everyone's property rights.

The provisions dealing with the inheritance institute in the Civil Code require a more detailed revision to address any issues that have been the rootcause of previous problems and have left room for abuses in interpretation. After the recent legal changes as of 2013, the notary figure has been given a lot of freedom and unnecessary powers, which could potentially violate the rights of the testator.

As it relates to the situation in international law, there is an autonomy of states to make an adequate provision on inheritance rights in favor of the objectives and policies of each country. Addressing any particularity in the legal provisions does not overcome what the inheritance right preserves in general terms, family care at the time the testator will no longer be close to them. This principle has been conveyed through centuries of Roman law.

An important legal act is the new Regulation no. 650/2012 of the European Parliament and of the Council of Europe „On jurisdiction, applicable law, recognition and enforcement of decisions and acceptance and enforcement of authentic instruments in matters of succession and on the creation of a European Certificate of Succession“ will apply to legacies opened on 17 August 2015 and after that date. This regulation appears to be important as it makes a unified regulation of the inheritance institute in detail and has already begun to be implemented by the member states which apply it in their domestic legislation, it is also mandatory for non-member states. Europe has taken a step that America has been tried long time ago and functioned by facilitating the procedures and application of material law in every legacy under the Uniform Inheritance Code.

Unified decisions regarding inheritance rights try to uniform a series of problems encountered in the past by judges and give them a legal solution. They help to enrich the doctrine by having a detailed argumentation and giving the institute of inheritance a set of solutions, as the Albanian doctrine is too vague in this regard. The difficulty is to access the decisions of the European Court of Human Rights in Albanian language, because the lawyers who base their work on these decisions need extra effort. The decisions of the European Court of Human Rights play a key role as Albania's aspiration is to move towards EU footsteps.

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# The execution of marriage dissolution decisions in Albania. Difficulties encountered in practice

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## Abstract

*Despite the various modalities of marriage dissolution, the court decision on its resolution has the same content with regard to its consequences. Some of them are inevitable (ie. status libertatis), while other consequences such as last name, child and spousal support varies case by case, depending on a variety of social life circumstances and spouses possibilities. Remedies for Albanian court decision enforcement, regarding child and spousal support as well as visiting rights have advanced to make them most applicable. (Law No. 10031 date 11.12.2008 "Private Bailiff Service"). The legislation also provides penal provisions, to sanction every behavior not complying with the court's decision, such as: "Denial of support", "Failure to inform on the changing of domicile", "Unlawfully taking away the child". Yet, although the consequences of a court are mandatory to be implemented, the case law has shown that remedies have failed to put into effect the consequences of the court's decision. In fact, in many occasions, the execution of the court decisions regulating the consequences of divorce - especially for the weaker ex-spouses as well as children (if any) - has not fully achieved its goal, because despite the fact that the offender has been sanctioned, it has not restored the violated rights. In fact, there are many cases in practice when children's father does not pay the amount set by the court for alimony. There are also many cases when mothers prevent children to meet their father, by changing residence and not declaring it, or by leaving out the Republic of Albania without notifying. With this regard, the aim of this paper is to highlight the difficulties encountered in practice in these cases, as well as to examine the reasons laying behind them.*

**Key words:** marriage dissolution, execution decision, child and spouse support, visiting rights.

## Theoretical and methodological basis

Our legislation has provided three ways of termination of marriage, with the death of one of the spouses, with the announcement of the death of one of the spouses and with its dissolution (Family Code, 2003, Article. 123). The only case where the spouses address the court for the termination of marriage is its dissolution, where according to the cause is also determined how they shall address this institution. The court, after having conducted its full investigation and does justice, keeping into consideration the special type of process, should be pronounced with a decision on marriage dissolution and for the adjustment of the consequences of this process (Civil Procedure Code, 1996, art. 320). In the divorce judgement, the consequences of this phase are provided (Family Code, 2003, Articles 145-162). If we were to group these consequences, in the first category we would include the inevitable consequences, for example *Status libertatis*, where spouses receive divorced status and are free to be married again. In the second category, on the contrary, we would include those consequences which vary from case to case, as the surname, residence right, child support and the consequences related to children depend on the circumstances of social life and spouse's possibilities.

Problems arise precisely in the consequences of the second category, as although the implementation of a court decision is compulsory, their execution is always difficult if the will of the parties involved in this type of process lacks (Court Decision No. 24, No. 24/2014). Judicial remedies for the execution of court decisions have advanced precisely to ensure their enforceability

in practice. Specifically, Law no. 10031, dated 11.12.2008 “*On the private judicial bailiff service*”, as amended, as far as possible to be considered compulsory, with respect to the child support, the compensating contribution and the right of meeting. It is clear that the consequences of a court decision come to the parties (*inter partes*) and are mandatory to be enforced, but the practice has shown that the lack of good will of the parties to enforce the decision and the following remedies have not reached to concretize the consequences of the decision.

That is why the legislation has further advanced, by providing for criminal provisions, with the aim not only of charging a subject that does not enforce the court’s decision with criminal responsibility, but also the awareness of the former spouses about the obligations arising out of the marriage dissolution. Again, it is not possible to properly execute the court judgement that provides for the consequences of the marriage dissolution, both for the former spouse and the children (if any).

The problematics is sensitive and current also in European law (Council of Europe, Committee of Ministers (2016: 9). Only a few months ago (January 2017), the European Economic and Social Committee, based on Article 304 of the Treaty on the Functioning of the European Union, identified some of the most problematic issues in the field, such as: the role of assistance of central authorities, terms for processing of requests as well as for the procedure for return of a minor, restriction of only one possibility of appeal of a decision, etc. (“Opinion of the Economic and Social Committee on the Proposal for a Council Regulation on jurisdiction, the recognition and enforcement of decisions in matrimonial matters and the matters of parental responsibility, and on international child abduction: 2017).

In order to identify the issues encountered in Albanian expertise in this regard, we will develop the following methodology:

- a) overview of controversial issues related to the execution of divorce decrees (e.g. international child abduction, unfair child custody, lack of means of subsistence, etc.);
- b) summary and analysis of Strasbourg jurisprudence;
- c) summary and analysis of the Albanian normative framework currently in force;
- d) critical analysis of some concrete cases filed with the Albanian courts;
- e) specific recommendations for improving the normative and institutional frameworks for effective implementation of decisions on marriage dissolution.

With regard to the difficulties and limitations of this work, there is evidence of “lack of statistical data on the situation of executing court decisions on the obligation of child support” (Center for Legal Civic Initiatives, 2015: 66-67).

## Content of the court judgement

According to the cause of which the spouses have decided to terminate the marriage, either one or both of them, the way the court invests in the judicial process of divorce varies. In order to be clearer in this regard, let’s recall the consecution of provisions in the Family Code where spouses can dissolve their marriage: a) by mutual consent, b) because of the interruption of common life; c) upon request of one spouse. The uniqueness of each process only determines how the court will be put into motion, but its judgement has the same content with regard to the consequences of the marriage dissolution.

The consequences of marriage dissolution, referred to the Family Code, are divided into consequences for spouses and consequences for children (if any). The first includes the surname, compensatory contribution, the right to use the apartment, and the second, custody of the children for growth and education, the way of meeting with the other parent, and the child support (Articles 145- 162). The court judgement, in its content, will inevitably regulate these consequences, protecting the interests of each party. The court will first declare for the dissolution of marriage, thus the spouses have no more any obligation arising from the marriage. They will automatically benefit from the divorced status, being free to decide whether to enter into a new marriage. During the main trial, the parties are obliged to make available to the court any information, fact, and documentation in order for the decision to be fair and impartial.

Of particular importance is the use of the surname, since for the spouse it has to do with the impact on his identity and the set of procedures to follow are even more complicated in terms of returning to the identity before the marriage. Often, in practice, requests have been made to keep the surname of any of the spouses during marriage (Mandro, 2017: 85-87). Even our law foresees such possibility, but providing that the retention of the surname after marriage is in his / her own interest or of the children (Family Code, 2003, Article 146). In these cases, the spouse who shows interest in this quest is the one who will prove the reason based on his or her child’s interest. For this purpose, elements, such as duration of marriage, the wide range of activities that may have been carried out during marriage and the fact that taking the maiden name may create complications in his life will be taken into account. Also, from practices have been assessed as justifiable circumstances in favor of protecting the interests of children, procedures for acquiring a foreign nationality or other documentation stages to create a better life.

Regarding the compensating contribution, it is not required in any case, and if required, it may not always be validly assessed by the Court, therefore this consequence is not always found in the enacting clause of a court decision. However, the compensatory contribution is to help the spouse deemed to be the least economically vulnerable and whose marriage dissolution may have caused inequality, which is thought that this contribution can restore him.

The right of residence, again depends on the circumstances of the parties in the process, since in case one spouse needs to use the residence of the other spouse, where the first one is granted custody of the children, against other conditions, the court

may decide this house to be used by the non-owner spouse who has been granted custody of the children. Not in any court decision is such a sanction as it is not required and is not always necessary. However, in cases where it is necessary, the will of both spouses is required and in case of non-compliance of the will, a mandatory execution.

From the practice in V.C. And A.C. for the judgement no.9189 of November 15, 2016 of the Tirana District Court, whereby the defendant requested to be left the apartment in use to the non-owner spouse referred to in Article 153 of the Family Code and meanwhile the Court did not express about this in the judgement and did not take a stand for this claim.

To reinforce this fact from the practice, we also bring to attention the decision 5694 dated June 29, 2016 of the Tirana District Court, with the party A.B. and P.B., where A.B. has requested the right to use the apartment and the Court has decided the rejection of this request as unfounded.

Regarding children, the court decision takes the lead in assessing the evidence to each other until full conviction for the protection of the child's best interests, in terms of custody of children, the right of visit and alimony. But these are not just the consequences that our Family Code provides, and one fact shouldn't be given more important than the other, as long as the consequences of marriage dissolution are equally binding and enforceable.

## Consequences of marriage dissolution for children

The judicial process of marriage dissolution is important to enforcers of the law because legal procedures and the principles that accompany it as a special process are required to be adhered to, while sociologists and psychologists transmit another point of view, claiming that the consequences are often irretrievable, with all the desire to protect children mainly from issues.

Albanian legislation apparently covers every consequence and best defends the rights of subjects affected by the marriage dissolution, meanwhile the practice completely indicates the opposite and that there are enough decisions that are not executed and abused by their application (Velo, 2017). In these situations, the strengthening of legal remedies is seen as a solution and according to the unlawful phenomenon the right to development to protect anyone who is even more harmed after the dissolution of marriage has advanced.

Clearly we justify starting the analysis from the court judgement on marriage dissolution, if there are children to this marriage, the judicial process takes another more sensible form in the application of the additional provisions provided by the Family Code as well as the Court is even more prudent in analyzing acts and circumstances, not only by reference to material and procedural legal norms, but also according to the psychic attitude of the partners or children participating in the process.

The Constitution of the Republic of Albania, provides for the special protection enjoyed by children by law, thus imposing other applicable norms with the best interest of children, but their impact is only in the peak of the pyramid of legal norms and practice still poses problems with their implementation (Article 54). The whole spirit that accompanies the Family Code is of this nature, for the protection of the child's best interests, which in its Article 2, classifying it as a main principle, and reminds it in any subsequent provision which cannot be done automatically applicable as long as it may conflict with this principle or may affect a little the security of this principle.

Therefore, the court, during the judicial review of the dissolution of the marriage, if there are minors, puts in motion the legal mechanisms for this kind of process, since the Family Code again imposes the participation of the psychologist in the judicial process to assess the status of the children, their upbringing and education (Family Code, 2003, Article 6). The court should ask the spouses to make available the information about their income, place of residence, the physical space they have available, if it is decided for custody for each of them, Information about their work, the social behavior they display as well as any activity they perform outside the work, so that the exercise of parental responsibility is possible according to the standards of a family life environment provided by Article 12 of the European Convention on Human Rights.

Assessing all of the above elements, as well as returning to the consequences of the divorce, at the end of the proceedings, the Court will decide on who will be granted custody of the children. The parent who has not custody of the children enjoys the right to visit, meet with the children in the way that the court decides. Also, the court decides the amount that the parent who has not been granted custody of the children will pay for their growth and maintenance, so they will not feel the economic change after the separation of their parents. The practice of our courts has been largely unified, where the minor child, as recommended by the psychologist, is left to the mother for custody, except flagrant cases of inappropriate mother behavior or apparent impossibility of the mother to keep them, it is decided differently, namely the case of parties A.V and E.V. in the Court decision No. 3421 dated April 10, 2012 the child custody was granted to the father. The enforcement of this decision had no problem, in any case, with a maximum commitment of the father to respect the court's judgement and enabling the child's meeting, education, and best interest without any objection.

On the other hand, the father has undertaken to pay the amount called child support and has the right to meet with the children so that the latter cannot be separated from both parents, be given the opportunity to grow in one family environment (Family Code, 2003, Chapter II). So it is clear that both parents, at the end of a court decision, are committed under the law to continue exercising parental responsibility, as they are only free of the status of being married, but not of other obligations resulting from the family's existence. Family life for all family members does not end with the end of marriage, it just takes another form in terms of lifestyle. Meanwhile in practice it happens differently, it is not a simple formula to be enforced, and the worse is that children are used for the poor revenge of their parents not only by not respecting the best interest of the children but by damaging them openly, notwithstanding that they are their children and regardless of whether the court has decided differently.



## Problems encountered in practice -albanian experience

### How is it actually abused with a court judgement in practice?

If by the court's judgement the child custody is granted to the mother, she is obliged to take care of them and to engage in maximum for their growth, education, follow-up of the learning process, participation in extracurricular activities, full psycho-social development, etc. with all the opportunities she has. Empirical data indicate that "In most cases the child is entrusted to the mother for growth and education as the main performer of parental responsibility, while the father of the child is obliged to pay a monthly maintenance fee" (Center for Legal Civic Initiatives: 65). In order to realize these phases, the father of the children offers the economic support as mentioned above, the alimony which is obliged to deposit on the bank account every month. Again the mother should make the children available to meet their father, as the court has decided, enabling the child to contact her/his father, as well as her ex-spouse the right to exercise the parental responsibility. Irritated relationships between spouses are a cause for using the tools they can possess to pressure each other and realize dissatisfaction with one another. Mothers in most cases prohibit children from meeting with their father, changing without announcing their place of residence, leaving outside the Republic of Albania without notifying, not even allowing their ex-spouse openly to meet children.

Another way that prevents the execution of a court judgement is when the father of the children does not pay the amount set by the court for the child support or even the compensating contribution if the court has appointed one. Under these conditions they avoid any kind of economic or social burden that may come from their children, often because of the lack of willingness to make such a payment, but there are also cases of economic inability he has.

In both cases, in the absence of mutual will of the former spouses the execution of the court decision becomes impossible. For this reason, the interested party addresses the private bailiff service to enable the rights. Even in this case, we recall the compulsory presence of the psychologist (e.g. when it comes to parents meeting their children not in their custody). The simplest case is when the custodial parent's place of residence is known, but there are more complicated cases when the custodial parent leaves the Republic of Albania together with the children. The situation here is complicated even more, as to operate further we do not have the right legal structures, but legal sanctions do not legitimize the unbound permeation into private life or the free movement to provide a meeting with the children. The following will address the advancement of the right to criminal penalties to ensure the meeting of children with their parents.

## Jurisprudence of strasbourg on the exercise of parental responsibility after dissolution of marriage

Even in the jurisprudence of the Strasbourg Court, some of the key issues relating to the exercise of parental responsibility after the dissolution of marriage have been addressed.

a) In the case of *Bajrami v. Albania*, the complainant alleges a violation of the right to respect for his family life under Article 8 of the Convention because of the failure of the Albanian authorities to take the necessary measures for reunification with his daughter (Judgement of ECHR dated December 12, 2006, Application No. 35853/04, p. 13). He had repeatedly attempted to return the girl - which, even though after dissolution of marriage, has been granted to his custody, has been taken without her consent from her mother in Greece - but the decision had not been enforced. In this case, the Strasbourg Court concluded for violation of Article 8 of the ECHR and stated that: "Despite the non-ratification of relevant international instruments in this field from Albania, the Court finds that the Albanian legal system at this stage does not provide any alternative framework that gives the applicant the appropriate practical and effective protection required by the State's positive obligation under Article 8 of the Convention" (paragraph 67 of the judgement).

(b) In the case of *Bondavalli v. Italy*, the Strasbourg Court found that there had been a violation of Article 8 of the ECHR (right to respect for private and family life), because the Italian authorities had not taken all necessary measures to guarantee the right of the applicant to exercise his right of visit to the child by violating his right to respect for family life (Judgement of ECHR dated November 17, 2015 (Application No.35532/12). The domestic courts did not take into consideration the applicant's claims nor the evidence that he did not suffer from a psychological problem, leaving the child under the care of social services. Thus, the passing of time had brought irreparable consequences to the relationship between the father and his child. According to the Strasbourg Court, the local authorities had to re-examine the applicant's right, for a reasonable period of time, taking into account the best interest of the child.

c) Similarly, in the case of *Cengiz Kılıç v. Turkey*, the inability of the father to exercise his right of visit to a child during the proceedings for the dissolution of a marriage is dealt (Judgement of ECHR dated December 6, 2011 (Application No.16192/06). The applicant alleged that the domestic authorities had not taken the necessary steps to allow the maintenance of the relationship with his son and that they did not avoid obstacles in the exercise of this right, although the court's judgement had recognized him this right. Specifically, according to the Strasbourg Court, the Turkish State had violated Article 8 of the ECHR since the domestic legal system had no provision for civil mediation, a remedy which would have promoted co-



operation between the persons concerned. According to this Court, the ECHR Article 6 was violated (the right to a fair trial). Furthermore, as long as the Turkish legislation did not offer the parties the opportunity to appeal about the excessive length of proceedings, there had been a violation of Article 13 of the ECHR (right to an effective remedy).

d) In the case of *Ignaccolo-Zenide v. Romania*, the Strasbourg Court found a violation of Article 8 of the ECHR because of the failure of the Romanian State to enforce a domestic judgment based on the Hague Convention of 1980 (Article 7) deciding that the two children unjustly taken to Romania by their father would return to their French mother, who was granted their custody (Judgement of ECHR dated January 25, 2010 (Application No. 31679/96) .

## Criminal provisions in assistance to the court judgements enforcement

Every subject of the right addresses with the Court to obtain justice and to restore a denied right, if this right is not enforced, there would be no possibility of a quiet life. Therefore, the law gives the right solemnity and importance to the Court by committing itself to the real facts, the protection of rights and the full enforcement of the law without denying anyone's rights. The court only makes it through the judgement, at the end of the trial, expresses its judgement by maintaining its position on the conflict and finally resolving it. This is also why a court judgement is mandatory to be enforced by the parties and to be recognized as such to third parties. If its non-implementation would be left in the free flow of human consciousness's response, over time it would lose the sense and value of the obligation sanctioned in this judgement. Among other things, it is quite clear that every citizen of a state has the obligation to recognize the laws of his state, as the law of that country has passed in the foreseen stages and has received legal power and ignorance does not constitute an exemption from responsibility. Under these conditions, the non-execution of court judgements or the obstruction of their execution constitutes a criminal offense and in the field of family proceedings judgements there are special provisions that according to the manner of illegal behavior, for the court judgements, it is also provided criminal sanction (Italian Supreme Court Judgement No.33983/15). Specifically, our criminal code provides provisions such as "Denial of means of subsistence", "Notification of change of place of residence", "Unlawful taking away of a child", where in the interpretation *ratio leges* of these provisions it is clear that the lawmaker specifically came to the aid of subjects that did not accept the consequences adjusted by the court for dissolution of the marriage and mainly when violating the part of the judgements in which the children are protected (Criminal Code, 1995, articles 125-127).

The number of these criminal offenses has recently increased considerably in court registers, seeing it as the only hope that a parent may have been damaged and removed from the children or parent who needs to provide alone any means for the maintenance of his children.

Two of these rates are as private charge, while one is a public charge, namely "Denial of means of subsistence" and Unlawful taking away of a child" (Article 109 of the Criminal Code), referring to criminal procedural provisions, are private charges, where their enforcement will require the damaged party directly to the Court by changing the role of the prosecution from the accused to a third party in the trial (Criminal Procedure Code, 1995, Article 59).

We would like to clarify that in this type of judicial process, the damaged party is the subject who has to prove to the court that he has exhausted any other legal remedy to protect his right and that the latter is further violated by qualifying the actions of the accused as criminal actions. In this kind of process, a parent who has been denied a meeting with a child or who is left alone in the child's support costs or parents, whose children are taken away with force for custody are in the role of the accusers. They have to prove how their rights have been denied and what has been violated by the illegal actions of another parent. Often happens that in these types of processes the provability lacks and therefore the performance of the indictment is also unsuccessful. Specifically, we refer to the case of citizen *M.Gj. who addressed the Tirana District Court in both its civil and criminal chambers with the relevant requirements in the exhaustion of remedies to meet with his children . His marriage was dissolved in October 2013, the children were left in the custody of their mother, J.V., giving them the right to meet with their father M.Gj. every Saturday of the month (...). This judgement was never enforced as a result of the unwillingness of the mother of the children J.V., who did not show the exact address and was continuously avoided. Also after the exhaustion of the pre-trial phase as a request to the private judicial enforcement service, referred to Law No. 10031, dated December 11, 2008 "On the Private Judicial Enforcement Service", was voluntarily informed and the only contact was with the grandfather of the child, the father of J.V. , who says he does not know where his daughter with her children is. From this evidence is taken the opportunity to address to the Criminal Chamber of the Tirana District Court, upon the request according to the criteria of Article 59 of the Criminal Procedure Code, to raise the private charge provided by Article 127 of the Criminal Code "Unlawful taking away of a child".*

What is to be assessed in these cases is the fact that even if the charge can be proved during the main trial and the court charges criminal responsibility, the person who has violated these provisions has again failed to execute the court judgement on the dissolution of the marriage. The defendant has appealed to the court to seek justice from the fact that the amounts in the bank accounts for the children's support were not paid, the meeting with his children was not provided, the children were unlawfully taken away, etc. , so to fulfill the rights of the court judgement. His initial purpose was very simple, providing a court judgement about the consequences of marriage dissolution. In most cases, no sanction with deprivation of liberty or fine is imposed on the offender (in this case, against one parent). Meanwhile, these provisions have their maximum power only in sanctioning they provide to the norm and do not regulate anything more about contacts, visits or payments. Normally, it

is thought that such constraints bring awareness, rehabilitation and re-education of the offender, subject to the offense, but in this case for the accuser the consequence is his secondary aim, since the cause is more sensitive and the proportionality of the punishment with the damage that is caused is inconsiderable.

Although we have clarified the penalties, the criminal norms and the ability of the law to assist each parent affected by this phenomenon, it may seem simple to resolve this practice without further imagining illegal behaviors. We go further with the problematic by deepening in concrete cases, which may be unique in their type, but which show a tendency in the form of behavior of the parties in the process of marriage dissolution. Even though we may have made a final criminal judgement against the non-enforcing subject of the civil judgement that regulates the consequences of the termination of marriage, it has not yet been possible to restore the violated right but only to sanction the offender. It happened that the custodial parent have left the territory of the Republic of Albania and have been subject to penalties. In this case, they may return to Albania again and under such conditions again this decision remains unenforced. In this case, it is evident that the human being has managed to advance before legal remedies and escape without being harmed by the sanction for his illegal actions. Legal provisions (civil or criminal) have been made to serve the marriage dissolution judgements, while we often face the impossibility of their enforcement. In this way, we often face decisions without any significant value in contributing to the implementation of rights related to family or private life as well as the protection of the best interest of the child. It is precisely here the very essence of the impossibility of concretizing the consequences of marriage dissolution. As described above, actions one after the other bring an insoluble case by law, from which we find no legal remedy that the damaged party can use to enforce his or her right.

## Conclusions and recommendations

As we could see from the above considerations, the enforcement of divorce judgments, still remains a challenge, not only in Albania but also at European level. In the Albanian context, it becomes even a more difficult issue to be solved, since that marriage dissolution is considered by the society as a defect rather than ending a family that does not work. If we turn our attention where we got the legal provisions in the democratic states, by looking at how they have resolved these problems, and if it is possible integrating their norms into our legislation to protect these rights, we can take the positive example in the integration of the right to these functions.

In the specific, we propose the fact that it would be appropriate to evaluate all the elements of criminal policies as regards the provision of this criminal offense as a public charge rather than a private charge, to be prosecuted as such by the Prosecutor's Office (Italian Supreme Court Judgement (Criminal Section) no.33452/2014). This is because individual and general prevention is more efficient and the punitive outcome is more visible. If a public charge is made, the offender is committed to a more serious responsibility, and in those cases it would be well thought if he would react to illegal actions. Likewise, the phenomenon would be better fought by bringing a considerable number of convicted cases to those who consume this criminal offense.

Being a public charge would also have a result on the stage of preliminary investigations as their leader is the prosecution authority, which has the right means to search for evidence and collect evidence, thus not preventing the tracing of the parent consuming the offense of unlawful keeping away of children. Access to the TIMS system, the penetration of the prosecution in every institution, on behalf of the right investigations and the opportunity to investigate secretly and professionally leads to fairer and stronger charges. Concretely in the case M.Gj. who, through his representative, made a request at the Albanian Embassy in Germany, did not receive any information about the location of his children, since they considered him interfering in Mrs. J.V. personal data and the access of this citizen is impossible to go to court with one charge.

Increasing the sentence for this criminal offense under this provision up to a 2-year sanction for the offender, reduces the incidence of cases in practice and at the same time charges any custodial, with double responsibility for the consequences that is threatened completely separating by his children for up to 2 years, following the sanction of a criminal judgement.

Among other things, it would be appropriate to increase the level of control at border crossing points for single parents crossing the border with minor children who must prove the will and approval of the other parent to move to other states and to travel. This is achieved through the strengthening of legal remedies, such as the Law "On the control and supervision of the state border crossing points". Specifically, Article 36 "Minors", provision which has not been repealed by Law 71/2016, provides for the way of crossing the border by minors by engaging the border police with a check of documentation for the parent accompanying children upon confirmation of the other parent. This provision has not been regularly implemented apparently as long as there are enough cases in number that are encountered in practice, so lawmakers should engage in more accurate structuring of the provision regarding document control. A recommendation may be in the sense that the approval is not only a notary statement, but also a minutes signed by the border police and the accompanying parent, to confirm the documentation and the way of passing.

All recommendations that can be foreseen in relation to the intervention in the legislation, in order to properly enforce a judgement that dissolves the marriage and regulates the consequences of the latter, may interfere to a certain extent and cannot in any way impose or enforce the contact of both parents with the children. This is because, however the state's intervention through law, in such institutes, we remain ineffective in jeopardizing the equilibrium of a quiet family when we are confronted with the principle of the best interest of the child and the legal remedies that must be used to enforce it.

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# The prevention of the drug trafficking by civil aircrafts: the case of Albania and Latin American countries

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## Abstract

*The trafficking and illicit use of drugs has been a serious problem globally over the years, affecting peoples' lives and the aviation industry has not escaped the scourge. The illegal carriage by air of narcotics and other psychotropic substances and its various corollaries of violence or narco-terrorism as it is popularly known, has shown that the activity can cause various other forms of unlawful interference with civil aviation such as the unlawful seizure of aircraft and the causing of damage to persons and property related to international civil aviation. Furthermore, in addition to the disturbing problem of drug use by air crews, the threat of drug trafficking has already had a tremendous adverse impact on aviation and the financial community which supports it. Narcoterrorism is considered an offence on two grounds: the fact that the illicit trafficking of drugs is an offence against public health; and the illicit carriage by air of these substances threatens to sabotage the legitimate carriage by air of passengers and freight. Narcoterrorism involves two facets: the transportation of drugs and narcotics by aircraft and across national boundaries by air; and the act of loading and unloading them at aerodromes and airports. The two acts are claimed to be integrally linked to one another in that the essential elements of the unlawful act, i.e. "transport by air" and "trafficking" are inseparable. The problem has blown into unmanageable proportions owing to the rapid proliferation of air travel as a means of communication. It is not difficult therefore to figure out the tremendous encouragement given to the drug trafficking trade by the numerous aircraft movements that keep increasing exponentially. This article evaluates the offence from its origin to date and traces the international action taken by both the United Nations and the International Civil Aviation Organization and by the state bodies of different Latin American countries to prevent this offence. Also, this article aims to focus to the measures that should be undertaken from the Albanian authorities to prevent or suppress the use of civil aircrafts for the illicit transport of drugs and psychotropic substances.*

## Introduction

The effort to thwart drug trafficking is becoming a sophisticated and costly proposition. General aviation and commercial aviation are playing extremely large roles in the problem. As demand remains high in different countries for illegal drugs, a problem exists not only among the aviation community but amongst international governments across the globe. There are hundreds of pilots that participate and perpetuate the problem and coerced to lauder money, fly drug smuggling missions, and diminish the efforts of international agencies to stem the flow of drugs.

This article evaluates the offence from its origin to date and traces the international action taken by both the United Nations and the International Civil Aviation Organization and by the state bodies of different Latin American countries to prevent this offence. Also, this article aims to focus to the measures that should be undertaken from the Albanian authorities to prevent or suppress the use of civil aircrafts for the illicit transport of drugs and psychotropic substances.

## Legislation of the Latin American states.

Many States in Latin America have passed laws that regulate the use of armed force against civil aircraft, which are used to transport drugs.

In **Bolivia**, in some parts of the country, traffickers use light-engine aircraft to transport drugs. On April 23, 2014, President Evo Morales signed a law authorizing the shooting down of aircraft carrying drugs in Bolivian airspace. Before that, Bolivia remained, perhaps, the only country in the region in which there was no such law. The Bolivian military managed to complete only a few operations to intercept civilian aircraft with consignments of drugs on board. These aircraft returned to the owners, and they again began their illegal activities. In this case, no one aircraft was shot-down. The Law on the Security and Defense of Airspace (Ley de Seguridad y Defensa del Espacio Aéreo) established the Command for the Protection and Defense of Airspace (Comando de Seguridad y Defensa del Espacio Aéreo), whose commander has the authority to decide on the use of armed forces against the aircraft deviating from the established flight plan, considered to be hostile or unresponsive to the “preventive or compulsory” actions of the Bolivian Air Force (Fuerza Aérea Boliviana (FAB))<sup>1</sup>. At present, the FAB’s ability to monitor and intercept aircraft is limited, given the lack of an effective radar system. The very high risk of being shot-down is exposed to light private jets that are mistakenly classified as aircraft used for illicit drug trafficking near major drug cultivation regions. In April 2014 the Minister of Defense of Bolivia Ruben Saavedra said that the Air Force of the country has such types of aircraft as Pilatus PS-7, “Mark T-33” and “Karakorum K-8”, which are planned to be engaged in the destruction of aircraft used to transport banned substances, or violating the airspace of the country.

The Government of **Honduras** announced in March 2014 the entry into force of the Law on the restricted flight zone, which allows the national Air Force to shoot down civilian aircraft even with suspicion of drugs carriage. The norms of this law restrict the passage of unidentified aircraft from 18:00 pm to 6:00 am local time in the restricted area, which includes the areas of Gracias a Dios, Islas de la Bahia, Colon and Olancho (west) reference, the most commonly used for the transport of drugs. The law provides that aircraft that are not allowed to fly will be subjected to “progressive use of force” after the process of “research, interception, persuasion and maximum use of final measures to neutralize the threat”<sup>2</sup>. Referring to the new law, the Minister of Defense stated that Honduras has the necessary mechanisms to ensure compliance with this act with the goal of restoring peace and tranquility in the territory of Honduras. He said: “We must promote the country’s priorities, and if these priorities include the protection of the airspace of Honduras, our maritime and land territories, we must do what we are obliged to do in order to achieve these goals”<sup>3</sup>. The territory of Honduras is used by international drug traffickers who send cocaine loads to the US on private planes across the Caribbean. Honduras has experienced an escalation of drug-related violence and, according to the United Nations, Honduras is the country with the highest number of homicides committed on this ground in the world. In 2012, there were 85 murders per 100,000 inhabitants<sup>4</sup>.

On July 12, 2014 **Peru** President Ollanta Umalta declared that his government is negotiating with the US to restart the policy of allowing the use of armed forces against aircraft engaged in drug trafficking in response to an increase of such illegal flights in Peruvian airspace. Peru, like Colombia, has entered into an agreement with the United States to obtain information for the purpose of destroying civilian aircraft carrying drugs, the so-called “Air Bridge Denial” (ABD)<sup>5</sup>. This treaty ceased to exist in 2001. On April 20 of the same year, the CIA reconnaissance aircraft told the pilot of the FAP A-37 fighter of the Peruvian Air Force that a light-engine Cessna, suspected of transporting cocaine, flew into Sovereign airspace of his country. The Peruvian military raised the alarm and opened fire. An American Baptist missionary Veronica Bowers and her family were on board of the suspected drug carrier Cessna. She and her 7-month-old baby died. Her husband and another 6-year-old son, as well as the pilot, received serious injuries. The investigation revealed that the CIA agents had transmitted false information. There was also a language misunderstanding in communication with the pilot of the interceptor aircraft “FAP A-37”. After the incident, the Peruvian Air Force did not shoot down more civilian aircraft suspected of transporting drugs<sup>6</sup>.

The Congressional Defense Commission of Peru agreed to put in motion in March 2015 a bill allowing the Peru Air Force (FAP) Air Force to shoot down planes involved in illicit drug trafficking. The bill No. 2891/2013 /CR<sup>7</sup>, submitted by the parliamentarian Carlos Tubino Arias Schreiber, states that the Peruvian Ministry of Defense is the competent authority to determine the scope of application of this legal instrument.

<sup>1</sup> La Ley № 521 de Seguridad y Defensa del Espacio Aéreo. La gaceta Oficial de Bolivia de 22 de Abril de 2014.

<sup>2</sup> Decreto № 347-2013. Ley de Protección de la Soberanía del Espacio Aéreo. República de Honduras // Tegucigalpa, M. D. C. 3 de Marzo del 2014. № 33. P. 369.

<sup>3</sup> Nouvelle loi hondurienne permet bas aéronefs soupçonnés de contrebande. URL: <http://lainfo.es/fr/2014/03/04/nouvelle-loi-hondurienne-permet-bas-aeronefs-soupconnes-de-contrebande> (last time accessed 18.03.2017).

<sup>4</sup> Nouvelle loi hondurienne permet bas aéronefs soupçonnés de contrebande. URL: <http://lainfo.es/fr/2014/03/04/nouvelle-loi-hondurienne-permet-bas-aeronefs-soupconnes-de-contrebande> (last time accessed 18.03.2017).

<sup>5</sup> Resumption of U.S. Drug Interdiction Assistance to the Government of Peru, Pres. Det. № 95-9 of Dec. 8, 1994, 59 Fed. Reg. 65, 231 (Dec. 19, 1994).

<sup>6</sup> Mitos i verdades sobre el derribo de narcoaviones. URL: <http://www.infojusnoticias.gov.ar/nacionales/mitos-y-verdades-sobre-el-derribo-de-narcoaviones-2343.html> (last time accessed 22.03.2017).

<sup>7</sup> Proyecto de Ley № 2891/2013/CR «Ley que autoriza la interceptación y derribo de aeronaves utilizadas en el tráfico ilícito de drogas en el espacio aéreo peruano» conforme al Decreto legislativo 824. URL: [http://www2.congreso.gob.pe/Sicr/TraDocEstProc/Contdoc02\\_2011\\_2.nsf/0/426ef1a98b5008f705257c1c0065ca26/\\$FILE/PL02891071113.pdf](http://www2.congreso.gob.pe/Sicr/TraDocEstProc/Contdoc02_2011_2.nsf/0/426ef1a98b5008f705257c1c0065ca26/$FILE/PL02891071113.pdf) (last time accessed 10.03.2017).



In accordance with this bill, are applied measures that include a radio and visual request for a change in the route and / or an order to land the intruder aircraft. In the case of non-compliance with such commands interceptor maneuvers of restraining character are made and warning shots are produced by tracer bullets. After the exhaustion of the above measures, the flight of the intruder aircraft will be classified as a “dangerous flight” (Vuelo Peligroso), which entitles the Peruvian Air Force to shoot it down in Peruvian airspace in areas of low population density<sup>8</sup>.

Despite the fact that this bill has not yet entered into force, in Peru, the destruction of civilian aircraft suspected of transporting drugs, finds its legal justification in art. 7 of Legislative Decree No. 824<sup>9</sup>, which establishes that in the event of disobedience of the intruder aircraft to the commands given by the Peruvian Air Force fighter aircraft, measures will be taken to stop the flight “until it is completely destroyed”.

The debate in Argentina on the adoption of regulatory acts that authorize the destruction of civilian aircraft is also continuing (Cataldi 2013). In June 2014, Secretary of State for Security Sergio Bernie opposed their adoption. At the same time Bernie said that the Government has discovered 1400 illegal airstrips along the country's northern border and political sensitivity to the growing problem of drug trafficking in Argentina can stimulate the passage of such laws in the Parliament of the country.

The **Colombian** military operates under the program “Air Bridge Denial” (“ABD”)<sup>10</sup> with the support of the United States Government. The system is designed to use armed forces against aircraft “reasonably suspected of involvement in drug trafficking.”

The ABD program was reinstated in 2003 after its 2-year suspension in 2001 due to the accidental destruction of civil aircraft in Peru, where the program is under strict security procedures. The use of weapons and military equipment is permitted only with the special permission of the Colombian Air Force Command (Comando Fuerza Aérea Colombiana (COFAC)) and only when all the conditions for the verification of the aircraft have been met. They include the identification of the aircraft, its interception and the opening of warning fire<sup>11</sup>.

These actions apply only to light-engine aircraft-violators that fly without a compulsory flight plan and attract special attention due to suspicious behavior, such as that they fly in areas known as drug trafficking centers or try to fly at low altitude so that the radars cannot detect them. No civilian aircraft has been shot-down since the resumption of the Air Bridge Denial program in Colombia. However, the general statistics of civil aircraft involved in drug trafficking are not known.

In Brazil, the Law on the use of arms against civil aircraft in flight entered into force in 2004, six years after the bill was approved by the Brazilian Parliament. This delay was justified by the development of special procedures to protect legitimately used civil aviation. The peculiarity of Brazilian legislation is that it allows the use of the Air Force not only, when an armed attack or hostile actions constitute an act of war, but also for illegal activities that pose no danger to human life (Feitosa & de Oliveira Pinheiro 2012: 66-92). The authorization to shoot down applies exclusively to civil aircraft used for drug trafficking and requires the consent of the President, with the exception of the no-fly zones where such authority is delegated to the operational commander of the Brazilian Air Force<sup>12</sup>. These zones were established to protect against terrorism in 2013 and 2014 in the airspace over the cities where the Confederation Cup matches were held. There is a high probability of the use of weapons and military equipment against light-engine aircraft flying in the area of the river Amazon, where the drug trafficking routes run along the border with Peru, Bolivia and Colombia.

Brazilian lawyer Pacifico Luis Saldanha believes that the entry into force of the Civil Aviation Destruction Act (Lei do Abate) “represents a real violation of the rights of citizens, since the Federal Constitution of Brazil restricts the right to life only in the event of a declared war” (Saldanha, 2006). This position is also shared by the Brazilian constitutionalist Fernando Machado da Silva Lima, who argues that “the plane can be shot down only because of the suspicion of illegal drug trafficking, thus killing members of the crew and passengers, which represents an act of murder” (Da Silva Lima, 2008). He opposes a state which, under the pretext of combating drug traffickers uses the same methods of criminals. But a completely different opinion is held by the Brazilian lawyer Antonio de Freitas, who asserts that “the procedure for the destruction of a civil aircraft in the national airspace is strictly in accordance with the procedures for ensuring international security” and, therefore, “in order to protect the Brazilian society, we must continue to implement the provisions of the Law on the Destruction of Civil Aircraft-Violators” (De Freitas, 2004).

On May 22, 2012 the National Assembly of Venezuela approved the law on the control of complex protection of airspace (Ley de Control para la Defensa Integral del Espacio Aéreo)<sup>13</sup>. The law details the process of using weapons against aircraft. The opening of fire to defeat the target is established for unidentified aircraft and aircraft allegedly involved in terrorist acts or other criminal activities, as well as for aircraft that prevent their interception or do not obey the commands supplied by ATS

<sup>8</sup> See *ibid.*

<sup>9</sup> Decreto legislativo № 824:Aprueba la Ley de lucha contra narcotráfico (23.04.96). URL:[http://www.defensaidl.org.pe/leg\\_peru/defensa/07/03.pdf](http://www.defensaidl.org.pe/leg_peru/defensa/07/03.pdf) (last time accessed 11.03.2017).

<sup>10</sup> Agreement between the Government of the United States of America and the government of the Republic of Colombia concerning the program for the suppression of illicit aerial traffic in narcotic drugs and psychotropic substances – «Air Bridge Denial Agreement». URL: <http://www.state.gov/documents/organization/137205.pdf> (last time accessed 14.03.2017).

<sup>11</sup> See *ibid.*

<sup>12</sup> Lei 9.614/98 (Lei do Abate), regulamentada pelo Decreto 5.144/2004. Art 6, 10. URL: <http://www.lexml.gov.br/urn/urn:lex:br:federal:lei:1998-03-05;9614> (last time accessed 18.03.2017).

<sup>13</sup> Ley de Control para la Defensa Integral del Espacio Aéreo. Asamblea Nacional № 771 // La Gaceta Oficial de la República Bolivariana de Venezuela. De fecha 01 de junio de 2012. № 39.935. P. 2–4.

unit or fighter pilots pursuing them. The operational-strategic command, which is under the command of the commander-in-chief, is the highest authority for issuing an order to intercept or destroy an intruder aircraft.

The Venezuelan government began to apply the provisions of this law in October 2013 and announced that during the year 2013 20 planes were shot-down. The photographs published by the Operational-Strategic Command indicate that the aircraft were intercepted, were forced to land and, after that, were destroyed by the security forces, and not shot down in the air<sup>14</sup>.

Nevertheless, the relatively broad category of aircraft against which the law permits the use of weapons and military equipment and the low level of required permission for such actions increase the risk of accidental destruction of civil aircraft in comparison to other countries of South America. These risks are particularly high for light-engine aircraft, especially for those that fly beyond established routes near the Colombian border. Under the high risk of being shot down theoretically can be even the unregistered light aircraft flying to the northwest of the Caribbean Sea in an area used by traffickers for drug transport to Central America.

Chile also has existing laws on the destruction of violating aircraft. The Supreme Decree, signed in December 2006 by President Michelle Bachelet, permits the interception of a civilian aircraft. Regulation "DAR 91"<sup>15</sup> specifies the procedure and circumstances in which it is possible to intercept an aircraft. The Regulation "DAN 91" Reglas del Aire states: "interception of civil aircraft in all cases presents a potential danger, it should be avoided and implemented only as a last resort"<sup>16</sup>. Nevertheless, the authorized bodies of the state have not yet demonstrated in practice their legal capacity to act in accordance with the provisions of such internal rules. Given the apparent lack of political will to actively apply the rules of the above regulations permitting the destruction of intruder aircraft, the risk of being shot down for civilian aircraft in Chile remains minimal.

Referring to the situation in Uruguay, Colonel Rodolfo Pereira, Director of the Air Operations Center of the Uruguayan Air Force, said in 2003: "There is no rule in Uruguayan law that could provide the basis for destroying a civilian aircraft, except when we are at war. In peacetime, such a procedure is not provided for by law"<sup>17</sup>. Uruguay has signed agreements with Brazil and Argentina on the transfer of information on aircraft engaged in irregular transit flights. The treaty with Brazil has already been ratified, and the treaty with Argentina is waiting for ratification of the parliaments of both states. This will create a mechanism in accordance with which "if the intruder aircraft fails to comply with orders and continues to fly to the airspace of the neighboring State, the relevant information will be transmitted to the State, and this state further takes over the interception of the aircraft and forces it to make a forced landing on its territory"<sup>18</sup>.

The legislation of the above-mentioned Latin American states testifies to the existence of different approaches to combating drug trafficking, carried out through civil aircraft. Unlike the laws of states, there are no norms in international law that establish uniform grounds and procedures for the use of coercive measures aimed at suppressing such unlawful acts that constitute the illegal use of civil aircraft.

## Albania struggles to prevent drugs traffic by air

After two suspicious light-engine planes were spotted near the coast in 2014 and 2016, experts say Albania must unite its law enforcement forces, work with its neighbours and improve its detecting technology to stop drugs traffickers from using small planes.

Concern is growing that small planes are being used to transport narcotics from Albania to Italy or to other countries nearby. In May 2014, police arrested an Italian pilot and an Albanian after their attempt to traffic marijuana to Italy in a small plane went wrong. The one engine plane crash-landed in Divjaka, in southern Albania.

On September 5, 2016 - an Italian pilot from Milan was stopped in Albania after landing his Piper on a field far away from residential areas, in the resort of Ishëm, about 30 kilometers north of Tirana. It seems to have emerged that the agreement with the drug traffickers in the Balkans provided the transport of drugs from Albania to Lombardy with final destination Milan and from here, probably, sorting also in other areas of Italy, all for a fee to the Italian pilot between 20 and 25 thousand Euros per trip. Italian pilot admitted before the Albanian police that he flew to Albania to test Ishëm improvised airfield, so that next time he could load the drug on the board of the Piper and then transport it in Italy.

Based on the Albanian domestic legislation, when a plane flying from another country, sits in an area that is not a border crossing point, due to force majeure or a potential danger, following the instruction of the national authorities or without their permission, it can continue the flight, only after having been checked according to normal procedures and having been granted authorization by the Border and Migration Police and the customs. Border and Migration Police carries out border control even on private jets, helicopters and gliders. The operator of the aerodrome, where there is no border crossing point, immediately notifies Border and Migration Police, if an aircraft of this category sits on the aerodrome<sup>19</sup>.

<sup>14</sup> Aviation shoot-down risks in South America remain low, but elevated risks persist for light aircraft along drug-trafficking air routes. URL: <http://www.janes.com/article/41613/aviation-shoot-down-risks-in-south-america-remain-low-but-elevated-risks-persist-for-light-aircraft-along-drug-trafficking-air-routes> (list time accessed 22.03.2017).

<sup>15</sup> DAR 91. Reglas de Vuelo y Operación General. Reglamento aprobador Decreto Supremo Nº 128 de 11 de Diciembre de 2006, publicado en el Diario Oficial Nº 38.768 del 22 de Mayo del 2007.

<sup>16</sup> DAN 91. Vol. I. Reglas del Aire. Ed. 4. Enm. 1. Resol. 01142-E del 14. Oct.2011. Derogada por Resol. 0632-E del 27. Ago. 2012.

<sup>17</sup> Mitos i verdades sobre el derribo de narcoaviones. URL: <http://www.infojusnoticias.gov.ar/nacionales/mitos-y-verdades-sobre-el-derribo-de-narcoaviones-2343.html> (last time accessed 22.03.2017).

<sup>18</sup> See *ibid*.

<sup>19</sup> Law nr.9861, dated 24.1.2008 "On the control and supervision of state border", Article 31.

Referring to the provisions of Albanian legislation it turns out that Albania, unlike Latin American countries does not foresee the opening of fire against intruder aircrafts that can be suspected of drug trafficking. Moreover, it must be stated that since November 2006, the Albanian Air Force has adopted a new structure, with an Air Brigade, which is part of Albanian Joint Forces Command, and since 2009, the Albanian Air Brigade operates exclusively with rotary wing-aircrafts. Initially it was part of the Air Brigade also an Air Defense Battalion, with 37 anti-aircraft batteries, but also the missile system was practically dismantled in subsequent years. Fighter jets that were the pride of AAF for decades, have already been drawn out from service. There are no current plans for the next 10 years to purchase new fighter jets to prevent the violation of the Albanian airspace.

In case of violation of the Albanian airspace by a light-engine aircraft the Albanian Air Force is obliged to ask the help of the NATO air force. According to the Law for the use of the airspace of the Republic of Albania any aircraft that enters and uses the Albanian airspace without the authorization of the local authorities is intercepted by fighter jets of the military guard. Any intruder plane intercepted should follow the instructions or signs of the pilots of fighter jets and make a forced landing on time. The intruder plane that does not obey the call, depending on the situation, may be forced to land in accordance with national sovereignty and in accordance with international conventions<sup>20</sup>.

In the case of the two suspicious light-engine planes that entered the Albanian airspace and landed near the coast in 2014 and 2016 attempting to transport drugs, no fighter jet raised in the air to intercept them. Based on the Law on patrolling the airspace of Albania<sup>21</sup> NATO air forces are permitted to patrol the airspace of the Republic of Albania. According to the Decision of the Council of Ministers for the approval of the Agreement between the Council of Ministers of the Republic of Albania and the Supreme Command of Allied Forces (SHAPE), the Albanian airspace is patrolled by Italian and Greek jet fighters, which in case of locating an intruder plane or after getting informed from the Air Traffic Control Agency (of Albania) that an unidentified plane has entered without permission the Albanian airspace, will raise in the air, intercept the intruder plane, signaling to follow them to land on the next aerodrome<sup>22</sup>.

But, in the case of the two light-engine planes, which landed on the Albanian coast in 2014 and 2016, trying to transport drugs, no such actions were undertaken from the NATO air forces. In order to prevent the illicit drug trafficking through light-engine aircraft like "Cessna" or "Piper" it is necessary for Albania to acquire as minimum two jet fighters (its own interceptor-aircrafts) to patrol its own airspace, cooperating at the same time with the NATO-member's air forces. Also, radars of distant or close observation should be replaced with western radars produced from the company Lockheed-Martin (a radar of this type has been in use since 1999, and four others are expected to be taken into use in the coming years).

## Adoption of new norms of international law to combat drug transport through civil aircraft

Private and amateur aircrafts are widely used for the illegal transportation of narcotic and psychotropic substances due to the simple piloting of them and the possibility of flying at an extremely low altitude, not accessible to radars. This creates the conditions for traffickers to drop bags of goods in certain places, where they can be collected by accomplices. Such misuse of general aviation aircraft is widespread in Latin American countries as it was mentioned in the *Heading 2* of this article.

This problem is acute and requires solution, since inaction of state bodies in terms of suppressing the flights of light aircraft or helicopters (amateur) causes discontent of citizens of such states in which dependence and mortality as a result of the use of drugs are very high. Unlike national legislations of different states, international law is silent about the issue of preventing and suppressing illicit drug trafficking through the use of civil aircraft.

In the case of reliable information on the carriage of drugs on the board of a general-purpose aircraft, concrete measures should be undertaken to stop such violations and punish the carriers. First, commands should be given about forced landing through ATC units. In case of a refusal to make a landing, it is necessary to raise in the air airplanes (helicopters) - interceptors. If after the attempts of interceptors to stop the unauthorized flight, the pilot of the intruder aircraft refuses to follow the commands given, it is necessary to proceed with the last warning measure - the opening of warning fire. After exhausting all of the above measures, weapons should be used, otherwise such violations can go unpunished. This allows amateur aircraft to get rid of evidence that they are transporting drugs, dropping the consignment of drugs being transported before the forced landing at an airfield of a certain state whose airspace regime they violated. It should be noted that despite the fact that illegal drug trafficking does not refer to acts of improper use of civilian aircraft that threaten peace and general security, the use of weapons against them should be allowed, since on board of amateur aircraft there is a crew whose members are well aware that they are involved in an offense, i.e. in this case we are dealing with the actions of criminals. The cargo they carry can damage the national security of individual states. For example, from the end of 2006 to 2011, the victims of the armed struggle of the Mexican drug cartels among themselves, as well as against the forces of the Federal government have amounted to more than 47,500 people. These figures speak about the national security threat posed by the drug war<sup>23</sup>.

<sup>20</sup> Law nr.8374, dated 07.15.1998 "On the use of the airspace of the Republic of Albania".

<sup>21</sup> Law no. 10113, dated 11.5.2009 "For the patrolling of the airspace of the Republic of Albania".

<sup>22</sup> Decision Nr. 274 from April 13, 2016 of the Council of Ministers for the approval of the Agreement between the Council of Ministers of the Republic of Albania and the Supreme Command of Allied Forces (SHAPE).

<sup>23</sup> Жертвами нарковойн в Мексике за 5 лет стали более 47 тыс. человек. URL: <http://ria.ru/world/20120111/537291666.html> (list time accessed 14.03.2017).

In the near future, there is the possibility of extending the practice of using light-engineered civil aircraft for illegal drug trafficking from the Middle East, for example, from Afghanistan and Pakistan, where a large number of raw opium, heroin and cannabis are produced. According to the UN, from 2001 to early 2010, opium poppy cultivation in Afghanistan increased 40-fold. In 2010, the consumption of Afghan heroin killed more than 92 thousand people<sup>24</sup>. Drug trafficking, even though it is not a crime against peace and security, still applies to crimes of international character that undermine the basis for cooperation of states in certain spheres. Today Afghanistan produces 2 times more opiates than 10 years ago produced the whole world. The political situation in Afghanistan and Pakistan is unstable, which creates conditions for the use of civil aircraft of general aviation for the illegal transport of narcotic drugs and psychotropic substances, and even for the commission of terrorist acts through them. Thus, in the near future, the illegal transport of drugs through civil aircraft can acquire a mass character and threaten the general security of the world community. In this case, the establishment by universal rules of international law of the possibility of using weapons against civil aircraft carrying drugs is a guarantee of ensuring universal security.

To combat the drug trafficking through the air it is necessary to adopt universal norms of international law establishing a security regime at aerodromes of general aviation. The majority of such airfields, unlike airports, do not have adequate barriers, security staff and an organized security system to prevent illegal loading of light cargo aircraft with narcotic or psychotropic substances.

## Conclusions

In conclusion, it should be noted that the world community has not yet taken appropriate effective measures to combat the use of civil aircraft for the illegal transportation of narcotic and psychotropic substances. An excessive use of private civil aircrafts for the transport of drugs has been recorded in Latin America. In seven South American states, including Brazil, Venezuela, Bolivia, Chile, etc., have been adopted and entered into force laws that allow the destruction of civil aircraft suspected of illegal drug trafficking. And from the side of international law there are no norms that regulate the procedure for suppression of such offenses.

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# Patents, the approach and the efficiency of Albanian Law and European Law

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## **Abstract**

*Under conditions where the aim of globalization of services and integration into international structures, protection of intellectual property right trade is playing an important role in national and international legislation. Intellectual Property itself includes two category of rights: The Copyright and Industrial Property. Through this paper we are going to present the full picture one of the categories of intellectual property, to be precise Industrial Property. Initially the focus will be on the historical development of Industrial Property right to see the origin and grounds of defense of this right back to the earliest times. To proceed further with provisions of Albanian legislation to accomplish the protection of industrial property rights, in order to bring the standards set by European Union countries. Although Albania has a complete legal protection of Industrial Property right, the problem consist in the practical implementation of this legal framework. Issues of applicability of this legal framework in practice are going to be the core of this paper, pointing the shortcomings and the legal vacuums. The international agreements aimed at establishing international standards for defense of industrial property will be also the focus of this work paper especially those which have been ratified by our country. Also through this paper we are going to do a description of the objects of Industrial Property, starting from the meaning of them, registration up to the defense system of this right. This detachment helps all those people who own a Patent or a trademark and tries to be familiar with mechanisms protection of these rights. Of course mentioning the efficiency of Trademarks and Patents in the national and international economy.*

**Key words:** Industrial Property, consumer, legal framework, WIPO, EPO, Trademarks.

## **Aim and objectives of the study**

In this paper we will concentrate on one of the industrial property facilities, namely patents. Through a historical description of the birth and development of this right we will come to understand how its meaning has evolved. We will then proceed with a detailed analysis of this right, starting with its meaning, the criteria and conditions for its registration and its protection system. This analysis will be accompanied by a combination of theoretical and practical aspects. While the European jurisprudence will serve as a compass for the protection of these rights acquired by the possession of a patent. Also in this chapter at a special point in it we will present a new perspective of the legal power of the European patent in our country, referring to the recent legal changes.

## **Research question, hypothesis and methodology of the paper**

The work is carried out through qualitative methods. Analysis in legal science is based primarily on interpretation and treatment of legislation or jurisprudence, both national and international. Further, they have a combination, relying on comparative methods of countries or different legal systems. The work will be divided into separate parts, each of which will handle a

certain problem. Each will contain legal elements of mostly Albanian industrial law that intertwine with the European one. Also, the jurisprudential elements of Albanian judicial practice as well as that of the ECJ. Failure to comply with the legal framework of industrial property, mainly of patents, imbalances the market and adversely affects the economic development.

## Analysis, interpretation of data

The origin of the patent law is found in Ancient Greece, while the Monopoly Statute adopted in England in 1623, which addresses some patent issues, is accepted as a starting point. Beginning in the heart of the Middle Ages, some European trade segments were controlled by several groups that were referred to as guinea pigs<sup>1</sup>. Later this control right would turn into a royal privilege. In this way the monarch was the person who gave the right to practice an art or production process, a foreigner who brought in new techniques. England's 1623 statute prohibited the award of monopoly patents issued by the monarch. Later the common law tradition would be prompted by a theory that consisted in giving an exclusive privilege to the person who had a talent that would bring the society, giving the author the opportunity to practice craftsmanship within the country. The first patent office was set up in England in 1905, which had the authority to examine and decide whether a claim meets the required conditions or not.

## Notion of patent and patent registration criteria

Patents are legal rights given for inventions that serve in solving a technical problem, which can be a product, process or new or improved use. Patent is a legitimate document that gives the inventor or its owner the right to exclude others from the use for commercial purposes of the invention. This right is granted by the state for a limited time of 20 years. The invention is open to the public. According to the Law "On Industrial Property" and according to the Act 1977 of the United Kingdom, those inventions that meet these conditions are patented<sup>2</sup>:

Firstly, the invention must be new, which means that the invention should not have been part of a previous achievement. The novation according to Section (2) of the 1977<sup>3</sup> Act is thus defined as "An invention has a novel character if it is not an integral part of the workmanship structure". This means that the invention should create a new product that has not been in the market before. The mastery structure cited in the definition of innovation relates to the case where an invention incorporates everything available to the public in writing or verbal descriptions in use or in any other way. Another point related to the skill structure relates to the priority date, which means that all patent applications filed after that date can not be an integral part of it.

However, there are exceptions to this rule when a product or process is publicly open in advance when the details of the invention have become publicly known or when it has been exposed beforehand, enabling people to get acquainted with it. So the inventor should be very careful not to reveal the details of the invention. It may allow certain individuals to see a demonstration if it is done privately and the issue of confidentiality will be highlighted before demonstration. In the *Pall Corp* case against *Commercial Hydraulics Ltd*<sup>4</sup> the plaintiff sends some monsters of the claimed product (a type of membrane) to a potential customer to distinguish it with other types of membranes. At that moment some vendors were present. Despite this presentation there were no details on the membrane construction, so it was very difficult to determine the details of the product by a visual inspection of the membrane. After the patent was granted, the invention was opposed to the argument that it was made public before the priority date. In its decision, the court has argued that giving samples in confidence to persons who were aware that they were given for an experiment in secret, does not give the invention a public character, so for this reason there is no violation of the innovation element of the invention.

- The invention should be an *inventive step*, which means that the invention should serve to solve a particular problem that has not come to the mind of a person skilled in the relevant field of the technique. Thus in *Haberman v Jackel International Ltd*<sup>5</sup>, the English court has argued that the commercial success of the invention especially when it meets a need can make a discovery not with an inventive step, because this commercial success has come because of its technical merit.

The invention should be *applicable in the industry*, meaning that the invention should not only bring a theoretical solution to the problems, but a practical solution. While the word industry itself includes manufacturing activities and services. . Industrial inventions are immaterial good, so they should not be confused with material goods created by intellectual creations<sup>6</sup>. Thus, the invention of a new industrial production constitutes a non-material good, while the manufactured products within this invention constitute material good.

<sup>1</sup> Maksim Qoku, "Intellectual Property in the International Private Law", Doctoral dissertation, Tirana, 2008, p. 2

<sup>2</sup> The terms of patentability of an invention are provided in the Article 5, 7.9.10 to Law no. 9947 date. 07/07/2008, "On Industrial Property"

<sup>3</sup> Paul Torremans, Mariana Tutulani and Mariana Dedi, "Intellectual Property", Tirana, 2005, p. 199

<sup>4</sup> *Pall Corp vs Commercial Hydraulics Ltd*, 1990, FSR 329, for more Lionel Bently, Brad Sherman, "Intellectual Law Property, Published by Oxford University Press, 2014 p. 532

<sup>5</sup> *Haberman vs Jackel International Ltd*, 1999, FSR 683, for more, Tanya Aplin, Jennifer Davis, "Intellectual Property Law: Text, Cases, and Material, , Published by Oxford University Press, 2013, p.698

<sup>6</sup> Paul Torremans, Mariana Tutulani and Mariana Dedi, "Intellectual Property", Tirana, 2005, p. 231

The invention should not conflict with public order and morals, because the inventor should help the society and should not touch his interests. In this context, the inventions of surgical, diagnostic or therapeutic methods of human or animal body can not be considered as inventions because they are not applicable in industry.

## European patent protection system

The European Patent System has recently undergone a series of reforms, the most important of which is to create a European unitary patent. It is precisely the European Commission that in December 2012 will present to the European Parliament the package for a European unitary patent that would consist of: two regulations and the agreement to create a single jurisdiction that would protect the rights that benefited Holders of a unitary European patent<sup>7</sup>. However, this project was not welcomed equally by all EU member states, which means that not all embraced this idea where there were countries that saw themselves outside this project like Italy, Spain and Croatia. Later with the adoption of the aforementioned regulations, all EU member states would sign an agreement on the establishment of a Court that would review all the problems that would arise in relation to the European unitary and traditional patent, having an exclusive jurisdiction.

This patent would have a unitary effect, meaning that this legal title would provide uniform protection in all EU member states. The unitary effect means a single renewal fee, a single property, a single court and uniform protection. So it would serve as a one-stop shop, providing great advantages concerning administrative costs and barriers. Part of this package was the creation of a single jurisdiction that would provide specialized protection for this patent category. Unitary protection means that the holder of this patent could protect it in all EU member states only through a single application. After receiving this patent, he will not need to prove it in any country. In this way, this new patent protection European system would positively influence the development of the existing patent protection system, as the inventors do not need to translate them into member countries. Also, this defense system provides better opportunities than the current system as, because of the prohibitive costs used for the national validity of European patents, many inventors registered their patents in a small part of the member states, thus creating the possibility of violating their rights and making their invention easily copiable. So, this innovation will positively influence the stimulation of further research, development and investment, thus affecting the development and expansion of the EU. While unified jurisdiction will deal with disagreements related to classical European and unitary patents, which will have exclusive jurisdiction.

Despite the divergences between classic European and unitary patents, we can say that they do not replace each other because each applicant is free to choose the kind of patents best suited to his interests. In this way, the new unitary patent is viewed as a new solution for the applicant. The changes that relate effectively to the nature of unitary patents are as follows<sup>8</sup>:

- Violation of the patenting process, where according to national legislation, a patenting process is prohibited if the offer is made in the country where the patent is protected or to the residents of the country where it is protected. This limited geographic space already within the new system will not exist, as it extends its effects to all EU member states.
- Prohibitions of an offer or tools that are considered to be an essential element of the invention under national law are applicable only to countries where this patent is protected. While this rule does not apply to a unitary European patent, where territorial protection is extended to all member states.
- Experimental use of the invention has been given a very broad definition with the new unitary patent, but that does not mean that the limitations do not exist. According to Article 27 of the Agreement, the experimental use of the invention will not be permitted only in the case where this use relates to the subject matter of the invention<sup>9</sup>.

Despite these changes, it is important to note that some aspects of the unitary patent system are governed by national law, that is, mandatory licenses, the applicable compensation regime, patent treatment as an object of ownership. Regarding the latter, Article 7 of Regulation 1257/2012 it is provided that a unitary patent in all member states must be treated in its entirety as a national patent of the Member States depending on the applicant's domicile or the place where he exercises his commercial activity in the case of legal people. These facts clearly show that certain companies, including suppliers of chemical components and universities, may find themselves in another legal position depending on whether they face a European national patent or a unitary patent.

If we referred to the history of the European patent protection system, these rights were initially protected by the courts of each member state, which means that national patents extended their effects only within the state that issued them. In this context, the revocation of the European patent would be in the country that granted this right. In the 2007 Communication, the European Commission stated that the legal costs of the current system could serve as an insurmountable burden for individual inventors or legal entities who invest heavily by buying patents, that are previously invalidated, if Rights to offenders can not be protected<sup>10</sup>. In addition, another issue that the national patent system brought is related to the differences that exist between national legal systems and how courts deal with patents related issues. Thus in Germany the violations and revocation

<sup>7</sup> Regulation nr. 1257/2012 and Regulation No.1260/2012 of the European Parliament and the Council of 17 December 2012,

<sup>8</sup> Katharine Stephens, "The European Unitary Patent System", Published by International Law Firm "BIRD AND BIRD", 3 Prill 2014, p. 10

<sup>9</sup> Ibidem.

<sup>10</sup> Report on the reform of the European patent system On the impact of the Unitary Patent and the Unified Patent Court (UPC) on Finnish companies, Confederation of Finnish Industries EK, Helsinki, Finland, April 2014, p. 8

of the patent were considered separate actions, while in England, France and the Netherlands both of these actions were dealt with by the same court. These differences are considered a critical issue for subjects enjoying a patent with respect to the protection of the rights that this European patent brought.

Also, in many countries, special courts have been established that deal only with patents related issues, while in other countries there are no such courts. These national differences are often misused by patent holders because, for the protection of their rights, they use that jurisdiction that best suits their interests. The national differences led to the conclusion that the European patent was now surrounded by a series of legal uncertainties. Thus, the owner of a European patent had to posit his allegations against offenders in the national courts of each country.

Given all these bureaucracies created by the old patent protection system, the creation of a UNIFIED PATENT COURT (UPC) would be another point of unitary patent reform. It will serve as a court of first instance that will have jurisdiction in all EU member states. This court will serve not only for unitary patent protection but also for European patent protection. In the case of European patents the decisions of this court are mandatory to be applied only in those countries where this patent is registered, whereas in the case of unitary patents this court has an exclusive jurisdiction for all member states. While the jurisdiction of national courts will continue to be exercised for all European patents granted by states that have not ratified the European patent agreement. The main competence of this court is the adjudication of all court cases related to unitary or classical European patents, focusing mainly on cases of violation and validation of European and unitary patents.

Within the jurisdiction of this court, it is worth mentioning also a special competence that is related to the actions concerning the decisions of the European Patent Office in the performance of the administration duties, as set forth in the unitary patent protection system regulation (United Patent Protection-UPP). It is envisaged that this court be organized into three major divisions: - Central division with its sections in London, Paris and Munich, which will deal with patents of specific areas. So, London will deal with patents in the field of human needs, chemistry and metallurgy, Munich with patents in the field of mechanical engineering, lighting, heating and other cases would be the center of Paris - the regional division - the local division. Through this division the rights of the inventors of different fields will provide a safer protection.

The implementation of the new system will be done under the care of two commissions<sup>11</sup>: a selection commission that deals with the preparation of unitary patent protection and the preparatory committee that would be responsible for the creation of a Unified Patent Court. Creating a Patent Court was a positive step for the following reasons:

- Judicial rules will now be the same everywhere in each member state.
- Judges will be experienced, and if necessary, will also have available technical assistance
- Issues are solved with a single judgment and only under legal cost
- The court is obliged to make a decision within one year on the issues which will be submitted.

In this way, such a system will be efficient and will serve to increase patent activity. The European patent with unitary effect referred to a new form of protection, which would coexist with the national patent and regional European patent system. This system consisted in the fact that an invention that was protected by a unitary patent was only registered once and was valid in all member states. Also, in the context of avoiding dual patenting, a European patent can not be categorized in the same countries and at the same time as a unitary and traditional European patent<sup>12</sup>. In the future legal proceedings concerning traditional European patents will be under the jurisdiction of the Unitary Patent Court. The unitary character of a patent is considered as one of its most important features, namely a unitary patent offering uniform protection and its protective effects are the same in all member states. The protective effects of uniform patents are as follows:

- Claims per unitary patent will be the same for all member countries
- Limitation, withdrawal, expiration and revocation of the unitary patent shall extend the effects uniformly in all participating countries, without judging the cases where the European patent has been revoked or declared invalid.
- Only one annual fee will be paid
- Transfer of unitary patent ownership and registration will be uniform in all member states.

As another patentable object under the "Industrial Property" law, there are also usage patterns that give the inventor the right to exclude others from commercial uses for the invention described in the patent, without his authorization<sup>13</sup>.

Although at first glance the patent for a model of use and that of an invention appear to be similar, there are some differences between them, cited as follows:

- The invention that is protected by the use model is of lesser technical progress compared to the patent-protected inventions. So, usage patterns protect those technical developments in the society that do not bring any major progress, while the patent protects the inventions that directly affect the further development of the society.
- Another distinguishing point among them is the duration of protection, for patents is 10 years while for patterns of use is fewer years.

<sup>11</sup> An Enhanced European Patent System, Production: Ministry of Justice, Government Offices of Sweden., 2014, p. 5-7

<sup>12</sup> Report on the reform of the European patent system On the impact of the Unitary Patent and the Unified Patent Court (UPC) on Finnish companies, Confederation of Finnish Industries EK, Helsinki, Finland , April 2014, p.19-20

<sup>13</sup> Fatos Dega , "Pronësia Intelektuale", Published by " Morava", Fourth version, Tirana, 2012, p. 50



Based on this comparative viewpoint we can say that protection through usage patterns is less costly and more efficient for inventions that bring little technical improvements than patents. This means that, if a person through his invention has brought a small technical innovation, it would be better to defend this invention with a usage model than with a patent because the cost of registration and protection is lower and in relation to the progress which has brought in society, and also being accompanied by great financial gains.

## The innovations of the law for industrial ownership

Within the signing of the TRIPS Agreement (Agreement on Trade Aspects of Intellectual Property Rights) Albania needs to change the legal framework related to industrial property, adapting to European standards<sup>14</sup>. In this regard, some of the innovations that are evidenced by the adoption of the law no.55 / 2014 are:

- The new law provides a new legal power of the European patent, related to the fact of ratification of the European Patent Convention, in May 2010. Thus, a European patent will have priority over the national one if both are required to the same invention, regardless of which of them has been deposited before. Even if there is a clash between the provisions of this law and the European Patent Convention, what will prevail will be the Convention. This hierarchy is related to the position that our Constitution (Article 116 of the Constitution) has given to international agreements, raising them to the level of laws.
- Due to the practical importance of patents, the new law will bring a new concept of public morality, which will be more resilient than the one stipulated in the old law. According to this law, an invention will contradict public morality only in the case of a violation of a normative norm, so the range of assessment is wider, setting barriers only to normative norms. This change is logical because the normative norms always conform to morality, which means that their violation constitutes a violation of public morality.
- The range of rights enjoyed by holders of a patent is widened, which means that the patent does not enjoy rights only in the patented material but will extend this framework to the materials derived from this material through reproduction, multiplication in the same or different form of same and has the same characteristics. This is seen as indispensable to the importance of patents in promoting technical progress.
- With the new law, the court has also the right to involuntary licenses. The latter enjoys this right when the invention will bring about a technical development of economic importance than the first invention and when it could not sign a licensing contract with the first patent. So we see that we are ahead of the cumulative conditions, which means that a license will only be granted if both conditions are met, because it is important to guarantee the protection of patent rights. While under the old law the granting of involuntary licenses was related to the resolution of public health problems, thus limiting the scope of this provision.
- The law has brought about brand and patents registration, giving great priority to the detailed examination of the elements needed to register a patent or a trademark. It is also charged with the competent bodies to analyse in detail each of the elements examined, in order to prevent cases related to illegal registrations. Elements that should be considered at the time of registration should be no longer in accordance with a sub-legal act, but in accordance with a higher act that is exactly this law and as the depositing date will be called the date that DGPT accepts the application with all the indispensable elements. Due to the legal consequences that bring about the absolute causes of refusal to register a trademark, the new law foresees a specific article regarding how these causes will be examined, leaving no room for interpretation of the previous article.
- Another novelty of this law is related to authorized representatives of brands and patents, whose service is highly necessary for applicants applying for a patent due to the complexity and technical details associated with patent applications and claims. In this context, the new entity to be added to the list of authorized representatives of patents and brands will be former employees of DGPT, who have not less than 3 years experience with it. It is therefore clear from this provision that the professionalism of authorized representatives is always higher, by selecting people who have been employees of DGPT, which is the institution responsible for guaranteeing and protecting the rights of people who possess a patent or brand.

All the above mentioned changes were considered necessary in the context of approximation of our legislation with that of the EU. However, even though we are dealing with a broad legal framework, it is important to undertake measures for the most correct implementation of this legal framework in practice. Thus, courts should be well-informed about their competence to resolve issues related to violation of patent and trademark rights and stricter, in analyzing their characterization elements.

In the context of these changes, I want to make a difference between the two types of patents that are envisioned in it. Then, it is about European patents and extended European patents. European patents are those applications made in accordance with the European Patent Convention and the Co-operation Treaties, where the European Patent Office is the selected office,

<sup>14</sup> TRIPS Agreement, Ratified by Albania by Law no.8649, date, 28.07.2000 "Ratification Agreement of the Uruguay Round on Multilateral Trade Negotiations", modified by Law no. 9950, date, 10.07.2008 "On the adherence of the Republic of Albania to the changes of the TRIPS Agreement", Published in the Official Gazette no.122, date. 30.07. 2008, p. 395



while European patents are extended by those granted by the EPO, whereby the applicant requests its extension even in Albania. From the content of the articles that envisage these two types of patents, we conclude that a European patent is only recognized within member states while making it usable in our country should be expressly requested in the application. In this way, extended European patents extend the effects of the European patent even outside member states, giving it a wider protection. This kind of protection serves the patent purpose, which is the widest use of different inventions, to improve the social economic conditions of a country.

## Conclusions and recommendations

The implementation of patent protection law is one of the main pillars of fair competition development, affecting in every aspect the social and economic life of a country. Our country is well aware that the effective implementation of these rights in practice is essential for further social economic progress, increasing the level of our country's competitiveness in the international market and guaranteeing a fair national market. Also, this protection guarantees the creation of optimal conditions for attracting foreign investment, which serves as a cornerstone in the process of integration of our country into the European Union. In this context, after the analysis made in this paper we think that further policies should aim to consolidate the integrated legal framework in order to enable the best possible functioning of the institutions responsible for the protection of patents rights. Referring to the theoretical practical analysis of our country regarding industrial property, we think we have a full legal framework that serves as a guarantee of the protection of these rights in practice. But the vague jurisprudence of the Albanian courts regarding these rights is not related to legal vacuum, but it is rather related to the lack of information or interest of their authors. This means that the people who carry these rights are often unaware that there are laws in our country that guarantee respect for their work in practice by not allowing any other person to overwhelm them. Although the legal changes made in 2014 brought a positive change to the patent and trademark protection system, our country should also consider a number of strategic priorities that come as a result of the obligations stemming from the SAA signing (Stabilization and Association Agreement, TRIPS Agreement and EU Acquis), Council of Europe Progress Report and European Partnership Document. These priorities can be formulated in the form of the following recommendations<sup>15</sup>:

- Reducing the level of counterfeiting and informality in the field of industrial property rights through: improving the mechanisms that ensure the protection of industrial property rights in the framework of improving the legal framework; Increasing inspections to reduce violations and improving enforcement of legislation in the field of industrial property rights and finally improving the information management system for industrial property rights.
- Protection of industrial property through strengthening and consolidation of cooperation between relevant institutions for the protection of industrial property rights both at central and regional level.

From the combined reading of each of these recommendations, we can say that the cooperation between the responsible institutions in guaranteeing these rights is the cornerstone of their defense system. The detailed analysis of each of the institutions, highlights the competences that they should consider when registering these rights and controlling their practice within the legal framework. An important role in protecting the rights of patents and trademarks would also play the public awareness. The key point of citizen awareness raising is the use of the media, because it alone can have a considerable public influence. In this context, the media can accomplish this objective through the promotion of activities of various interest groups regarding the protection of patents and trademarks and by promoting public debate about national and international perspectives for the protection of these rights. This can only be achieved by giving the public access to the consequences of their violation, seeing and understanding the impact of these consequences on their lives. So in this context the public should be aware that buying counterfeit goods is not good for their health and economy, consuming unsecured products. In conclusion, we can say that the issue of respecting industrial property rights in general and the rights of patents and brands in particular is highly dimensional because it plays a central role in the country's socio-economic development. The protection of these rights is related to fair competition, which is considered the engine of the economic development of each nation. It is also considered as an issue that goes beyond institutions, law, because it involves society and consumers. Although the system of patents and trademarks as a backlash against advanced technology has developed rapidly, we can say that its future can not be predicted.

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<sup>15</sup> “Strategy for the Implementation of Intellectual Property Rights 2010–2015 “,Published by the Minister of State, Tirana, July 2010, p.18

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# Minority Rights under International Law

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## Abstract

*Protection of minorities is one of the oldest and greatest implications in the field of international law. The root of the minority problem lies in discrimination, oppression, exclusion and denial of identity. Protection of minorities under international law is relatively new, although its origin can be traced back to the XVII Century reforms regarding protection of religious minorities. One of the early attempts at protecting minorities was the Treaty of Westphalia in 1648 where in state parties agreed to respect the rights of certain (not all) religious minorities within their jurisdiction. Today there are almost 8,000 languages accompanied spoken by similar number of distinct ethnic groups worldwide, at the same time the UN comprises of approximately 200 states. The rights of minorities have been accepted into the canon of human rights as individual, and not as collective or group rights. It was the League of Nations that made the first attempt to protect "religious", "racial", and "linguistic" minorities after the end of the First World War, while the general center of interest was placed on the principle of non-discrimination. And also, protection of individual rights. An inconsistency between a number of ethnic communities and sovereign political agents in the international arena is implying that many ethnic, language or religious minority groups seek their recognition and protection within states they inhabit. Through history we have witnessed that minorities without a motherstate had been very vulnerable before. There is no mutual agreement upon the very definition of minorities in international judicial instruments operating in the field of human rights. Moreover, the word is interpreted differently in different societies. A large number of modern researchers are hesitating to use the word 'minority' assuming that this term was tightly related with the League of Nations system and therefore is "old fashioned". Other scholars argue that while minority implicates the group of people that is numerically smaller than the main dominant group, this leaves out non-dominant groups that are majorities in their countries. Therefore, following changes of the term were suggested: 'communities', 'communalities', 'social groups', and recently even term 'peoples'. There is no doubt that the variety of existing international judicial instruments has established the base for the protection of national minorities. However, the sufficiency of existing normative arrangements in international law is dubious. Namely, the existing system for minority protection in the international level is insufficient for the actual accommodation of minorities in states they inhabit and for the fulfillment of their rights. Even though international instruments insist in implementation of the general principle of non-discrimination and of the active implementation of equality.*

**Keywords:** minorities, international law, ethnic communities, societies, European Union

## Who or what can be considered as a minority?

We can talk for minority rights and the protection of minority groups protections when it is clear who their subject or target is. Sadly, until this moment there is no consensus, either academically or in the field of international law, about the definition of a minority or a group of minorities. The most broadly used definitions from a group of minorities is the one developed by Capotorti in his research on minorities commissioned by the United Nations in 1979.

The definition he give to the minorities is: *“a group numerically inferior to the rest of the population of a state, in a non-dominant position, whose members – being nationals of the state – posses ethnic, religious or linguistic characteristics differing from those of the rest of the population and show, if only implicitly, a sense of solidarity, directed towards preserving their culture, traditions, religion, or language”*.

This and many other definitions used in the field of national and international law, wile the lack of an established consensus on them, is very important in as much wile they determine who are the people or group of peoples that can benefit from minority rights and protection of minoritys. Wile there is no internationally legally binding definition for the term ‘minority’ and as a results it gives no obligation for states to accept that they have minorities among their citizens states wield a significant degree of power to decide which are the minorities that they recognise as eligible, a power that they mostly put through aproses of pre-defining categories which in turn shape the structure of policies directed at minorities.

## Elements in definitions of “minority”<sup>1</sup>

1. Non-dominance
2. Differing Characteristics (*generally selected from a menu of ethnic, religious, linguistic or national characteristics*)
3. Citizenship whether minority rights are political rights and therefore apply only to citizens (*which would also have an impact on when and how immigrant groups can become minorities*)
4. Residence (*related to mode of arrival*), whether a group must be longestablished (*and whether, therefore, immigrant groups can be minorities*)
5. Solidarity, or the will to preserve the differing characteristics or (*according to Deschenes’ definition*) to survive and to seek equality in fact and in law
6. Loyalty, in particular whether groups with controversial political aims such as autonomy or secession can still qualify as minorities
7. Geographical characteristics, such as density and history
8. Size, both the minimum size and the maximum (*whether the group needs to be numerically smaller than the rest of the population*)
9. Mode of arrival, in particular whether indigenous groups can be minorities
10. Recognition, whether States can effectively veto a group’s minority status by denying them official recognition

## What are minority rights in national and international judical sistem?

Also referred to as large group of rights or collective rights, the term ‘minority rights’ implies a specific set of rights that can only be enjoyed by members of a particular minority, if they wish it (*that is, members of minorities who are under no obligation to avail themselves of these rights*).

Minority rights are rules and laws that are designed to legally protect the members of a non-dominant racial or ethnic group. These rules and laws are developed to meet the distinctive needs of these non-dominant groups, while also remaining minority-specific.

As a result, we can say that minority rights are those rights that stands above and beyond individual human rights, designed to address specific issues that members of minorities may have individually and collectively. The rights of minorities the way they are present in domestic legislation, include autonomy rights, cultural and political representation/ participation rights. Widely speaking, these rights are write down at creating circumstance under which members of minorities, individually and collectively, can reflect, evolve and preserve their identity.

Minority rights exist independently of the universal, non-discriminatory individual rights that are assigned to everyone regardless of racial or ethnic group identification. By adopting minority rights, the government is seeking to provide that every minority represented has an equal voice in government and society. Minority rights also allow each group to retain an individual identity such as the right and freedom to communicate in a native language, within the larger scope of society. For that reasons they are strongly linked to more universal individual human rights, including but not limited to non-discrimination rights, and to particular institutional agreements in which relations between minority and majority develop. As legal tools, they are structured in national law, and overlook partly from international obligations into which states have be introduced For example according to the UN Declaration on Minority Rights: *“States shall protect the existence and the national or ethnic, cultural, religious and linguistic identity of minorities within their respective territories and shall encourage conditions for the promotion of that identity.”*

In similar fashion, different European-based or European-focused institutions have created a extensive framework of declarations, establishments, and other devices that provide the context in which minority rights are codified, implemented and enforced.

<sup>1</sup> These would have been group-held minority rights, which would have been different from rights under Article 27 of the International Covenant on Civil and Political Rights

The pretense that a minority population hold some rights that preserve it from assimilative tendencies of the plurality of population fits uneasily with the understanding of international human rights law as a sphere devoted to the protection of fundamental features of what it means to be human. The political and civil freedoms of minority members is more probable to be interrupt with than those of the majority, and in consequence, the field is enthralled to the different forms of marginalization, favoritism and discrimination that minorities may struggle. Apart from this level of advocacy, minority rights run counter to the objective of international human rights law to defend universal features of human identity. On this approach, human rights preserve the main attributes or features that all of us are shering even though the countless geographical, communal, historical and cultural contingencies that asymmetrically pattern our lives and our relations with each-other. They give progress to duties that we owe each other in ethical acceptance of what it means to be human. But belonging to a minority is not something we all share; it is a function of history and circumstance.

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1899	Hague Convention
1907	Hague Convention
1910	Hague Convention concerning the Laws and Customs of War on Land (1910) UKTS
1947	Universal Postal Convention
1948	Convention on the Prevention and Punishment of the crime of Genocide ILO Convention concerning Freedom of Association and Protection of the Right to Organize
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1952	Convention on the political rights of women
1954	Hague Convention for the protection of Cultural property in the event of Armed conflict
1957	Convention on the Nationality of Married women
1960	Convention Against Discrimination in Education
1966	International Convention on the Elimination of all forms of Racial Discrimination
1966	International Covenant on Civil and Political Rights International Covenant on Economic, Social and Cultural Rights
1968	Convention of the Non Applicability of Statutory Limitations of War Crimes Against Humanity
1974	Organization of African Unity Convention
1975	International Labour Conference Convention concerning Migrations in Abusive Conditions and the promotion of Equality of Opportunity and Treatment of Migrant workers
1979	Convention on the Elimination of all Forms of Discrimination Against Women
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1957	Declaration of the Rights of the Child
1960	Declaration on the Elimination of All Forms of Racial Discrimination
1967	Declaration on Territorial Asylum
1970	Declaration on Principles of International Law concerning Friendly Relations and Cooperation among States in Accordance with the Charter of the United Nations
1975	Declaration on the protection of all persons from being Subjected To Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment
1976	International Covenant on Civil and Political Rights
1981	Declaration on the Elimination of all Forms of Intolerance and of Discrimination based on Religion or Belief Declaration on the Human Rights of Individuals who are not Nationals Of the country in which they Live
1985	Declaration on the right of Development
1990	World Declaration on Education for all
1992	Cairo Declaration of principles of International Law on Compensation To refugees Declaration on the protection of all persons from Enforced Disappearance Declaration on the rights of persons belonging to National or Ethnic, Religious or Linguistic Minorities
1993	Declaration on the Elimination of all Forms of Religions Intolerance Vienna declaration and Program of Action
1994	Declaration on the Elimination of Violence Against Women Draft Declaration on the Rights of Indigenous people
1995	Beijing Declaration of Human Rights and Women

<sup>2</sup> R.Wallace, "International Human Rights: Text and Materials", London Sweet and Maxwell, 1997



Soon after the breathtaking redistribution of autonomous states after the end of the First World War, the dominant states in the interwar period tried to address some of the ramifications of this reestablishment. They made it by developing an supplementary web of multilateral and bilateral treaties, monitored by the League of Nations, which produce insurance to populations removed or differently distressed by the war and its distributional results. Despite that safety was tailored to particular circumstances, there were common features. The applicable mechanism accommodate arrangements for the acquisition of the nationality of the newly created or enlarged state; the right to equal treat; rights equal rights policy ; and protection of religious, ethnic and linguistic minorities, counting the right to use their mother tongue officially, to have their own schools, and to practice their religion.

The League of Nations assumed the authority to agree to changes to these provisions and the capability to intercede in the event of an offense, taking action proper to each case. In addition, the Permanent Court of International Justice, the League's judicial body, was vested with imperative jurisdiction to decide on certain cases concerning discord among minorities and the states in which they populate.

After the war the attention was put for some time on individual rights, but, in 1940 there were advanced some minipoints that the re-emergence of minority rights is to happen, and those are, as Thornberry lists it: The setting up of the UN Sub-Commission on the Prevention of Discrimination and the Protection of Minorities, and drafting of Article 27 of the Covenant on Civil and Political Rights (ICCPR). And further on, we could trace moves in the direction of greater complexity in international law regarding the matters of minority rights and standards.<sup>9</sup> ICCPR is an initial point for discussion international minority protection, as the first truly important and binding document dealing with it. The Covenant was adopted in 1966. Thornberry is giving the list of most important instruments and mechanisms developed in the 20<sup>th</sup> century in order to achieve these goals, although he notes that apart from ICCPR, most of other important texts were drafted much later, in 1980s and 1990s. In December 1992, the most important non-treaty text devoted to minority rights was created, that is the UN Declaration on the Rights of Persons Belonging to National or Ethnic, Religious and Linguistic Minorities.

Human Rights Committee is the implementing body of ICCPR, which called for the respect of the rights of minorities to their own identity. That identity may be ethnic religious or linguistic, or sometimes all three together. General Comment No 23 of the Human Rights

Committee: *"The existence of an ethnic, religious or linguistic minority in a given State party... requires to be established by objective criteria."*<sup>3</sup>

The phrase "minority rights" bear a specific uncertainty in it, based in the fact that minority rights have been accept into canon of human rights as rights of individual, not collective or group rights. It is clear in Article 27 that the rights are for persons attached to minorities, despite that, as earlier pointed out, there is no definition of belonging, which is also opening the door for many ambiguity. In 1988 the Human Rights Committee declared that a control upon a right of an individual must be demonstrate to have an objective approval for the welfare of the minority as a whole. Human Rights Committee has also been innovative in usage of specific other articles wherever this article could not be enforced, in order to defend analogous ends, and this is a confirmation that human rights approachments need not be narrowly focused. And since the creation of ICCPR until today we could trace moves in the direction of greater complexity in international law regarding the matters of minority rights and standards. In the past two decades in particular, the European Union has become the important factor and in Europe, the minority protection system has been improved over the past decade, due to the increase in the number of the instruments and the mechanisms of their implementation<sup>4</sup>

## Legal framework to fight racism, discrimination, racism and xenophobia in the european union

Discrimination on grounds such as racial or from ethnic origin, religion or belief is not compatible with the main principles on which the European Union is founded (see Article 10 of the Treaty on the Functioning of the European Union).<sup>5</sup>

The EU has been working hard in recent years to complete its internal legislative framework to fight racism and discrimination. The Diversity & Non-discrimination section of the European Commission's Directorate-General for Employment, Social Affairs and Equal Opportunities provides regularly updates information on the EU's fight against discrimination and related EU legislation

### European Charter on Regional or Minority Languages

This is a charter of the Council of Europe, and it focuses on languages of the region or a minority, not on the minority rights per se. Different authors stress that one of the most serious objections to this Charter the fact that it disregards the rights of the immigrants who also form a part of European identity, and contribute to their alienation. However, this charter is the first instrument which was created by Council of Europe and relates to the protection and preservation of the identity of

<sup>3</sup> European Council on Copenhagen - 21-22 JUNE 1993- Conclusions of the Presidency, DOC/93/3.

<sup>4</sup> Thornberry, Patrick. "An Unfinished Story of Minority Rights." In Anna Maria Biro and Petra Kovacs (eds). *Diversity in Action. Local Public Management of Multiethnic Communities in Central and Eastern Europe*. Budapest: LGI, 2001

<sup>5</sup> OJ 2008/C 115/01.

ethno-cultural minorities. It was initiated at the beginning of the 1990s by at the time The Standing Conference and today The Congress of Local and Regional Authorities of the Council of Europe.<sup>6</sup>

## EU Agency for Fundamental Rights

The EU Agency for Fundamental Rights (“FRA”) is based in Vienna and carries out its tasks independently. It cooperates with other international and national bodies and organisations, in particular with the Council of Europe. The FRA offers the relevant institutions and authorities of the EU and its Member States, while implementing EU law, with assistance and expertise relating to fundamental rights in order to support them when they formulate courses of action within their respective spheres of competence. While the Agency focuses on the situation of fundamental rights in the EU and its 28 member States, candidate countries and countries which have concluded a stabilization and association agreement with the EU<sup>7</sup> also can be invited to participate.

## Conclusions

Establishing collective and individual minority rights crave both true, participatory equality and full incorporation of all of a state’s citizens. Despite not every basis detailed in the framework provided in the earlier sector is expressed by the body of minority rights law, an efficient and proper reading of the texts required nothing less than the collective and individual rights outlined here. Commitment to existing minority law should be prolonged to be obligations to adhere to the principles articulated here. One should note that as the decades pass, and new human rights and minority rights documents are drafted, they are increasingly enshrined with the principles described in the proposed framework. One must hope that subsequent minority rights treaties will include these requirements in detail and will represent binding law on the states parties.

In the meantime, the international community must refuse to support any state that attempts to accommodate minority rights under a strict reading of the laws alone, without restructuring its institutions and legal framework on equal, participatory, and collective grounds. If a legal system does not meet this standard, the international legal community should put pressure to change on it. Though the process of reaching the optimal level of participation and inclusion might necessitate some painful concessions for majority populations—particularly those deeply invested in preserving their own unique identity—the end results will positively impact the entire state, as the state will benefit from the full realization of its social and human capital. We must, therefore, encourage states to look not to the letter of the law in deciding whether it is satisfied, but rather to the spirit, or “object and purpose,” of accommodating minorities in divided societies: the stability of nations, and the realization of a just, fair, equal and civil society

In order to assure the minority rights more surely, there are a lot of difficulties and ambiguities that need to be overthrown, and the most noteworthy are the indeterminacy, generality, narrowness and vagueness recently minority rights. One more very important and still pending dilemma is whether the domination should be given to the individual or the group rights.

Mass of modern theorists take believe that human rights reside to the individuals in exactancy, and the corporate interpretation of a group as a body needs to be fend off. In very down-to-earth sense, one of the major issues and challenges when it comes to the stability of the ethnic minorities was the evidence that the states dodge to fulfill the international norms even after signing the conventions and the treaties basing this on allegation that they have no minorities.

Undoubtedly, there are various international legal instruments explicitly recognising minority rights, nevertheless their efficacy and adequacy are often doubted. The principles enunciated in various minority rights instruments are, for the most part, not only very general but are also subject to multiple interpretations.

Implementation mechanisms are also very weak. Minority rights provisions are mostly couched in rather vague language, leaving state parties with a considerable amount of discretion in interpretation and implementation. The reluctance to recognise minority groups as holders of rights further weaken the situation. Most of the minority rights instruments are not legally binding. The international community has made significant strides in articulating minority rights. What is now required is to ensure that political and legal commitments accepted by states for their minorities are effectively monitored and enforced in good faith.

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<sup>6</sup> The Charter became valid on March 1st 1998., three months after it was ratified by five EU member states.

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# PANEL 5

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UET - MAJOR RESEARCH PROGRAM / INNOVATIVE ALBANIA 2015-2020

RP / **THE NEW AGENDA OF GROWTH**

Prof. Dr. Luljeta Minxhozi





# Approaching practical experience in study program of Management of Rural Tourisms in the Agriculture University of Tirana

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## Abstract

*New study program of management of rural tourisms in the Agriculture University of Tirana offers a good possibility to approach the scientific knowledge on local rural tourism with practical experience in agri-tourisms farms. The local rural tourism as essential part of Albania tourism is of great importance in terms of sustainability providing a balance to the development of this sector especially as investment in the development of agri-tourisms which remains a critical sector from viewpoint in terms of reduction of unemployment, additional incomes for farmers, preservation and protection of cultural objects, biodiversity, infrastructure and attraction of tourists. Development of agri-tourisms in Albania mostly in middle and northern parts are establishing landscapes for applying in practice scientific knowledge on management of rural tourisms. The Agriculture University of Tirana is making efforts to approach practical experience in benefits of students creating a new model of applying the science on field. On this context there are agreements between the AUT and the owner of agri-tourisms farms to facilitate the approaching of practical experience to students studying on management of rural tourisms.*

**Key words:** practical, experience, management, rural, tourisms, AUT.

## Introduction

Tourism is a recognized as profitable sector of economy and as one of the largest industries in the world. Rural tourism is an entrepreneurial sector, running as business activity in natural environment and cultural assets (Ferrari & Adamo, 2012). According to law No. 93/2015 "For Tourisms" "Agro-tourism" is hosting the activity that takes place in a farm or other agricultural units, in order to attract visitors, often enabling them participation in agricultural activities or other ancillary activities that take place in agricultural environment. Agri-tourism supports the development of sustainable tourism in rural areas by protecting the environment, preserving the traditions and promoting typical products (Stamboulis & Skayannis, 2003). This sector of the economy need qualified specialist in the agriculture and management of rural tourism. The local impacts of the tourism industry are diverse and are affected by other development factors. It is known that education on Management of Rural Tourism will go on to progress the career of people as employer in rural tourism or heading agri-tourism business. Education on rural tourism play important role on getting more scientific knowledge on theory and practical experience in agri-tourisms farms helping the consumer of rural and farm tourism to be evolved in the direction of being associated with types of fun and educational leisure activities. Tourism consumers search for new types of tourism, such as: farming entertainment (Long & Lane, 2000). The aim of an educational in the rural tourism is: to know the life and activity of the farmers, to create a positive image of the agriculture for the next generations or urban resident consumers. The educational on rural tourism has various activities as basic classes, full courses, workshops on the school farms. The educational activities of rural tourisms are including floral arrangements, cooking on the farm, preparing traditional food, demonstrations of traditional ways of obtaining beer and wine, experience historical reconstruction of the traditional villages, etc (Weaver, 2004). The recreational rural tourism includes: art of the plants, agricultural labyrinths, wine tasting tourism,

vegetable picking, identification of spontaneous plant and wildlife species, etc. On this context the university education on rural tourism is supported by new activities consisting on practicing the learned knowledge in agri-tourism farms. Study programs on rural tourism are designed to complete as well the gap created by missing of the practice in the field. New model of research on agri-tourism farms is supported by development of new brand tourism products that meet the requirements for consumer's education. One this model is establishing agri-tourism farms in rural areas near to big cities or large urban areas. In Italy last fifteen years are established many agri-tourism farms offering for universities new places to practice learned knowledge on management of rural tourism (Fons et al., 2011). In some universities of Western Balkan countries in last five years are opened new study programs on rural tourism as attractive way to integrate the education of young generation in the economy of rural tourism (Law et al., 2009). Considering agri-tourism farms as most visited place by residents of urban areas, it is necessary approaching of practical experience to study programs of rural tourism in different universities creating new possibility for employment of rural and urban residents. Agri-tourism as the hosting activity takes place mostly in central and northern parts of Albania attracting visitors in holidays or weekend to enjoy food, hiking, walking in the beautiful pathways in forests and mounting (Landais et al., 1996). Agri-tourism supports the development of sustainable tourism in rural areas by protecting the environment, preserving the traditions and promoting typical products.

## Study method

This study approach was complemented by long-term monitoring from 2012 to 2016. Data on agri-tourism participant observation and qualitatively analyzed are used to depict the key factor for effective tacit knowledge sharing and long-term cooperation between the Agriculture University of Tirana and some agri-tourism farms. Evaluation of development factors of agri-tourism farms in Albania helped to establish the study programs on management of rural tourism at the Faculty of Economy and Agri-business in the Agriculture University of Tirana (AUT). After the consolidation of the study programs on Bachelor on Management of Rural Tourism need to be established empirical research on the relationships between co-creation, knowledge sharing, and embeddedness in sustainable tourism that could be replicated in other situations. This study program is ideal for graduates looking to develop a new, or manage an existing, rural tourism or events enterprise, as well as those wishing to advice on tourism and rural development management. This study programs should blend practical hands-on learning with theoretical knowledge through lectures, seminars, individual and student-led research, performing case studies and field visits to top regional tourism enterprises and events. The methodology used also the bibliographical research, systematic observation and some interviews by responsible for groups of students who visited agri-tourism farms in Albania.

## Results and Discussions

**TABLE 1.** Some data of 2011 and 2016 related to agri-tourism and employment rate in Albania

Number of agri-tourism farms in 2011	115
Number of agri-tourism farms in 2016	269
Increase of agri-tourism farms in %	57%
Number of employers in agri-tourism farms in 2011	780
Number of employers in agri-tourism farms in 2016	1640
Increase of employment in agri-tourism farms in %	52%

According to some statistical data of Ministry of Agriculture, Rural Development and Water Administration (MARDWA) the number of agri-tourism farms in 2016 is increase with 57 % referring the data in 2011. Increase of employment is evaluated to be 52% higher than agri-tourism employment rate in 2011. This situation on agri-tourism farms need to be supported with educational and training programs. The universities in Albania would establish the study programs on rural tourism in order to help this new branch of the economy. The challenges that the Higher Educational System in Albania has shown over the last few years require innovative educational practices. In this sense, the current study program on Management of Rural Tourism at the Agriculture University of Tirana as a pedagogical practice is promoting students' learning in the practical way. Students are gaining an understanding of the key issues and techniques involved for developing and managing rural tourism, and examine the economic, environmental and social concepts and frameworks of this attraction business activity, therefore, at a master degree level is needed, to improve the scientific knowledge in this study subject and to experience the practical education on rural tourism (McAreavey & McDonagh, 2011). The activities developed in the context of rural properties, as well as promotion of student learning in relation to specific content developed in the classroom are providing an understanding and appreciation of the farmer's labor and its productive activities (McAreavey & McDonagh,). For approaching a practical experience on study programs on management of rural tourism the office for Career at the Agriculture University of Tirana is making effort to establish agreement between the AUT and agri-tourism farms to bring the students to the field in order to get more practical experience completing as well the study objectives (IDSAT, 2016). In some other countries as south

part of Italy in last five years the number of agri-tourism farms is increasing until 20% (Ferrari & Adamo, 2012). According to statistical data in 2016 and information the number agri-tourism farms referring to the year 2013 is increased with 15%. Strengthening of rural tourism is promoting organic production sector (production, trade, consumption) and control systems related to it minimizing waste on the environment. The sustainable development of rural tourism in Albania is supported by various donors like IFAD, CEB, IDB and the Government of Albania to achieve its vision and mission approaching to the market, placing emphasis on social objectives, and at the same time ensuring self-maintenance. Increase of the number of organic operators in 2013 reaches the 137 farms and play an important role in the development of the Albanian agro-tourism (Fons et al., 2012) Number of agri-tourism farms in the future is going to be increased. This sector of the economy should be supported with educated and qualified people. The study program on management of rural tourisms at the Agriculture University of Tirana enables the education and qualification of young people to be involved in this profitable business activity.

## Conclusions

Therefore, it is concluded, that the practice of educational rural tourism has emerged as an activity that allows students enriching experiences and teachers, it is a way to teach the contents taught in the classroom, linking theory and practice, confirmed the impressions analyzed. The agri-tourism farms in Albania are best places to approach the practical experience on study programs of rural tourism at the Agriculture University of Tirana.

Rural tourism is a dynamic economical sector, providing people living in rural areas in Albania the opportunity to make business living from, agriculture, wildlife, culture and environment.

It rewards innovation and welcomes entrepreneurship, especially when these skills are implemented alongside a passion for rural affairs and a commitment to providing the best client experience. Approaching the study program of Agriculture University of Tirana to the agri-tourism farms is remaining a future challenge for enforcing the cooperation between academic experience and agri-tourisms farms in Albania.

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# Entrepreneurship intentions of albanian students (The case of EUT, AMU and AUT students of Economic Faculties)

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## Abstract

*Entrepreneurship has a special significance on the economic development of every country. Its inspiration and motivation to young people, especially to students, is becoming increasingly important in scientific studies, in business schools and in central and local government policies, as well as in a number of projects, European ones included. Students' entrepreneurial goals will reshape tomorrow's business and economic trends affecting the social development of the country. This study aims to assess the students' entrepreneurial intentions of the three economic faculties of different universities (EUT, AMU and AUT), and to analyse these intentions depending on several factors: the entrepreneurial university education, personal motivation for entrepreneurship, parental or family impact, and the social or economic context of entrepreneurship. The paper is based on the Theory of Planned Behaviour, formulated by Ajzen and, in terms of methodology, the paper is based on the GUESSS international project. The study sample is composed of 296 students from all the three universities and the analysis method is qualitative. Not only are the results important for universities, but they are important for the central and local policy makers and students, too.*

**Keywords:** entrepreneurial intentions, students, university context, family context, social-economic context

## Introduction

Nowadays, business organizations are very important institutions of the modern market economy, because they promote economic and social development through innovation and creation of new jobs. Since the early 1980s, small and medium enterprises have played an important role in lowering the unemployment rate. This is due to the reduction and restructuring of activities in big companies (Audretsch & Thurik, 2001). Meanwhile, the financial crisis of 2008 and its consequences on the world economy have strengthened the need to support small and medium enterprises, since they represent an alternative to mitigating unemployment. Policy-makers and researchers believe that entrepreneurship as a career opportunity can be a viable solution to youth unemployment.

Statistics clearly show that the youth unemployment rate has risen in most countries. In 2014, the youth unemployment in EU member states was at 21.6% (Eurofound, 2015), while in Albania, year after year, it has continuously increased for the age group of young people between 15 to 29 years old and, in 2015, reached the level of 33.2%.<sup>1</sup> One way to manage this problem is to promote self-employment and entrepreneurship among the youth (Eurofound, 2015). However, studies show that a transitional period is needed in order to enable unemployed young people towards self-employment (Shutt & Sutherland, 2003).

There are some important European political initiatives that deal with youth entrepreneurship and its promotion. The Entrepreneurship Action Plan 2020 identifies three areas of intervention: entrepreneurial education and training, youth entrepreneurship strategies (YES), which is a project to stimulate youth entrepreneurial aspirations, and the Erasmus for Young Entrepreneurs (EYE), which is an exchange program to support entrepreneurship.

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<sup>1</sup> <http://www.instat.gov.al/al/themes/tregu-i-pun%C3%ABs.aspx>

These important initiatives have reached a common conclusion that students need to be provided with complex help to enable them to start new businesses. They should learn from the best available practices, meanwhile the education on entrepreneurship should be reformed and ways to support them financially should be identified.

This research explores the entrepreneurship goals of the BA and MA students of economics faculties of three universities: the European University of Tirana (EUT), the Aleksander Moisiu University of Durres (AMU) and the Agricultural University of Tirana (AUT). The study is preceded by previous studies conducted by Assoc. Prof. Dr. Ermira Qosja, MSc. Ertila Druga and Alda Abazaj on entrepreneurial goals of EUT students.<sup>2</sup>

The objectives of this research are: *first*, to determine the entrepreneurship goals of the BA and MA students of economics faculties of the three universities (EUT, AMU and AUT); *secondly*, to determine the differences among the goals of students from the economics faculties of the three universities, perceived under the impact of the main influencing factors of Ajzen's Theory of Planned Behaviour: the origin of the family in relation to the employment of parents, personal motivation, university and the social-economic context; *thirdly*, to come up with a number of recommendations in order to help educate students of the economics faculties on entrepreneurship and the initiatives needed to be taken to promote them.

The paper proposes the following research question: "What are the entrepreneurship goals of the students of economics faculties of the three universities?". The supporting questions are: "What is the impact of the university context, viewed from a public-private perspective?", "What is the influence of the family background, viewed from the self-employed and/or entrepreneur parents' perspective?", "What is the influence of personal motives?" and "What is the impact of the social-cultural context?".

This paper aims at defining the entrepreneurship goals of the students, in reference to the Global University Entrepreneurial Spirit Students' Survey, <http://www.guesssurvey.org>, which is based on the Ajzen's Theory of Planned Behaviour.

The methodology employed in this research is qualitative. The questionnaire, formulated in the Google Form and distributed on-line ([https://docs.google.com/forms/d/e/1FAIpQLScLX-QLAoMCT8pf84Dg1JC2gc-LwmYGiP\\_DHP\\_hr0eBtJ8\\_gR6\\_TQ/viewform](https://docs.google.com/forms/d/e/1FAIpQLScLX-QLAoMCT8pf84Dg1JC2gc-LwmYGiP_DHP_hr0eBtJ8_gR6_TQ/viewform)), was used as the research tool. The study sample consists of 296 students from all three universities.

## Literature review

Entrepreneurship is a complex concept, that has to do with "the mentality and the process of creating and developing economic activities related to taking on risks, creativity and/or innovation, with a sense of management in a new or existing organization" (European Commission, 2003, p. 5). The definition of youth entrepreneurship aims to also highlight this complexity. Youth entrepreneurship is defined as a "practical application of quality initiatives, innovation, creativity and risk-taking in the workplace (such as self-employment or employment in small start-ups), using the appropriate skills and culture to succeed in that environment" (Eurofound 2015, p. 11).

The term "youth entrepreneurship" is an integral part of the overall definition of entrepreneurship. There are a number of similarities between youth entrepreneurship and entrepreneurship in general (recognition, risk-taking, engagement etc.), which shows that the only difference between the two concepts is about the age. While referring to the "young entrepreneurs", the United Nations (UN) considers them to be in the age group of 15 to 24 years old, meanwhile the Eurostat considers them part of the age group of 15 to 29 years old. The Global Entrepreneurship Monitor (GEM) identifies young entrepreneurs as part of the age group of 18 to 34 years old. In the focus of this study conducted by us are the BA and MA students belonging to the above age group. In this way, the data are also comparable to the GUESSS project, as well as to the other projects and data at European and global level.

## The importance of youth entrepreneurship

Encouraging entrepreneurship among students brings about not only an improved employment prospect, but also some other benefits. According to the Global Entrepreneurship Monitor, the level of entrepreneurship goals of respondents belonging to this age group is 1.6 times higher than that of adults (Schot, Kew & Cheraghi, 2015), while the percentage of respondents currently carrying out entrepreneurial activities is evidently lower. At the same time, businesses run by young entrepreneurs have a survival rate lower than that of older entrepreneurs (OECD, 2015), and the surviving businesses are better oriented towards growth. The survey on business success factors developed by Eurostat shows that enterprises run by persons under the age of 30 years old increase more than twice in the first three years, while entrepreneurs aged 40 years old and above grow on an average of 131% (Schrör, 2006).

Referring to the level of education, respondents with higher education have the tendency to start-up more businesses in high value-added (high-tech) industries and with high initial capital (Lüthje & Franke, 2002). According to Autio (2005), enterprises run by young and well-qualified entrepreneurs, with a solid financial background and who are motivated to exploit good business opportunities, show high growth potential. In the 28 EU member states, the youth self-employment rate is up to 6.5%, which translates into 2.67 million people. However, there are significant differences among countries, where Greece has the highest self-employment rate of 16% and Luxembourg the lowest at 3.5%.

Some studies on self-employment have come to the same conclusion as above and recognize that there is a correlation between university education and self-employment rate, which means that the knowledge, competencies and skills acquired

<sup>2</sup> <http://dergipark.ulakbim.gov.tr/ijsser/article/view/5000159133>



at the university significantly contribute to entrepreneurship and to the goals to start-up businesses (Blackburn, 1997; Green, 2013). The model laid down by the predecessors has a significant impact on self-employment, because children have the tendency to follow the steps of their parents (Mungai & Valemuri, 2011).

### Who will become an entrepreneur?

The entrepreneurial goal precedes the establishment of the enterprise. A number of business models can be adapted to this attitude (Ajzen, 1991; Bandura, 1977; Shapero & Sokol, 1982). All entrepreneurship models focus on the complexity of decision-making processes. Many efforts have been made to understand the role of entrepreneurial attitudes, activities, conditions, characteristics and aspirations in entrepreneurship (GEM, 2015; YBI, 2011).

At the same time, there are also some individual (personality traits and attitudes) and institutional factors that influence the decisions of the youth to become entrepreneurs. Research studies are differentiated in terms of the factors involved in the models and by the level of significance given to those factors.

There are some examples that indicate the diversity of their findings. The willingness to take risks and the desire to be independent are considered to be very important individual factors (Meager, Bates & Cowling, 2003). To this end, the findings of Autio and Wennberg (2010) are very impressive. They argue that the norms and attitudes of social groups have a stronger influence on entrepreneurial behaviour than personal attitudes and perception of self-efficacy of the individual.

According to Bartha (2015), institutional factors, such as the tax system, transaction costs and administrative burdens, can have a significant effect on the growth of companies and may lead to different business structures. There is a consensus among academia and scholars that education and training provide the knowledge and competences that are indispensable to entrepreneurship. Special entrepreneurial knowledge and competences can be effectively learned and improved by including some subjects in the standard curricula (business studies, marketing etc.), while others may be developed by applying innovative teaching methods (entrepreneurial thinking) (Imreh-Toth, 2015). Universities have not only teaching duties and responsibilities, but they also play a determining role in shaping opinions and building relationships.

## Methodology

In so far as the methodology is concerned, our research is based on the International University Entrepreneurial Spirit Students' Survey (GUESSS)<sup>3</sup> project of the Swiss Research Institute of Small Business and Entrepreneurship of St. Gallen University, which, since 2003, is focused on researching entrepreneurial goals of students. The 2016 report included 50 countries and more than 1,000 universities, and collected more than 122,000 responses from students.

The GUESSS project relies on the Theory of Planned Behaviour (Ajzen & Fishbein, 1980; Fishbein & Ajzen, 1975), which recognizes that the entrepreneurial goals are positively related to subsequent entrepreneurial behaviour.

The Ajzen's model (1991) is based on three variables: *behavioural attitudes*, *social norms* and *perceived behavioural control*, that precede the formation of an entrepreneurial goal, which is the best predictor of the entrepreneurial behaviour;

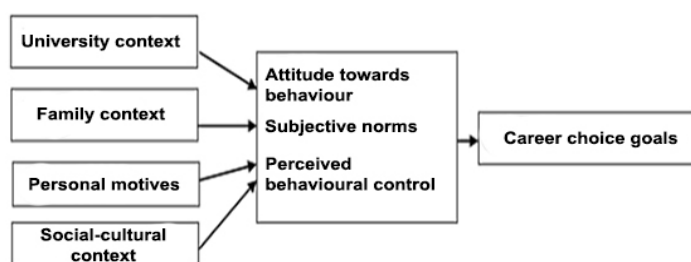
*attitude towards behaviour*, which indicates whether behaviour is desired or not by the individual, or indicates the degree of desire and relates to the expectation of the results coming from such behaviour;

*social norms*, which show the perception of individuals about the public opinion that surrounds them or the social pressure influencing a certain behaviour;

*perceived behavioural control*, which is the individual's perception of control over his behaviour, otherwise considered as perceived self-efficacy, and relates to an individual's perception of the ease or difficulty in carrying out a behaviour that is certainly related to the availability of the supporting system, resources or to the difficulties in carrying out such a behaviour.

In the research we have conducted, we relied on the theoretical framework illustrated in the figure below.

**FIG. 1.** The theoretical framework of the research (Ajzen, 1991)

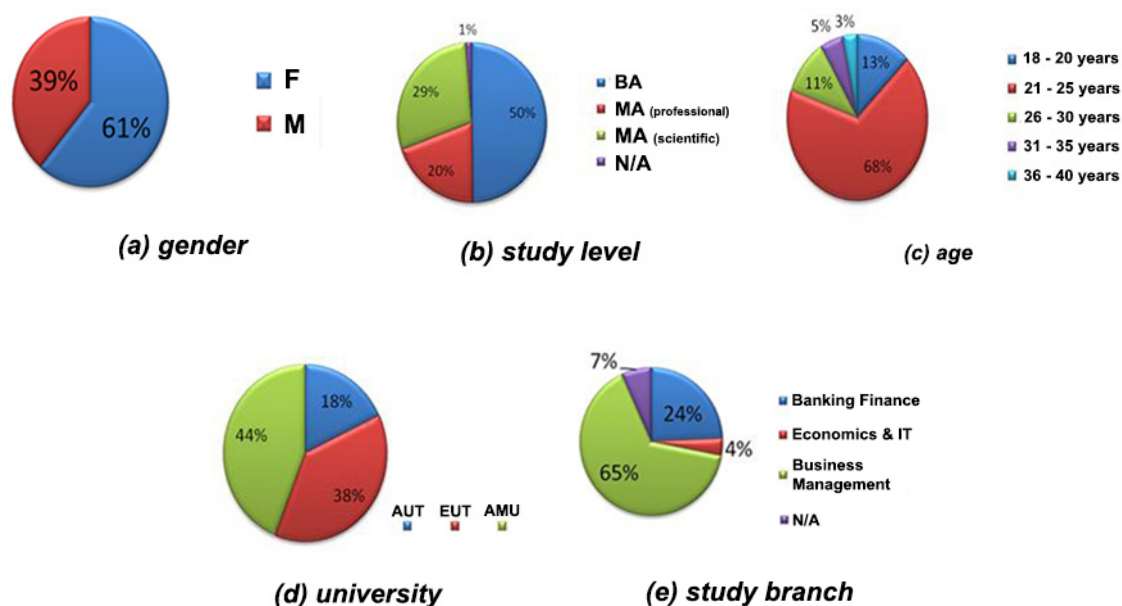


The basic research instrument is the questionnaire, based on the GUESSS methodology (<http://www.guesssurvey.org>), formulated in the Google Form (<https://docs.google.com/forms/d/e/1FAIpQLScLX-QLAoMCT8pf84Dg1JC2gc-LwmYGiPDHPhr0eBtJ8gR6TQ/viewform>) and distributed on-line.

<sup>3</sup> <http://guesssurvey.org>

The study sample consists of 296 students from the EUT, AMU and the AUT economics faculties. The demographic data of the sample, relating to their gender, age, study level, study branch and university are given in Fig. 2.

**FIG. 2.** The demographic data of the sample, according to (A) GENDER, (b) study level, (c) age, (d) university, (e) study branch



The paper proposes the following research question: “What are the entrepreneurship goals of the students of economics faculties of the three universities?”, as well as the following supporting questions: “What is the impact of the university context, viewed from a public-private perspective?”, “What is the influence of the family background, viewed from the self-employed and/or entrepreneur parents perspective?”, “What is the influence of personal motives?” and “What is the impact of the social-cultural context?”.

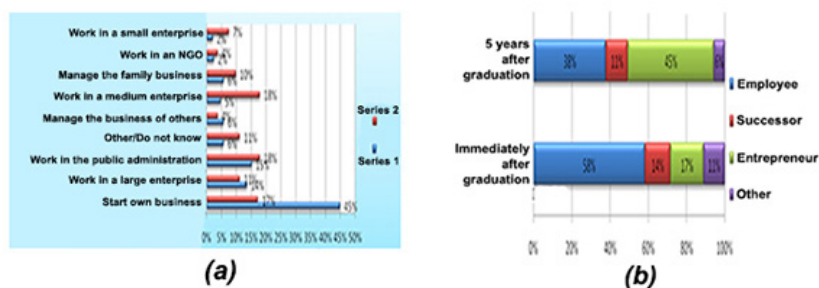
### Limitations of this research

The on-line distribution of the questionnaire does not create the opportunity for the stratification of the sample in relation to the real demography of economics faculties in each university, as well as the stratification in relation to the study branches and levels, as well as to the gender. Another limitation refers to the possibility that the on-line distribution of the questionnaire may be accompanied by uncertainties in understanding the questions.

### Findings of this research

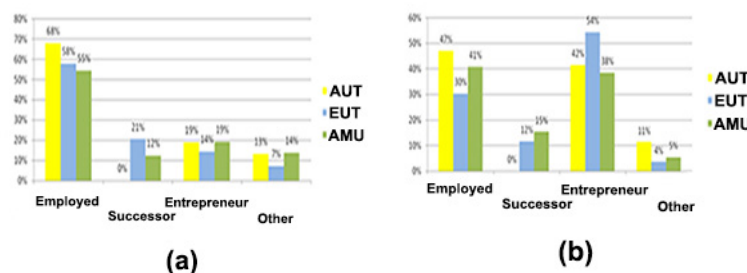
The most important question posed in this paper is: *What do students intend to do after graduation? What career paths do they plan to pursue as soon as they finish their studies? and What is their career plan 5 years after completing their studies?* The answers to the above questions are given in the form of various alternatives: employee in the private sector (in the small, medium and large enterprises), employee in the public sector and non-profit organizations, entrepreneur of personal business, successor to the family business or another business, and the alternative “other/do not know”. Career choices of all the sampled students immediately/5 years after graduation for the entire sample are shown in Fig. 3(a).

**FIG. 3.** The career choice goals of students (a) immediately after graduation and (b) 5 years after graduation



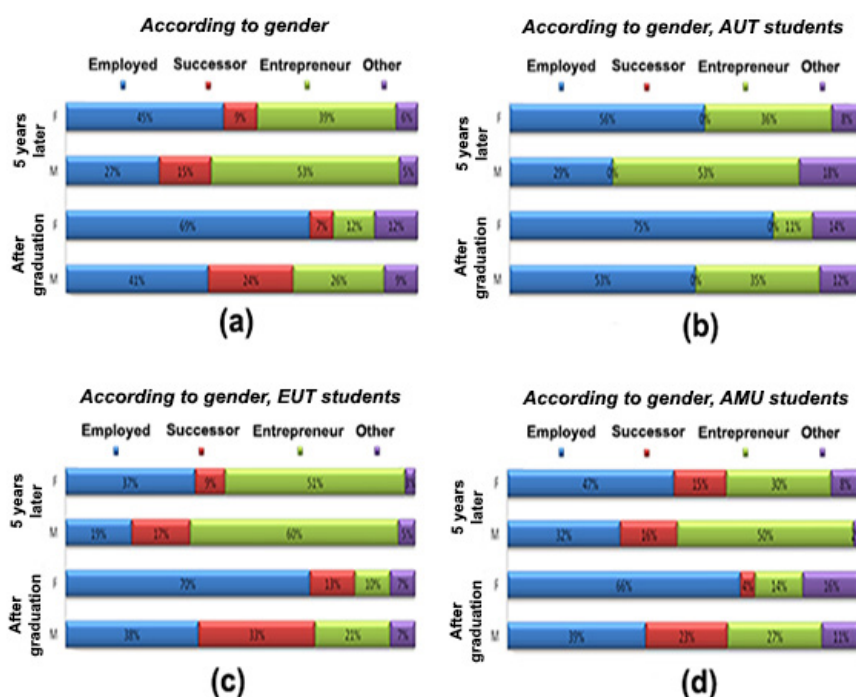
As the Fig. 3(a) indicates, immediately after graduation, intentions of the students appear to be (the list of the three most important ones): 18% to work in the public administration, 18% to work in a medium-sized enterprise and 17% to start their own business; whereas 5 years after graduation, the students' intentions are: 45% to start their own business, 15% to work as employees, 14% to work in a big enterprise. If we would regroup the sampled students' career choice goals into *entrepreneurs*, *successors* (continue into the business of their parents or others), *employees* (in the public or private sector) and *other/do not know* immediately after graduation and 5 years after graduation, we would have the graph shown in Fig. 3(b). It is thus clear that, immediately after graduation, the first choice is *to be employed*, at 58%, whereas 5 years later, the first choice is *to venture into entrepreneurship*, which stands at 45%. In the graphs of Fig. 4 are given the career goals of students categorized into: *entrepreneurs*, *successors*, *employees* and *others*, for the students of all the three universities, respectively (a) immediately after graduation and (b) 5 years after graduation. Apparently, immediately after graduation, 68% of AUT students intend to be employed, whereas none of them is a successor, whereas 21% of EUT students intend to be successors. On the other hand, 19% of the AUT and AMU students aim at entrepreneurship, compared to 14% of those from the EUT. It must be noted the relatively high percentage of the AUT (13%) and AMU (14%) students who are not clear about their career choice right after graduation, compared to only 7% of the EUT students.

**FIG. 4.** Career choices of the students of each university (a) immediately after graduation and (b) 5 years after graduation, categorized into *entrepreneurs/successors/employees/other*



Five years after graduation, the first choice for the AUT (47%) and AMU (41%) students remains *to be employed*, meanwhile for the EUT students (54%) is *to venture into entrepreneurship*, whereas, for the AUT students, the percentage of those who are not clear about their career still remains high (11%). The impact of gender on the entrepreneurial goals of students immediately after graduation and 5 years after graduation is presented in Fig. 5, respectively for the whole sample (Fig. 5(a)), for the AUT (Fig. 5(b)), for the EUT (Fig. 5(c)) and for the AMU (Fig. 5(d)).

**FIG. 5.** Impact of gender on career goals of students immediately after graduation/5 years after graduation: (a) for the entire sample, (b) for the AUT students, (c) for the EUT students, and (d) for the AMU students



Gender has a significant impact on female students' career goals and differentiates them from those of the male students for the entire sample immediately after graduation and 5 years after graduation, since, immediately after graduation, the first choice for the male (at 41%) and for the female (at 69%) is *to be employed*, even though there is a noticeable difference; the second choice is *entrepreneurship*, 26% for the male and 12% for the female, who, it should be emphasized, have the same percentage of choice for the *other/do not know yet* alternative, which indicates those being uncertain about their goals; 24% of the male choose to be *successors*, since it is also part of our own national culture for the boys to work and engage in the family business in an earlier age, while girls usually follow their studies for a longer time. 5 years after graduation, the first choice for the male students is *entrepreneurship* (at 53%), whereas for the female students is *to be employed* (at 45%).

If we are to refer to the sample from each university separately, we notice that, in so far as the career goals are concerned, the EUT students clearly distinguish themselves in relation to the impact of gender, since, 5 years after graduation, both male and female students have *entrepreneurship* as their first choice (at 51%). For the students of public universities, there is a high percentage of them who are not clear about their career choice immediately after graduation, while for the male AUT students this indicator increases even 5 years after graduation, from 12% to 18%.

## Determinants of the entrepreneurial intent

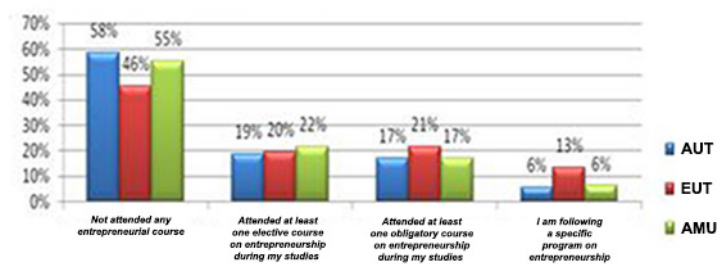
### *The role of the university*

Studies indicate that the university plays a major role in inspiring students to entrepreneurship. In order to determine the impact of entrepreneurial education on students, we asked them to supply their answers by choosing any of the alternatives: *I have not followed any entrepreneurial courses*; *I have attended at least one elective course on entrepreneurial studies*; *I have attended at least one compulsory course on entrepreneurship during my studies*; *I'm studying a specific program on entrepreneurship*. Results for the whole sample are given in Fig. 6, meanwhile Fig. 7 shows a comparison of universities versus some of the alternatives.

FIG. 6. Attendance of entrepreneurial courses by the total sample



FIG. 7. Attendance of entrepreneurial courses by the sample of each university



52% of sampled students have not attended any entrepreneurial courses, 21% have attended at least one elective entrepreneurial course, 19% have attended a compulsory course and 9% are currently studying a specific program on entrepreneurship (Fig. 6). Differences among universities seems more striking especially referring to two of the questions: (1) In so far as students who never attended a course on entrepreneurship are concerned, the AUT and AMU show a higher percentage than that of the EUT and (2) the greater part of the EUT students are attending a specific entrepreneurial course.

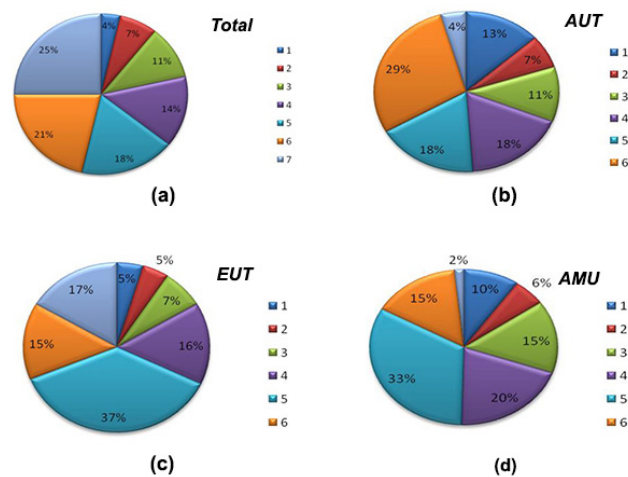
This research was also focused on the knowledge gained by the students who had attended entrepreneurship-related courses during their studies. Students were asked to show their agreement by indicating it through the alternatives provided: from 1 = *not at all* to 7 = *fully*. The question starts by: "Courses that I've attended ..." and it is followed by the options below:

1. ... have increased my understanding of entrepreneurial attitudes, values and motivation;
2. ... have increased my understanding of the actions to be undertaken in order to start a business;
3. ... have strengthened my practical management skills in order to start a business;
4. ... have improved my ability to identify a business opportunity.

The variations in the levels of agreement regarding learning from the attended entrepreneurship courses at the university for the whole sample and for each university are presented in Fig. 8.



**FIG. 8.** Evaluation of entrepreneurship courses at the university:  
(a) for the whole sample, (b) for the AUT, (c) for the EUT and (d) for the AMU



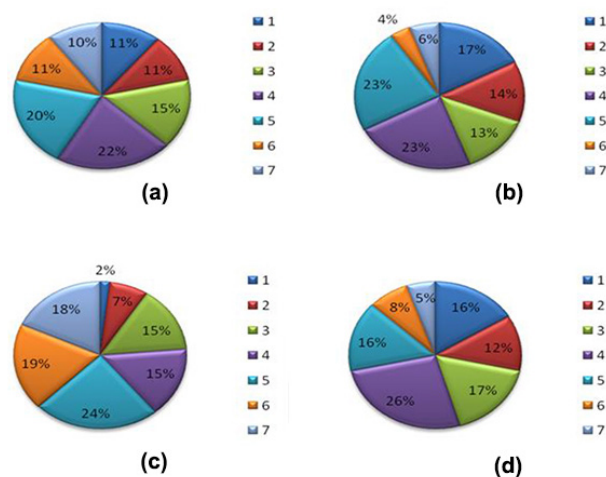
64% of the sampled students think that the learning and the knowledge gained from the entrepreneurship courses in university is very good (the level of agreement indicated varies from very good to fully), whereas only 22% are not satisfied and 14% are indifferent. On the other hand, for each university, the learning from entrepreneurial courses is indicated as very good: such an opinion is shared by 51% of the AUT students, by 69% of the EUT students and 50% of the AMU students.

After that it was investigated the entrepreneurial climate within each university (Fig. 9). Students were asked to indicate the level to which they agreed on the following three positions and they were also asked to respond on a scale between 1 (*not at all*) to 7 (*fully*). The assertions put to students in order to assess the university climate were:

1. The university climate inspires me to develop new business ideas;
2. The university provides a favourable climate to become an entrepreneur;
3. At the university, students are encouraged to engage in entrepreneurial activities.

41% of the sampled students in this research of ours (Fig. 9(a)) think that the university climate towards entrepreneurship is very good (the level of agreement indicated varies from very good to fully), 37% are not satisfied, and 22% are indifferent. Meanwhile, referring to each university, the climate towards entrepreneurship is very good for 33% of the AUT students, for 63% of the EUT students and for 29% of the AMU students. On the other hand, 44% of the AUT students, 24% of EUT students and 45% of those from AMU are not satisfied, whereas 23% of the students from AUT, 15% of the EUT students and 26% of those from AMU are indifferent. It is evident that the climate conducive to entrepreneurship is better at the EUT, where the difference with the other two universities is rather big. The results indicate that the public universities need to do a lot more to improve the entrepreneurship climate. Responses provide room for discussions and further research to clarify the need to improve both the curricula, as well as the practices and internships, entrepreneurship promotion activities, entrepreneurial success stories, start-up competitions etc.

**FIG. 9.** Evaluation of entrepreneurship climate at the university:  
(a) for the whole sample, (b) for the AUT, (c) for the EUT and (d) for the AMU

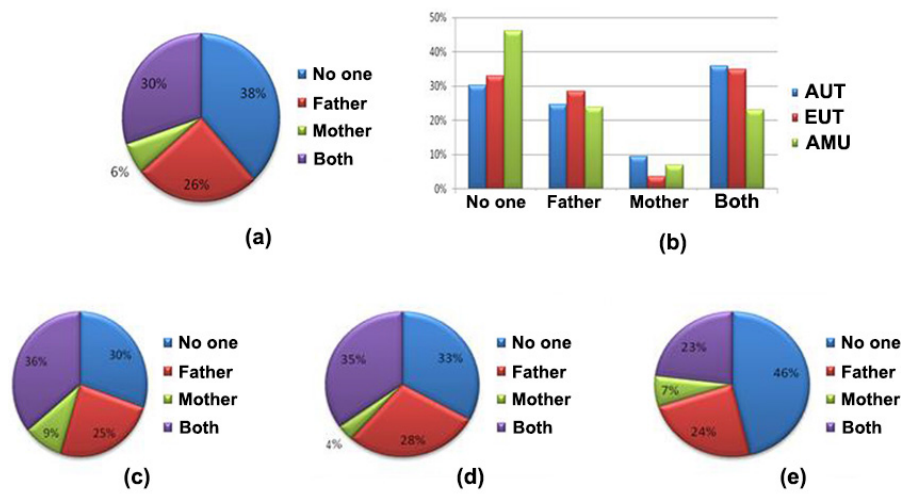




## Family context

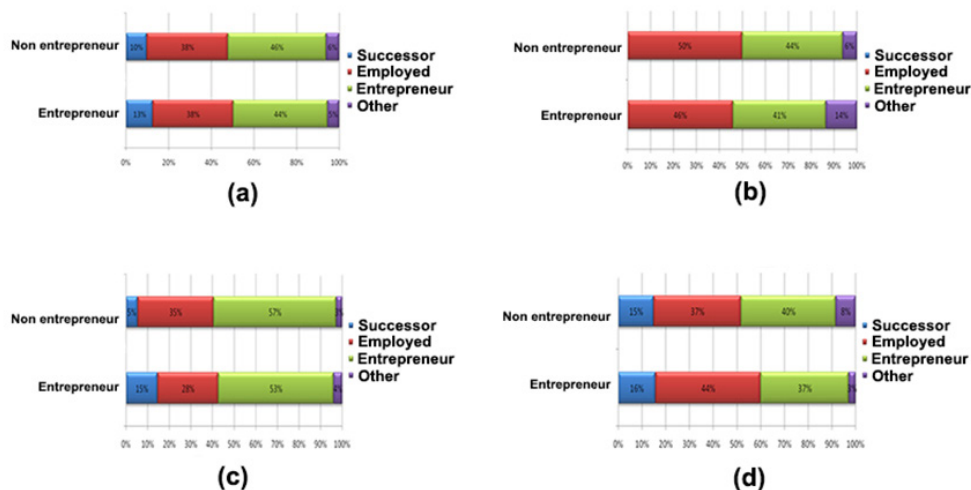
There is a theoretical and practical debate about the impact of the education, profession and activity of parents on their children's (successors) aspirations, career choices and, especially, their choice to venture into entrepreneurship. The students were asked whether their fathers, mothers or both of them are currently self-employed/business owners and the outcome was as follows: 38% of the students (refer to Fig. 10(a)) do not have any of their parents self-employed, 30% of them have both their parents self-employed, 26% of them have their fathers self-employed, and 6% have their mothers self-employed. Meanwhile, Fig. 10(b) represents a comparison of the sampled students in relation to their parents' self-employment status referring to the university they belong to: (c) for the AUT, (d) for the EUT and (e) for the AMU.

**FIG. 10.** Sample composition referring to their parents' employment status in (a), the sample composition referring to the university they belong to in (b), and details on the sample from each university: (c) about the AUT, (d) about the EUT and (e) about the AMU



One of the objectives of this paper is to understand the impact of the family on the career perspectives of students if their parents are involved in a business/self-employed or not, 5 years after their graduation (see Fig. 11) referring to the whole sample (see Fig. 11(a)), and to the students of each university: the AUT students (see Fig. 11(b)), the EUT students (see Fig. 11(c)) and the AMU students (see Fig. 11(d)). It is evident that, 5 years after their graduation, the career goals of students are little affected by their parents being or not self-employed/entrepreneurs, and this is true for the whole sample, as well as for the students of each of the three universities. In so far as the sample of students part of this study is concerned, there is little influence from their parents' origin. However, the reasons why their parents' family background does not play any role should be the subject of another more comprehensive study.

**FIG. 11.** (a) Career goals of the students of the entire sample 5 years after graduation in reference to their parents' employment status, (b) career goals of the AUT students only, (c) career goals of the EUT students only, (d) career goals of the AMU students only

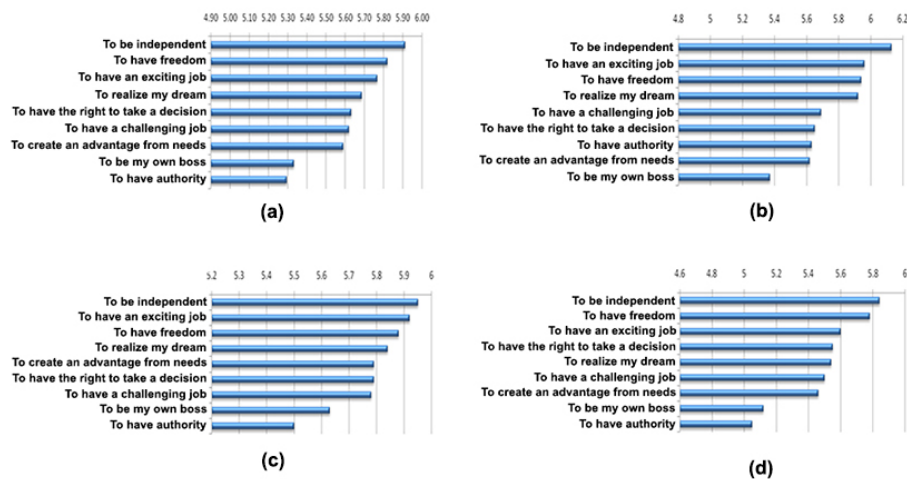


## Personal motives

An important determinant of the goals in choosing their future career in general, as well as venturing into entrepreneurship, are personal motives. There are some reasons and motives which generally make individuals feel more satisfied, students included also, especially if they pursue an entrepreneurial career.

While conducting this research and trying to understand how students evaluate the importance of different personal motives on the career path they choose 5 years after graduation, we asked them to go through various alternatives and state which fits them best. Referring to Fig. 12(a), it is evident that, in so far as the sample taken in our study is concerned, the average strongest motive is “*to be independent*” (based on a scale from 1 = not important at all to 7 = very important), followed by “*to have freedom*”, “*to have an exciting job*” and “*to realize my dream*”, while the least important motives are “*to be my own boss*” and “*to have authority*”. If we were to look at the motives according to each university (Fig. 12(b) for the AUT, Fig. 12(c) for the EUT and Fig. 12(d) for the AUM), it is evident that the first three choices match and the differences among the average of personal motive choices are small, the second and the third motive are the same for the EUT and AMU, whereas they interchange standing in the case of the AUT.

**FIG. 12.** (a) Personal motives influencing career choices for the whole sample, (b) for the AUT, (c) for the EUT and (d) for the AUM



If we are to present the personal motivations for career choices in the three career categories targeted by students - *employee*, *entrepreneur* and *successor* - we will also see the differences in the reasons (motives) selected immediately after and 5 years after graduation (Fig. 13).

**FIG. 13.** Personal motives influencing career choices for the whole sample, (a) immediately after graduation and (b) 5 years after graduation



Thus, immediately after graduation, the main motives for those intending to venture into entrepreneurship are: *to be independent* (6.35), *to have freedom* (6.32), *to realize my dream* (6.28). On the other hand, for the successors, the main motives are: *to be independent* (5.85), *to realize my dream* (5.82) and *to have authority* (5.78), whereas for the students who aim towards employment, the motivations are: *to be independent* (5.91), *to have freedom* (6.81), *to have an exciting job* (5.78).

However, 5 years after graduation, the main motives for those intending to venture into entrepreneurship are: *to be independent* (6.08), *to realize my dream* (5.92), *to have freedom* (5.88). On the other hand, for the successors, the main motives

are: *to be independent* (5.74), *to realize my dream* (5.74) and *to have freedom* (5.71), whereas for the students who aim towards employment, the motivations are: *to have freedom* (5.88), *to be independent* (5.85), *to have an exciting job* (5.83).

In the case of those aiming employment, we find that freedom and independence may not carry the same perception with that of students aiming to venture into entrepreneurship. However, it is evident that students aiming entrepreneurship possess higher values of the motives to be independent and to realize their dreams.

### Social-cultural context

Making a decision to venture in entrepreneurship is closely related to the social and cultural context in which students live or, to put it differently, the social and cultural factors have a significant impact on the formation of entrepreneurial goals. The theory emphasizes that the more positive the reaction to entrepreneurship from the environment is, the actual intentions to conduct entrepreneurial behaviour become more likely. The social pressure exercised by the immediate environment around the individuals is based on the concept of “subjective norm” from the theory of planned behaviour (Ajzen, 1991). Subjective norm implies the reaction that individuals expect from colleagues and close relatives if they embark on a certain behaviour.

Initially, students were asked on how would the people in their immediate environment would react if they were to pursue a career in entrepreneurship. Using a *Likert* scale from 1 (very negatively) to 7 (very positively), responses came to be in the value of 4.9, which is rather high. In this way, the subjective norm regarding entrepreneurship seems to be positive.

FIG. 14. Reaction of the social environment

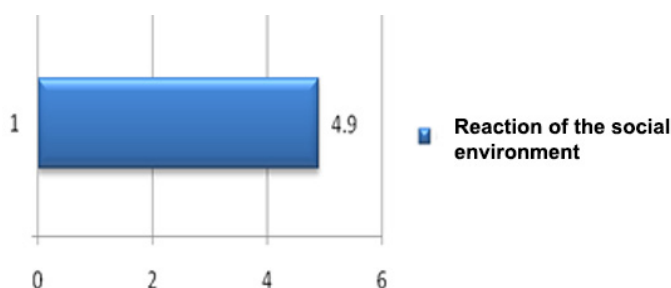


FIG. 15. Level of agreement on assertions about the perception of risk



The following question was then asked: “*To what extent being an entrepreneur is considered dangerous?*”. Given the fact that the risk is a key aspect of entrepreneurship, in order to assess it, students were asked to show their level of agreement on certain statements or assertions (from 1 = *totally disagree* to 7 = *fully agree*). The assertions are as follows:

1. I consider starting-up a personal business as very dangerous;
2. I think it is dangerous to manage your personal business;
3. I believe that starting-up a personal business is highly risky.

Apparently, students perceive positively the response of the social environment towards entrepreneurship and they consider starting-up a personal business as risky. It is thus clear that they emphasize the added importance the society and institutions have in creating entrepreneurial goals, since the average value of the risk perceived is at 4.21.

### Conclusions & recommendations

The 2008 financial crisis and its consequences on the world economy have strengthened the need to support small and medium enterprises, since they represent an alternative to mitigating unemployment. Researchers and policy-makers believe

entrepreneurship as a career opportunity could be a viable solution to youth unemployment, but studies have also shown the need for a transitional period in order to enable the youth towards self-employment.

Starting a business is very much a targeted and conscious move. For this particular reasons, the intention or goal towards entrepreneurship serves as a key to understanding the entrepreneurial process. Researchers agree that entrepreneurship is, above all, a behaviour and, in order to explain it, we need to understand the behavioural patterns.

The research conducted on a sample of 296 students from the economics faculties of the European University of Tirana, Agricultural University of Tirana and the Aleksander Moisiu University of Durres, based on the Theory of Planned Behaviour and the GUESSS study, leads us to the first conclusion that, in relation to entrepreneurship and from the behavioural or career point of view, students have the same approach with their peers from the developing countries.

The research confirmed the “need for continuity” (58%) immediately after graduation, instead of the “opportunity for continuity” (17%). Students aim to get employed in other businesses and/or public administration and, five years later, their first choice is to become *entrepreneurs* (45%).

For the AUT (47%) and the AUM students (41%), 5 years after graduation, the “need for continuity” is still there and their first choice remains to be *employed*. However, in reference to the EUT students, 54% of them want to venture into *entrepreneurship*. Looking at the AUT students, the percentage of them being not clear about their career remains high (11%). Actually, for the AUT male students, such percentage, 5 years after graduation, gets even higher, from 12% to 18%.

Gender differentiates men from women in so far as their career goals are concerned immediately after graduation and 5 years after graduation. Right after graduation, the first choice is to be *employed*, but with a significant difference between male (41%) and female (69%) students. Whereas, 5 years after graduation, the first choice for male students is *entrepreneurship* (53%) and female students is to be *employed* (45%). In regard to the EUT students, gender does not seem to affect their choices 5 years after graduation, and both female and male students look at *entrepreneurship* as their first choice (51%).

The research indicated that 52% of the students did not attend any specific entrepreneurial courses. However, there are obvious differences among the three universities. The AUT and AMU show a higher percentage than that of the EUT in regard to students who have never attended a specific entrepreneurial course, and a lower percentage in regard to students who are currently following a specific entrepreneurial course.

Students have a positive perception on learning from entrepreneurial courses (64%) and 41% of them think that the climate for entrepreneurship at their university is very good. The EUT is clearly distinguished from the two other universities, both for learning from entrepreneurial courses and for the entrepreneurship climate. Responses provide room for discussions and further research to clarify the need to improve both the curricula, as well as the practices and internships, entrepreneurship promotion activities, entrepreneurial success stories, start-up competitions etc.

The career goals of students 5 years after graduation are not influenced by their parents’ entrepreneurship/self-employed background, and this applies to the entire sample, as well as to the students from each of the three universities.

In relation to the personal motivation affecting the career choices, the average strongest motive of the total sample is “*to be independent*”, followed by “*to have freedom*”, “*to have an exciting job*” and “*to realize my dream*”, whereas the least important motives are “*to be my own boss*” and “*to have authority*”. It is evident that, referring to the personal motives, the first three choices are the same for all the three universities, since the differences among the average of personal motive choices are small.

Students perceive positively the response of the social environment towards entrepreneurship and they consider starting-up a personal business as risky. It is thus clear that they emphasize the added importance the society and institutions have in creating entrepreneurial goals.

### **Some recommendations that may serve as the foundation for further analysis and debate:**

Improving the regulatory environment and steering the economy towards innovation. This would require people skilled in the new technologies, research labs, partnerships with international universities and research centres. The mechanisms and practices for commercializing solutions based on technological innovations are equally important. Various mechanisms for better cooperation among universities should be identified and research centres should be put in support of new business ventures.

Concepts that relate to different types of entrepreneurial activities should be introduced at all levels of the education system: from self-employment to employment organizations, growing entrepreneurship, entrepreneurship in organizations, social enterprises etc., which can coexist in different structures of different economic realities and which may be affected by particular cultural, political and economic environments.

Interventions to meet shortages in skilled young people should be increased and reinforced, since it is very important because of the high unemployment rate. This requires the establishment of artisan and information and communication technologies training centres, as well as the establishment of business incubators/accelerators, which should be easily accessible by potential entrepreneurs.

For all those who set up new businesses, various programs should be instituted according to the need to deal with entrepreneurship business models based on pricing competitiveness, procurement, distribution and sales practices, as well as to provide insights on marketing, human resources management and financial management, which are crucial to guarantee business sustainability.

Identifying mechanisms to facilitate the financing of small businesses, without the burden of the asset-based conditions.



This requires tangible support from the government. However, the private sector may also participate in providing such solutions. Diversifying the sources and practices of receiving financial assistance for the small businesses.

Maintenance and improvement of the existing business support infrastructure, by providing training, counselling and other services during all phases of the process: from recognizing the possibility of transforming an opportunity into entrepreneurship, assisting enterprises with high growth potential.

Raising awareness among the youth and motivating them towards entrepreneurship as a potential career path, as well as marketing the successful entrepreneurial models to which the community can refer to. Publicizing various events, such as those promoting Entrepreneurship Day, the Global Entrepreneurship Week etc.

Exploiting the potential of women in entrepreneurship, for which the policy-makers should find particular ways to encourage women to venture into entrepreneurship.

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# Information Technology in Business Activities and Audit

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## Abstract

*Information technology systems are widely used in the management of business operations and support decision making processes. The rapid technological development has made that even relatively little business use personal computer software to keep their merchant accounts. As businesses grow, their need for the improvement of IT systems increases. Auditors can't rely on information just because it is generated by the computer, but the accuracy of the information generated by the computer should be verified by the auditor. Therefore, it is important that auditors before concluding that the information generated is reliable, they must understand and test basic computer controls. In this study is treated the impact of IT systems in the audit process. The use of accounting systems based on IT presents new risks that typically do not exist in traditional manual systems. Therefore, auditors should have knowledge about these risks and recognition of the customer, and implementing controls of the customers, in order to plan effectively audit activities. It is treated the risk assessment of IT, such as: risks hardware and data, traces of reduced audit, the need for experience and sharing IT tasks and also specific IT internal controls, general and applicative controls to reduce IT risk. The focus of the study will be the review of the literature about the studies that have been done in this field, academic debates that have been raised and the arguments used, as this will help to enrich a theoretical model to analyze and evaluate specific cases. Also, in the study is treated the impact of IT in the audit process, the impact of IT controls on risk control and substantive tests and the connection of IT controls to audit objectives related to: transactions and the impact of IT controls in substantive testing, auditing IT in a less complex environment and the audit of IT in a more complex environment, will to be the objectives of this study.*

**Keywords:** information technology, security, audit, risk, control.

## Preface

The biggest challenge for management of the organizations is the process of decision-making, where the main role in this process has the security and quality of information on the basis of which decisions are made. One of the most important information is the financial information prepared and presented periodically through registration, classification and summary of the economic events of the organization.

The development of information technology has played an extraordinary role in the business world and has had a significant impact on the development of tools, techniques and methods of auditing. Almost all businesses rely on IT for the registration of transactions. As businesses expand, the growing information needs and improvement of IT systems. Continued integration of IT into the accounting systems bring many benefits by increasing the ability to handle large amounts of complex business transactions cost-effectively.

Replacing manual procedures with automated controls makes computer-processed information continuously in order to reduce misstatement through the implementation of controls and verifications for each transaction processed.

Complex IT operations are usually administered effectively because complexity requires organization, procedures and effective documentation.

The use of IT systems provides more information management and a high-quality, faster than most manual systems. But management only after being convinced that the information produced by IT is reliable, can use in managerial decision-making.

## Literature review

The purpose of this study is to evaluate the safety and quality of financial information used by organizations (public and private) in Albania in the decision-making process and the role of audit services in the safety and quality of the information.

In their book “Principles of Auditing & Other Assurance Service”, O.Ray Whittington and Kurt Pany (2016: 39/1), emphasize that: “Dependable information is essential to the very existence of our society. The investor making a decision to buy or sell securities, the banker deciding whether to approve loan, the government in obtaining revenue based on income tax returns - all are relying upon information provided by others”.

As well, authors Alvin. A. Arens, Randel J. Elder, Mark S. Beasley in their book “Auditing and Assurance Services” (2014: 370), emphasize that: “Virtually all entities, including small, family-owned businesses, rely on IT to record and process business transactions. As a result of explosive advancements in IT, even relatively small businesses use personal computers with commercial accounting software for their accounting. As businesses grow and have increased information needs, they typically upgrade their IT systems. The accounting function’s use of complex IT networks, the Internet, and centralized IT functions is now commonplace”.

Most decision-makers in business activities rely on produced information by other, therefore the safety and quality of this information is essential for effective decision making, even when the information is generated from the inside organization, likewise in cases when the information is produced by the parties third outside the organization.

In his book, Jack J. Champlain “Auditing Information Systems” (2003: 9), specifies that: “Auditors have always been responsible for consulting with management to help ensure that sufficient and adequate internal controls exist within organizations to mitigate major risks to a reasonable level. Auditors identify and quantify risk using professional judgment based on knowledge, education, experience, and even history. As major events occur, the auditing profession retools its approach to risk assessment to adapt to the new environment”.

In “The Complete Guide to Auditing Standards and Other Professional Standards for Accountants” PCAOB 4 standard (2008), the authors Nick A. Dauber, Mark H. Levine, Anique Ahmed Qureshi, Joel G. Siegel, determined: “When an entity reports a material weakness in its internal control over financial reporting, the management may engage the auditor to ensure that the material weakness does not exist prior to the next annual audit. The auditor’s objective is to obtain reasonable assurance as to whether the previously reported material weakness still exists. The auditor’s opinion specifically relates to the existence of the identified material weakness and is not an opinion on the effectiveness of internal control over financial reporting, nor is the opinion meant to update the previous opinion on the effectiveness of internal control over financial reporting. The auditor should obtain and evaluate evidence to ascertain whether controls were appropriately designed and were operating effectively”.

Author Robert Moeller in his book “IT Audit, Control and Security” (2010: 10) states: “Audit professional are responsible for reviewing and assessing enterprise management controls. Internal auditors do not construct and administer these controls - that is the responsibility of management. Auditors, acting as independent parties both review and perform test of enterprise internal controls to report to management and other parties they they are adequate”.

So, in the safety and quality of financial information, important role play by auditors opinions and reports they present. To fulfil audit, information should be in the form of verifiable and meet safety and quality standards. To accomplish their goal, the auditor should obtain sufficient and qualitative evidence, determining the type and amount of evidence necessary to consider whether the information is in accordance with established standards.

## Research question, hypothesis and methodology paper

<i>The basic research question is:</i>	What is the role of the audit in financial information security and quality, produced by the organization’s IT systems?
<i>Working hypothesis:</i>	The financial information produced by IT systems certified by the auditor increases the efficiency of the organization’s activities and improves the risk management process.
<i>Working methodology:</i>	To conduct the study were used interpretive and analytical analysis.

## Analysis and interpretation of results

### IT risks in accounting systems and the role of internal controls in their reduction

The use of IT systems leads to reduction of many risks of manual systems by eliminating some of them, but there are special risks to IT systems that can lead to significant losses if not carefully managed. These risks increase of material misstatement opportunities in the financial statements.

Specific risks to IT systems are: (a) hardware and data risks, (b) reduction of the audit trail, (c) the need for IT experience and sharing of IT tasks.

Main types of hardware and data risks are: systematic errors and random errors, unauthorized access and loss of data.

*Reduce audit trail.* Because most of the information entered directly into the computer, the use of IT often reduces or eliminates the source documents and data that allow the organization to find accounting information. These documents and information called the audit trail. In many IT systems, employees who deal with the initial processing of transactions not see the final results. Therefore, they are often unable to identify the processing misstatement. Even if they see the final output, it is often difficult to recognize misstatement, as basic calculations are not visible and the results are often summarized.

The need for IT experience and sharing of IT tasks. In the use of IT systems, the traditional division of tasks is reduced (authorization, registration and storage of data) and require extensive experience of IT.

## Role of internal controls to reduce IT risks

To address the many risks associated with the IT-security, organizations often implement IT specific controls. In auditing standards are defined two categories of control of IT systems: *general controls* and *application controls*.

General controls apply to all aspects of operation, including: IT management; separation of IT duties; developing systems; physical security and access online on hardware, software, and data; support planning and contingency in case of emergencies and contingencies; and hardware controls. Because the general controls are often implemented in a general way in the organization and affect many different software applications, auditors assess the overall controls for the organization as a whole.

Auditors usually evaluate the general controls at the beginning of the audit, because of their impact on application controls. The main categories of general controls are: (1) The management of the IT function, where usually the head office or the IT manager's reports to senior management and the board. (2) Separation of IT duties, division of responsibilities for programming, operations, and control data. (3) Development of systems involving the purchase or development of application software in their organization in accordance with the needs of the organization. (4) Physical security and online. Safety controls include physical controls and Internet access controls. (5) Support plan and contingency, to prepare in case of damages caused by energy, fire, heating or excessive humidity, water damage, or even sabotage may have serious consequences for businesses that use IT. Support planning and unforeseen need to identify alternative hardware that can be used to process the data organization. (6) hardware controls that are normally designed on computer equipment from manufacturers to detect and report equipment failures.

*Application controls* apply to the processing of transactions such as controls over the processing of sales or revenues at the box office. Auditors should assess applicable controls for each class of transactions or accounts in which auditors plan to reduce the estimated risk control, as the IT-controls may be different for transactions and accounting classes. *Application controls can be effective only when they are effective general controls.*

Application controls designed for each software application and are intended to help an organization to meet the audit objectives related transactions. Although some application controls affect one or only a few audit objectives related transactions, most of the controls prevent or detect some types of misstatements. Other application controls worry about balance and objectives of the publication of accounts. Application controls are divided into three categories: (1) input; (2) processing; and (3) output. While targets for each category are the same, procedures for achieving the objectives vary significantly. From the examination of each results:

- Input control design to ensure that the information entered on the computer is authorized, accurate and complete. They are important because a large part of the errors in the IT systems resulting from data entry errors, and despite the quality of information processing, errors in data output resulting in errors.
- Processing control prevent and detect errors while transaction data processed. General controls, especially controls related to systems development and security, provide substantial control to minimize errors. Application specific processing controls often programmed in software to prevent, detect and correct processing errors.
- Output control focus on detecting errors after processing is completed. The most important output controls is to review the data for reasonableness by someone who has knowledge about the output it.

## Role of audit in IT systems security

Auditors are responsible for providing assurance on the functioning of the internal control, therefore they must be knowledgeable about the general and application controls of IT systems. Knowledge of the general controls increase the auditor's ability to assess and support the effective application controls in order to reduce audit risk in fulfillment of audit objectives.

The general ineffective controls create opportunities to material misstatements in all system applications, regardless of the quality of special application controls. For example, if the IT tasks are such inappropriate divided so that computer operators work as programmers have access to computer programs and files, the auditor should be concerned about the possibility of unauthorized program changes software or data files that can lead to fictitious transactions or unauthorized data and removal or omission of such accounts (such as sales, purchases and salaries). Also, if the auditor finds that data files are stored

improperly, it can be concluded that there is a great risk of data loss for each class of transactions that rely on this data to perform application controls. In this situation, the auditors should extend the audit test in several areas such as receipts, cash payments and sales to meet the objective of completeness.

Auditors can test application controls for operating effectiveness and based on results for the reduction of substantive tests.

When the client software changes, the auditor should evaluate whether additional testing is necessary. If general controls are effective, the auditor can easily identify when changes were made software. But if the general controls are inadequate, it may be difficult to identify the changes in the software. Accordingly, the auditor should consider testing the application controls that rely on IT during the current year audit.

The auditor usually gets information about the general and application controls through several methods, such as interviews with the staff of IT and the key users, the examination of system documentation (flowcharts, used guidelines, requests to change the program and the results of testing system), review of detailed questionnaires from IT staff.

In most cases, the auditor use some of these ways, because each offers different information. For example, interviews with IT chief and systems analysts provides useful information about the IT operation in general, the degree of development of software and hardware changes made in the accounting software applications, and an overview for each planned change. Review of program change requests and system test results are useful to identify program changes into application software. Questionnaires help auditors to identify the specific internal controls.

Auditors have specific audit objectives deficiencies in internal control. Based on these controls and deficiencies, the auditor assesses control risk for each relevant audit objective.

### Audit in different areas of IT development

In small companies the auditors often audit about the computer when the general controls are less effective than the more complex environment of IT. Often, small companies do not have dedicated IT staff, they rely on periodic involvement of IT consultants to assist in the installation and maintenance of hardware and application software.

Responsibility for the implementation of the IT function in many cases assigned to user departments, such as the accounting department, where hardware is physically. Auditing around the computer is effective because these systems often produce sufficient audit trail allowing auditors to compare original documents.

Many organizations where IT environment is not complex, quite often rely on desktop and network servers that perform the accounting system functions.

When the organization expands use of IT, internal controls are often placed in applications that are available only electronically. If traditional source documents such as invoices, purchase orders, records of invoices and accounting records such as sales books, inventory lists and accounts receivable exist only electronically, auditor must change audit method. This method is often called the audit through the computer.

When audit through the computer, auditors use three test categories: data test, parallel simulation, and auditing module.

In the *data test method*, the auditor process their test data using the client computer system and the application program to determine if the automated controls process correctly tested data. Auditors design the test data including transactions that the client system must accept or reject. Once the test data is processed on the client system, the auditor compares actual output with expected output to assess the effectiveness of automated controls of the application program. When using the data test method, auditors take into account three main considerations: *First* test data should include all relevant conditions that auditor wants to test. Auditors should design test data to prove that all key controls basic computer includes real data that can be part of the normal processing of client transactions including valid and invalid. *Second* application programs tested by the auditors test data should be the same as those that the client uses throughout the year. One way is the direction of the test on the basis of data coincidence, maybe in time randomly selected throughout the year, even if doing so is costly and takes time. *Thirdly* the tested data should be excluded from client records. If the auditor processes the data test, while the client processes its transactions, the auditor should exclude testing data in master files to the client, as tests are carried out to prevent master files and files infected transactions for a long time out of testing auditor. Auditors can do this by developing and processed data have no influence on the test data.

Through *parallel simulation*, auditors often use control audit software to do the same operations that makes client software, using the same data file. The goal is to determine the effectiveness of automated controls and obtained evidence about the balance electronic accounts. As for testing controls and completion of balances, the auditor compares the output from the software auditors and output from the client system to test the effectiveness of client software and determine if the client balance is correct.

Auditors usually do testing parallel simulation using generalized audit software (GAS), which are specifically designed programs for audit purposes. With commercial software that are available auditing, such as ACL or IDEA can be operated easily from the desktop or laptop computer auditor. Auditors receive copies of customer databases and use of generalized audit software to do a variety of tests of electronic customer data.

The general audit software provides three advantages: *First* is relatively easy to train the audit staff in its use, even if they have little training on auditing through IT; *Secondly* software can be used in a wide variety of clients with minimal changes; and *Thirdly* software has the ability to do the audit tests much faster and in a more detailed way than using traditional manual procedures.

When using the setting module audit approach, auditors install an audit module in the client application system to identify specific types of transactions. For example, auditors can use the setting module to identify all purchases exceeding 2 million lekë monitoring and more detailed examination of the transaction occurrence and accuracy related to the audit objectives.

Setting auditing module allows auditors continue audit of transactions by identifying actual transactions processed by the client and the comparison with the tested data and parallel simulation. This technique can be used effectively by internal auditors.

## Conclusions

To give assurance on the operation of IT systems, the auditor should assess the effectiveness of general controls before assess application controls. General controls have a significant impact on the effectiveness of application controls, so that auditors should first assess these controls before conclude whether the application controls are effective.

When clients process accounting applications on a network, auditors need to learn about network configuration, including the location of computer servers and workstations connected to each other, network software used to manage the system, and controls on access and changes to application programs and data files located on the server. This knowledge helps auditors in assessing control risk when planning an audit of financial statements and controls and when testing in an audit of internal control over financial reporting.

Auditors using the customer data base management systems should recognize the planning, organization, policies and procedures of the customer to determine how systems are managed. This recognition helps in assessing control risk by the auditor and the auditor's opinion regarding the effectiveness of internal control over financial reporting.

When customers use the computer desktop and servers, auditors need to worry about access to master files from unauthorized people. Proper segregation of duties between staff with access to master files and processing responsibilities is critical. Review of regular manager-owner of output transaction improves internal control.

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# Role of the Private - Public Dialog (PPD) on improvement of the business climate. Evidence and Challenges on the Albania case

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## Abstract

*Dialogue between the public and private sectors is not a new concept. It has been a feature of public life for decades in some countries. But recent years have seen an upsurge in interest in PPD as a means for promoting private sector development. PPD has become an important part of the private sector reform process, and is here to stay. This means it is increasingly necessary to promote understanding of what PPD is, and what it can and can't achieve. PPD comes in many forms. It can be structured or ad hoc, formal or informal, wide-ranging or focused on specific issues. It can be initiated by forward-thinking governments, frustrated entrepreneurs, or third parties such as international donor agencies. Sometimes it involves only a few private sector representatives, sometimes it includes labor unions and civil society groups. It can take place at local, national, or international level. It can be organized by industry sector, cluster or value chain, or it can cover cross-cutting economic issues. The main potential benefits of PPD include: -Facilitating investment climate reforms by supporting champions for reform, creating momentum, and accelerating the reform process.*

## The role of the PPD's in regulation reforms

Public-private dialogue has a range of potential impacts, but it do not achieve anything on its own – it works by facilitating, accelerating, or cementing other ongoing initiatives, ones which without the boost of stakeholder pressure would falter or fail.

The most tangible benefits of PPD are the policy reforms. These can include new legislation, the amendment or scrapping of existing legislation, removal or simplification of regulations and controls, standardization of procedures across different jurisdictions, and establishment of new institutions.

While the structured consultation of a public-private dialogue mechanism can have an immediate effect in improving the quality of particular reform efforts, its deeper benefit lies in building a sustainable constituency for investment climate reform.

PPD are encouraged on promoting better diagnosis of investment climate problems and design of policy reforms. Governments that listen to the constraints of the private sector are more likely to devise sensible prioritization plans and workable reforms. This, in turn, can encourage investors to take a longer view and cooperate with laws and regulations.

When governments and businesses are mutually mistrustful and uncommunicative, investors lack confidence and are disproportionately drawn to short-term returns and the informal sector.

PPD is focused on making policy reforms easier to implement. When entrepreneurs understand what a government is trying to achieve with a reform package, they are more likely to accept and work with the reforms in practice.

Legislation may get onto the statute book but it has little effect in reality because of lack of follow-through. PPD can help to ensure that reforms actually take effect on the ground, by helping disseminate awareness of the changes, feed information back, and keep up the pressure for action.

Promoting transparency and good governance, the PPD initiative are taking of a broader view by setting an example of openness and rigorous cost-benefit analysis, and by creating pressure of public scrutiny.

Without the structure imposed by PPD, business advocacy tends to find a narrower outlet: one sector lobbies for a specific

reform, which then has unwelcome effects in other sectors, which lobbies for its reversal, and so on. The monitoring and evaluation systems put in place by a PPD initiative promote a culture of compliance and entice governments to perform regulatory impact assessments.

At its best, PPD can save time and effort by establishing checks and balances for private sector demands, allowing the ramifications of measures to be discussed before they are implemented, and ideally nurturing in the private sector a more rounded view of what's good for the economy as a whole. The example of openness set by a PPD can have effects for governance role of both public sector agencies and corporations, by seeking to set a standard to which the media and public may hold the participants in their other affairs.

Building an atmosphere of mutual trust and understanding between public and private sectors, PPD can improve social cohesion and civil society. This effect might be seen as marginal or less significant, but in several cases a sustainable dialog between the public and private sectors have had in various cases an improved level of trust, understanding, and cooperation.

In many countries, mistrust and misunderstanding between the public and private sectors needlessly hampers reform efforts. PPD can build consensus, trust and understanding between the public and private sectors simply by bringing people together on a regular basis and allowing them to get to know each other.

PPD creates both an opportunity and a risk when other lines of communication between government and society are weak.

- Done well, it can enable the voices of stakeholders to be heard by a government that would otherwise be deaf to their concerns, and can give governments a sounding board, which will improve the quality of their policymaking.
- But done badly, it can give unhealthy influence to an unrepresentative group of stakeholders, reinforce links between politicians and lobbyists, and provide a veneer of legitimacy for bad policies. Strategies for tackling this risk include an explicit commitment to transparency, numerous working groups to ensure a broad base, and the incorporation of monitoring and accountability mechanisms.

Another way of to ensure good effect is that no topics are off-limits for discussion. If PPD initiatives do not make special efforts to include small and medium enterprises (SMEs) and those based in provinces, they can be dominated by big businesses or businesses based in main cities.

There are obvious reasons why it is easier to engage with representatives of a small number of large organizations than with a large number of small organizations – it is simpler to organize, and they are more likely to speak with a unified voice. Given the difficulty of establishing dialogue between the government and the private sector, the path of least resistance is for the government to focus on consulting a relatively small number of relatively large firms. This unavoidable dynamic has often led to the interests of SMEs being under-represented in PPD.

SMEs can also find themselves effectively excluded from consultation because business associations, which theoretically represent their interests, in practice listen more to their larger members. Strong business associations that genuinely speak for SMEs are helpful in making sure that the concerns of SMEs can be heard in dialogue.

An alternative or complementary strategy is to pursue different programs that bypass business associations and seek input directly from individual small business entrepreneurs. The new advocacy base created from this channel might be introduced to the existing business membership organizations.

If a PPD initiative is poorly planned and unfocused, it can degenerate into a talking shop, which leads to disillusionment, disengagement and loss of credibility, giving strength to opponents of reform and slowing down the reform process. Discussions are long and unfocused, no concrete results are achieved, people lose interest and attendance declines.

Meetings are less likely to degenerate into talking shops when the agenda is strict and clear and communicated well in advance, and when there are concrete proposals on the agenda that require decisions. An experienced and resourceful organizer can head off the risk of meetings getting diverted into tangents by managing expectations in private conversations beforehand.

If built too closely around a particular individual, a PPD can risk becoming a one-man show, which collapses when the key person loses interest or moves on. It is inevitable that competitiveness partnerships will rely to some degree on the enthusiasm and commitment of key individuals and the personal involvement of top-level government figures is one of the determining features of success. But building the partnership too closely around individuals is a significant risk.

Logic would suggest that outreach and public relations efforts that energize the public to look favorably on competitiveness partnerships can give individual politicians an incentive to be enthusiastic and minimize the effects of changing personnel.

Part of the problem with PPD losing steam when an individual becomes less involved can consist of unrealistic expectations initially raised by that individual's involvement. If not accompanied by sufficient efforts to build a broad base of support, PPD can become politicized by being closely associated with a particular party.

In some countries, leading businesspeople may also be leading figures in opposition political groups, making it difficult to persuade governments to engage or to keep a PPD politically neutral. Governments may be tempted to sideline opposition figures, with the result that PPD stands less chance of persisting across changes of administration.

An effective outreach program can help de-politicize the process by emphasizing the practical benefits to real people. Presentational skills are key factors here, as battles must be chosen carefully. It makes sense to concentrate on explaining reforms that can be framed simply so that everyone can understand. Direct outreach to parliamentarians and local politicians – indeed, to decision-makers of any political level who are in a position to facilitate or obstruct the approval or implementation of reforms – can also help to defuse political tensions.

If not sufficiently well coordinated with existing institutions or other dialogue mechanisms, duplication of efforts can overburden and confuse participants. Some PPD mechanisms may, paradoxically, become victims of their own success. Similar organizations may spring up seeking to get in on the act, duplicating the work and diluting the effectiveness of the original by overburdening individuals and confusing lines of communication.

If PPD mechanisms are set up as initiatives, separate from any existing institution, it can be hard for them to avoid competing with institutions. Indeed, one of the reasons a new competitiveness partnership may be needed is that existing institutions are failing to fulfill their theoretical role.

But it is necessary to give careful thought to whether a PPD will be influencing on ground already, adequately and with a wide effect. Sponsors and donors must take care not to shortcut existing institutions, both on the government and private sector have to collaborate, unless the cases when it is really not possible.

Transparency of process and inclusion of all relevant parties are the key factors in bringing this about. These risk factors are raised not to suggest that competitiveness partnerships are fraught with danger, but to show how awareness and careful planning can help participants to avoid potential pitfalls.

## PPD's in Albania

Public consultation and transparency in Albania are formalized, in the Rules of Procedures of the Government as well as in the Rules of Procedures of the Parliament. A consultation with the structures of civil society whose activity is related to the draft-law object and effects is intended since the first steps of the law-drafting process. Draft laws of particular importance can be discussed in broad circles where representatives of state institutions, NGOs, experts of international organizations or institutions etc. can be included. The consultation process takes place in the law-adopting procedures in the Parliament, but is not mandatory. The standing committee of the Parliament may also organize public hearings with experts, representatives of the civil society and representatives of groups of interest. Publicity of law-adopting activity is another requirement of the Rules of Procedures of the Parliament, and is more complete in comparison to the public consultations. In practice, although there are cases where the public consultation goes even beyond the requirements of the Rules, business organizations and NGOs often complain about the limited time they receive for expressing their opinions or, in extreme cases, about not being asked at all. While transparency and information sharing should be a part of each step of the law drafting process as one way to improve the situation, public consultation should also commence at the initial stage and accompany all the law drafting and adoption steps by mobilizing expertise and absorbing interest groups' views. The lobby groups in Albania are not legally institutionalized, but different groups of interests have been active in the legislation adoption process of the country through their representative organizations, including business associations, trade unions and NGOs. The contribution of the lobby groups in the law adoption process has increased in proportion with the quality of interests-group representation.

## The legislative framework of the PPD in Albania

### Monitoring

The monitoring framework of the PPD process in Albania also relies on some laws which are related directly or indirectly to this point. Law no. 119/2014 is related "On the right to information".

Monitoring is an effective instrument for the management of the public-private dialogue process and the demonstration of its purpose, performance and impact. Monitoring technique enables better overall planning, can cause potential advocacy, and provide both internal and external motivation to promote more effective implementation. The monitoring framework should provide to the private sector the possibility to monitor the internal processes, responsibility and transparency.

PPD should develop a basic evaluation to measure its effectiveness in order to enable the partnership to measure how well it is achieving its goals over time and giving its provided benefits. The responsibility for monitoring should be shared among all PPD stakeholders and a participatory approach should be used in its undertaking. Monitoring includes tracking the implementation status of approved reforms. A PPD can establish 'follow-up teams' or committees to track how well approved reforms are achieving their intended objectives.

### Advocacy

The improvement of the effectiveness of public-private dialogue and advocacy is one of the most effective ways of delivering a sustained improvement in the business environment. The public-private dialogue and advocacy capability includes:

- Supporting government to better consult and dialogue with the private sector
- Improving the organizational and advocacy effectiveness of business membership organizations
- Supporting the creation of effective and sustainable dialogue platforms
- Facilitating issue or sector-based dialogue

Based on the Article 11 of law no. 119/2014 “On the right to information” the information request shall be in writing with all the required points defined by law and delivered by hand, mail or email, with the correct identity of the applicant and his/her signature. In every case, the request is recorded in the Register of Requests and Responses and assigned a serial number.

## Participation

A consistent feature of competitiveness partnerships is the correlation between the progress achieved and the seniority of government figures involved. Private sector participants in PPD should ideally be widely respected, dynamic, open-minded, and unafraid to speak their minds. State-owned enterprises occupy a unique role in PPD as they have vested interests that do not always coincide with those of the private sector at large. Special consideration needs to be given to whether and how to involve state-owned enterprises in PPD. The Article 4 of the law no. 119/2014 “On the right to information” affirms that the public authority, within 6 months of this Law entering into force or its creation, shall implement an institutional transparency program, to determine the information categories to be made public without request and the disclosure method of this information. In preparing the draft transparency program, the public authority shall take into account the best interest of the public and in particular to ensure maximum access to public information; to make available without request as much information as possible, to reduce the need for individual requests for information; models approved for the public authority category by the Commissioner for the Freedom of Information and Personal Data Protection.

## Policy Formulation

PPD is an institutional arrangement that brings together a group of public and private sector actors. PPD discussion forums range from highly formal and structured to more informal and *ad hoc*, and initiatives may last from only a few hours or continue over several years (Bannock, 2005).

Objectives of PPD include building trust and bridging gaps to laying the foundation for a joint problem analysis and identification of policies and institutional reforms that contribute to a more conducive environment for private sector development.

Governments that engage in PPD are more likely to promote sensible, workable reforms, while enterprises participating in meaningful PPD processes are more likely to support these (Bannock, 2005; Herzberg and Wright, 2005). The policy process should not be limited to a small elite with privileged access to political and governance structures, but must build on structures and process that are deliberately set up to elicit citizen participation in policy formulation and implementation, and promote accountability of policy makers (Hertzberg and Wright, 2005).

According to the Article 10 of the law no. 119/2014 “On the right to information” in order to coordinate the work for guaranteeing the right to information, the public authority shall appoint one of the officials as the Right to Information Coordinator.

## Institutions of PPD in Albania

Institutions of the PPDs in Albania are of three types: PPD laded by Private Sector initiatives, by Governmental sector initiatives and by Donors initiative.

### Private sector PPD Initiatives

- Chamber of Commerce and Industry. Chamber of Commerce and Industry are created subject of the public law, law no. 9640 dated 09.11.2006 and law no. 9897 dated 10.04.2008 **For Chamber of Commerce and Industries. These are non for profit** institutions and the registration of business entities in the Chamber is voluntary. Registration fees and service fees are imposed by the Representative Assembly of the Chamber.
- Business Associations. Business associations – including chambers of commerce and trade associations – contribute to economic growth, development, peace, and prosperity. They play a key role in building inclusive entrepreneurship ecosystems and can bolster the ability of firms of all sizes to grow and create jobs. Through associations, the private sector can voice legitimate needs while engaging in a transparent policy reform process.

Voluntary, membership-based associations are microcosms of the democratic process, bringing entrepreneurs together to strengthen market economies. In order to be successful, they need strong internal governance, membership development, financial sustainability, and advocacy skills.

### Governmental PPD Initiatives

**National Economic Council.** The National Economic Council (NEC) is a process of consultation between the business community and the government. Article 3 of the Law no. 57/2014 affirms that the public consultation process in NEC is

based on the principle of publication by making available to the stakeholders the proposed documents by the government, the principle of consultation through exchanging opinions, recommendations with the businesses. The dialogue in NEC takes place through the exchange of thoughts, remarks, recommendations and proposals through the official internet website of this Council, periodic meetings of senior level representation and other meetings and forms of organization for the purpose of achieving the objectives. The National Economic Council (NEC) functions according to Law no. 57/2014 dated 17 July 2014, “On the establishment and operation of the National Economic Council”. As stated in the Article 7 of this law NEC organizes periodic meetings convening on a monthly basis in the premises of the Prime Minister’s Office of the Republic of Albania. The meetings are chaired by the Prime Minister who is the Chairman of NEC. The minister responsible for the economy is deputy chairman and carries out duties in accordance with this law and those delegated by the Chairman of the Council.

## Donors PPD Initiative

**Investment Council.** Investment Council (IC) is a platform set up by the Albanian authorities with support from the EBRD to intensify the dialogue between the government and the private sector, improve the business climate, and promote good governance and anticorruption values. The main objective of the IC is to facilitate the dialogue between representatives of the business community, international organizations, donors and the Government for the development of a favorable, non-discriminatory and transparent business and investment climate in Albania. IC has been established as an advisory body of the Government. The work of the Council is supported by a Secretariat, an independent body of professionals selected and contracted by the EBRD to directly engage with the business community. The initial funding for the Secretariat is provided by the Government of Italy. The mandate of the Investment Council (IC) is set out in the Decree of the Council of Ministers no. 294, dated 8 April 2015 (Decree), while detailed rules for its organization and functioning have been set up with the internal Regulation of IC No.1, approved unanimously and officially by IC members in the 1<sup>st</sup> Meeting held on 01.07.2015.

**Interagency Group for Coordination of Commercial Policy and Trade Facilitation.** Interagency group is an advisory and coordinating body chaired by the Minister of Economic Development, Tourism, Trade and Entrepreneurship, which aims at improving the process of trade policy and facilitation of international trade, through dialogue between representatives of government, the business community in Albania and other interested groups. Interagency Group for Coordination of Commercial Policy and Trade Facilitation is establishment with order no.80, dated 12.05.2016 by the Prime Minister Office, pursuant to paragraph 3 of Article 102 of the Constitution of the Republic of Albania and paragraph 1 of article 12 of Law no. 9000, dated 30.1.2003 “On the organization and functioning of the Council of Ministers. The main objective of the Interagency Group is to act as a forum for improving the process of trade policies and their enforcement, trade facilitation, and determining main directions of trade facilitation.

## PPD models of Analysis: Diamond and Evaluation Wheel Models

PPD diamond takes into account four key contextual factors, which are necessary to consider when assessing the potential for PPD in a given country:

1. The readiness and willingness of the public sector to engage and interact
2. The readiness and willingness of the private sector to engage and interact.
3. The presence of a potential champion who can facilitate the dialogue process, activate political will and reduce the trust gap between public and private sector stakeholders.
4. The availability of logistical, financing, and capacity building instruments which can help implement and monitor the dialogue process.

### The readiness and willingness of the private sector to engage and interact

The private sector needs to feel a basic sense of security, and have a stake in reform. Entrepreneurs who face threats to life or limb are unlikely to start voicing their business concerns, either because it is not a vital priority for them and their families, or because doing so could put them in great danger. However, if the security situation is stabilized, then they will have a greater interest in improving the conditions in which they do business. It needs to be somehow organized, with some entrepreneurs able to provide leadership. A country with no business advocates whatsoever will be hard to mobilize. But if the country is already hosting, even disparately, some entrepreneur networks, business associations, sector representatives, chambers of commerce, etc. then PPDs will be able to gather and redirect that existing energy. The presence of highly regarded entrepreneurs will also facilitate the process.

### The readiness and willingness of the government to engage and interact

Even if a dialogue process has been initiated by the entrepreneurs, it will collapse if there is no political will to engage in dialogue. Therefore a responsive government is key to the success or failure of PPD. Political will is likely to grow with time, as the benefits



of engaging in dialogue with constituencies becomes evident to local politicians. It will, however, need to be jump-started in some cases by the sponsor. Capacity is paramount, as lack of capacity can result in failure of understanding of parties involved, and lack of follow-up in reform or action implementation. In countries with low government capacity, PPDs are more difficult to sustain, even after a positive initial phase, since entrepreneurs are often quickly disappointed by the lack of administrative or legislative follow-up from their recommendations. Lastly, government leadership is essential. Strong leadership from a strategic visionary head of the executive will often make up for other shortcomings, such as low capacity or general lack of free thinking in the administration.

### **The championing of the dialogue process**

When the institutional framework is not sufficiently dialogue oriented to sustain regular and constructive dialogue between the public and the private sector, a champion is required to bridge the trust gap and bring the parties to the table. Even when dialogue processes are already established and working, a champion (whether an individual or an organization) is often necessary to sustain the energy and keep pushing for involvement of the parties over the long run. An important sponsor's criteria is strong credibility with both actors. Development Partners sometime play this role through their local presence. A mentor country can also be a PPD champion. The champion can also be a well-respected personality by both the private sector and the government, such as an academic or a public persona. An important condition that the champion needs to fill is to have the appropriate expertise. Indeed, multi-stakeholder policy and reform making need to be coordinated with framework efforts, and the champion needs to be able to mobilize the appropriate expertise and contacts to jump-start the process and keep brokering it.

### **The availability of logistical, financing, and capacity building instruments**

The champion needs to be able to be complemented by instruments provided either by the champion, the private sector, the government, development partners, or a combination of those. These instruments can be logistical facilities, seed funds for starting the initiative until further funding becomes available, budget allocation from agencies, programmatic financing, etc.. Each of the four dimensions is represented in the diagram. Champion, public sector, private sector, and the availability of instruments are evaluated from poor (0) to strong (5). Joining the four points together, a diamond is obtained, which illustrates the strengths and weaknesses of a specific context. This is called "PPD Diamond" (Herzberg, 2005). Also it was used an "Evaluation Wheel" to visually assess various aspects of the PPD. It treats the 6 aspects of the Charter of Good Practice of PPD, which are considered essential contributors to an effective PPD. For each of the 6 aspects, a score between 1 and 10 is derived from the indicators presented in the frame. Each of 6 aspects of the process is weighted based on the context of the PPD in Albania.

## **Analysis of the PPD Initiatives in Albania**

### **Methodology**

Our main research question is "How can the public-private dialogue in Albania develop in order to improve the business climate?" PPD is a new trend in the development world. Nowadays, it is being promoted as a potential effective 'medicine' to overcome business constraints and create economic growth at various levels. Though its establishment, particularly, in a setting like Albania it raises a number of challenges that may undermine the potential of this development strategy. Many western countries have adopted PPD strategies for service and public good delivery to increase efficiency and decrease government's burden. The main objectives of our study are:

1. to explore how far the development of PPDs are proceeded in Albania and
2. to conduct an in-deep investigation on how to improve the situation by uncovering and discussing the principal challenges.

Our study is based on collection of primary research data gained during 3 months of field research in Albania. When conducting field research the problem of personal opinions and subjectivity is often encountered. We attempted to increase the objectivity of our findings by a relatively high number of interviews (in total 14 from various sectors) as well as comparing the interview outcomes with secondary data. In this research, the qualitative methods used were mainly in semi structured depth interviews, conducted individually and within a basis of interaction between the researcher and the interviewee. Annex 1 provides a list of all the interviews conducted and the interview's questions. Particularly in regards to the interviews conducted, the interviewees were selected due to their relevance to the research topic and their relevant input to the PPD implementation in Albania. Thus we attempted to include high-ranking officials from the public and the private sector. Having such a broad approach should guarantee the inclusion of all aspects of the issue and avoid a biased opinion from one sector only. To evaluate the quality of the development of Public Private Dialogue in Albania have been conducted semi-structured interviews with the leading executives of the main institutions that are involved in this process. The objects of the interviews were institutions involved in public private dialogue with focus on promoting business and in improving the climate of doing business. By relevance these institutions are: five chambers of commerce, business associations and five PPD initiatives led by local or central government.

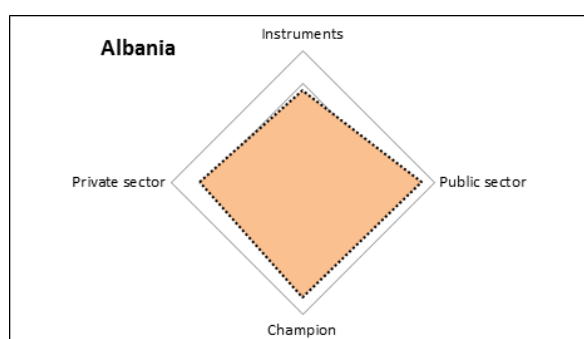
## Applications of PPD Models: Diamond Model and Evaluation Wheel Model on Albania

After this analysis it is built PPD diamond for Albania, which takes into account four key contextual factors, which are necessary to consider when assessing the potential for PPD in a given country:

5. The readiness and willingness of the public sector to engage and interact
6. The readiness and willingness of the private sector to engage and interact.
7. The presence of a potential champion who can facilitate the dialogue process, activate political will and reduce the trust gap between public and private sector stakeholders.
8. The availability of logistical, financing, and capacity building instruments which can help implement and monitor the dialogue process.

Each of the four dimensions is represented in the diagram. Champion, public sector, private sector, and the availability of instruments are evaluated from poor (0) to strong (5). Joining the four points together, a diamond is obtained, which illustrates the strengths and weaknesses of a specific context. This is called “PPD Diamond” (Herzberg, 2005).

### PPD Diamond for Albania

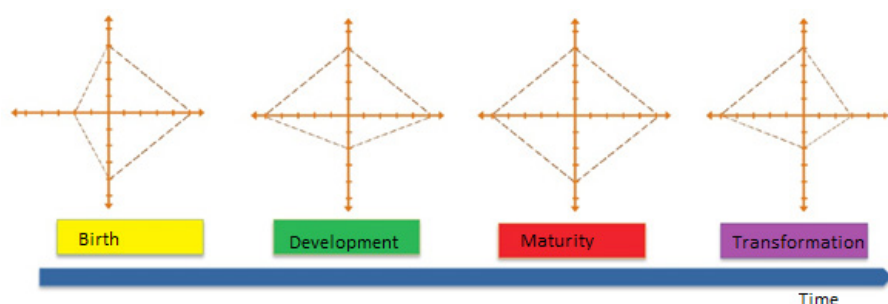


Values assigned (from PPD Diamond Detailed Scoring)	
Instruments	2.8
Public sector	3.6
Champion	3.5
Private sector	3.1
Average	3.3

Passing from the center under each axis is demonstrated the growing role of each dimension. If the private sector will be well-organized, businesses will have high motivation and a clear leadership and respect, they would be considered strong. Otherwise if the private sector consists of businesses that are not coordinated, then it makes it impossible the representation of interests to the government. Each dimension is rated to the scale from poor to strong (0 to 5). In our case the highest rating is positioned at the champion and the public sector, which in recent years has taken the role of leader.

Using diamond PPD is not just a mapping tool, but also a valuable tool that allows the potential for success of the PPD and identification of the weaknesses. In the case of Albania it should be worked to strengthen the private sector and the continuation of the strengthening of the public sector up to the maximum assessment.

### PPD Lifecycle and PPD Diamond

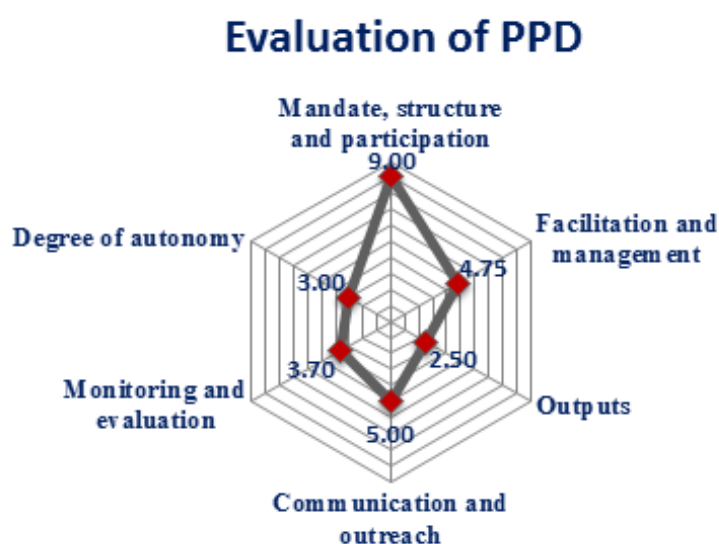


Based on the shape of the PPD Diamond and the PPD lifecycle (Hertzberg, 2005) it results that Albania is in the first stage of the life cycle.

### Evaluation Wheel Model for Albania

An “Evaluation wheel” is used to visualize assess various aspects of PPD. It treats 6 elements of the PPD Good Practice Charter, which are considered essential contributor to an effective PPD. For each of the 6 aspects, a score between 1 and 10 is derived from the indicators presented in the frame. Each of 6 aspects of the process is weighted based on the context of the DPP in Albania.

Figure: Evaluation Wheel



Summary table of Evaluation Wheel

Summary table	Evaluation points	weight
Mandate, structure and participation	9.00	1.0
Facilitation and management	4.75	1.0
Outputs	2.50	2.0
Communication and outreach	5.00	1.0
Monitoring and evaluation	3.70	1.0
Degree of autonomy	3.00	1.0
PPD SCORE	4.35	

Some aspects of the PPD have relatively high ratings, such as the Mandate, Structure and Participation, Communication and Management. Others are less developed. This will help stakeholders to focus and appreciate them more.

### Final Remarks

To assure the efficiency for the PPD in Albania it is very important to introduce a “vetting “ methodology of the quality of the Regulatory Reform. This methodological instrument is the Regulation Impact Assessment (RIA). RIA is an instrument permitting to assess and determine the consequences of the interest groups of the society from the introduction of a new law or regulation. It is clear that RIA is used whenever a new law adopted involves state intervention and is carried out before the draft law is written. It is not only an assessment of the proposed law or regulation.

RIA is applied any time if the non legislative measures are the best solutions to a particular social or economic problem. So RIA becomes an important factor in designing a good quality legislative system in order to provide valid arguments for supporting the planned regulations. In particular RIA might help the society to avoid non efficient laws and reduce the pressure of the bureaucracy to the businesses. Regulatory Impact Analysis (RIA) is becoming widely used as a method of improving the quality of regulatory environment not only in OECD countries, but in a number of other countries as well. It is a tool by which the policy makers can assess in advance the impact of the proposed laws in terms of the potential costs, benefits and risks.

Regulatory Impact Analysis (RIA) helps to:

- properly define the problems which would be overcome by adopting the regulation;
- perceive the effect of the proposed regulation;
- identify alternative options for achieving the desired aim;
- assess potential regulatory and deregulatory options;
- improve transparency through consultation and a debate of all interested parties;
- determine whether the benefits justify the costs;
- determine whether particular sectors are disproportionately affected;
- ensure that implementation issues are taken into consideration early in the process.

## RIA in Albania progress and challenges

The strategy for RIA (2010) as part of BERIS (Business Environment Reform and Institutional Strengthening financed by World Bank) was to assist the Government in: (i) facilitating business entry and operations in the formal economy; and (ii) strengthening the enterprise sector's capability to increase exports towards regional and EU markets.

One of the main targets of BERIS included as sub component of the projects was also **Improving quality of regulations affecting business entry and operations.**

The main impacts of the implemented RIA system include: (i) enhanced skills of government officials in drafting new laws and regulations; (ii) benefits to private entrepreneurs in terms of more appropriate laws; and (iii) greater public awareness of new and existing laws through the Electronic Business Legislation Registry.

In addition, the Government has successfully introduced some key principles relating to the quality of regulations through a process of regulatory reform. Of these the most important were introduction of the periodic public consultation, accountability of the state administration, consistency of new legislation, and transparency.

In this regard, the RIA has been a very useful tool that has helped Albania policy makers and officials to improve the understanding of economic and social impacts of regulation, assess trade-offs between alternative regulations, and identify the most suitable ones.

Despite the positive results achieved, the process of the full guideline of RIA implementation for the Albanian Government has been very challenging. Also experts from BERIS projects have found that Albania was not ready to adopt a comprehensive RIA system in accordance with a new law and with the establishment of new institutions.

However, particular segments of this analysis are carried out as an integral part of the explanatory statement accompanying the draft law. Regulatory Impact Analysis (RIA) even with some positive results has not been officially introduced into the Albanian legislative system.

In these conditions, it was concluded that it would be more effective to adopt RIA system divided into several stages until achieving the conditions for the completion of the system. This system was called RIA Light.

Even though all the technical aspects and the drafting of the decree on RIA Light were completed on time and without any major issue, the adoption of this legal piece was pending by the Decision of the Government until May 2011. The issue was related to the authority which would be responsible for RIA, METE (Ministry of Economy Trade and Energy or the Prime Minister office).

Finally is decided that the main Authority responsible for RIA Light is the actual MZHTTE, Ministry of Economy Trade and Entrepreneurship (former METE).

This change was not included in the project targets, but failure to adopt properly this crucial piece of legislation undermines the sustainability of the results.

## Recent development in Albania, efforts of Implementation of the RIA Light

The final Report on BERIS (April 2014) concluded that Albania was not ready for adoption of a real RIA system based on new Law and new Institutions. So it was proposed to the Albanian Government the adoption of a more simple method so called RIA Light which will be completed in some stages. The main stages in which the process will pass are:

**First:** The change of the rules of Prime Minister's Office, in order to present opportunities to develop RIA within the existing institutional and legal framework, and within the existing procedures in Albania (RIA Light).

**Second:** Evaluation of the new model of the explanatory report according to RIA model (within two years), in order to determine the mass of the system efficiency. Creation of the conditions for the implementation of a comprehensive system of RIA (preferably on a period 2-3 years). This is depending on the conclusions of the above assessment.

**Third:** Implementation of a real RIA system (best in a period 2-3 years). According to the Consultant of the company "Pohl Consulting & Associates" the full RIA system will require the approval of a special law for RIA and the creation of an independent central coordination office and RIA offices in all other Ministries.

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Charter of good practice in using Public-Private Dialogue for private sector development and inclusive growth, ( 2015 ) OECD

## Annexes

**The Chamber of Commerce registered in Albania is the followings:**

Union of Chambers of Commerce and Industry (UCCIAL)	Ines Muçostepa, Chairman	Rruga Dervish Hima, Rezidenca Ambasador 3, Kati 19, Ap.154 ,Tirana, Albania	04 22 47 105
			04 22 22 934
Union of Chambers of Commerce and Industry (UCCIAL)	Arben Shkodra, Deputy Chairman	Rruga Dervish Hima, Rezidenca Ambasador 3, Kati 19, Ap.154, Tirana, Albania	04 22 47 105
			04 22 22 934
DHTI Tirane	Nikolin Jaka, Chairman	Rruga e Kavajes, Nr.6. Tirane	45 800 932
DHTI Durres	Andrea Xhavara, Chairman	Lagja nr.11, Rruga "A.Goga" Ref: Pranë Rotondës Durrës, Kutia Postare nr.220	052 224440 052 222199
DHTI Shkodër	Anton Leka	Lagj.V. Shanto, Rr.Kinema Verore, 1, Shkodra	Tel/Fax: 022 24 36 56
American Chamber of Commerce	Marc C. Crawford	Deshmoret e 4 Shkurtit, Sky Tower kati 11/3, Ap. 3, Tirane	04 259779
Embassy of Greece, Office for Economic and Commercial Affairs		Rr. Qemal Stafa Nr. 31, Tirana	04 2262 618
Turkish-Albanian Chamber (ATTSO)		Rr. Ismail Qemali, Tiranë	04 2341 020
German Chamber of Commerce & Industry in Albania (DIHA)		Rruga Skenderbeg Pall. 4/7, Tirane	04 222 7146
Franco-Albanian Chamber of Industry (CCI France Albania)		Bul. « Deshmoret e Kombit », Twin Tower, Tower 1, kati 9, Tirana	Tel. + 355 4 4538103

**The Business Associations registered in Albania are the followings:**

Albanian Tourism Association (ATA)	Matilda Naço	Rr. Andon Zako Çajupi P.20/4, Kati i pare, Nr.4 Tirane	Rr. Komuna Parisit, P.1/3, Shk.1, Apt.5, Tirane
Business Albania	Luan Bregasi	Zyra Qendrore Rr. "Marko Boçari", pall.6, hyrja 1, kati 1, Tiranë	+355 4 22 26 280
Confederation "Konfindustria"	Gjergj Buxhuku	Qendra e Biznesit "Zayed Center", Kati III, Rruga Sulejman Delvina, Tirane	Tel: + 355 (4) 222 9486
Chamber of Facon Albania (CFA)	Gjergji Gjika	Rr: Ismail Qemali, Pallati 34/1, Ap.2/3, Tiranë	Rr. Sami Frashëri, Nr.15
Regional Business Development Agency	Ilir Rrembeci	Rr."Ismail Qemali", P.34/1, AP. 10, Tirane	2254603



Albanian Agribusiness Confederation	Agim Rrapaj, President Ymer Tola – Executive Director	Rr. Mine Peza, Pall. 87/3, Hyrja 1, Kati I, Tirane	04229 445
FIAA- Foreign Investors Association Albania	Marinela Jazoj- Executive Director	Rr. "Themistokli Gërmenji", Pall. Pegasos, Kati II, Ap. 9, Tiranë	269282 2225553
Association of Italian entrepreneurs (AIIOA)	Maurizio Zannier - President, Alda Bakiri	Pallati I Kultures, sheshi Skenderbej, Tirane	+355 4 2234243
Albanian Constructors Association	Artan Dulaku, Chairman, Maksim Muci, Executive Director	Blvd."Zhan D'Ark", Kulla II, Tirane	269957
Institute of Authorized Accountant Experts	Djana Ylli (Golemi)	Adresa: Rr.Elbasanit, Pall. Edil- AL-IT, P.O. Box 1437, Tirane	2346077
Albanian Centre for Competitiveness and International Trade (ACIT)		RR."Deshmoret e 4 Shkurtit", Sky Tower 71/2, Tirane	Tel : +355 2 4271486/7

### The interviewed institutions

AIDA
World Bank Tirane
Business Albania
Chamber of Albanian Fasons ( Garment Industry
Chamber of Commerce and Industry
Association of Italian entrepreneurs
International Chambers of Commerce
Economic Council, Tirana Municipality
Investment Council
Legal Office at the Prime Minister
MEZHETE
Albanian Banks Association
Business Women's Association
Union of Chambers of Commerce

# Renewable energy sources and the economic growth in Albania

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## Abstract

*Renewable Energy Sources are considered as a strategic factor, due to their weight to the green power production and also to the important role they play to the whole economic activity of a country. This explicit relationship between the power sector and the economy addresses some questions about the impact of the power sector transformation in the Albania's economy. These study has the purpose is to give a qualitative and empirical presentation of the renewable energy sources, through the exploration of the power sector development, the potential of the green energy production and the creation of the competitive advantage in Albania. Using the Porter Diamond analyses, we will define if the RES are a competitive advantage for the case of Albania, or not. The main purpose of this paper is to analyze the relationship between the Renewable Energy Source, the Foreign Direct Investments and the Economic Growth (using GDP as representative of the economic growth). The study covers a ten years period, 2003 – 2010. Related to the methodology used, the GDP is the independent variable, instead the RES and the FDI are the dependent variables. We based our study on Dalia M. Ibrahim (2015). Through the causality Granger test, we can detect the cause and effect relationship between variables. As shown from the results, there is a one direction cause relationship between FDI and the economic growth. The empirical findings show that the variables used in this study, are co-integrated and as result, they have a long term relationship between them.*

**Key Words:** Renewable Energy Sources, Economic Growth, Foreign Direct Investments, Granger Test.

## Introduction

The power plays a crucial role in economic, human and social dimension our lives. Those are essential elements to reach the sustainable development, especially in the developing countries. Accelerating the transition of renewable energies into a system based on renewable energies instead of traditional sources, is a unique possibility for increasing the economic growth, creation a new labour offer in the market, and, for sure, increasing the social welfare. The whole world is committed to exploit this possibility, even justified by the set up of the renewable energy targets in the 164 countries plan (NDC), which will foster the fulfillment of the Paris Pact for the Climate. Today's decisions for the investments regarding the power sector, will impact the economic growth and the development for the future years. At the same time, it will determine our capacity to the decarbonization of the power, as a core action element for climatic changing.

The transition from the traditional sources of power to the use of renewable energy resources will be a tool to reach this target, generating new development sources, the incomes increases, the creation of new labor places and the improvement and wellbeing of millions of people.

The power feeds the global economic activity. With the increase of population, the living standard have increased and the consumption, also. As a result, the total demand for power is expected to increase up to 21% till 2030 (IEA, 2015). The concerns related to climatic changes, are motivating the governments in the world to search new ways of power providing in order to minimize the gas emission and the other pollution effects. Today's decisions related to investments in the power

sector impact in costs and benefits for at least some decades. In this context, we can measure how the power sector affects the economic growth.

The power sector affects the revitalization and sustainability of the economy as a whole, for the creation of new labor places, to the natural sources and environment efficiency. Huge changes of this sector may strongly impact the entire economy, as shown in the case of Japan after the 2011's earthquake. Or, the recent price increases on oil. Providing ecologically trustable power with effective costs, secure and sustainable, plays a major role in the long-term renovation capacity of the economy.

The technological development of RE has increased in the last decades. The improvement of power generation, the reduction of unfavorable effects in the climatic changes, and the wider access are considered as motivation factors for this increase. The business climate for the RE is strengthening due to the socio-economic profitability that may offer; policy makers are interested to those possible opportunities of exploiting the RE aiming the economic growth and new labour places creation. Although, further analyses and empirical data are still necessary in this important topic.

## Research question

Ho: there do not exist an important positive relationship between the RE source and the economic growth;

In order to answer to this hypothesis, we will refer to the research question: Is there any positive and important relationship, short-term and long-term, between the source of renewable energy and the economic growth in Albania?

We will analyse the existing documents, the reports of institutions, organizations, international agencies and companies that operate in RE market, like IRENA, World Bank, MEI, Ministry of Environment, INSTAT, Eurostat, AIDA, AKBN, ERE, KESH, OSHEE. The statistical data related to the RE sources, to GDP and FDI, are analysed using the E-views program. Through the econometric tests, this study is going to give answer to the research questions. The principal purpose of this study is to analyse the relationship between the RE source, FD investments and the economic growth, during the period 2003-2014, which GDP is taken as independent variable, and the source of RE, the FD investments are taken as dependable variable. Further description of the methodology used, and also of econometrics tests, will be presented in the chapter of data analyses. The study will evaluate the impact of the RE sources and FDI in the economic growth.

Firstly, we will discuss on the stationarity of data used in the time series. In order to evaluate the stationarity, a core test is done through the standard Augmented Dickey-Fuller (ADF). This test is done to control the integration order of variables. To which of those variables, we have applied the unit roots test. After this test, we have proceeded with the generation of the econometric equation of our model and the impact of the variables to the dependent variable. This equation is presented, as follows:

$$GDP = \alpha + \beta_1(RES) + \beta_2(FDI) + \mu$$

Where: GDP – gross domestic product in (US\$)

RES – Renewable Energy Sources (1 000 tonnes of oil equivalent)

FDI – the foreign direct investments (BOP, current US\$)

The Granger Test will help us to evaluate the cause-effect relationship between variables. As results show, there is a casual one way relationship between FDI and the economic growth, and a casual dual way relationship between RES and the economic growth. To evaluate the long-term relationship, we have used the co-integration test of Johansen. After the analyses done for the model, we have observed the diagnostic results and we give our judgement if the model is compatible for making future assumptions.

## Theoretical Analyses

The national competitiveness is one of the principal interests a nation may have and also the main task of the government administrators. Based on two schools of thought, the economic one does not consider the term and the concept of Porter in the national competitiveness, and the other one the management school supports the competition idea, in the national level.

Based on Ketel study (2006), there is clearly expressed that Porter is mostly referring and using the description of different commercial theories in verbal terms, supporting the logical argument rather than the mathematical models in which the economic school of thought prevails.

Trying to explain the national "competitiveness", it means answering to the wrong question. All that we have to understand is the production indicators and their increasing scale. To find the answer we have to focus not only to the economy as a whole but also to the specific industries and further more to the specific segments of the industry. To understand, the practices "how" and "why" are created the commercial skills, the technologies, which could be completely understood only in a single industry's level. This is the result of thousands of battles for competitive priorities gain against the rivals in other single segments or industries, in which products and processes are created and structured to support the improvement of the national productivity process<sup>1</sup>.

<sup>1</sup> From Adam Smith to Michael Porter "Evolution of Competitiveness Theory", Dong Sung Cho dhe Hwy Chang Moon, 2013, Fq. 93.

During the period 1850 – 2005, the global power production and its consumption has increased by more than 50 times, from 2 billion ktoe to 11.4 billion ktoe (IEA, 2007). Most of the industrialized countries have supported power production. Based on the consumption per person, the population nowadays has increased the consumption with 100 times more than their forefathers did, compared to the period before the first source of energy production (UNDP, 2000). The experts think that in a long-term period, the climate change and other threats will bring the change of the gas and hydrogen, which means that we will be more dependent on the non-carbonic source of power and to the sustainable use of biomass (Ausubel, 1996)

Lots of countries already have passed the transition phase, replacing the phase of businesses activities oriented to import and export to the phase of orientation to the competition based on their new competences and innovative choices. (Staber, 2001). Monique Hoogwijk and Wina Graus (2008) highlight that the focus on the availability of the RE sources is very important because of it determines the national potential. There is not a single definition of different potentials types, but we can classify them in 5 categories: the theoretical potential – takes into account the limitations related to the natural and climatic parameters; the geographical potential – most of the RE sources have geographical limitations; the technical potential – it is further reduced due to the technical limitations, like the conversion efficiency; the economic potential – technically the comparison is in the costs level, the traditional sources of power are considered more competitive; the market potential – it is the general amount of renewable energy that could be inserted in the market, in accordance with the market demand for energy. Countries and businesses should work hard in order to reach the competitiveness advantage in

During the last decade, several efforts have been done in order to identify which factors are relevant for the innovation and how those factors could help to its successful expansion. Those efforts are always augmenting, in the comparative abilities of the strong and weak points, and also, in the concentration of different systems into the technologies (Fagerberg, 2003; Changchen, 2003; Edquist, 2005)

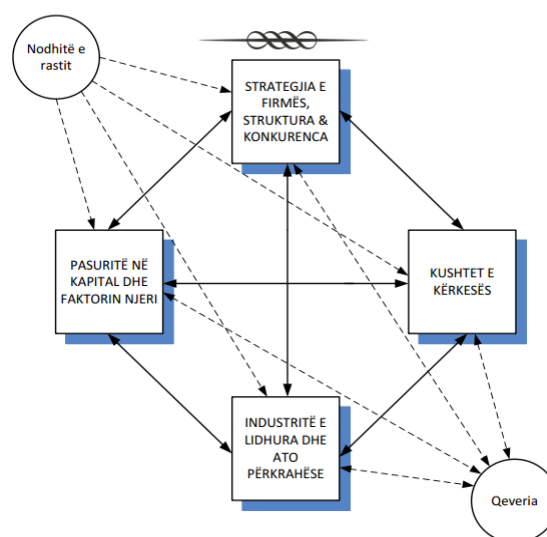
Governments should be committed and exploit the alternative sources of energy in order to reach a sustainable development and to further diversify their economy. All are conscious that the power is essential to support the development of a nation in three different dimensions: economic development, ecological and social one. The core objective of the sustainable power is its system, which should provide continuous electricity supply with affordable prices and ecologically clean, with the purpose of the improvement and the efficient use of it. (UNEP, A/42/427)

## Factors that represent the Competitive Advantage

A valuable theoretical contribution in this topic is the “Diamond Theory” of Porter (1990), which is based on four factors that represent the indicators of this advantage.

1. The demand conditions. The production factors include the natural resources and those created by the humans, such as the working qualified power and/or infrastructure.
2. The supply conditions. The nature of the national supply, the focus on goods and services and also the buying power.
3. Related and supported industries. The presence of other suppliers in the market, or other industries similar to the investments one.
4. Strategy, structure and the organizational rivalry. The national companies competition and the conditions where the industry is created, organized and managed.

**FIGURE NR.1: The Porter's Diamond**



Source: International Business (I.Kristo ,2013)

Those four “diamond” factors, in addition to the government role in the economy, and the casual events role, foster or slow down the creation of the advantage conditions for the businesses. Generally, the determinat factors that have influence in the desicion where companies decide to invest, can be classified in two cathegories: the first linked to the origine country and the second to the receiver country. The variables related to the origine country are the factors that make the investment more attractive abroad compared to the investment in the country. The factors related to the receiver country make the investment in the country more attractive than the investment abroad. In the litterature, the factors related to the receiver country are those factors that have attract the attention, especially the natural ressources of our country during the dwo last decades.

Dunning (1993), argues that the motives and determinat factors for investments have change during the time. The investments in the development countries have been moved, due to the market demands, to the profitability ressources demand or to the vertical integration.

Developing countries, like Albania, should attract the foreign companies through:

- Better conditions of labour market, which do not include only low cost working force, but also productivity, flexibility and adaptability of the working force with the receiver country. As result, the country should offer a working force relatively capable and well-educated. Those requirements are the main reason that explain the increase of the students that aim to be granduate at least for bachelor level.
- The institutional structure: except favorable rate of taxes, the public administration should be flexible as much as needed, to insentivize all the interested to invest in our conutry. The institutions should be elastic, with less complicated neccessary documents and procedures for the foreign investors.
- Market measure: the measure of national market could not be measured only based on its population. Other factors could be significant too: the buying powetr of the total population, the access and connections to other countries, and the national competition.

### The competition advantage “The Ricardian Model”

(S.Suranovic:2007) was the first who has officially presented the principle of the competitive advantage according to which countries differe from each others based on their production capacity:

a) The productivity: in the the discussion of productivity, the competitive advantage it is confused with the concept of absolut advantage, or with absolute priority. If the grain productivity of USA is higher than the grain productivity of Zwitzerland, but Zwitzerland has higher productivity of watches, than the economists sa that USA has priority of grain production, and Zwitzerland has the priority of Watches production. In this context, is is intuitive that Zwitzerland will be focused in watches and USA in grain production. As result, the ressources could be transfered from one industry with lower productivity to another with higher one. at the end, this combination of focuses with bring both watches and grain in the global market.

Ricardo has show that *“the comparative advantage is present for those products that the country may produce better, compared to other countries and also if the best product is procuced with lower costs compared to the others”*

Lower average wage: the productivity is not the the only advantage that prioritize the industry. Even the combination of productivity with low average wages could be an advantage. Anyhow, we can say that not always the low wages give the advantage to all industries. Refering to the uppermentioned example, it will be profitable for USA to produce grain and to sell it to Zwitzerland.

The most important conclusion from the Ricardian Model is that the advantages from the trade exchange will be dissappeared only due to the existance of another country with lower wages, or another country with higher productivity in all industries. Ricardo has shown that the national specialization in the production of those goods that give comparative advantage (which could not be the absolute advantage), the world may increase the productivity at the same level as the ressources. the extention of the productivity leads to the increase of economic efficiency. As result, with the same ressources, the global economy will be produce more, and to generate higher living standard for all population. The economic efficiency will be higher in national and also international level, and all countries may benefit from the free trade. Regarding to the relationship of the RE sources with the economic growth, generally speaking there is a positive relation between economic growth, the increase of GDP per capita, and the increase of the electricity consumption. This trend is more visible in the developing countries than in the developed ones, due to the lower energy efficiency level, the faster increase of the electric appliances usage and the increase of the approach toward the electricity usage (C.Flavin, M.Gonzalez, A.M.Majano, A.Ochs, M.G.Rocha Oliveira, P.Tag erker, 2014).

The model proposed from the Nicholas Apergis and Constantin Danuletiu: as per the reseach realised from N.Apergis and C.Danuletiu (2013), “Renewable Energy and Economic Growth, Evidence from the Sign of Panel Long-Run Causality”, has served as a referential model, related to the evidence and the of empirical relationship that we aim to prove through our study. They both are the first researchers that have study the relationship between the renewable energy and the economic growth in 80 countries (Canning and Pedroni, 2008) taking into consideration the positive cause-effect, the direction to the renewable energy of the real GDP of the total moster, regionally taken. Their empirical findings are strong results which prouve the correlation between the renewable energy consumption and the economic growth is important and that the renewable energy has impact in the economic growth. Also, the economic growth fosters much more the usige ratio of the renewable energies. This relation helps and offers the way to follow the public policies usage which will further develop the sector of the renewable energies.



### 3. Analyses, the data interpretation

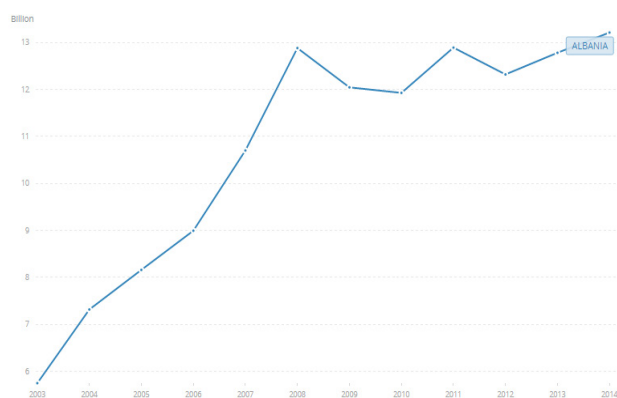
#### 3.1 Data used

The purpose of this research is to analyze the casual relationship between the renewable energy and the economic growth in Albania, using data representing the period from 2003 to 2014, time series data. Data about the GDP of Albania are extracted from the World Bank Group. There is tested the relation between the GDP and Primary Production of Renewable Energy. The historical data related to the variable “Primary Production of the Renewable Energy” are generated from Eurostat.

##### *Description of the variable (a) GDP*

The Gross Domestic Product, GDP, it is an economic indicator that represent the value of the market prices of all products and services produced inside the country during a specified period (generally taken 1 year). The GDP is the one of the most important macroeconomic indicators used to measure the economic growth. The measuring unit: US \$. The periodicity: each year. Graphic nr. 6 shows the GDP curve from 2003-2014.

**GRAPHIC NR.6:** GDP on market prices (measured in US \$)



Source: World Bank Group, 2015

##### *Description of variable (b) Primary production of the Renewable Energy*

Measuring unit: 1 000 tonnes of oil equivalent. Energy sources like the primary production of biomass, the hydro-energy, the geothermic energy, the wind energy, and the solar energy are all part of the renewable energy resources.

geo	time	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Switzerland													
Montenegro		0.0	0.0	364.7	358.6	326.4	345.8	403.6	465.0	291.6	315.5	389.1	328.7
Former Yugoslav Republic of Mac		313.1	304.3	289.5	321.6	249.6	246.5	313.8	421.7	325.7	279.2	306.9	277.6
Albania		620.0	704.3	694.3	699.3	461.0	548.0	663.8	862.4	575.0	624.6	811.8	620.6
Serbia		1,749.9	1,859.1	1,937.4	1,845.7	1,767.3	1,635.3	1,957.8	2,064.2	1,811.0	1,861.0	2,004.5	2,068.4
Turkey		10,020.8	10,782.9	10,130.6	10,359.1	9,603.9	9,311.9	9,916.1	11,627.0	11,222.4	12,100.0	13,717.8	12,010.2
Bosnia and Herzegovina		569.5	696.2	697.5	685.1	525.2	599.3	716.9	870.2	557.0	542.0	801.5	2,277.7
Kosovo (under United Nations Se		171.0	176.3	176.2	175.3	174.7	237.9	244.2	248.9	249.8	253.0	260.8	262.6
Moldova		111.5	111.5	102.9	110.7	102.0	110.7	111.9	206.0	245.2	253.7	295.4	302.7
Ukraine		1,058.6	1,275.0	1,327.9	1,932.1	2,364.9	2,705.3	2,654.6	2,801.3	2,715.3	2,693.2	3,491.0	3,263.0

#### 3.2. Data Analyses

##### *The stationarity*

The concept of the “stationarity” is linked to the stochastic processes characteristics. The time series data are stationary if the average, the variance and the auto-covariance are independent from the factor time. From the other hand, the nonstationarity in a time series is when are not present the constant average, the constant variance, or both of them. In this case, it is impossible to use the method of OLS, to evaluate the longterm linear relationships between variables. If we follow this way, this will bring us to a regression analysis, F-statistic type “spurious”, where the R-squared is approached to the unity F-statistic and to appear important and valuable. For this reason, we are obliged to jump to the conclusion that exists a relation between those two series which are not linked and not stationary. This type of issue related to the unit root, could be resolved with the primary differentiator of data. Typically the unit roots test, to define the stationary level, is Augmented Dickey-Fuller (ADF).

### The unit root test

We have to test the presence of the unit roots in time series of our data. The Augmented Dickey-Fuller (ADF) is the first and one of the most simplest test of the unit roots. The starting point of the stationarity test is the autoregressive model of the first range, AR (1) and the DF test, could be determined in three different forms of the AR (1) model, are follow explained:

$$Y_t \text{ is a casual variable : } Y_t = \delta Y_{t-1} + \mu_t \quad (5)$$

$$Y_t \text{ is a casual variable with meaning: } Y_t = \beta_1 + \delta Y_{t-1} + \mu_t \quad (6)$$

$$Y_t \text{ is a casual variable with meaning and trend: } Y_t = \beta_1 + \beta_2 t + \delta Y_{t-1} + \mu_t \quad (7)$$

where  $t$  is the time or the trend changeable and the  $\mu_t$  is the error term. Lets take into account the equation (5), a casual autoregressive model. A good approach for the unit roots test is to decrease from both part of equation (5) the  $Y_{t-1}$  and to define  $\Phi = \delta - 1$ .

By decreasing  $Y_{t-1}$  from both parts of equation (4), the result will be:

$$Y_t - Y_{t-1} = \delta Y_{t-1} - Y_{t-1} + \mu_t \quad (8)$$

$$\Delta Y_t = (\delta - 1) Y_{t-1} + \mu_t$$

$$\Delta Y_t = \Phi Y_{t-1} + \mu_t \quad (9)$$

Where  $\Phi = (\delta - 1)$ ,  $\Delta$  is the first differential operator and  $\mu_t \sim IN [0, \sigma^2]$

The idea of the unit roots test Dickey-Fuller (DF) for the stationarity is the regression  $\Delta Y_t$  in the remained period of the value  $Y_t$  and to define if the evaluated  $\Phi$  is statistically equal to zero or not.

After this, the null hypothesis  $H_0: \Phi = 0$  against the alternative hypothesis  $H_a: \Phi < 0$  will be tested.

If  $\Phi = 0$  or  $(\delta = 1)$ , the null hypothesis will be accepted, so, the nonstationary process is present. Where this happens, we have the issues of the unit roots. From the other hand, if  $\Phi < 0$  or  $(\delta < 1)$ , then the serie  $Y_t$  is stationary.

The decision to reject or not the zero hypothesis is based in the critical value of  $\tau$  statistic (tau) Dickey-Fuller (DF), and the testing procedure for unit roots, as follow described:

We determine the zero and the alternative hypothesis:

$$H_0: \Phi = 0$$

$$H_a: \Phi < 0$$

We calculate the statistic value using:

$$F = \frac{\Phi}{SE(\Phi)}, \quad \text{where } SE(\Phi) \text{ is the standard error of } \Phi.$$

We compare the statistic value calculated in the equation with the critical value from the Dickey-Fuller table, in order to decide if we will accept or reject the zero hypothesis.

For the calculation of the critical values of  $\tau$  (tau), Dickey-Fuller suppose that errors terms of  $(\mu_t)$ , are not correlated (Enders, 1996). But, the error term in the Dickey-Fuller test, has autocorrelation, and which should be eliminated in order to have a valuable result. Except this, the critical values of  $\tau$  (tau) do not follow a normal distribution and generally the critical value is bigger compared to t-distribution case.

As a result, those critical values usage could lead to the over-refusal of the zero hypothesis, where actually this hypothesis is true. For this reason, Dickey and Fuller have developed a test known as Augmented Dickey-Fuller (ADF) to solve this issue. In ADF test, the GLV of the dependant variable, is added to regression equation up to the correction of the autocorrelation issue. The regression equation is presented, as follow:

$$\Delta Y_t = \Phi Y_{t-1} + \beta \sum_{i=1}^p \Delta Y_{t-i} + \mu_t \quad (10)$$

Considering that a casual process could have meaning, or no meaning, or could have both deterministic and stochastic trend, we should include a common point  $\beta_1$  and a trend in the time  $t$  for this model.

$$\Delta Y_t = \beta_1 + \beta_2 t + \Phi Y_{t-1} + \beta \sum_{i=1}^p \Delta Y_{t-i} + \mu_t \quad (11)$$

where  $\beta_2$  is the coefficient in a time serie with trend;  $\Phi$  is the coefficient of  $Y_{t-1}$ ;  $p$  is the the order of autoregressive proces,  $\Delta Y_t = Y_t - Y_{t-1}$ ;  $Y_{t-1}$  are the remained values of the first-order autoregressive process of  $Y_t$ ;  $\Delta Y_{t-i}$  are the changes in the remained values; and  $\mu_t$  is the error term. The interest paramether in the ADF model is  $\Phi$  and both zero and alternative hypothesis will be tested as follow:

$$H_0: \Phi = 0$$

$$H_a: \Phi < 0$$

The procedure of ADF test for unit roots is milar to the staristical test of hypothesis and they could be tested in three possible different models, as described in the equations (5), (6) and (7). But, critical values of the tau test used to accept the hypothesis  $\Phi = 0$ , are different for each of three specifications. For this reason, due to the upper mentionned advantages of DF test, the researchers have used the ADF for the stationary testing.

### The cointegration analysis

The cointegration is the statistical property that shown the presence of the longterm equilibre correlation in a time series variables. It represents the capacity of two or more variables, to have the same trend during the time period, and except thier personal tendencies they cannot be largery separate from each other, because the correlation between them is presented. The cointegration test, understands the test for such existence, a longterm correlation between the economic variables. This test could be done through the Engle-Granger test, the Johansen's test, and the Autoregressive Distributed Lag cointegration method (ARDL), etc.

Johansen (1998) proposed a new approach to study the longterm correlation between the non-stationary variables. To analyse the correlation between GDP and RES, it is used the Vector Autoregression (VAR) and the models Vector Error Corretion (VEC). The reasoning for this methodologies is as: fist of all, this allows possibilities for both variables, GDP and RES to be edogenous, us suggested even from the edogenous growth models. Secondly, the models VAR and VEC are useful to forecast the correlated variables systems in time series and useful to the causal test.

The causal Granger test are executed to verify if remained values of the endogenous change have or not the power to impact and forecast the other variables in the system. If the GDP and RES are cointegrated, it is suitable to use the VEC model in order to analyse the dynamic correlation between the GDP and RES. VEC has the cointegration relation in the model; and this limit the lorgterm behaviour of the endogenous variables which converges in the cointegration relation, allowing the shortterm dynamic regulation. Based on Engle and Granger (1987) the equilibre relations evidenced with VAR, can simply have causal behaviour, or just a reduced relations between variables with similar trendsd. To test the cointegration, we use the standard Johansen test (1991). If the cointegration is detected from tests, then, the VEC usage is suitable to verify the casual correlation between GDP and RES.

**TABLE 1:** Augmented Dicky-Fuller for GDP variable

Null Hypothesis: GDP has a unit root				
Exogenous: Constant				
Lag Length: 1 (Automatic based on SIC, MAXLAG=4)				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-3.480539	0.0136
Test critical values:	1% level		-3.731521	
	5% level		-3.124686	
	10% level		-2.354184	
*MacKinnon (1996) one-sided p-values.				

Source: Calculations from the Author, 2017

**Table 2:** Augmented Dicky-Fuller RES variable

Null Hypothesis: BRE has a unit root				
Exogenous: Constant				
Lag Length: 1 (Automatic based on SIC MAXLAG=4)				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-3.636537	0.0234
Test critical values:	1% level		-3.508546	
	5% level		-3.120666	
	10% level		-2.350443	
*MacKinnon (1996) one-sided p-values.				

Source: Calculated of the author, 2017

**TABLE 3:** Augmented Dicky-Fuller for FDI variable

Null Hypothesis: FDI has a unit root				
Exogenous: constant				
Lag Length: 1 (Automatic based on SIC, MAXLAG=4)				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-0.457268	0.7620
Test critical values:	1% level		-3.820450	
	5% level		-3.055485	
	10% level		-2.663457	
*MacKinnon (1996) one-sided p-values.				

Source: Calculations of the Author, 2017

From the results of ADF test, we can see that the unit roots are present, and this means that the regression results have no meaning, and, aiming to have stationary time series, we will execute another test of Augmented Dickey - Fuller Unit Root by differentiating the first order from the variables with the purpose to have regression with meaning. ADF test after the first differentiation.

**TABLE 4 :** Augmented Dicky-Fuller for GDP variable

Null Hypothesis: GDP				
Exogenous: Constant				
Lag Length: 0 (Automatic based on SIC, MAXLAG=4)				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-5.970364	0.0000
Test critical values:	1% level		-2.682557	
	5% level		-1.850173	
	10% level		-1.507551	
*MacKinnon (1996) one-sided p-values.				

Source: Calculation of the Author, 2017

**TABLE 5:** Augmented Dicky-Fuller for RES variable

Null Hypothesis: RES				
Exogenous: Constant				
Lag Length: 0 (Automatic based on SIC MAXLAG=4)				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-4.053231	0.0000
Test critical values:	1% level		-2.678445	
	5% level		-1.970688	
	10% level		-1.605414	
*MacKinnon (1996) one-sided p-values.				

Source: Calculation of the Author, 2017

**TABLE 6:** Augmented Dicky-Fuller for IHD variable

Null Hypothesis: FDI				
Exogenous: constant				
Lag Length: 0(Automatic based on SIC, MAXLAG=4)				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-3.221256	0.0001
Test critical values:	1% level		-2.782353	

	5% level		-1.850584	
	10% level		-1.373358	
*MacKinnon (1996) one-sided p-values.				

Source: Calculation of the Author, 2017

From the Augmented Dickey-Fuller, we can see that all variables are stationary in 5% level. So, there is no need to further differentiation to reach the stationarity. After the test of Unit Roots, we proceed with the econometric equation generation of this model and the impact of the independent variables in the dependent variable.

$$GDP^* = \alpha + \beta_1(BRE) + \beta_2(IHD) + \mu$$

**TABLE 7:** The results of the regression equation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-17.82107	6.448197	-2.763728	0.0133
BRE	0.436308	0.186536	2.339000	0.0217
IHD	0.360776	3.859623	3.007485	0.0068
R-squared	0.873050	Mean dependent var		5.871930
Adjusted R-squared	0.781045	S.D. dependent var		0.214337
S.E. of regression	0.029501	Akaike info criterion		-4.071286
Sum squared resid	0.014796	Schwarz criterion		-3.921926
Log likelihood	43.71286	Hannan-Quinn criter.		-4.042130
F-statistic	492.9603	Durbin-Watson stat		0.756393
Prob(F-statistic)	0.000000			

Source: Calculation of the Author, 2017

F-statistic, which is the measure of the common importance for the explaining variables, it is found statistically important up to the level of 5%, based on the corresponding probability 0.000000. The model exists in general, so there is the generality of the model. Also, the results are showing that the coefficient of FDI, RES, and the constant are statistically important. The coefficient of the RES is statistically important in the level of 5%, as shown from the probability value 0.0217 and this understands a direct correlation. The coefficient of the FDI is statistically important and this is shown from the probability value 0.0068, with 5% importance level. *Adjusted R<sup>2</sup>* 0.7810 (78.1%) shows that 78.1% of the total change of the GDP can be expressed through the regression equation. In a short-term period exists the correlation of the RES and the economic growth in Albania. But, is the same correlation even in a long-term period? To prove the long-term relationship, we will use the Johansen cointegration test, which is showing the existence of a long-term equilibrium correlation between RES and the economic growth in Albania.

**TABLE 8:** Johansen Cointegration Test

Sample (adjusted): 2003 2014				
Included observations: 12 after adjustments				
Trend assumption: Linear deterministic trend				
Series: GDP BRE FDI				
Lags interval (in first differences): 1 to 1				
Unrestricted Cointegration Rank Test (Trace)				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.682109	33.65816	28.88767	0.0005
At most 1	0.735221	14.80710	15.49471	0.0743
At most 2	0.255100	0.253561	3.741466	0.5139
Trace test indicates 1 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				



Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.794959	26.74142	20.23462	0.0032
At most 1	0.377368	14.55358	14.26460	0.0450
At most 2	0.156000	0.254520	3.841466	0.6139
Max-eigenvalue test indicates 2 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				

Based on the test results, we jump to the conclusion that there exists a cointegration relation between variables and we can see that the trace statistic value 33,658 is higher than the critical value at 5% (28,887). Also, we can observe that the max weight statistic value 26,741 which is higher than the critical value at 5% (20.234). The test of the cointegration is showing that there is a cointegration equation, and this confirms the long-term relation. The cointegration test shows a cointegration equation at 5% level, and this confirms the long-term relation of the GDP, RES and FDI in Albania. To our null hypothesis and to our research question we reach to give the answer that the RES and the economic growth in Albania have an important statistically correlation. And also, we have the conclusion that RES have impact in the economic growth.

### Granger Causality Test

Null-hypothesis F-statistic Prob.

Y does not Granger Cause FDI	2.56499	0.1209
FDI does not Granger Cause Y	3.96845	0.0566
Y does not Granger Cause BRE	3.28691	0.0806
BRE does not Granger Cause Y	4.95557	0.0342

Through the Casualty Granger Test we can detect the relations cause-effect between variables. The uppermentioned results are showing that the casual relation is going from the renewable energy source to the economic growth with a credibility interval of 95% and from the economic growth to the RES with a credibility interval 90%. So, there is a bidirectional causality between economic growth and the renewable energy sources. There is an uni-directional causality between FDI and GDP in the direction from the FDI with an credibility interval of 90%.

## Conclusions

This study represents the theoretical and empirical point of view related to the Renewable Energy Sources in Albania. Pushing to skip to the renewable energy source system, it is a unique possibility to fulfill the climate purposes and to incentivize the economic growth, the creation of new labour possibilities, and as a result, even the general living conditions. The supply of the primary energy in Albania is dominated from the energy sector development, in order to create a supportive and secure situation of the production, development and the management of the energy resources in Albania. The RES development is important, because it helps the country to fulfill at least two of the strategic targets: the certainty of the energy supply and the sustainability. The main objective of this study was analysis of the RES impact in the economic growth. To determine the impact of the RES in the economic growth in Albania, this study is based on the multiple regression analysis, and also on the usage of the cointegration method. Main finding of this study, based on our model, is that there exists a positive relation between the RES and the economic growth in long-term period. The RES have positive impact in the economic growth in a direct or indirect way. We recommend aiming the macroeconomic and political stability in the country, the foster and the improvement of fiscal policies, with the purpose to improve the investment climate in Albania. The development of the innovation with advanced computing technologies. The exploitation of the geographic position, which is strategic and important in the region, will bring to a new symbiosis of collaboration with neighbor countries. The FDI have impact in the economic growth and further to the renewable energy sources. All these arguments are feeding the conclusion that greater efforts should be done in this field and the government should work on the insertion of new mechanism and new partnerships between the public sector and the private one, aiming to improve the local conditions in Albania. The presence of the labour force with bachelor degree and the development of the financial system are both important conditions, and their absence is a reason for limitation of the Foreign Direct Investment expansion.

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# The evolution of the construction sector and its impact on economy. Case study: Tirana

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## Abstract

*Albania until 26 years ago was known as a country with an isolated society, a country that has experienced many changes in a short time. The town was very small compared to modern standards. She noticed what is the transition from a solid economy in a market-based economy. Noted the transition from a rigid economy to a market-based economy. Especially in recent years in the region recorded a big building boom, mainly the city of Tirana. Buildings represent a very high percentage around 15.20% of total buildings throughout Albania. In three decades before 1990, they built subway annually on average 165 new buildings. The construction sector currently occupies about 4.28% of the market economy of the city. He counts 1,143 construction firms in the country. Tirana were built about 115,000 flats and apartments, where 54% of them were built before the 90s and 46% after 90 years. The literature shows that the performance of the manufacturing sector is closely linked to the performance of the GDP. In periods of economic boom, the development of the construction sector increased demand stimulated by public and private. Public spending in the construction sector are higher in these periods, relying on additional sources of funding (Grebler and Burns, 1982). Role of GDP in the construction sector is estimated to be higher in underdeveloped countries, while the level of development increases, the role of GDP could be lower and in some cases even negative (Crosthwaite, 2000). Construction is a major industry in the world, with substantial weight in GDP of countries. The aim of this study purpose is to verify if the economic sector has an impact on economic growth and invert.*

**Keywords:** construction boom, economic boom, housing, crisis, industry,

## Introduction

After the 90s, Albania has proven an economic growth of up to 7.5 percent in 2008 (World Bank). In the years following the global financial crisis, economic growth declined, but since 2014 the economy has resumed growth. Construction is an important industry around the world, with an inherent weight in the GDP of the countries.

The importance of this sector is not simply related to the size and weight of the economy, but also its role in generating economic growth. The construction typology consists of 20 types of housing, as follows:

*Type of construction: statistical data distinguish these categories:*

- Separate houses, single-walled houses; houses in the range or with concrete slabs and palaces;
- Construction period: buildings are classified in six construction periods - before 1960; 1961-1980; 1981-1990; 1991-2000; And 2001-2011;
- Construction size: there are data only for the number of dwellings in one building: one-storey building; Two flats; Three to four flats; Or five or more flats; and
- Number of floors: the apartments are classified with one floor; two floors; Three to five storeys and six or more floors.

Albanian experts have defined 24 types of buildings (Simaku, Thimjo and Plaku 2014). According to the census of the year 2011, the total number of residential buildings in Albania was 598,267 for a population of 2,821,977 people (53.5 percent of the population lived in urban areas and 46.5 percent in rural areas) (INSTAT 2011, INSTAT 2013, INSTAT 2014). The total number of dwellings was 1,012,062, out of which 722,262 were private homes. According to the same data, only 709,865 of the dwellings were inhabited. Special homes built between 1991 and 2000 (type D1) represent the largest group with 108,752 buildings. The apartments of the years 1961-1980 and 1981-1990 are the other important group in terms of housing.

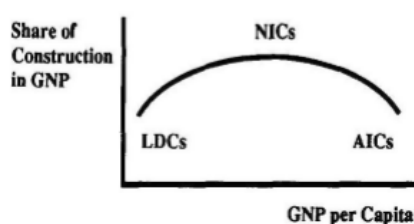
## Review of literature

Turin (1978), using time series analysis, examining the construction site in the world economy, dynamic relationships with other major development indicators, the major technological problems faced by industry in developing countries, and finally a broad range of policy issues. Turin's work is based on his personal building experience in developing countries and the results of research conducted by members of the University of London's Economics Research (Beru) Unit. The Turin Show was made up of 87 seats and lay in 1960-78. His findings on the relationship between the construction sector and economic growth.

Bon (1992) discussed the changing role of the construction sector at various stages of economic development. He studied construction activity since World War II in Finland, Ireland, Italy, Japan, the UK, and the United States.

The basic data analysis of it involves a 50-year period and seems to put special emphasis on Europe. He argued that construction follows the waist-shaped pattern of development or an inverted relationship in the form of an U.

This assumption is based on the observation that the overall construction part (GNP) first increases and then falls to the level of economic development. The inverted relationship in the form of a U is related to less population growth, less migration, and the assumption that more physical capital is already in place at the later stages of economic development. It is worth mentioning that the production data used by Bon exclude housing, as well as repairs and maintenance (R & M).



Bon curve ( Source: Bon 1992).

Authors who have studied to see the construction sector as affecting the economy are:

Jackman (2010), Myers (2008), Hillebrandt (2000), Tan (2002), Bon (1992), Wells (1986) dhe Turin (1978) all emphasize the importance of building the role of the economy. Most governments believe that the construction sector plays a powerful role in economic growth, besides producing structures that increase productivity and quality of our lives. Policy makers assume that the construction sector is a driver for economic growth.

*The main research question is:*

1. Does the construction sector influence the growth of gross domestic product? - Has there been an evolution of the type of housing over the years in Albania? - What are the factors influencing the expansion of housing and their change?

## The methodology

Primary and secondary data were used to study the construction sector, economy, and factors affecting them. Data collected during 2005-2015; This is because, before this period, our country has undergone very fluctuating and rapid changes. The nature of the work is investigative and analytical. Secondary data on construction and GDP production are provided by INSTAT and the World Bank. Data collected from annual production reports illustrate real and nominal figures. These data contribute both to the theoretical basis and to the practice of the study. Descriptive and regression analysis are the main components of the analysis of the results of this study, hypothesis testing, and the drawing of final conclusions. Statistical time series analyze construction output and the GDP share of Albania's GDP where they are undertaken to create trends and to get a dynamic link between the construction sector and economic growth.

*So the research question is:*

Does the construction sector influence the growth of gross domestic product?

*Hypothesis:*

The elevated hypothesis (H0) by this analysis: is that the construction sector leads to the growth of Gross Domestic Product and reciprocally.

Alternative Hypothesis H1: is that the construction sector does not contribute to the growth of Gross Domestic Product.

*The study aims at:*

- To make a theoretical presentation of evolution in the construction sector. Mostly during the years 1995-2015 and recently as this sector appears today.
- To Reflect the factors that have affected the development of the construction sector and how this sector affects the economy of a country.
- Making some conclusions and recommendations for improving this situation

We can analyze the development process of the construction sector, mainly in terms of housing and on the other hand, the expansion of this sector. The study also aims to see the link between the construction sector and the economy.

## Analysis, Interpretation of data

The literature shows that the performance of the manufacturing sector is closely related to the GDP performance. In the economic boom period, the development of the construction sector is stimulated by increased public and private demand. Public spending in the construction sector is higher in these periods, relying on increased funding sources (Grebler and Burns, 1982).

The role of GDP in the construction sector is estimated to be high in underdeveloped countries, and as the rate of growth increases, the role of GDP may be lower and in some cases negative (Crosthwaite, 2000).

Real estate is a long-term investment. Builders decide to increase their production based on public demand or new orders in the private sector (Nicholson and Tebbut, 1979). The size of the construction sector is affected by the performance of the economy. The increase in disposable income of citizens increases the demand for real estate. The relationship of this growth with GDP growth is not linear, literature shows that it takes the form of an S.

This relationship is: positive when the economy is underdeveloped, inelastic when the economy is developing and negative when the economy is developed (Crosthwaite, 2000). The growth of the construction sector may be affected differently by different economic sectors, however, the greatest demand for both new construction and reconstruction is largely related to the trade branch (Bon and Pietroforte, 1993). Mutual relations between the construction sector and other sectors of the economy vary depending on the time.

## Residential buildings by type of building

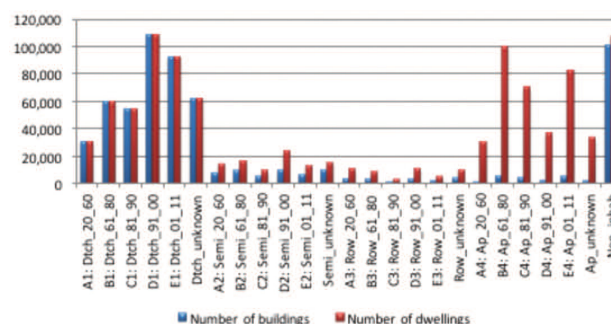
Separated homes represent most of the building stock with 83.7 percent of all buildings. The apartments represent only 3.7 percent of the housing stock, although these multi-storey buildings include a large number of housing, accounting for 35 percent of all housing. The part occupying single-walled houses is 9.4 percent, while the number of buildings in a row or concrete slab is smaller.

## Residential buildings according to construction period

Before 1960, only 7 percent of the building stock was built. After the Second World War and after 1960 in particular, an increase in the construction sector was observed, especially for the construction of large buildings with many family dwelling apartments.

In the period 1961-1990 were built 34 percent of the buildings and 32 per cent of the apartments. After 1990 there was another explosion in the construction sector, though towards individual homes and not apartments with apartments. After 2000, the number of buildings began to increase again. For 13 percent of the building stock is not known construction period, as well as for a large part of the uninhabited buildings 17 percent of the buildings. (Regional Environmental Center 2015, 21).

**FIGURE 1.** Number of buildings and dwellings by type of building and age based on INSTAT 2011.





What is noteworthy is that in the city of Tirana there is a great concentration of construction; They account for about 15.20% of total construction throughout Albania. In the last three decades before the 1990s, every year 165 new buildings were built on average. Three-quarters (77%) of these buildings were home to one family and most of the rest (22% of the total) were multifamily dwellings with 4-6 floors. In the post-1996 period, the number of new constructions per year is 24-fold, reaching 3,953 buildings, of which 95% are home to one family. On the other hand, the construction of high buildings has accelerated, where about 3/4 of these buildings in Tirana were built in the last 10 years. According to the preliminary results of the "Census 2011", published by INSTAT, in the city of Tirana there are 46,401 buildings and 154,788 dwellings. (*Territory Development Policy of the Municipality of Tirana, 2012: 143*)

### Factors that influenced the development of the construction industry

In the situation in which Albania was previously, the problem was housing the population. This situation enabled the reconstruction of buildings and the growth of the Albanian economy. In 1998 and onwards, construction of multi-storey residential, commercial, and new road construction facilities began. They are mainly not only in the Tirana-Durres and Vlora metros, but also in other peripheral cities. This industry has known two stages:

- *The first phase*, which is the source of this industry, was that of the 1990s, where the reconstruction of apartments and the construction of residential apartments were characteristic.
- *The second phase* was the period after the 2000s, which is characterized by a qualitative development of this industry, from the extension of its products not only to residential blocks but also to modern constructions. This sector has been and will remain a key sector in the Albanian economy.

Over the last few years we have a decline in the construction sector. This phenomenon has occurred as a result of the study of the partial regions. The Living Standards Measurement Survey (VMSJ) shows that no less than a quarter of residential buildings were built after the 1990s. Although the construction sector accounts for only 10 percent of GDP, it has been the main source of output growth. Other factors that have influenced the development of the construction industry are:

- Inherited road and airport infrastructure system was completely amortized and, moreover, completely inadequate to cope with the extraordinary influx of vehicles and other vehicles that came after the 90s;
- The migration movement of the population, from rural to urban areas;
- Rapid economic development and increased development of manufacturing industries have made it possible to increase the demand for industrial construction;
- Property problems, especially after the years of '93 -'94 regarding land and land ownership, have had problems with two or more owners.

After the 90's, what is evidenced is the rapid growth of the construction industry, while in the early 1990s the construction industry covered the reconstruction of housing and roads. *What were the factors that influenced the development of the construction industry?* The situation in which Albania was formerly was the problem of housing the population. This situation enabled the reconstruction of buildings and the growth of the Albanian economy. In 1998 and onwards, the construction of multi-storey residential, commercial, and new street constructions began. They are mainly not only in the Tirana-Durrës and Vlora metros, but also in other peripheral cities.

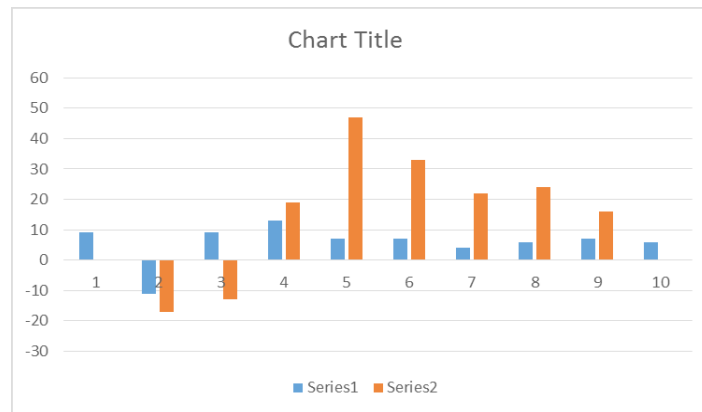
### This industry has known two stages

The first stage that was the source of this industry was that of the 1990s, where it was the reconstruction of apartments and the construction of residential apartments. The second phase was the period after the 2000s, which is characterized by a qualitative development of this industry, from the extension of its products not only to residential blocks but to modern constructions. This sector has been and will remain a key sector in the Albanian economy. The specific weight of the construction industry in total GDP (GDP) over the years is as follows:

**TABLE 1:** Annual real GDP growth and real annual growth in construction

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Real annual growth of GDP	9	-11	9	13	7	7	4	6	7	6
Real annual growth in construction	---	-17	-13	19	47	33	22	24	16	--

Source: The first construction symposium 2006

**FIG. 2.** Construction Sector and GDP in the years 1996-2005

Source: Simpoziumi i parë i ndërtimit 2006

Over the last few years we have a decline in the construction sector. This phenomenon has occurred as a result of the study of the partial regions. The Living Standards Measurement Survey (VMSJ) shows that not less than a quarter of residential buildings were built after the 1990s. Although the construction sector accounts for only 10 percent of GDP, it has been the main source of growth production. We see from the table over a 10-year period since 1996-2005 that the construction sector has had a huge increase in 2000-2001, presented in orange and in the first few years a decline, while GDP (blue ) There has been a sharp decrease in 1997 due to the unrest created in our country and a decline again in 2002.

## Construction Sector and Economy

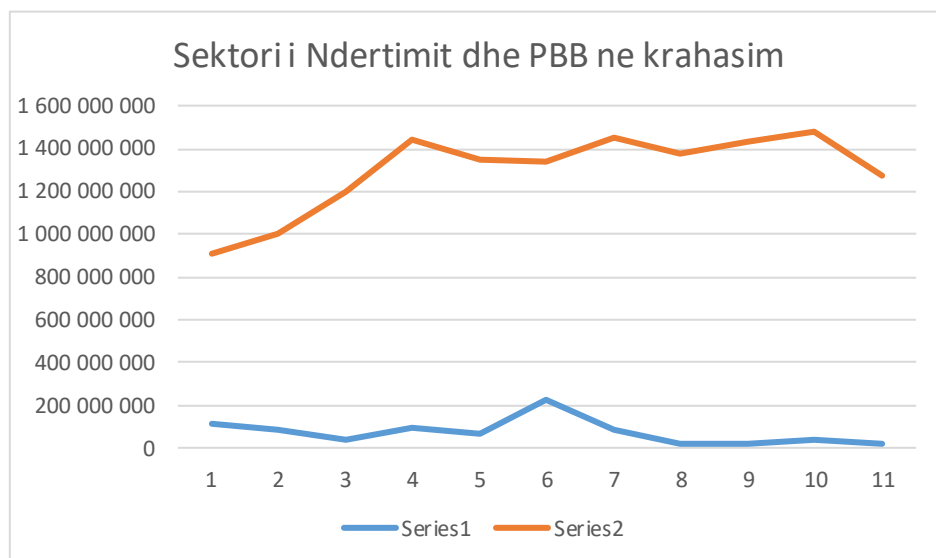
The data analyzed were taken from 2005-2015 as an attempt to see how the construction sector affects the economy and reciprocally.

**TABLE 2.** Yearly Values of the Construction Sector and Gross Domestic Product in Albania

Years	Construction Sector	PBB
2005	109742000	913808000000
2006	86758000	1007216000000
2007	38743000	1198512000000
2008	93949000	1442672000000
2009	71136000	1348 928000000
2010	229693000	1335824000000
2011	90756000	1453872000000
2012	20358000	1379840000000
2013	28156000	1431472000000
2014	38985000	1480640000000
2015	20220000	1276576000000

Source: INSTAT (2015)

During the years analyzed, the construction sector has been fluctuating and rapid changes in its evolution. In both cases there is an increase that goes towards similar tendencies, but a scientific analysis is needed to prove the consistency and the effect of the two aggregates.

**GRAPH 1.** Construction sector and GDP in comparison

Source: INSTAT (2015)

The comparison between the construction sector in monetary value (million albanian leke) and GDP, the two aggregates have the same metering unit. We have taken 2005, as the starting year for comparing aggregates with themselves from year to year. From the table it turns out that the construction sector is growing, but GDP has ups and downs. The E-views program was used to identify the value of the construction's "translation" coefficient and the regression was analyzed using the Least Squares method. The two variables analyzed in regression are the construction sector (acronym Construction) and Gross Domestic Product (which is specified by the GDP acronym). In this case it was taken as a dependent variable GDP in billions of lek and independent variable construction sector from 2005 to 2015. The next step is the interpretation of statistical results referring to the evaluation of parameters analyzed by the program. The model proposed in this paper is represented by the following equation:

$$Y_t = \beta_0 + \beta_1 X_t + \varepsilon_t$$

With  $Y_t$  (dependent variable) we note the construction sector in monetary value, while with the  $X_t$  (Independent variable) the value of Gross Domestic Product. The elevated hypothesis (H0) by this analysis is that the construction sector leads to the growth of Gross Domestic Product and reciprocally.

Alternative Hypothesis H1: Is that the construction sector does not lead to the growth of Gross Domestic Product.

In the first regression we see that the probability of the independent variable (GDP) coefficient is  $0.61 > 0.05$  which is greater than 5%. This result means that the variable is not significant, so this is an improper variable to explain the dependent variables (Ndr) - construction. In this case, the variables do not have a proper connection with each other, as the coefficient sign is negative. Also, if we look at F-statistic, it results (0.267) with prob (F-statistic) = 0.61, a p-value > 5%, which means that it is not significant or, otherwise, F-statistic is not significant.

Dependent Variable: Construction				
Method: Least Squares				
Date: 03/27/17 Time: 12:35				
Sample: 2005 2015				
Included observations: 11				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	146700.5	140738.4	1.042363	0.3244
PBB	-0.055542	0.107482	-0.516755	0.6178
R-squared	0.028816	Mean dependent var		74650.45
Adjusted R-squared	-0.079094	S.D. dependent var		61180.34
S.E. of regression	63553.80	Akaike info criterion		25.12013
Sum squared resid	3.64E+10	Schwarz criterion		25.19247

Log likelihood	-136.1607	Hannan-Quinn criter.	25.07452
F-statistic	0.267036	Durbin-Watson stat	1.556154
Prob(F-statistic)	0.617785		

Estimation Command:

=====

LS Construction C PBB

Estimation Equation:

=====

Construction = C(1) + C(2)\*PBB

Substituted Coefficients:

=====

Construction = 146700.5 - 0.055542\*PBB

The elevated hypothesis H0 falls below and the alternative hypothesis H1 is accepted as is confirmed by the above equation. Regression results the constant values and the coefficient of the independent variable as a negative relation between GDP and the construction sector. In the above case, we will seek to verify the opposite link, which means that economic growth can affect the growth of the construction sector. In the second regression we have set as a dependent variable the Gross Domestic Product (GDP), while as an independent variable is taken the construction sector (Construction). From the analysis it turns out that the probability of the independent variable coefficient (Construction) is 0.61, which is greater than 5%. This result means that the variable is not significant. Also, in this model the variables do not have a proper relation with each other, as the coefficient sign is negative. F-statistic results (0.267) with prob (F-statistic) = 0.61, a p-value > 5%, which means that it is not significant or, otherwise, F-statistic is not significant. In this case, the Durbin Watson indicator is 0.562040, far from the optimal level 2. This means that our analysis and its outcome can not be completely reliable, as among the variables there is evidence of a negative serial correlation.

Dependent Variable: PBB				
Method: Least Squares				
Date: 03/23/17 Time: 15:50				
Sample: 2005 2015				
Included observations: 11				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1335944.	95115.13	14.04554	0.0000
NDERTIM	-0.518807	1.003972	-0.516755	0.6178
R-squared	0.028816	Mean dependent var		1297215.
Adjusted R-squared	-0.079094	S.D. dependent var		186983.7
S.E. of regression	194237.7	Akaike info criterion		27.35452
Sum squared resid	3.40E+11	Schwarz criterion		27.42686
Log likelihood	-148.4499	Hannan-Quinn criter.		27.30892
F-statistic	0.267036	Durbin-Watson stat		0.562040
Prob(F-statistic)	0.617785			

It should not be forgotten that the Durbin Watson indicator does not allow us to fully trust this result. Consequently we can say that the evidence is less strong compared to the first analysis.

## Conclusions and recommendations

This study focused on the construction sector in relation to the economic sector. The empirical analysis was based on the data collected from secondary sources. Based on these data, testing of the proposed hypothesis was done. Further, hypothesized connections test results were presented. This chapter will present the conclusions and recommendations of this study.

### Conclusions of the study

Critical literature analysis testified to the existence of a series of studies regarding the construction sector and the economy. However, this analysis showed that there is still no opinion accepted by researchers regarding the concept of “building” and

the relationship between the economy and the factors that determine it. In analyzing the determinants of construction, factors, economy, we have analyzed at the same time several elements.

The method used for processing and analyzing data, though well known and appreciated for years in international scientific literature, is very little used in studies in Albania. It was proven that the construction sector and the gross domestic product did not affect each other.

The analysis shows that among the determinants of developments in the construction sector are the number of construction permits allocated and the rental price index. Increasing the number of building permits Housing prices, unlike what they expected, are not the determinants of development in the construction sector.

## Study Limitations

Time. The construction sector is very complex, has experienced rapid development in the country especially in the last 26 years. To make a detailed analysis of the construction sector, its impact on the economy requires the time needed. Access to information. Information about the indicators and the main factors in urbanization is very difficult to deal with. Difficulties also in the data, where they were missing from 1995-2005 in the construction sector (dwellings) - their inflows into our economy.

## Recommendations

This study did not confirm the connection of the urbanization sector to the economy. Some key points that we need to focus on to achieve even more economic development and the construction sector of a country are:

*Infrastructure*, it would be necessary to make it available to all residents; Eg water supply and sewerage, good roads, drainage systems and social services such as schools; *Also*, new settlements and constructions could be legal / formal, which means that the system should allow land users to have a title of legal ownership and building permits; *Cities* could develop their space comfortably in order to allow maximum use of public transport and ensure economic and environmental sustainability. *Secondly*, in accordance with these broad national objectives and local vision, each city needs to develop and update the regulatory plan (land use plan), including the zoning plan. The main task is to designate areas where constructions should be restricted or avoided due to environmental interests or other public interests, and provide very clear and simple criteria for land use, including the right of access to major roads for the rest.

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# Higher education – a crisis of effectiveness

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## Abstract

*Albania's progress towards accession into the European Union has been accompanied with continuous structural changes in different areas. Education sector is one of them, having undergone significant deep reforms. It is widely accepted that education and level of skills are associated with higher levels of productivity and economic growth, with higher incomes at individual levels and low levels of poverty. However, this relationship is not straightforward since labor market and other context-based structural factors have an impact on the level of private returns. This paper contributes to the literature of economics of education in Albania by investigating empirically the causal relationships between skills level and individual incomes as well as the responsiveness of the labor market to higher skills. We argue that investing in postgraduate studies would not necessarily bring higher private returns. This argument is based on the consideration of a distorted labor market in Albania and of an inefficient allocation of labor power in which a portion of highly educated labor force works in low-paid jobs in the service sector. The analysis is based on Mincer's model of human capital. To construct our OLS model, we rely on the data obtained from the LSMS 2012 database.*

**Key Words:** Reforms, Private returns, Education, Labor market, Albania

## Introduction

Well known economists and researchers have paid serious attention to the study of human capital and its impacts on economic growth and prosperity of individuals and nations. New endogenous growth theory (e.g. Romer 1986, 1990; Lucas 1988) and human-capital-augmented Solow models (e.g. Mankiw, Romer and Weil 1992) and a series of empirical research papers (e.g. Barro 1992, 1997; Kim and Lau 1996) have portrayed the features of a New Economy based on knowledge and education as the creator of that knowledge.

It is widely accepted now that education and level of skills are associated with higher levels of productivity and economic growth, with higher incomes at individual levels, with low levels of poverty. Still after more than half a century since the human development theory was theorized, issues related to return on skills, establishing of causal relationship between skills and individual incomes, improvements on the probability of getting an earlier (well paid) job, poverty, social mobility and education, etc., remains highly researched topics among economists. This is a particularly important subject of research in countries whose education system is very expensive and the need to maintain highly expensive system could only be motivated in the presence of strong social returns. In 2011, for example, OECD countries spent around 6% of GDP or 13% of total government expenditures on education (Burgess, 2016). On the other hand, developing economies have a serious problem of underfinancing the education system and this is often argued as a critical factor of underdevelopment. From this perspective establishing a relationship between education and development can be a motivation for rising budget support for education from public money.

The motivation for this research was to contribute to the literature of economics of education in Albania by investigating empirically the causal relationships between skills level and individual incomes as well as the responsiveness of the labor

market to higher skills. There have been a few research papers investigating on the relationship of wage-skills in the Albanian labor market (Miluka, 2013; Gjipali, 2005) using LSMS data of 2002 and 2012, concluding that positive returns are observed in the higher levels of education.

By also relying on LSMS 2012 database, we investigate whether the labor market become more appreciating of the skills levels or there is a diminishing returns to education. We argue that investing in postgraduate studies would not necessarily bring higher private returns. This argument is based on the consideration of a distorted labor market in Albania and of an inefficient allocation of labor power in which a portion of highly educated labor force works in low-paid jobs in the service sector.

## Economics of education – a quick tour of literature

Social returns of education have long been emphasized and recognized by the level of civilization we have been able to build, particularly since the beginning of the first Industrial Revolution. Literature on the field has mostly been focused on investigating on private returns to investments on education and economics of education made significant progress towards establishing well defined relationship between education and economic development, as reflected in the endogenous growth theory since '80s. Non-market effects and identifying externalities of education took a particular stronger emphasis by early '90s with the works of Venniker (2011), Barro (1991), etc. Non-market outcomes are estimated by Haveman and Wolfe (1984) and Wolfe and Zuvekas (1997) to be about 50% of the total benefits of education (cited at McMahon, 2011). Since education is so crucial both for personal wellbeing and national prosperity, extensive research work is conducted on different policy issues and consensus is built on several such topics. However, great divergences still exists both on policy issues as well as institutional aspects of education.

A great contribution in the study of work pay according to level of education for the US economy is done by Goldin and Katz (2009). This article finds that very high premiums of labor market with regard to education were observed at the start of the twentieth century, then they were drastically lowered and started again to pick us very strongly by early 1980, reaching a peak by 2005. The authors find that the role of relative supply of skilled workers and demand for skilled labor force are by far the key to understand such oscillations on the wage premium for skilled labor. Another important conclusion of their work is that investment in education and building of human capital is the key factor behind economic growth of the USA. Goldin and Katz also maintain that the USA was exceptional even compare to Europe since the USA offer free access to high schools, while they were costly and not affordable for many of the European nations, an argument critically reviewed by Acemoglu and Autor (2012).

Human capital is created as with other forms of capital: it grows by investing in education. Providing education costs a lot and nations have invested heavily on offering free education for citizens. Recognizing the importance of education as an important and critical factor for economic development, countries have heavily investing in the sector over the decades. OECD countries spend around 6% of GDP or 13% of government spending on education. Developing countries also are targeting large public support for education as a way to faster economic growth and fighting poverty. Poor countries such as Cuba, for example are spending as much as 18.7% of GDP, emerging market economies spend on average 4.5% of GDP, while on the bottom is region of South Asia spends as much as 3.4% of GDP on average. Both Ecuador with less then 1% spending and Cuba with the highest 19%, are outliers (all data are of 2002: <http://www.nationmaster.com/country-info/stats/Education/Education-spending/%25-of-GDP>)

But, this substantial increase in financial support does not seem to have been backed by increased productivity levels on the economy. The research findings are weak at demonstrating the positive relationship between the level of spending on education and the rise in incomes at country level. The work of Lant Pritchett (2013) has strong evidences and numerous country examples on that point. However, the opposite relationship, i.e. that wealth leads to higher levels of education, has more backing evidences. Again, Chang offers plenty of country evidences on that *less-is-more* argument as defined by Nasim Taleb (*Antifragility*). Spending more does not translate in the rise of education, higher quality of education and generate higher income levels for the countries. Experiences from sub-Saharan Africa demonstrate that they invested highly in education but on the other hand they experienced a decline on the standard of living (Taleb, 2012). Pushing more of the same standard inputs won't lead to improvements. "If bicycle has a hole, pumping more air on it won't make much good" (Pritshet, 2012). The central argument is that defining outcome indicators of education is very critical in planning financial support of the system.

Impact of education on productivity and incomes, are strongly associated with the institutional models of education systems, and as such, political economy considerations shall also be discussed. Political economy considerations are strongly associated with the institutional models of education systems across countries which in turn defines the quality of education. Preference for a centralized or a decentralized or community run schooling system depends on the historical legacies of specific countries.

The historical roots of Albanian society clearly support a centralized system, since there is no history of resistance by local communities towards the central authority. Particularly the near history of the first half of the 20<sup>th</sup> century supports this view. This is clearly demonstrated even by the new law on higher education which in principle was assumed to enhance the autonomy of universities and decision making, while in fact it centralized many aspects of operations of the universities. Political factors played a crucial role on the development of education system in the communist system and this clearly

proves the role politics and political economy considerations can play on education. On the other hand, the legacy of the system continues to determine the *politics* of education system even today. This dimension of transition also poses a question regarding the levels of skills inherited from the previous system. Investment in education as a rule does not depreciate, but given the fast and vast structural changes the market may not reward some inherited skills and offer a higher premium for new skills.

### Return on investment of education

As we already stated above, the concept of the return on higher education is a much broader concept that simply quantifying the changes in income levels with increasing number of years of schooling. It includes other aspects related to quality of life which cannot be easily quantified, such as life longevity, life sophistication, healthier families and lower divorce rates, lower crime rates, higher civic participation, etc. Empirical studies have estimated that, accounting for measurement errors, endogeneity of education and ability differences return from additional schooling for economies of the UK, Sweden, Australia and the Netherlands, varies between 11-13% (Uusitalo, 1999). Psacharopoulos (2006, pg. 122) finds the world average of the return on higher education at the level of 20%. The net public return on investment for a man with tertiary education is over USD 105,000 across OECD countries – almost three times the amount of public investment in his education. For a woman, the public return is over USD 60,000, which is almost twice the amount of public investment in her education (OECD, 2014). With few exceptions, the **net private returns** related to attaining a tertiary education exceed those related to attaining upper secondary or post-secondary non-tertiary education. Only in Norway and Sweden does upper secondary or post-secondary non-tertiary education bring higher returns to men. Across OECD countries, individuals invest about USD 50,000 to earn a tertiary degree. In Japan, the Netherlands and the United States, average investment exceeds USD 100,000 when direct and indirect costs are taken into account (OECD, 2014).

### Previous work on Albanian labor market and education

Albania displays the features of a highly distorted labor market which strongly and negatively impacts education sector and learning incentives for the new generation. The very strong role that political connections and political affinity with the governing political parties' plays on the employability of individuals as well as the still weak private sector demand for high quality professionals or weak incentives offered by the sector coupled with his loosed ethical and labor standards, do not support a highly competitive education market. The very high unemployment rates among the young create a disappointing environment that higher education can substantially improve their employment opportunities.

All in all, these market conditions and political realities discourage incurring high costs of getting a quality education. On the other hand, quality of education offered by public providers lacks the market discipline and standards are very low. The whole environment seems to be disappointing and interlocked in a kind of a vicious cycle: labor market and low employment prospects discourage education and low education levels keep hostage industry and development. This chain should be unbending!

One of the first things we study is the discussion between *current* costs and future *expected* benefits. If the rate of return of having a university diploma is low, then after completing the compulsory education people will opt for finding a job better than investing in a diploma. Having a price for education therefore is crucial in establishing such relationship, or alternatively, not having such a price makes harder calculation of rate of return.

## Methodology

The work draws from Mincer's model, which estimates private earnings (wages) as a function of education and work experience (Mincer, 1974). The equation is expressed as:

$$\ln Y = \beta_0 + \beta_1 S + \beta_2 E + \beta_3 E^2 + \epsilon \quad (1)$$

where  $\ln Y$  is the natural logarithm of earnings expressed in monthly wages,  $S$  is Education expressed in obtained diploma,  $E$  is work experience, (work experience squared) to account for non-linearity of experience on wages, and  $\epsilon$  is the error term.

To account for contextual characteristics of Albania, we control for additional variables that capture employment represented by public and private sector as well as individual employment, age of the respondent, gender and urban-rural divide. The earnings equation in this context is then expressed as:

$$\ln Y_i = \beta_0 + \beta_1 Edu_i + \beta_2 Exp_i + \beta_3 Exp_i^2 + \beta_4 Empl_i + \beta_5 Gen_i + \beta_6 Urb_i + \beta_7 Age_i + \epsilon \quad (2)$$

where  $\ln Y_i$  is the individual's (i) monthly wage. The variable  $Edu$  is the individual's education level divided into post-graduate diploma, bachelor diploma and high school diploma. We followed this procedure bearing in mind that the employment in Albania is mostly based on the obtained diploma and that the number of school years without official diploma does not

generally count. The variable is constructed as three separate dummy variables for each diploma type. The variable *Exp* is expressed as individual's years of work experience, whereas *Empl* is a dummy variable that captures the type of employer, whether it is public sector, private sector, and individual (self) employment. Gender differences in earnings are captured by the categorical variable *Gen*, while the rural-urban differences are captured by the categorical variable *Urb*. Finally, the variable *Age* is expressed in years of respondent, confined to 16-65 years of age, which is also the labor force.

The econometric analysis is based on the OLS model, with robust standard errors. The choice of standard errors is to account for heteroscedasticity assumption of OLS estimators. To check for collinearity of independent variables (multicollinearity), VIF test has been conducted. The mean VIF value of 2.84 shows that independent variables are not correlated with each other.

The data used for the analysis are drawn from the Living Standards Measurement Survey 2012 (LSMS 2012), which is conducted every three years by the Albanian Institute of Statistics (INSTAT). After removing the missing values on reported monthly wages and independent variables, the total sample that used for the regression analysis is 612 respondents. Table 1 below shows the descriptive statistics of the variables analyzed in the model.

**TABLE 1.** Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Wage	2904	33087.9	18937.03	10000	200000
Postgraduate	3119	0.0064123	0.0798326	0	1
University	3119	0.1490862	0.3562306	0	1
High school	3119	0.2513626	0.4338661	0	1
Experience	3119	8.642834	7.755197	0	48
exp_square	3119	2.618024	1.337669	0	6.928203
Government	3119	0.2542482	0.4355076	0	1
Private	3119	0.2914396	0.4544984	0	1
Individual employment	3119	0.0836807	0.2769527	0	1
Urban	612	1.48366	0.5001417	1	2
Female	3119	0.4668163	0.4989776	0	1
Age	3119	39.72139	14.11454	18	65

Source: LSMS 2012

As shown, the average monthly wage is about 33,000 Albanian Lek (about 270 Euro). Albania is one of the countries with the lowest average wage in Europe. After cleaning the data, the minimal wage reported here is 10,000 ALL (around 80 Euro) and the maximal is 200,000 ALL (about 1,600 Euro). We would expect that the maximal wage will be related to highest education level, but in fact it corresponds with high school and university level education and private sector employment (see Table 2).

**TABLE 2.** Table of wages per education and employer

	Obs.	Mean	Std. Dev.	Min	Max
Wage/education					
Postgraduate	15	29333.33	10327.96	15,000	50,000
University	438	33915.87	21008.68	10,000	200,000
High school	728	32867.31	18510.85	10,000	200,000
Wage/employer					
Public sector	787	36210.67	13549.61	13,000	150,000
Private sector	883	34332.62	20935.18	10,000	200,000
Individual employment	237	24623.42	11988.95	10,000	90,000

Source: LSMS 2012

The most interesting figure of the wage per education level is the average wage of respondents with postgraduate education. Results in Table 2 show an average wage 29,333 ALL (about 250 Euros), about 4,000 ALL less than respondents with university and high school education. Meanwhile, the wage that is determined by the type of employer (public, private or self-employed) shows the self-employment yields the lowest returns, with nearly 10,000 ALL less than public sector and private sector. The relationships among the variables are analyzed by means of regression analysis.

## Results

The results show some surprising theoretical elements, particularly related to investment in post-graduate education in Albania. As shown in Table 3, the variable postgraduate is significantly negatively related to monthly wage. This means that investing in postgraduate education will yield about 15% less income. On the other hand, obtaining a university diploma is positively and significantly related to wage. High school diploma is also positively and significantly related to private returns. This shows that investing in education pays off up to university diploma. Considering the average salary as well as the minimal and maximal figures shown in descriptive tables in previous section, it seems that investing further in post graduate studies doesn't pay off. We believe this finding is indicative of the labor market distortions and the fact that there is no market demand for such high qualifications or that the quality of PhD is not perceived favorably by the labor market.

**TABLE 3.** Results of the OLS Model

Lnwage	Coefficient	Robust Std. Err.	T	P>t	[95% Conf.	Interval]
Postgraduate	-0.1556	0.0895	-1.74	0.083	-0.3314	0.0202
University	0.0775	0.0440	1.76	0.079	-0.0089	0.1640
High School	0.2061	0.0653	3.15	0.002	0.0778	0.3344
Experience	-0.0080	0.0089	-0.90	0.368	-0.0256	0.0095
Exp_square	0.1068	0.0546	1.96	0.051	-0.0003	0.2141
Government	0.2657	0.0614	4.32	0.000	0.1450	0.3865
Private	0.1659	0.0632	2.63	0.009	0.0418	0.2901
Individual employment	-0.2170	0.1088	-1.99	0.047	-0.4307	-0.0032
Urban	0.0710	0.0432	1.64	0.101	-0.0137	0.1559
Gender	-0.0090	0.0438	-0.21	0.837	-0.0950	0.0770
Age	-0.0010	0.0016	-0.68	0.500	-0.0042	0.0020
_cons	12.1085	0.1345	89.98	0.000	11.8442	12.3728
N	= 612					
F(11, 600)	= 8.24					
Prob > F	= 0.0000					
R-squared	= 0.1251					

The other key variable of human capital function, work experience squared, shows a positive and significant relationship with wage. This result is line with the theoretical expectation that the higher the work experience the higher the wage.

Another key variable that could explain and capture the context and structure of the labor market in Albania is the type of employer, i.e. whether it is public sector, private sector or self-employment. The public sector category contains the majority of public service positions at all levels of public sector, including the army. Meanwhile private sector consists of the majority of private entrepreneurial activities, excluding individual entrepreneurial activities that provide self-employment opportunities. Results show that the public sector is positively and significantly related to wages. This result does not come as surprise since the public administration is the largest employer in the country. Private sector is shown to also be significantly and positively related to earnings. Meanwhile, the self-employment category, which generally includes low-skilled services that do not require advanced high technical knowledge is negatively and significantly related to earnings. Such professions are generally family-based for which formal advanced education is not a requirement to master the skills and provide adequate services.

When controlling for gender, age and rural-urban differences in wages, we see no significant results. This implies that Albania's labor market is not significantly affected by social characteristics, but it is rather determined by overall structural conditions. As we see from the results, only the variable controlling for urban or rural background of the respondent points to a strong direction, but yet not significant, of higher returns in earnings in urban areas.

## Conclusions

The study showed that broader contextual characteristics of a society play an important role in determining private returns on education. The characteristics of labor market are especially important in this regard since it determines how far investing in education pays off. We saw that, currently, returns from education after university diploma start diminishing due to low average salaries and lack of technologically-advanced industries that require highly skilled labor force.



The existing public and private sectors provide positive returns in the labor market. This is a sign that the labor market is evolving since the public sector is not the only attractive option for employment. As such, investing in education is not anymore a question of formal requirements for having a university degree, but quality of education matter even more because of private sector demands.

Work experience is also a key factor positively affecting returns on education, while social characteristics such as gender and rural-urban differences do not show to have an impact on returns to education.

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# The definition of a “place of effective management” at article 4 paragraph 3 of the 2014 OECD Model Tax Convention

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## Abstract

*Determination of the residence it is a fundamental issues of international tax law appeared by the end of the 19th century. ‘Corporate residence’ in terms of Article 4(1) of the OECD MC is fundamental to the application of the provision of the double tax treaties to establish the minimum nexus for taxing a person or a company in its own territory known as the residence principle. However, when it comes to the interpretation of the residence and defying it for tax purposes the concept “place of effective management” goes further into the Article 4(3) of the OECD MC aiming to solve the dual residence problems which may arise on domestic law by virtue of Article 4(1) OECD MC.*

**Key words:** ‘place of effective management’, ‘OECD MC’, ‘corporate residence’, ‘tax treaty’, ‘residence principle’

## Introduction

The double tax treaties use the residence principle to establish the minimum nexus for taxing a persons or a company in its own territory. The determination of the residence is a fundamental issues of international tax law appeared by the end of the 19<sup>th</sup> century (Ceroni, 2012). “Place of Effective Management” is a tax legal concept that indicates a particular level of business activity in the residence and source country. The importance of the permanent establishment into a globalized economy is increasing, therefore, the place of effective management ‘concept’ it’s intensively discussed in government bodies around the world as well as at the UN, EU and OECD level, in addition, the case laws has been increasing recently.

OECD Model Tax Convention on Income and on Capital on the Article 4(1) uses the notion ‘corporate residence’ as a fundamental notion to the provision of the double tax treaties between different countries. However, when it comes to the interpretation of the residence and defining it for tax purposes the concept “place of effective management” goes further into the Article 4(3) of the OECD MC aiming to solve the dual residence problems which may arise on domestic law by virtue of Article 4(1) OECD MC (OECD MC, 2014).

In a globalize economy and 21<sup>st</sup> century technological development has enable companies to conduct business activities not only in the country were are legally registered but in numerous other countries, therefore, presently there is an increase activity of cross-border trade which are classifying a company as a resident in at least two countries. Consequently, increasing the double taxation based on the residence-residence conflict.

OECD in particular has developed guiding principles on eliminating or mitigation the double taxation. In this respect Article 4 of the OECD MC gives an overview of resident country for the purposes to levy taxes. Yet, defining the residence country it might be a difficult task taking into account the mentioned reasons below, in particular it’s difficult to interpret this on the light of Article 4(3) since for this tie-breaker provision to work properly should be understood on the same meaning by contracting countries. Although in the view of many scholars, Article 4(3) of the OECD MC, as well as, the commentary to the OECD MC gives a set of guidelines and are well-established rules. However, various interpretations are still possible and different approaches are used by different contracting countries. (van den Berg, van der Gulik, 2009)

Following this lack of consistency in the interpretation of the concept in practice this paper will explore the main approaches to the interpretation on the limitations of the tie-breaker rule “place of effective management” in the light of Article 4(3) OECD MC.

## **The Tie-Breaker Rule “Place of Effective Management” in the light of Article 4(3) an overview**

The determination of residence in tax treaty it's at ultimate importance. It is impossible to apply a tax treaty without defining the residence country, “all tax treaties are based on the two concepts the residence state and the other state” (Berglund, Cejic 2014) In addition, the OECD MC in regard to tie-breaker rule in article 4(3) defines “the state of residence as the state in which the company has its place of effective management” (OECD MC, 2010).

The concept “place of effective management” it's further elaborated in the Commentary, stating *“the place where key management and commercial decisions that are necessary for the conduct of the entity's business as a whole are in substance made. An entity may have more than one place of management, but it can have only one place of effective management at any one time”*. (Commentary to OECD MC, 2010). Additionally, the OECD MC assumes that this “criteria makes a clear decision possible and no other criterion is set out and there is no reference to the mutual agreement procedure”. (Lang, 2012).

Article 1 of the OECD MC highlights that the personal scope of tax treaties depends on fiscal residency in one of the contracting states or both, while Article 4(1) refers to domestic law in order to define residence for tax purposes, whereas Article 4(3) specifies that the place of effective management is its significant condition for companies (OECD MC, 2014). Even though the concept of “place of effective management” is important for companies, nonetheless, it had importance in the ‘early days’, the interpretation of the concept at the present time is persistently complicated.

It is important at this stage to mention the fact that it is commonly understood that the “place of effective management” for tax purposes is interested as the place where top level management in substance makes decisions and not where the decisions are implemented. The tie-breaker rule it's not based in personal attachment either in the purely formal criteria of registration (Discussion paper OECD MC, 2001).

## **Limitation of the Article 4(3) tie-break rule**

Every legal provision must be ‘judged’ by its capacity to solve exceptional cases. A numerous academic literature and articles has mentioned the fact of the inability of the tie-breaker rule to solve the main problems of the dual residence and this was even more strongly exemplified in the 2001 OECD – tag paper (Burgstaller, Haslinger, 2004). The main pressing legal issues listed by the 2001 OECD-tag paper will be further elaborated in the following structure of this paper.

- Multiple “place of effective management”
- Mobility of the “place of effective management”
- Problems encountered in triangular case

## **Multiple “Place of Effective Management”**

An issue on determining the place of effective management according to the OECD TAG paper 2001 comes due to the fact of the increment of the technological aspects since it's possible for a managing director to take decision while being in different countries through conferencing and using the modern technology for communicating. (Discussion paper OECD MC, 2001). Further, it is evident that the transformation of companies from centralized hierarchies to decentralized networking operation and decision makings, as well as, the technological improvements has threatened the tie-break success on determine the place of effective management. (Burgstaller, Haslinger, 2004)

Thus, the decision can be taken by the use of e-mail, videoconferencing and other electronic discussion where the person or persons do not meet in one place in order to make decision The use of technology and the transformation of companies in respect of decision making procedures complicated matters to located the place of management since, more than one person can dominate the process of decision-making, consequently the place of effective management can be in more than only one jurisdiction. Due to this fact of the limitation of the existing tie-break rule some scholars has express their opinion on revising the rule by adopting it to the circumstances.(Discussion paper OECD MC, 2001)

## **Mobility of the “Place of Effective Management”**

The OECD-TAG paper has also address the issue of mobile place of effective management, according to the paper the managing director might takes decisions while flying. In addition, another scenario might be that the director makes decision

on board a ship that is located in international waters, hence, the place of effective management can be a difficult task to be solve. (Burgstaller, Haslinger, 2004) However, in this direction an analogy with respect to Article 8(3) of the OECD MC can be used. OECD MC Article 8(3) highlights this matter by giving an importance to the “place of effective management” where the company it’s located (OECD MC, 2014), however, due to linguistic differences in reference to the Article 4(3) and 8(3) might be the reason why the tie-breaker rule it’s not extended to air transport enterprises. (Discussion paper OECD MC, 2001).

## Problems encountered in triangular cases

The limitation of the tie-breaker rule on determine the place of effective management of Article 4(3) OECD MC in a triangular cases become evident on the era of globalized market and due to the presence of multinational companies in more than just one jurisdiction. The current Article 4(3) operates effectively on determining the place of effective management in one of the two contracting states, but when a third state its involved this rule has limitations. (Lang, 2012) Further, the limitation of the tie-breaker rule can be illustrated by an example; if there is a company resident of both contracting states (A and B) according to their domestic laws with its place of effective management in a third country (C) in this case the tie-breaker rule under the Article 4(3) of the OECD MC would be capable to solve the dual residence issues only under state A and C or B and C (Burgstaller, Haslinger, 2004). Due to the fact that Article 4(3) provides that an entity is a resident of both contracting states “it shall be deemed to be a resident only of the state in which its place of effective management is situated”, hence, this definition might be imply that the company cannot be a resident of either state A or B, therefore, the current tie-breaker rule will not be able to solve the problem of the dual residence between the contracting states in this case A and B. (Lang, 2012). In addition, this is not satisfactory outcome of the tie-breaker rule in this respect.

This issue has been discussed by the Base Erosion and Profit Sharing report and is suggested that contracting states should solve the issue of “place of effective management” on a case-by-case basis. (Lang, 2012).

## Determining the “Place of Effective Management”

Determining the “Place of Effective Management” has been a difficult task for contracting states as the fact of their reference in domestic law when it comes to interpretation of the tax treaties which in most of the cases do arise on double taxation issues as a final result. (Burgstaller, Haslinger, 2004). As a matter of fact, the problem of interpretation has been present as many countries tie in with similar concepts of residence in their domestic law.

Worldwide two approaches can be found when it comes to the determination of the place of effective management, the Anglo-American ‘central management and control’ and the Continental European ‘place of management’ concept (Burgstaller, Haslinger, 2004), which are going to be explained briefly in this chapter, as well as, an overview on the understanding of the place of effective management in traditional environments and the evaluation of the OECD MC in respect to the place of effective management will be elaborated.

## “Place of Effective Management” in a traditional environment

As stated above the term “place of effective management” in the paragraph 24 of the Commentary on Article 4 gives an interpretation on the meaning of this term: *“The place of effective management is the place where key management and commercial decisions that are necessary for the conduct of the enterprise’s business are in substance made. The place of effective management will ordinarily be where the most senior person or group of persons (for example a board of directors) makes its decisions, the place where the actions to be taken by the enterprise as a whole are determined; however, no definitive rule can be given and all relevant facts and circumstances must be examined to determine the place of effective management. An enterprise may have more than one place of management, but it can have only one place of effective management at any one time.”* (Commentary to OECD MC, 2010) According to scholars the commentary gives it quite clear that the determination of a place of effective management is a question of facts. However, this is not sufficient as a matter of fact the OECD MC also use the term of “place of effective management” in the respective articles 8, 13(3), 15(3) and 22(3) for allocation of taxing rights for different purposes, but, the term itself it’s not defined (Discussion paper OECD MC, 2001). Therefore, many commentators in the absence of clear definition regarding the place of effective management have been influenced by concepts used in domestic tax law such “central management and control” as well as “place of management” (OECD Report, 2001) are going to be explained in further details below.

## “Central Management and Control”

Central Management and Control it is a test which has been commonly adopted by lot of countries in order to determine the place of effective management of different companies, the application of this test it’s a question of fact rather than a test

of corporate residence in the light of law. The common law test of “central management and control” was set in the case *De Beers Consolidates Mines, Limited vs Howe (De Beers v Howe)*(2005) K.B. 612), where an advantage on determining the place of effective management has been given to the fact of where central management and control is situated not necessarily the location of the board meetings. (Burgstaller, Haslinger, 2004)

## “Place of Management”

On its decisions German BFH has decided that every company must have at least one place of management. (R 76/95) In addition, in Germany the place of management it is determined by the residence criteria.(German Tax Code). In Italy, Netherlands, Switzerland etc. the fiscal residence is often determined by their place of effective management. According to German domestic law a great importance on determining the place of management should be given to the decision on day-to-day management in terms of leading the business and operations, and not necessary including the participation of shareholders. (Burgstaller, Haslinger, 2004)

## Interpretation of the “Place of Effective Management” by states

Countries tend to interpret the term of ‘place of effective management’ in their domestic context and difficulties arise due to the fact that different countries interpret the term differently. In this regard, the relevance of the ‘real’ meaning must be understood in light of the Vienna Convention on the Law of Treaties which emphasizes that: “A treaty should be interpreted in good faith and in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose”. (VCLT, 1969)

In addition, case-to-case approach has solved the issue of defining the “place of effective management” in different ways by different states, below I have summarized the interpretation of some OECD member countries and non-member countries on the issue mention:

Italy: “holds the view that the place where the main and substantial activity of the entity is carried on is also to be taken into account when determining the place of effective management of a person other than an individual”. (OECD MC, 2014)

France: “considers that the definition of the place of effective management in paragraph 24 according to which the place of effective management is the place where key management and commercial decision that are necessary for the conduct of the entity’s business as a whole are in substance made, will generally correspond to the place where the person or group of persons who exercises the most senior function makes its decisions. It is the place where the organs of direction, management and control of the entity are, in fact, mainly located”. (OECD MC, 2014)

Germany: “reserves the right to include a provision under which a partnership that is not a resident of a Contracting state according to the provisions of paragraph 1 is deemed to be a resident of the Contracting State where the place of its effective management is situated, but only to the extent that the income derived from the other contracting State or the capital situated in that other State is liable to tax in the first-mentioned State”. (OECD MC, 2014)

Netherlands: “use the fact and circumstances criteria on determining the place of effective management giving an advantage to the place of ultimate managerial responsibilities over the place of day to day management”. (OECD MC, 2014)

Armenia, Albania, Belarus etc: “reserve the right to include the place of incorporation or a similar criterion”. (OECD MC, 2014)

From this overview the concept used by OECD member states and non-OECD member states can be easily understood the differences on the using of “place of effective management” under the Article 4(3) of the OECD MC, even though it is known that the Article 4(3) tie-breaker rule should have an autonomous meaning. However, the non-consistency of this meaning comes due to the lack of clear definition in the Commentary, as well as, the reference in domestic law by contracting countries to interpret the place of effective management.

## OECD evaluation of the “Place of Effective Management” concept

In 1963, OECD put a draft of the concept of place of effective management which later on, in 1977 formed the basis of Article 4(3) MC and the Commentaries after. At this very first attempt of the OECD to clarify the determination of the place of effective management it could be noted that the Commentary gives an importance to the state where the company is “managed” rather than considering the other criteria such formal legal registration. (Commentary to OECD MC, 2010).

Surely this was a vague concept on further determining the concept of place of effective management. As a consequence, countries interpreted the concept “place of effective management” in accordance with their domestic law which was not supported by the OECD. In this regard, the first major amendment to have an autonomous interpretation of the tie-breaker rule was made in 1992. However, the change proposed variation between the concepts of managed and controlled and place of effective management. (Commentary to OECD MC, 2010)

Moreover, an attempt of OECD to have an autonomous interpretation of the term place of effective management is made in 2000 by updating the OECD MC and aiming to give more light to this issue, for this purpose a new sentence was added to



support the management of both: board of directors and top-level executives. (Commentary to OECD MC, 2010) However, this was not an ideal solution because “board of directors” may have a different understanding in different countries. According to scholars’ changes in 2000 seems to favor the common law test.

Yet, despite continues efforts to clarify, the concept ‘place of effective management’ was still an ‘issue’ on determining the companies for tax purposes. In this regard, in 2001 OECD-TAG published the very first paper “*The impact of the Communications Revolution on the Application of Place of Effective Management as a Tie-Breaker Rule*” (Discussion paper OECD MC, 2001). This paper identifies the limitation of the concept at this century considering the advancement of the technological environment of companies, as well a number of recommendation has been given on possible solutions.

In addition, this was followed by a discussion draft “Place of Effective Management Concept: Suggestions for changes to the OECD Model Tax Convention” which was publish in 2003 (Discussion paper OECD, 2003). This discussion draft gave two options: a) Refining the existing tie-breaker rule by amending the OECD Commentary and b) Replacing the existing tie-breaker rule by a hierarchy of tests. The proposed expansion of the OECD MC and its Commentary was not supported by the OECD Member States. The OECD Members States were claiming that the first proposal gives an ‘unjustified’ priority to the place where the board of directors will have their meetings over the place where key management decision are taken by the senior management. Moreover, they found the second proposal as unnecessary. (van Raad, 2016/17) It was noted that Members States are giving an importance in the question of determining the “place of effective management” the case-by-case approach based on facts and circumstances of each case.

## Refining the existing tie-breaker rule

As stated below the proposal on refining the existing tie-breaker rule was not supported due to the fact that its gives unjustified priority to the place where key management decision are taken by the senior management.

The concern was on the fact of unbalance section of Commentary in the model and was consider that; its gives undue emphasis to this fact, in addition, doesn’t provide a resolution of the problem itself as well as fails to provide a balanced approach between the approaches of whether the decision made in form are in one location and in substance in another one. (C.F.E Opinion Statement, 2003) Therefore, it was concluded that the alternative proposals do not sufficiently provide practical resolution to the situation of dual corporate residence.

## Hierarchy of tests

As mention previously the hierarchy of tests has been found ‘unnecessary’ by the OECD member states. In general, the OECD-TAG prosed to keep the “place of effective management” as the first test while introducing additional options which might be helpful on determining the place of effective management for companies which would follow the approach used for the tie-breaker rule for individuals (Burgstaller, Haslinger, 2004).

According to OECD-TAG proposals four rules would apply to determining the “place of effective management”: “a) it shall be deemed to be a resident only of the state in which its place of effective management is situated, b) If the State in which the “place of effective management” or it is found in neither (triangular cases) it shall be deemed a resident in the State in which the entity’s economic relations are closer, c) If this cannot be determined then the authorities may have recourse to the State from the laws of which it derives its legal status, d) as a last option, if state or states from the laws of which it derives its legal status can’t determine the place of effective management they should settle the dispute by mutual agreement.” (OECD-TAG Discussion draft, 2003)

However, the author keeps the opinion that option A and B leads to a different understanding between taxing rights granted to source and residence states, especially in cases where companies provide services at the same time in different jurisdictions. As for option C; comparable to the present test in terms of principles by offering practical resolution when secondary options need to be taken into account. As for the option D the alternative case-by-case approach impose no obligations on the authorities to settle possible problems by mutual agreement. (see also; C.F.E Opinion Statement, 2003)

In addition, to the proposed ‘options’ linguistic terms should be analysed considering the words as “shall settle” as used rather than “shall endeavor” in respect to Article 4(2) used in case by case alternatives.

## Conclusion

As previously mentioned the quality of any legal provision must be ‘judged’ by its capacity to solve exceptional cases. From the analyses made in previous chapters can be understood that there is a lack of a common understanding of the concept “place of effective management” which is a fundamental limitation of the tie-breaker rule, while the current Articles of the OECD MC and its Commentary has no ‘productive’ conclusion on the issue of determining the “place of effective management”.

Even thought, the current Article 4(3) of the OECD MC explains that “the place of effective management” it’s the place where key management takes decision, however, no indication are made as to what level of management is appropriate for

determining the place of effective management, therefore, lot of interpretation can be made, assuming the country in which the executive body operates or where the board of directors meet. Due to this fact, countries refer mostly in this situation to their domestic law.

In addition, the limitation of the existing tie-breaker rule especially haven been 'visible' with the new technological equipment, as well as, the changes in the organizational structures of companies which are allowing directors to meet while they are in different countries. The fact that decentralized structure of companies makes able the same company to have more than one place of effective management, is another burden on determining the "place of effective management" in the light of Article 4(3) OECD MC.

The existing tie-breaker rule come across its limitations in triangular situation as well. There are no provisions which makes it clear in situation where more than two jurisdictions are in question. In the previous chapters of this paper are elaborated the suggestions of the OECD on determining the "place of effective management". A major effort has been made in 2003 by OECD offering two options on determining the place of effective management on their discussion draft: a) Refining the existing tie-breaker rule by amending the OECD Commentary and b) Replacing the existing tie-breaker rule by a hierarchy of tests, however, both proposals were not supported by Members states by considering them 'unjustified' by giving a priority to the board of directors over the place where key management decision are taken respectively as 'unnecessary' change.

Moreover, the OECD TAG proposals has been considered as weak to ensure unanimous view since differences in fiscal culture and corporate governance as well as in possible different interpretation of the term day to day management hasn't been consider seriously. (Burgers, 2007)

The capability of the existing tie-breaker rule under Article 4(3) of the OECD MC on solving disputes under the new ways of doing business are limited. However, we have to keep in mind that this issue was never an easy task, nevertheless, the globalized economy and development has enable companies to conduct their activities in many countries and as a consequence misusing and avoidance of taxation are possible risk when no autonomous interpretations takes place.

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# The dual nature of Higher Education: public and private good

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## Abstract

*Education is considered as the basic input of human capital formation. This definition has led governments and policy makers to be more responsible, and has led to increased demand for global education. Given that education generates public benefits and private benefits, it can be considered as a public good, as well as a private good. It can be perceived as a right to be educated, and in this regard is a public good, but can also be considered as a good that can be offered in an open market, featuring the characteristics of the private good. According to neo-liberal theories education is seen as a private good. The purpose of this paper is to analyze the different views regarding the nature of higher education. Also it treats arguments whether the state should continue to fund higher education or be left to the private site initiates and free competition, given that dominate individual benefits of education. Also are handled some trends towards higher private education.*

**Key words:** higher education, private good, public good

## Introduction

According to the experience of various economists, the nature of higher education should be analyzed not only in terms of its internal characteristics but also of its functions and benefits. Education is considered as a factor of progress for a particular society and without it can not be achieved human development and sustainable economic growth. Given that there is a link between an educated people and productivity, education has been the object of study by many disciplines.

According to Musgrave, most of the goods, also referring to education, generate externalities and private benefits. From this point of view, education can be considered as a good mix, which at the same time shows the characteristics of public and private good, as a result of the benefits of the education process (Musgrave, 1969).

It is widely accepted that higher education fulfills four major functions: developing new knowledge (research function), training competent staff (teaching function), contributing to the development of society and the ethical function of social criticism (Cemmel, 2003). Given these functions, higher education can be qualified as a public good, because the amount of knowledge that a student receives during university studies does not reduce the amount of knowledge that another student provides. However, higher education also has features of private good. It may happen that certain individuals may not attend university studies due to high fees or may be partially excluded from the consumption of this good as a result of the time distributed by the teacher to the second or third student (Lacrois, 2008).

Higher education can be considered as a public good if it meets two conditions: characterized by non-rivalry and exclusion in consumption. As for non-rivalry, the consumption of a good by one person should not reduce its quantity and quality, being available to other individuals at no additional cost. From this point of view we can accept that accumulation of knowledge by a student during university studies does not reduce the amount of knowledge available to other students. The non-exclusive criterion relates to the fact that it is not possible to exclude an individual from consuming a good one because the benefits and consumption are interrelated.

Higher education is also considered as a public good that produces other public good, such as improving the health of the population, better governance and strengthening of democracy (Tilak, 2004). However, for some individuals, education can be a good rival in consumption because its consumption can generate additional costs. In the case of higher education, there is a possibility for an individual to be excluded through the price. Anyone can benefit from funds generated by research, but it may also happen that some are excluded due to financial factors or because of the confidentiality clauses provided for in private sector-funded research contracts.

According to Schoenenberger, since education generates private benefits, it should be considered as a private good. Blagg also thinks that education is not a pure public good, for the fact that at least some of the economic benefits of education are related to the educated person. According to Teixeira, anyone who benefits from higher education should pay for it. According to the theory of human capital, education should be seen as an optimal decision for an investment by rational individuals (Schoenenberg, 2005). Higher education, by developing the knowledge and skills of individuals beyond the level they embody, increases the human capital of the individual. This economic benefit pushes students to register and invest money and time in higher education institutions. According to Samuelson's definition, public goods must be produced by the government and its intervention is necessary and should not be left to the markets (Holcombe, 2004). This paradigm of public policy led to the rise of the modern university. This logic was altered by neo-liberals, who argued that from an economic point of view, private investment yields more effective results than public investment. According to this perspective, society and individuals should consider the choices that this alternative offers. Neo-liberal policies suggest that the state should withdraw and leave room for liberalization of the markets of economic and social sectors, referring here also to the higher education sector (Tilak, 2008). Higher education is considered a marketable good. Morgan analyzes some of the reasons why higher education should be seen as a private good. According to him, educational institutions, under the neo-liberal influence, have undergone a reorganization with the private sector. This trend is also due to the pressure from public finances, accompanied by an economic tightening. The 2008 global financial crisis has highlighted such a trend as it has led to increased public utility costs, while on the other hand a lower tax regime has been a long-term trend.

## Arguments against the role of the state in higher education

Financing higher education by the state has raised many questions, the nature of which is related to efficiency, capital and pragmatic views.

**First**, the assessment of the rate of return from education constitutes an argument against the state's intervention in education. It has been found that social benefits from education are smaller than private benefits, so public funding needs to be reduced and individuals have to pay for their education (Psacharopoulos, 1994).

**Secondly**, public funding can generate negative effects on distribution. It may cause inequalities in income by shifting resources from the poor to the rich, as education subsidies tend to grow more for wealth than the poor (Psacharopoulos, 1977, World Bank, 2000).

**Third**, there is a reduction of resources from governments in developing countries. Stability and structural changes in economic reform policies have led to a reduction in public spending. The education sector is the one that has been most affected by this shrinkage, as the state could easily escape from it.

Other arguments are related to the claim that promotion of democracy does not necessarily require public funding (Tooley, 2000). Education institutions, being subsidized at large levels by the government, risk being subjected to frequent audits by the government. There is also the possibility of an inefficient allocation of resources. Moreover, it is argued that the growth of this sector will not be affected by the decline in public investment. It is assumed that higher education is a good non-resilient price and in this perspective, strategies to recover costs will not make registrations undergo significant reductions. Rather, they will increase the quality of education and students will be more accountable and pay for it, as education generates high private benefits.

## Arguments for state intervention in higher education

**Firstly**, higher education, considered as a public good, generates a number of positive externalities. Social benefits coming from more and more educated people outweigh the growth of GNP. These benefits not only apply to the educated individual but enhance the well-being of society as a whole, reduce poverty, improve health, improve income distribution, State intervention in education is justified precisely by these positive externalities (Nerlove, 1972).

**Secondly**, individuals may not be aware of the benefits of education, of their value, or they may not want to invest in education. They may just know how education affects their pay but not productivity, family health, and ability to make optimal decisions. But on the other hand, governments are well-informed and able to make optimal decisions in the field of education as well as aware of the effects of investments in this area.

**Thirdly**, state involvement in education provides equal opportunities for education, not only socially, racially and culturally, but also economically. Lack of public funding in this area would only provide opportunities for education to people who could afford it financially.

**Fourthly**, the imperfection of capital markets and asymmetric information is another argument for state involvement in the education sector (Arrow 1993). According to Ritzén, education lending markets have gaps. Lack of collateral reduces investment in education, a phenomenon that is noticed in the poorer strata. Individuals are reluctant to take credit for being educated, as they are long-term and on the other hand the benefits from education are not secure. For this reason, state funding is needed.

**Fifthly**, the field of education is subject to the economy of the scale and in this perspective we can say that the government can operate more efficiently. Increasing the number of registered students leads to a reduction in the average cost of education. Higher education is more affected by this phenomenon because libraries, scientific equipment, laboratories, etc. are used in large quantities. In this context, the government's educational monopoly is preferable.

## Some Higher Education Trends as Tradable Good

The economic reforms undertaken in developing countries have provided for a significant reduction of public spending, referring here also to the higher education sector, as well as promoting the markets in higher education. Also in some countries there has been a decline in capital and quality in terms of inputs in higher education, such as scholarships or research. Creating close ties between universities and industry and securing other non-governmental resources is a strategy that has been followed by many countries to overcome the created situation. In this context, we can say that the growth of private higher education has come from limited funding sources. Higher private education is conceived as an efficient system that improves quality and capital at the same time. In developed countries governments have taken policies that favor the growth of private higher education, The reduction of government grants or the promotion of the use of non-governmental financial resources, the appointment of industrialists to lead the higher education institutions. The trends towards private higher education are shaping in various forms as; Private state-sponsored private institutions, self-financed private institutions, private-profit private institutions. The birth of so-called "entrepreneurial universities" reflects the change of ownership, purpose, sources of income and university management, as well as the role of government in the development of higher education. Several levels of privatization of higher education have been identified (Tilak, 1991). **First**, the extreme level of privatization, according to which universities and colleges are funded and managed entirely by the private sector. **Second**, the strong level of privatization, according to which higher education costs can be covered by students, their employers, or both together. **Thirdly**, the moderate level of privatization, according to which higher education is funded mainly by the state and at a moderate level by non-governmental sources. **Finally**, the level of pseudo-privatization, which can not be considered sin privatization. In this case universities are created and managed privately but financially supported by the state. In various developing countries, various types of privatization of higher education institutions are observed.

## Higher Education Functions

The functions of higher education are constantly considered essential for the development of society and from this point of view can be listed as follows:

*Firstly*, higher education helps, through teaching and research, to the creation, advancement, absorption and dissemination of knowledge through research and teaching. It has been proven that universities are gardens of ideas, innovations and development.

*Secondly*, higher education contributes to the rapid industrialization of the economy, as it provides a skilled workforce both professionally and managerially. In the current context of transformation into knowledge societies, higher education provides not only educated workers, but workers who carry the essential knowledge of the rapid growth of economies.

*Thirdly*, universities are termed institutions of character and moral construction of individuals. They promote regular customs and create attitudes and make changes in the attitudes necessary for the socialization of individuals and the modernization and overall transformation of societies, while safeguarding and enhancing social values.

*Fourthly*, higher education also helps in forming a strong national state by creating a better citizen who actively participates in the civil, political, social, cultural and economic activities of society and helps in understanding, interpreting, Preserving, improving, promoting and disseminating national and regional, international and historical cultures in a context of pluralism and cultural diversity; And at the same time helps in the harvest of profits from globalization. Higher education also produces social and political leaders of high caliber and vision.

*Further*, higher education contributes to the development and upgrading of education at all levels and allows people to enjoy a "life of mind" by offering society both cultural and political benefits (TFHES, 2000, 37).

## Higher education as a public good

Setting education as a public good creates confusion even though we rely on a strictly defined economic notion. It points out a public good definition other than the standard economic definition to which it refers, and at the same time deviates



from this definition in several ways, gaining the characteristics of a polysemic notion. The standard definition of the public good is mathematically formalized by Samuelson (1954) but was previously carved by Musgrave (1941). According to this very limited definition, public good is the homologue of private good, and its consumption does not reduce its availability to other customers (Samuelson, 1954). The standard theory of public good takes on consideration two criteria: non-rivalry (once secured for a person, additional consumers can consume it at no extra cost) and non-exclusivity (a person can not be excluded from using a good as it is produced). Individuals by recognizing these features may be encouraged to neglect their preferences for such benefits in order to avoid taxing their use and allow others to pay. This leads the market not to be able to adequately assess the demand and such benefits are underestimated. Public goods are provided by the state as being considered as market failures. Each of us benefits from street lighting, even those who do not pay, so it can not be left to the private sector because it can not set tariffs for it. Education does not conform to this narrow definition of the pure public good, which is a good one that holds both characteristics of non-exclusion and non-rivalry. It is technically possible to exclude students from access to school, or school attendance may prevent other children from benefiting from it, as classroom capacities are limited. Yet, perceptions of education as a public good refer to more or less this standard definition. Such perceptions complement the standard definition of public good with ethical considerations and its essential line of thought with other economic theories. A widespread approach is noted, which has to do with extending the standard of public good theory by feeding it with ethical considerations. This approach explicitly refers to the standard theory of public good by interpreting it freely: education is considered non-exclusive not on technical but on ethical and / or legal grounds. Human rights belong to this category and provide a rational justification that makes compulsory education. From this perspective, education is a public good not clean after it is fulfilled only the criterion of non-exclusion. The under-education of education justifying state intervention is no longer associated with “free-rider” but with private-sector insurance. Indeed, if there are technical possibilities to exclude someone from school attendance, the likelihood of private actors being able to offer education only to children whose parents are able to pay tuition fees increases. In this context, there is a need for state intervention to ensure equality.

Perceptions of education as public good broaden the standard definition, based on other economic theories of public spending. They only hold from the standard theory the link between market failure and the necessity of state security to overcome the under-security situation and consider complementary justifications for state intervention. The identified market failure is no longer related to the problem of “free drivers” but to economic notions of lack of rationality of economic agents, imperfect information and externalities.

The first group of theoretical justifications for providing state education is about market failure due to incomplete information and lack of rational economic agents. The concept of the “good” good presented by Musgrave (1959) is consistent with this justification. Such a good thing should be subsidized or offered free, as it is argued that the individual should not benefit from it by relying on solvency or the will to pay. A large part of individuals, due to the lack of rationality or failure of information, do not show willingness to pay for education because they can not make a correct estimate of the benefits they generate. They do not take into account long-term benefits. According to Musgrave, education benefits are more clear for informed individuals than uninformed one and uneducated, even though there are financially available opportunities, do not attend all levels of education. Therefore, the state can correctly judge the needs of individuals and provide education for ethical and social reasons.

Education generates collective benefits, called positive externalities, which so far exceed individual benefits. These collective benefits imply in particular: the country's economic growth, innovation capacity and competitiveness as well as social cohesion and common values. In general, they are not taken into account by individuals who have to pay for attending school or university, and would therefore end up with low levels of education to maximize collective benefits. This case constitutes a market failure, expressed in economic terms, and demonstrates the need to provide education from the state in order to match private costs and benefits with social costs and benefits. In this respect, education is a public good that requires state intervention.

## Conclusions

The nature of higher education should be analyzed not only in terms of its internal characteristics but also of its functions and benefits. Given that education generate externalities and private benefits, education can be considered as a good mix, which at the same time shows the characteristics of public and private good. Considering the functions that higher education fulfills, higher education can be qualified as a public good, because the amount of knowledge that a student receives during university studies does not reduce the amount of knowledge that another student provides. since education generates private benefits, it should be considered as a private good. Some economists also think that education is not a pure public good, for the fact that at least some of the economic benefits of education are related to the educated person. Anyone who benefits from higher education should pay for it. According to the theory of human capital, education should be seen as an optimal decision for an investment by rational individuals. Neo-liberal policies suggest that the state should withdraw and leave room for liberalization of the markets of economic and social sectors, referring here also to the higher education sector. Higher education is considered a marketable good. Morgan analyzes some of the reasons why higher education should be seen as a private good. According to him, educational institutions, under the neo-liberal influence, have undergone a reorganization

with the private sector. This trend is also due to the pressure from public finances, accompanied by an economic tightening. The 2008 global financial crisis has highlighted such a trend as it has led to increased public utility costs, while on the other hand a lower tax regime has been a long-term trend.

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# Measuring Subjective Well-being: A Summary Review

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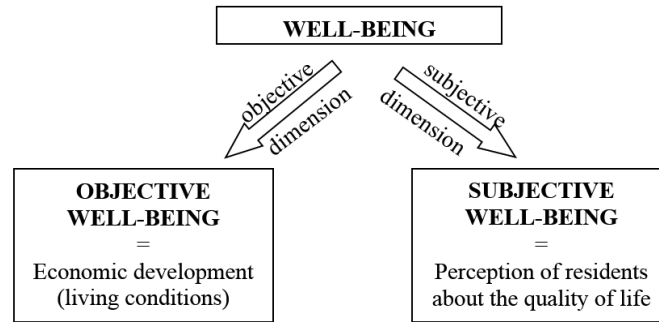
## Abstract

*This paper provides an overview of the growing literature on subjective well-being or more commonly known as “happiness”. Subjective well-being (SWB) is the scientific term for happiness and life satisfaction; thinking and feeling that your life is going well, not badly. People’s levels of subjective well-being are influenced by both internal factors, such as personality and outlook, and external factors, such as the society in which they live. Traditionally, well-being has been identified with a single objective dimension: material progress measured by income or GDP. However, it is now widely accepted that the concept of well-being cannot be captured only by GDP: well-being is multidimensional encompassing all aspects of human life. One approach to measure multidimensional well-being is to use objective indicators to complement, supplement or replace GDP. Another approach is through subjective measures: asking people to report on their happiness and life satisfaction. The paper also presents the main findings from the literature on the economic and non-economic determinants of happiness.*

**Keywords:** Happiness; Well-being; Indicators; Review of the Literature.

## Introduction

The main goal of the state, society, and human is to understand and accept that human well-being is the basis, foundation, basic premise, and an indispensable condition of a sound society and its successful development and prosperity. Currently well-being is no longer seen solely in terms of advanced material living standards and quantitative growth. Instead, the qualitative aspects and social dimension of modern progress come into play, including the structural policy and public awareness. However, the literature suggests that a clear definition and measurement of well-being is not easy and unified. Canoy and Lerais comment that although there is widespread adoption of policies aimed at prosperity, at the same time it is not clear what exactly well-being is (at the level of an individual or a society as a whole), which makes a sort of a paradoxical situation. Stiglitz et al. challenge the viewpoint that well-being is a multidimensional phenomenon based on the following key dimensions that should be simultaneously taken into account: material living standards (income, consumption), health, education, personal activities including work, political voice and governance, social connections and relationships, environment (present and future conditions) and uncertainty (economic and physical nature). The well-being of a society can be defined as a benefit for all people in the society, implying accomplishment of adequate economic development (the objective dimension of well-being) and the resulting positive perception of people towards the proper stage in the society, i.e. the quality of life (the subjective dimension of well-being). The authors share the opinion that objective well-being can be equated with economic development (which is sustainable), i.e. real, objective living conditions. Furthermore, subjective well-being, though differently defined in psychology, corresponds here to the perception of residents about the quality of life.

**FIGURE 1:** Dimensions of well-being

Source: Ivković and Mijoč, “Measuring Objective Well-Being and Sustainable Development Management”, 2014

The well-being of a society can be understood as a consequence and the function of actual living conditions (objective well-being) and as a result of these conditions from the perspective of an individual or observed level of that society (e.g. community), i.e. the effects of these conditions in the community on individuals depend on how the individuals perceive them, what they think and feel about them, what they take and what consequences their action entail (subjective well-being). Böhnke points out that the indicators of subjective well-being possess a potential to provide comprehensive information about how people evaluate the living conditions in a country and what impact these conditions have on the attitudes, satisfaction, preferences and perceptions of the society.

The following paper explores the growing literature on subjective well-being. Second part briefly reviews the measure of well-being. The third part analyzes the meaning, importance and determinants of subjective well-being. The fourth part analyzes why happiness is relevant for economic research and policymaking. Fifth part discusses the main findings from the literature on the economic and non-economic determinants of happiness. The last part discusses the conclusions.

## Measuring Well-being

GDP has long been used as a measure of a population’s well-being, but there is a growing interest among policymakers and researchers to go “Beyond GDP” (Fleurbaey 2009) – to find better measures of a person’s actual lived experience than the value of her income or expenditure. One idea is to directly ask people about their well-being. Recently investigated survey measures of ‘subjective well-being’ (SWB) have primarily focused on measuring aspects of SWB such as happiness and life satisfaction. The basic problem faced by single-question SWB measures (such as happiness or life-satisfaction questions) is that they do not manage to capture all the well-being aspects that enter into preferences. Indeed, a consensus is emerging among researchers that well-being is multidimensional, and more than one survey question is needed to assess it. In general, well-being measures can be classified into two broad categories: *objective* and *subjective* measures. The first category measures well-being through certain observable facts such as economic, social and environmental statistics. People’s well-being is assessed indirectly using cardinal measures. On the other hand, subjective measures of well-being capture people’s feelings or real experience in a direct way, assessing well-being through ordinal measures (McGillivray and Clarke 2006; van Hoorn 2007). Traditionally, well-being has been identified with a single objective dimension: material well-being measured by income or GDP. It then expanded to such measures as income per capita and poverty.

While it is often asserted that economists are primarily concerned with GDP levels and growth, it is important to step back a little and remember that what matters most as an “objective function” is people’s well-being. A fundamental assumption of standard economic analysis is that people’s well-being increases with consumption (of food, clothing, housing, entertainment, and many other goods and services). It is primarily due to this assumption that GDP—all that is produced, and therefore either consumed or invested by a country in a year—is so often taken as the yardstick of well-being and progress. The fact that GDP is the sum of consumption and investment should, by itself, give an indication that GDP may not be the ideal yardstick of well-being. If large increases in GDP take the form of growth in investment rather than consumption, then GDP itself does not necessarily mean improved well-being. Currently, for the purpose of assessing achievements of an economy in a given period of time or at some point in time, i.e. for evaluating and measuring economic performance, there are other economic indicators beside GDP, such as the inflation rate, unemployment rate and balance of payments (i.e. net exports). Therefore, economic performance can be identified only with the economic dimension of objective well-being with, naturally, economic growth at its center.

## Measuring Subjective Well-being

Another approach to measuring multidimensional well-being is through subjective measures: self-reported happiness and life satisfaction. For many centuries the subject of happiness was the realm of theologians and philosophers but recently it

transcended into social sciences, first in psychiatry and since 1950 into mainstream social sciences and economics (Easterlin 2004). Subjective well-being (SWB) refers to how people experience and evaluate their lives and specific domains and activities in their lives.

McGillivray and Clarke (2006, p. 4) state that “*subjective well-being involves a multidimensional evaluation of life, including cognitive judgments of life satisfaction and affective evaluations of emotions and moods.*” Some economists use the phrase “subjective well-being” as a synonym for “*happiness*” but in psychology, happiness is a narrower concept than SWB.

Bruni and Porta (2007, p. 18) provide some clarification on the differences between happiness and SWB. They point out that “*Psychologists distinguish among 1) life satisfaction which is a cognitive element 2) affection, the affective element and 3) subjective well-being (SWB), as a state of well-being, synthetic of long duration which includes both the affective and cognitive component.*” Other explanations which they provide: SWB is comprised by four components: 1) pleasant emotions 2) unpleasant emotions 3) global life judgment (life evaluation) and 4) domain satisfaction (marriage, health, leisure etc.). Happiness on the other hand, is a narrower concept than SWB and different from life satisfaction: although both happiness and life satisfaction are components of SWB, life satisfaction reflects individuals’ perceived distance from their aspirations while happiness results from a balance between positive and negative affect. In this approach, SWB is a synonym of “being happy” (the Aristotelian approach of happiness as Eudaimonia) whereas concepts such as “satisfaction” and “happiness” are considered “feeling happy” (a hedonic approach) (Bruni and Porta 2007, p. 18).

## Evaluative Well-Being

Measures of evaluative well-being are designed to capture judgments of overall life satisfaction or fulfillment; these judgments may be applied to specific aspects of life, such as relationships, community, health, or occupation, as well as to overall evaluations. An example of a question phrased to measure evaluative well-being—one recommended by OECD (2013, p. 253) and based on the World Values Survey—is “Overall, how satisfied are you with life as a whole these days?” Although OECD has proposed a scale from 0 to 10 for this question (OECD, 2013, p. 254), different scales have been used for versions of the question by other surveys, including the UK Office for National Statistics (ONS), the French national statistics office, the British Household Panel Study, the Canadian General Social Survey, the German Socioeconomic Panel, and the European Social Survey.

## Experienced Well-Being

Measures of Experienced Well-Being are designed to reflect some combination of “positives,” such as pleasure, joy, contentment, or happiness, and “negatives,” such as suffering, distress, sadness, stress, or worry. These measures are obtained from personal (subjective) reports that are made either in real time or shortly after an event has occurred. The distinction between positive and negative emotions (or affect) is essential, as evidence is conclusive that one is not simply the inverse of the other. And there is little doubt that positive and negative dimensions track at least partially independently of life satisfaction and of each other. Additionally, other dimensions of Experienced Well-Being, such as anger or arousal, which relate to positive and negative emotions in a range of ways, are important. Sensations such as pain may also figure into emotional states and into hedonic assessment of those states. Finally, cognitive appraisals of the meaning, purpose, or worthwhileness of current activities may also be included in the Experienced Well-Being construct.

## Eudaimonic Well-Being

Eudaimonic well-being refers to people’s perceptions of the meaningfulness (or pointlessness), sense of purpose, and value of their life—a very broad set of considerations. The ancient Greek concept of eudaimonia implies a premise that people achieve happiness if they experience life purpose, challenges, and growth. “Flourishing” is a term that has been suggested (Keyes, 2002) as capturing the essence of this dimension of well-being. An example of a eudaimonic question—developed by ONS for the Annual Population Survey—asks respondents, “Overall, to what extent do you feel the things you do in your life are worthwhile?” In this case, a 0 to 10 scale is used, where 0 means the respondent feels the things they do in their life “are not at all worthwhile” and 10 means “completely worthwhile” (OECD, 2013, p. 253).

## Determinants of Happiness

### Economic Determinants of Happiness

#### *Happiness and income*

##### *Happiness and Income across Time: The Easterlin Paradox*

Does higher income lead to more happiness? In 1974 Easterlin showed that, for the United States, individually self-reported happiness increased with individual income, although there were rapidly “decreasing happiness returns” to increases in income. The cross-individual relationship between income and happiness was found to be far from linear, and essentially



flat for high levels of income. Although this is consistent with the diminishing returns to increases in consumption that are typically assumed for theoretical utility functions, there is debate on this topic. Thus, Easterlin found clear evidence of a positive effect of income on happiness at the individual level, in-line with the assumptions of standard economic theory but in contrast with the findings of objective measures of quality of life (Easterlin 1974). However, Easterlin also found in the same study that aggregate national happiness over time was essentially flat, seemingly irresponsive to sustained increases in GDP per capita. This finding is often known as the “*Easterlin Paradox*” in that growth in per capita income is not reflected in increasing happiness.

#### *Happiness and Income at one Point in Time*

What happens when we compare happiness indicators with different income levels across countries at one point in time? Cross-country evidence suggests that the relationship between economic development and happiness is curvilinear: as income per capita increases, happiness increases steeply up to a threshold of \$10,000 (Inglehart 2000). From then onwards, levels of happiness are very weakly correlated with further increases in income per capita. This “threshold” hypothesis states that above some critical level of GDP, income has no effect on happiness. Some supporters of this view explain that income improves happiness only when basic needs are met. But beyond a certain level, income does not matter for happiness (Veenhoven 1991). Inglehart (2000) points out that society at early stages of development put a very high price on economic growth. However once they move beyond a certain threshold, they demand better quality of life with such concerns as environmental protection, friends and a good family life (Clark, Frijters and Shields 2008). Thus, under this theory, the relationship between income and happiness is curvilinear.

However, other authors challenge this curvilinear relationship. Prolonged time series are unavailable for developing countries but looking again at the case of Japan raises doubts about the curvilinear relationship (Esterlin 1995). He takes the example of Japan, which was a very poor country in 1958, although it was beyond subsistence levels. It advanced from income levels that were lower than or equal to those prevailing in many of today’s developing countries, without impacting subjective well-being. In the words of Easterlin, “...the magnitude of Japan’s subsequent advance in living levels does encompass a transformation from a ‘subsistence level’ of consumer durables to plenitude, with no impact on subjective well-being” (Easterlin 1995, p. 40-41). An important aspect of cross-country evidence is that they include countries in the Former Soviet Union (FSU) which are outliers: they report much lower levels of subjective well-being than poorer countries (such as India and Nigeria). Deaton (2008a) shows that even though economic conditions have improved in FSU countries (12 of the world’s 20 fastest-growing economies between 2000 and 2003 are in this group) life satisfaction scores are very low. He finds that “low satisfaction ratings from high-growth countries in these regions largely account for the seemingly paradoxical finding that overall across the 132 nations studied, income growth is negatively related to life satisfaction” (Deaton 2008a). In another study Deaton (2008b) finds that the threshold effect explanation of income and happiness is not accurate: the correlation between income and life satisfaction is very high but remains positive and substantial, even among rich countries.

#### *Happiness, Unemployment and Inflation*

The literature on happiness has expanded to explore how other economic variables such as unemployment, inflation and business cycles relate to happiness. These studies can be an important guide for policymakers. For example, when considering monetary and fiscal policies that will impact inflation and unemployment, they can analyze the magnitude of their effects in terms of reduced happiness.

According to Di Tella and MacCulloch (2006) standard macroeconomic theory assumes that social welfare is reduced both by a higher rate of inflation and by a higher rate of unemployment. This literature has been subject to both a fundamental critique and a question about magnitudes. The fundamental critique is that nominal aspects of an economy like inflation should be of no consequence to rational people (Di Tella and MacCulloch 2006). Their study presented a new approach to study standard questions in macroeconomics. It studies reported well-being data on a quarter of a million people across twelve European countries and the United States. They found that people appear to be happier when inflation and unemployment are low. Consistent with the standard macroeconomics textbook’s assumption that there exists a social objective function  $W(\pi, U)$ , randomly sampled individuals mark systematically lower in well-being surveys when there is inflation or unemployment in their country. The rates of price change and joblessness affect reported satisfaction with life after controlling for the personal characteristics of the respondents, country fixed effects, year effects, country-specific time trends, and a lagged dependent variable. A large literature in economics has tried to measure the losses from inflation. By examining the appropriate area under a money demand curve, Martin Bailey (1956) and Milton Friedman (1969) originally concluded that inflation has only small costs. Similarly, Fischer (1981) and Robert Lucas (1981) find the cost of inflation to be low, at 0.3 per cent and 0.45 per cent of national income, respectively, for a 10 per cent level of inflation. The numbers implied by their happiness-equation estimates are consistent with larger welfare losses. At the margin, unemployment depresses reported well-being more than does inflation. In a panel that controls for country fixed-effects and year effects, the estimates suggest that people would trade off a 1 percentage point increase in the unemployment rate for a 1.7 percentage point increase in the inflation rate. Hence, according to these findings, the famous ‘misery index’  $W(\pi+U)$  somewhat under-weights the unhappiness caused by unemployment.

#### *Happiness and Inequality*

Moreover, there is some evidence that inequality is negatively related with happiness. Alesina, Di Tella and MacCulloch (2001) find that there is a large, negative and significant effect of inequality on happiness in Europe but not in the U.S. They

also find that the distaste for inequality is concentrated in some groups in Europe, mainly the left and poor. In the United States inequality generated unhappiness is only for a sub-group of rich, left-wing people. Two explanations are presented: the first is that Europeans prefer equal societies. The second is that the U.S. is a more mobile society, thus the poor know that their current situation is not fixed. The authors favor the hypothesis that inequality affects European happiness because their societies are characterized by lower social mobility than the U.S.—since they did not find preference for equality in Europe amongst the rich or the right.

## **Non-economic Determinants of Happiness**

Non-economic determinants of happiness such as socio-demographics and institutional factors are reviewed and main findings from different studies are presented. Studies have found that socio-demographic factors affect happiness and people have an incomplete adaptation to life events. Recent research on institutional variables—such as social capital and democracy—are also found to be associated with happiness.

### ***Socio-demographic Variables***

Although socio-demographic variables might not be as relevant from an economic standpoint (they cannot be easily controlled, such as age, gender, and marriage) they have an effect on happiness and thus should be included as controls in regression analysis to avoid generating biases in the estimations (Frey and Stutzer 2002). More fundamentally, these socio-demographic factors take us back to the discussion of set point theory and adaptation. Many studies have found that people completely adapt to changes in income yet they have an incomplete adaptation to other life events; that is their level of happiness is permanently affected by things such as a severe injury, widowhood and divorce, amongst others (Easterlin 2004).

### ***Institutional Variables***

There is also evidence that shows that institutions are strongly correlated, across countries, with happiness. The deepness of democracy and the extent of political, economic, and personal freedom correlate strongly with reported happiness across countries (Frey and Stutzer 2002). However, these cross-country correlations should not be taken as a proof of causality.

A study of 6,000 residents of Switzerland shows that taking other things constant, individual are happier the more developed the institutions of direct democracy and government decentralization in their area of residence (Frey and Stutzer 2000). Veenhoven (2003) studies how freedom in nations can affect the happiness of citizens. He finds that freedom does not always breed happiness. He shows that freedom is positively related to happiness among rich nations, but not among poor nations. Opportunity for free trade is positively related to happiness in poor nations, but not in rich nations. Similarly, the relation between economic freedom and happiness is strongest in nations where capability to choose is lowest.

## **Why is Happiness Relevant for Economic Research and Policymaking?**

Happiness can guide policymaking by studying its determinants. For example, certain policies that affect employment and inflation can be evaluated with respects to how they change happiness levels. One can analyze the trade-off in terms of happiness between inflation and unemployment and thus opt for a policy that minimizes the loss of happiness. Institutional conditions can have an impact on happiness, so increasing transparency, accountability and social cohesion maybe desirable from the point of view of increasing subjective well-being (Frey and Stutzer 2002). Happiness research can illuminate economic theory, adding new knowledge. It can advance on the theory of how people make choices and what drives the utility function. Happiness research is also useful to challenge existing views, such as that non-economic variables have no impact on self-reported satisfaction or that work is considered a burden for people (Frey and Stutzer 2002, 2007; Layard 2007).

Many criticisms have been levelled at the use of happiness science to inform policy. Three of the most pertinent criticisms will be discussed here: that survey measures of happiness are too insensitive to be useful, that we cannot know what measures of happiness are really measuring, and that the wrong kind of happiness is being measured.

### ***Are happiness scales insensitive?***

Johns & Ormerod (2008) claim that time series happiness data are insensitive. A statistical measure of a dependent phenomenon can be said to be insensitive if its results do not demonstrate statistically significant changes in response to changes of input variables that there is good reason to believe should effect a statistically significant change in the dependent phenomenon. Put simply, if time series happiness data are insensitive, then the happiness scores will not change enough in response to environmental changes for us to be 95% confident that the small changes in the happiness scores are not simply a product of chance.

### ***Do measures of happiness really measure happiness?***

There is a range of survey questions about happiness and well-being, many of which are worded very differently; some ask about positive and negative feelings, satisfaction with life, whether you would change anything about your life, and, of course, happiness. The results of these diverse survey measures collectively referred to as subjective well-being or happiness measures

are what policymakers are considering using to guide their policy decisions. However, appropriate questions to ask include: are these surveys actually measuring happiness or well-being? And, is one person's happiness the same as another's?

### ***How do we know if we are measuring the right kind of happiness?***

Many social scientists and philosophers recognize that the different kinds of questions used in subjective well-being surveys often endorse one particular theory of well-being (e.g., Feldman, 2010; McDowell, 2010). Do these differences matter if the measures are assessing something that is obviously good? As will be discussed, policy-relevant research suggests that, yes, they do. What if findings based on different measures of well-being imply different policies? This is not just a theoretical problem, as many seemingly contradictory results from 'happiness science' show. For example, Kroll (2010) states that it is received wisdom amongst happiness researchers that increases in annual income (over about 10,000 Euros) have no effect on the average reported happiness in a country. However, other happiness researchers (e.g., Deaton, 2010) have found a statistically significant relationship between income and reported happiness in rich, as well as poor, countries. However this is no contradiction and no reason to think that happiness research is unreliable, since Deaton used a different measure of happiness to the measure used by the researchers Kroll was referring to.

## **Conclusions**

This paper provides a general survey of the literature on measuring the subjective well-being, examining both the theory that underlies the work in this area and the results of empirical studies. There is a growing interest among policymakers and researchers to go "Beyond GDP" - to find better measures of a person's actual lived experiences than the value of her income or expenditure. Although happiness indicators can shed new light for economic research and policy, as well-being measure, it has also received a number of criticisms. We can conclude that both objective and subjective measures are important for measuring well-being; none should be used exclusively to make a complete assessment of human welfare.

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# Household savings: Determining factors, optimal level and the way to achieve it

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## Abstract

*The main concern of this study is what would be the best recommendation that an economist could give to policymakers in order to influence the level of household savings. We first, made a theoretical analysis of what factors affect savings and what level of savings should be considered optimal for various types of households. We then identified the current level of savings in Hungary using data provided by the Hungarian Central Statistical Office in order to successfully create a predictive model that can identify potential factors that have a large effect on savings. The results of our analysis could help policymakers to reach optimality in household savings with a minimum number of steps in various scenarios as well as evaluate their current state and predict future ones.'*

**Keywords:** household savings; determining factors; optimal level; Hungary

## The importance and limitations of the topic

This study aims to find the most accurate way a country can achieve optimality in its households savings rate. This aim itself consists of two main parts: finding how a country's household saving rate can be predicted and defining what optimality means in terms of savings. Studying the field of savings is motivated by the importance that they have for an economy and from the concerns of the policymakers whether a relationship between savings and economic growth exists, in what economies is this relationship strong, etc. Moreover, the evolution of the financial systems is creating rapid changes to the environment in which economic agents are operating in the last decades. That means that it is of great interest to the policy makers to find out how savings have reacted to those changes (Nyhus, 2002).

The importance of studying about savings consists in the fact that it contributes to the better planning of public policies. Tucker (1991) argues that economic history has revealed that the measures taken in order to stimulate savings have been inadequate and have failed to produce positive results. That means that it is of great interest to find the factors that affect savings.

*"The identification of these factors can improve the creation of more effective policies",* explains Nyhus (2002), who focused on the psychological factors that affect savings.

Furthermore, the savings-related analysis is important for the financial institutions. This, because the savings of economic agents are at the same time the funds that these institutions accumulate in order to function. That is the reason why the accurate prediction of savings is important for these institutions. In addition, knowing more about savings can give these institutions information about what kinds of services should they offer or what the risk of giving out a loan is. For instance, the way that a financial institution in Belgium, which has a long history of high rates of savings, operates, is different from one in the USA, where the level of savings is extremely low and consumption is financed by borrowing (Leetma, Rennie and Thiry, 2009).

The limitations of making this study, which will also be considered the main assumptions that we will make, are the lack of capital movement (cash flows or cash outflows and human capital) and the absence of the impact of a period of time in



the following period. Both assumptions aim to simplify the analysis. The reasoning behind this is that many factors such as the exchange rate, the rate of population growth, the interest rates etc which are considered important in the analysis can be affected by the external environment of an economy and, consequently, predicting and controlling them becomes impossible. The same reasoning can be applied to the second assumption with the addition that not taking into consideration the effect of one period to another technically makes easier the creation of the econometric model that predicts savings.

## Factors affecting savings

### Government/Financial System

This category includes all the factors that either the government or the central bank can have a great impact on. Fortunately, there is a relatively large number of factors in this category which means that the government has a variety of "tools" to use in order to influence the level of savings and direct it to the optimal level (Smith, 1990).

#### *Taxation*

Regarding the impact of fiscal policy on the level of savings, there is a wide literature that has been going on in the last 30 years. This is probably because policymakers are trying to identify those factors that affect savings and at the same time can be easily affected by them. The main assumption we will take in order to analyse the link between the taxation policy and the savings level is that relatively wealthy families save a larger share of their income than the poor ones. In addition to the intuitive reasoning that poorer economic agents will spend a larger part of their portfolio for everyday necessary spending, there is a large number of studies that support this view (Smith, 1990; Fan, 2006; Dynan, Zeldes & Skinner, 2004). The latter argued that individuals with higher incomes have a higher tendency to save because they have a bigger motivation to leave their descendants an inheritance. Consequently, lowering the tax burden on wealthy agents under this argument would increase the level of savings.

#### *Budget Deficit*

The influence of this factor has its roots in the Ricardian Equivalence theory. According to this theory when the government lowers government tax rates, increasing the budget deficit, individuals increase their savings because they predict that at some point in the future we will have a tax increase to cover this deficit again. For the existence of this connection, there are doubts that have been argued both theoretically and practically. For example, Loayza, Klaus Schmidt-Hebbel and Servén (1999) find that this effect of the budget deficit is not full (in the short run the increase of the BD with one monetary unit increases the savings with 0.29 monetary units and in the long run by 0.69) The same authors point out that this relationship varies from one country to another (2000). While Doménech, Taguas & Varela (1997) find this connection is so weak that we can assume it does not exist at all.

#### *Exchange Rate*

As in an economy always exist agents who consume import good, the exchange rate relationship with the level of savings is expected to be negative. This is because a decrease in the exchange rate increases the agents' real income (with the same amount of money we can buy more import goods) and consequently increases the level of their savings (Montiel & Servén, 2009)

#### *Pension System*

The pension system and specifically retirement age have a direct impact on the level of savings. A reduction in the retirement age increases the funds that an individual needs to finance his "after retirement" consumption and thus s/he will increase his/her savings (Gatt, 2014). The theoretical basis of this relationship lies in the life cycle hypothesis which states that individuals tend to save during the working period of their life so that they can use those savings during the non-working period.

### Economic characteristics

#### *Rate of Growth of National Income*

In many empirical studies it has been shown that the impact of the rate of growth of the national on the level of savings is positive (Loayza, Schmidt-Hebbel, & Servén 2000; Wojewodzki, 2011; Saltz, 1999). If revenues grow at a faster pace, consumers will increase both their consumption and their savings. This means that the faster an economy increases its per capita income, the faster it is expected to increase its savings (Saltz, 1999). On the other hand, there are studies that find an effect on the level of savings in national income but not the reverse (Misztal, 2011).

#### *Size of the Industrial Sector*

Assuming that the profit per unit of invested capital in the industry is higher than that invested in agriculture and that the savings made from profit are higher than wages, then the countries with a larger industrial sector will have a higher level of savings. (Cook, 1997)

***The level of insecurity***

The level of uncertainty of economic agents in an economy is also a determining factor of the level of savings: the greater the uncertainty of individuals, the higher the level of savings is expected to be. The way how uncertainty can be measured is inflation or unemployment rate (Gatt, 2014). As to the impact of inflation on the level of savings, it is argued (Wachtel, 1977; Campbell & Lavatj, 1979) to be positive. This is because the rise in the overall price level creates uncertainty, and uncertainty is an additional motive to save more. Regarding unemployment, it is difficult to determine its effect because, on the one hand, individuals who remain employed will increase their savings if unemployment increases, but on the other hand individuals who lose their jobs will lower their savings and as a result the overall level of savings. To measure the level of uncertainty, we will also use other variables such as the level of corruption control and the consumer confidence index (CCI). The latter is an index that shows the level of optimism of individuals for the current and future economic situation. When the index is high it will be expected a decrease in uncertainty and as a consequence of the savings level (and vice versa).

***Interest rates***

The effect of interest rates on savings may be positive or negative. This is because, on the one hand, an increase in interest rates will motivate people to save more, but on the other hand, those who have received loans will be forced to pay higher interest costs and thus, lower their savings (Gatt, 2014). The negative effect of interest rates will be related to lending interest rates, while the positive effect on interest rates on deposits.

**Demographic characteristics**

The third category of factors that influence the savings are the country's demographic characteristics, hence the characteristics that determine the structure of a population. As such factors, which are generally accepted as determinants of savings, we will use the country's population growth rate, population's age structure (dependency ratio), education level and urbanisation level (Barry Bosworth & Gabriel Chodorow-Reich, 2006;).

***Population growth rate***

Many previous studies have analysed the relationship between the country's population growth rate and the savings rate. For instance, Christofer Cook (2005) argues that the effect of higher rates of population growth can not be determined *à priori*. This happens because there are two contradictory effects of this factor on savings: first, a higher rate of population growth results in a larger number of potential savers who in the future will increase the level of domestic savings; secondly, a higher rate of population growth results in a decrease in the country's savings level due to the increase in the expenditure of each household (because the number of children in each household increases).

***Population's age structure***

Like the population growth rate, the age structure of a population has also been identified as one of the determinants of savings. The idea here is that the greater the number of economically dependent persons (people under 24 and over 65) in a family, the higher the expenses of the employed members and consequently the lower the savings level will be. The theoretical basis of this argumentation is the life cycle hypothesis: individuals save during the period they work to be able to consume during the period they do not work. Leff (1969) argues that children account for a large increase in spending (contributing to consumption) of households, but not to production (they do not contribute to income growth), which creates a barrier to savings. In addition, Collins (1991), collecting data for nine Asian countries and Turkey, found that countries with a decrease of the dependency ratio from 40% to 30% noticed a larger increase in their savings. However, it is worth adding that there are studies that do not find any statistically significant relationship between the savings level and the dependency ratio (Jinwoo Hyung, 2013)

***Education level***

The level of education is another factor that can change savings. The relationship between the two variables is analysed by Jean and Grinstein-Weiss (2005) while studying a group of 2,150 people found that the level of savings is higher for individuals who have a university degree. This is something that is expected because an individual with a relatively high education level (and consequently a better economic education) will have better knowledge of formal ways of saving, so s/he will use, for example, a bank deposit instead of putting his/her savings under the mattress. Also, the level of education is a determinant of the individual's income, which affects the level of savings.

***Urbanization level***

The level of urbanisation of a country can affect in two ways the level of savings. On the one hand, a high level of urbanisation means higher incomes, greater access to financial products, a higher chance that an individual will be included in social security, etc., meaning that they will increase their savings. On the other hand, the urbanisation process increases living costs for individuals living in cities, therefore they spend a large part of their income and thus save less. (Akhtar, 1987)

***Index of economic freedom (property rights)***

Economic freedom is defined as the freedom of individuals to offer their work, to produce, to consume and to invest in the way they want (Terry Miller & Anthony R. Kim 2016). The Economic Freedom Index includes ten factors, among which we

will focus on the right of ownership. The greater the insurance of this freedom, the higher the level of savings. This is because saving is a process that lasts for a large period of time (in many cases the economic agents save in order to leave the future wealth generation) and if their full right over these savings is not secured at this the saving process will be discouraged.

## Measuring the relationships

### Finding the data needed

The reason why Hungary is the objective of this study is that its Statistical Office provides a well-organized database with some variables that contribute to the process of building the econometric equation that forecasts the savings level. However, data is also collected from other sources but we have tried to use as few as possible in order not to burden the study with errors that may come as a result of changes in the way data is being computed. The main sources used are the Hungarian Central Bureau of Statistics, the OECD and the World Bank. Also, some variables are based on our corrections and calculations. The program used for the analysis is SPSS.

### Econometric Evaluation

Theoretically, the econometric equation will be:

$$\text{Savings} = \beta_0 + \beta_1(\text{taxation policy}) + \beta_2(\text{deposit interest}) + \beta_3(\text{credit interest}) + \beta_4(\text{population growth}) + \beta_5(\text{exchange rate}) + \beta_6(\text{inflation}) + \beta_7(\text{industry sector}) + \beta_8(\text{unemployment}) + \beta_9(\text{BD}) + \beta_{10}(\text{CCi}) + \beta_{11}(\text{corruption control}) + \beta_{12}(\text{logGDP per capita}) + \beta_{13}(\text{education}) + \beta_{14}(\text{urban population}) + \beta_{15}(\text{EFi}) + \beta_{16}(\text{dependency ratio}) + \beta_{17}(\text{pension system})$$

## Results

### Estimation of the results

In this part, we will move from the theoretical analysis to its practical application. We will build the econometric equation that predicts the level of savings depending on the factors explained above (after we have done the necessary tests that need to be met to have a more accurate equation). The estimated econometric equation will be:

$$\begin{aligned} \text{Savings} = & -94.44 - 8.05(\text{taxation policy}) - 0.11(\text{deposit interest}) - 0.27(\text{credit interest}) + 6.16(\text{population gr.}) - \\ & (135.5) \quad (2.12) \quad (0.13) \quad (0.18) \quad (3.34) \\ & 0.095(\text{exchange rate}) + 0.3(\text{inflation}) + 0.09(\text{industry sector}) - 2.85(\text{unemployment}) + 0.17(\text{BD}) + 2.57(\text{CCi}) \\ & (0.01) \quad (0.18) \quad (0.26) \quad (0.63) \quad (0.12) \quad (0.4) \\ & + 12.9(\text{corruption control}) - 51.8(\text{lnGDP per capita}) + 0.03(\text{educ.}) + 12.18(\text{urban population}) + 0.78(\text{EFi}) + \\ & (4.32) \quad (7.8) \quad (0.01) \quad (2.73) \quad (0.25) \\ & - 10.2(\text{dependency ratio}) - 1.4(\text{pension system}) \\ & (2.34) \quad (0.69) \end{aligned}$$

n=21, R<sup>2</sup>= 0.998, R<sup>2(adj)</sup>= 0.984

### The economic and statistical significance of the results

The statistical significance of variables is a very technical process that can be done by comparing the value that has resulted from the econometric study with the critical values of the level of importance the researcher has chosen. The test we will use is two-sided and will be formulated as follows: If  $-t_{\text{critical}} < \text{absolute} = (b_i / \text{standard error}) < t_{\text{critical}}$ , then the influence of the independent variable on the dependent will be statistically unimportant.

Regarding the economic importance of a factor in predicting the dependent variables, this may not always be consistent with the statistical significance. For example, a factor may have such an insignificant (small) impact that even though this impact is statistically significant, it does not matter much. In our study the critical t (two-sided) value for a degree of freedom (n-1) = 21-1 = 20 and the significance level of 5% is:  $t_{\text{critical}}$ : 2.08.

**TABLE 1.** The economic and statistical significance of the determining variables

Variable	Economic significance	Statistical Significance $t_{\text{critical}} \sim t_{\text{absolute}}$
Taxation policy	Switching from flat to progressive taxation reduces savings by 8.05 percentage points. (Relatively large economic importance)	significant

Budget deficit	-	NOT significant
Exchange rate	The increase in the exchange rate with one currency unit decreases the savings by 0.09 percentage points (relatively small economic importance)	significant
Pension system	The increase in retirement age by one year decreases the level of savings by 1.4 percentage points (relatively high economic importance)	significant
National income	GDP / capita growth by 1%, lowers savings by 0.51 percentage points (relatively small economic importance)	significant
Industrial sector	-	NOT significant
Inflation	-	NOT significant
Unemployment	Unemployment growth by one percentage point lowers savings by 2.85 percentage points (relatively high economic importance)	significant
CCi	CCi growth by one point increases the savings level by 2.5 percentage points (relatively small economic importance)	significant
Control of corruption	Increasing the corruption control index by one point increases the level of savings by 12.9 percentage points (relatively high economic importance)	significant
Interest rate (deposit)	-	NOT significant
Interest rate (credit)	-	NOT significant
Population growth rate	-	NOT significant
Dependency ratio	Increasing the dependency ratio by one percentage point lowers the savings level by 10.2 percentage points (relatively high economic importance)	significant
Education level	The growth of educated individuals with 1000 people increases the level of savings by 0.03 percentage points (relatively small economic importance)	significant
Urbanization level	Urban population growth by one percentage point increases the level of savings by 12.18 percentage points (relatively high economic importance)	significant
Economic freedom index	The growth with one-point of the economic freedom index increases the level of savings by 0.78 percentage points (relatively small economic importance)	significant

Source: Authors' Calculations

## The desired result: optimum savings

Determining an optimal level of concepts such as savings is a difficult theoretical and even more practical process because of the large number of parameters that can affect it. What can be said is that a relatively high level of savings is one of the characteristics of economies that have shown a great development lately.

The high level of savings translates into a high offer of investment funds, a faster technological development (Aghion & Howitt, 2005), productivity growth, a low public debt level, etc. As a result, it would be logical to assume that the optimal level of savings matches the maximum level that an economy can save. But on the other hand if we have that level of savings won't the consumption level decrease and as a result, won't investments be discouraged? Is there another level of savings lower than the first one that can be considered optimal? These questions will be analysed below.

## The capacity of an economy to save

The maximum ability of an economy to save depends on the maximum ability of each individual to save. This can be defined as the amount that remains of the income of individuals after they have made the absolutely necessary expenses for their livelihood. This spending level, which is called the minimum living, contains all the expenses of a family to have a standard of living and meet their everyday needs [Hungarian Central Statistical Office, 2013].

It is important to point that the living standard does not represent a level of income at the poverty line, but a level that allows meeting more needs than those of the poverty line. Firstly, the minimum living is calculated on the basis of that level

of food consumption, which is considered healthy and recommended by the relevant state institute. Moreover, living expenses will include housing, water, electricity, health, transport and communication services, which provide a living level above the poverty line. Hungary is a country that has calculated the minimum living since 1990, This is the maximum level of savings that families of an economy can achieve. By minimising their consumption at a level acceptable to society, they will have the highest possible savings.

Nevertheless, can that be an optimal level for an economy? The answer is no. Such an elementary consumption level that translates into a maximum savings level will probably affect the long-term economic growth but will be relatively difficult. This is because if individuals at any time period  $T$  make maximum savings, that means that they delay the consumption of some goods in the period  $T_{\infty}$ , so they practically do not consume it at all. Such goods are homes, education, automobiles, technology products, luxury goods, entertainment, etc., meaning products/services that will not be consumed if the maximum savings level is maintained and consequently their non-consumption will discourage investment and growth.

So, on the one hand, there will be a supply of funds to make investments, but on the other hand, the investment initiative will be low. In conclusion, this level of savings should not be the policy-makers' goal when they draft policies to influence the level of savings.

### **The level of savings to achieve goals like education, ownership of a home, retirement and safety**

Rather than trying to reach the maximum savings level explained above, another argument would be to encourage that level of savings that is sufficient for families to provide their children's education, to own a home, some extra income for their retirement and for a rainy day. Such a level of savings would ensure a high level of prosperity not only for future generations (due to the economic growth that will result from these savings) but also the current one. That is why such a level of savings can be considered a good for a country: families of this period do not reduce their consumption at levels that discourage investment, but on the other hand, save to the extent that they need to achieve the goals and to ensure the well-being of future generations. Well-being and economic growth for future generations are ensured not only because of the high level of savings but also because these savings will be used for purposes such as investing in human capital, securing real estate, etc. The latter, results from studies that focus on family incentives to save.

The main motives for saving are considered savings for a pension, home ownership, child education and owning an amount of money in case of loss of employment or lack of liquidity (Nam, McMahon, Lee & Sherraden, 2014; Bricker, 2012). The way this savings level is calculated is by calculating the amount needed to achieve each of the purposes set out above:

**Saving for a "Rainy Day":** Represents the level of savings needed to cover the main expenses, when family income is too low (income shock). The main reason why this can happen is the loss of a job or sudden salary reduction (Chase, Gjertson, & Collins, 2011). We will assume that an individual needs to save a sum that can cover his expenses from the period of termination of unemployment insurance (UI) until he finds a new job. This period shall be equal to the length of unemployment minus the duration of the benefit of the insurance.

The level of savings will be equal to the production of the time calculated above with the minimum living that was analysed in the previous section. We will also assume that a relatively good time to reach this level of savings is 5 years and that the interest rate remains constant.

"Savings for a rainy" day = minimum living \* (period of unemployment - UI period) What individuals want is that after 5 years to have in their bank account an amount of money equal to savings for a "rainy" day. The amount they will have to save each year will be equal to:  $K1 = \text{Savings for a "Rainy Day"} / FViFA (5 \text{ years}, i)$ .

**Savings for real estate:** The level of real estate savings will be determined as the amount of money that a household needs in order to buy a home. In a similar study by Nam, Lee, McMahon & Sherraden (2014), who calculated this level of savings, it was argued that the savings that a household should do are not equal to the home price, but 20% of it. This is because this amount constitutes a down payment that the family has to provide to ensure the purchase of a home while the rest is assumed to be secured by credit.

But this makes it inevitable to refer to contractual savings (savings made in order to make a fixed payment like that of the loan) which are relatively inadequate by the factors that were analysed in the first part because they are considered compulsory. In this study we will assume that the savings target is 20% of the value of a home, the time to achieve this will arbitrarily be assumed 15 years and that the interest rate remains constant. Therefore:

Savings for a house =  $0.2 * (\text{value of the asset})$

The annual household savings  $K2$  value of households will be equal to:

$K2 = \text{Savings for a house} / FViFA (15 \text{ years}, i)$

**Retirement Savings:** It is the level of savings people will need to complete their consumption in the period when they will retire. To calculate this savings amount, we must take into account the age of retirement, the life expectancy of individuals, and assume that individuals expect to receive a minimum pension from the government. We will also assume that individuals throughout the period of their participation in the workforce save for the pension, ie for 40 years and that the interest rate remains constant. Consequently, individual will cover their expenditures above this minimum level with their savings. We will have that: Retirement Savings = (lifespan- retirement age) \* (minimum living- minimum pension)

As in the previous two cases, the value of annual savings  $K3$  will be:  $K3 = \text{Retirement Savings} / FViFA (40 \text{ years}, i)$



Education Savings is the level of savings that individuals need to make in order for their children to complete university studies. The period for which families should save is the study time at the university, ie 4 years (OECD, 2015), and as study cost, we will only assume the tuition fee. Also, it will be taken into account that the family will have 17 years to reach this level of savings and the interest rate remains constant. Therefore:

Education savings = duration of studies \* tuition fee/ year.

The annual K4 level of savings will be:  $K4 = \text{Education Savings} / \text{FViFA} (17 \text{ years}, i)$

### Calculation of the optimal savings level in Hungary

In this section, we will deal with the application of the above theoretical analysis in practice. Initially, we will find the minimum level of living as we analysed above for 2013. We need it, even though we have defined another as the optimum level of savings because it will help us calculate the optimal level described above.

#### *Finding the minimum level of living*

As noted above, the cost for a minimum living level but within the limits of normality will be: minimum living = minimum expenditure for a normal nutrition consumption + housing, water supply, electricity, health, transport and communication costs. Minimum of Living is an index calculated by the Hungarian statistics institute. For 2013 it was as follows:

**TABLE 2.** Minimum of living for different types of households

Household Type	Hungarian Ft/month
1 individual	87,510
1 individual with 1 child	144,392
2 individuals	153,143
2 individuals with 1 child	210,024
2 individuals with 2 child	253,779
2 individuals with 3 child	288,783
2 individuals with 4 child	323,787
Mean	208,774
Pensioner	
1 individual	78,759
2 individuals	135,641
Mean	107,200

Source: Hungarian Central Statistical Office, 2016

#### *Finding the optimal savings level*

In this part we will calculate the optimal savings level as outlined above:

The amount to be saved each year for a bad day:  $K1 = \text{Savings for a "bad day"} / \text{FViFA} (5 \text{ years}, 2.45) = \text{minimum living} * (\text{period of unemployment} - \text{period UI}) / \text{FViFA} (5 \text{ years}, 2.45) = 208.774 * (17.6 \text{ months} - 3 \text{ months}) / 5.25 = 508.590 \text{ Ft}$ . Considered interest 2.45 was obtained from the data used to construct the econometric equation, while other data from OECD (2013).

The amount to be saved a house:  $K2 = \text{Savings for a house} / \text{FViFA} (15 \text{ years}, 2.45) = 0.2 * (\text{value of the asset}) / \text{FViFA} (15 \text{ years}, 2.45) = 0.2 * 301.437 * 80m2 / 17.86 = 270,044 \text{ Ft}$

Amount to be saved for retirement:  $K3 = \text{Retirement savings} / \text{FViFA} (40 \text{ years}, 2.45) = (\text{Life expectancy} - \text{retirement age}) * (\text{minimum living} - \text{minimum pension}) / \text{FViFA} (40 \text{ years}, 2.45) = (81.1 - 62) * (107,200 - 28,500) / 66.65 = 22,553 \text{ Ft}$ . Information about the minimum pension, retirement age, and life expectancy is taken from the OECD (2013).

Amount to be saved for education: Hungary is a state that offers free education for individuals living there. This means that the savings of a family for education, in this case, will be 0 or insignificant. So:  $K4 = 0$ .

Total savings will be equal to  $K1 + K2 + K3 + K4 = 508,590 \text{ Ft} + 270,044 \text{ Ft} + 22,553 \text{ Ft} + 0 = 801,187 \text{ Ft}$ . For 2013, disposable income was 16,413 \$= official exchange rate \* 16,413\$ = 223.69Ft / \$ \* 16,413\$ = 3,671,423Ft

This means that the optimal level of savings in 2013 was:  $\text{total savings} / \text{TA available} = 801,187 / 3,671,423 = 21.82\%$

#### *Comparison between optimal and actual level of savings*

The optimal level of savings was found 21.82%, while the level predicted by the econometric equation this year was: 4.36% (the actual level was 4%). This means that families do not make enough savings to achieve certain goals such as education, a good standard of living, buying a home for a rainy day. The government, taking into account this large margin, should encourage family savings by trying to influence the factors that were analysed above in the direction of increasing the level of savings.

## Summary of the study and conclusions

The purpose of this study was to analyse the way how recommendations can be created about achieving the optimal level of savings. The importance of the study derives from the importance that savings themselves have in an economy and its development. The economic problems that lie on the basis of this analysis are the need to determine the factors that affect the level of savings and to find a way to determine the optimal level of savings. Alongside with the theoretical analysis of the case, we used Hungary as a case study, because of the ease it offered to find accurate statistical data.

Regarding the first part, it was found that out of the twenty factors analyzed from the group of factors in which the government has a major impact, only the budget deficit had a positive impact on the level of savings, while other factors (tax policy, the exchange rate and the pension system) have a negative impact. From the group of factors determined by the economy, unemployment and the GDP / capita level have a negative impact on savings, while inflation, the CCI index, corruption control, the share of the industrial sector and the two types of interest rates have a positive effect. In relation to the country's demographic characteristics, the dependency ratio has a negative effect on savings, while the level of education, urbanisation, population growth rate, and the index of economic freedom positively influence. Of all the factors, only a few had a statistically significant impact, even less were judged to be of economic importance. Those factors that were considered economically insignificant are: GDP / GDP, exchange rate, education level, index of economic freedom.

The third issue that worries us about the factors that affect the level of savings is whether the results of the econometric study match the expectations we had before it was conducted. What is noticed is that the GDP per capita has an opposite effect to the expected (it has a negative effect while the effect expected was positive or 0) but the effect is so small both statistically and economically insignificant that it is not taken into account. The CCI had a positive effect while it was expected to have a negative effect (but statistically and economically insignificant), while the credit rate has a positive effect (contrary to what we expected) but statistically not significant. Therefore, we can conclude that all the factors that had an opposite impact on savings compared to what we expected are insignificant (whether statistically or practically economically).

Regarding the second part of the study, the level of optimal savings was considered the level that allows families to provide an average level of living in a rainy day, an extra income during the period of retirement, their children's education, and the purchase of a home. After determining how these savings would be calculated, the theory shifted into practice by finding the optimal level of savings for 2013. Then a comparison was made between the level predicted by the econometric equation and the optimal level calculated in the second part and relevant recommendations were given

Lastly, it is worth adding that the study definitely accepts technical improvements in terms of both the econometric equation and the theoretical analysis with the addition of even more variables affecting the level of savings as well as suggestions or adjustments regarding optimal savings. The significance and value of this study are in its structure because it introduces and analyses the procedure of giving recommendations in a quite logical and understandable way and in the way the optimality in savings is conceived and formulated.

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# PANEL 6

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UET - MAJOR RESEARCH PROGRAM / INNOVATIVE ALBANIA 2015-2020

RP / **RISK-THE GAME OF ALL PLAYERS**

Prof. Asoc. Dr. Elvin Meka





# Data on the economic activity of trading Bianki and Çoba families from Shkodra during XIX<sup>TH</sup> century and the beginning of XX<sup>TH</sup> century

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## Abstract

*Çoba and Bianki families from Shkodra, with their intensive trading activity in the country and abroad, have played a major role in the development of Albanian national market during XIX<sup>th</sup> Century. They represented the most remarkable trading firms of that time in the city of Shkodra, which turned into an important center for the transitional trade in the Balkans. Investment of some capitals in sailing field and also close cooperation with the powerful trade navy of Ulcinj enabled the expansion and further empowerment of their activity across Europe. The documented data obtained from the two families represent one of the richest funds of its kind within the State Central Archive to date.*

**Key words:** contract, trading operations, financial balance

## Introduction

An important part of the history of economic development of a country is also trade. Various Albanian scholars but not only, in their work sought to provide a complete view of the economic development of Albania during that period, but it cannot be complete without a thorough insight into this issue. Through this paper, we aim to provide a summary of the most important aspects of trade activity of Çoba and Bianki families, which resulted to be part of a community which played a major role in the creation of the Albanian national market through their constant work.

## Methodology

In the research process we used the methodology of recognition and evaluation of the existing historical materials and documents in State Central Archive, in total about 40.000, based on the criterion of their factuality and reliability.

## Bianki trading firm (1864 – 1868)

The first evidences on the economic activity of these families belong to the Bianki family and date back to 1864. Documented data show that “Bianki” trading firm, run by Stefan Bianki, was consolidated in all aspects. Based on this, we think that it must have started at least in the last quarter of XVIII<sup>th</sup> Century or at the beginning of XIX<sup>th</sup> Century. In the last 5 years of its independent activity (1864 – 1868), this firm had two offices, one in Shkodra and one in Venice. In Shkodra, the trading activity was run by Stefan himself, whereas in Venice there was a trading agent, who was well-informed about everything not only in the trading piazza of this city but also in a broader spectrum.

Information sent to Shkodra included the prices of various agricultural and colonial items, the most convenient demands and supplies, currency exchange rates, etc. Of interest to him was also the publishing and purchase of books, of a very deep interest to Stefan Bianki (Bianki 1866).

Data from this trading agent were not the only source of information. The view was further completed with data obtained from foreign traders and Stefani's friends, from different cities and places, from travelling captains from Ulcinj, and Italian newspapers, in which Stefan Bianki had subscribed (Bianki 1865).

In this period, Engjëll Çoba held the position of the general administrator of the firm. He was Stefani's nephew and looked after not only trade management in Shkodra, but also administration of real estates in Bar and elsewhere (Çoba 1867, 1868).

## Export

Exported goods were mainly wooden, livestock and agricultural items. These were not produced only in Shkodra. A considerable number came from different regions of Rumelia and especially, from Albanian communities in Kosovo and Macedonia. Export was defined by foreign trade demands, mostly Venice and Trieste, where most of them was sent to. In the last period of the independent activity of "Bianki" trade company (1865-1868), the main export item was different kinds of wools from various regions, mainly Kosovo and Macedonia. Most of this category was exported in Italian and Austro-Hungarian markets. During 1866, about 21000 and 10100 kg wool was exported to these countries, respectively. (Bianki 1866) Flex-seed, based on the exported amount, represented the most important item after wools. The abundant production in 1866 enabled the export of 12960 kg the greatest amount ever exported in that time (Bianki 1866). A much demanded item in foreign market was olive oil. In 1866 Stefani sent to Venice only 681 kg olive oil, and two years later he sold to the Austrian Counselor in Bar, Bradashi, 23800 kg olive oil (Çoba 1867, 1868). Increased export of olive oil was linked to the appropriate conjuncture of the foreign market in 1868 to this item. Compared to wools, exported leathers at this time are at a very low quantity. Silk in the shape of thread, seed or larvae, once a very important export item, was sent to foreign markets in the least amount. Such a phenomenon was closely related to the devastation of silk worm in Western Europe, as a result of pebrine disease spread, which affected even the seeds in Shkodra (Shkodra<sup>1984</sup>).

## Import

The structure of the imported goods was defined by two main factors:

- Demand in the national market; and
- Conjunctures of price for goods in the foreign market.

Imported goods were diverse. Apart from meeting the needs of the Shkodra citizens, some of them were delivered to Kosovo and elsewhere through the temporary or permanent agents. The main goods to be imported included colonial items such as rice, sugar and coffee.

## Bianki-Çoba joint trading firm (1869-1884)

Skills and determination that characterized Engjëll Çoba to operate in the market and his family ties with Stefan Bianki must have been the main reasons that urged the creation of Bianki-Çoba joint trading firm.

This firm started its activity on 1<sup>st</sup> January 1869. It was organized and functioned on the basis of a contract with 12 items agreed in Shkodra between Stefan Bianki and Engjëll Çoba (Bianki, Çoba 1869).

From the content of the contract it can be noticed that the financial capital of the joint society was not equally proportional for its cofounders. From 127500 golden francs in total, 2/3 or 85000 francs belonged to Stefan Bianki, which entitled him a privileged position. This can be noticed even on the naming of the firm which initially was called "Bianki".

The financial capital available to the society consisted not only of financial means, but also of a considerable amount of various personal possessions evaluated according to the prices of that time. It also included the money that different people had borrowed from the cofounders of the trading firm (Bianki, Çoba 1869). After the expire of the defined timeline in the contract, activity of the Bianki-Çoba joint trading firm continued on the basis of a 3-year renewed agreement signed on 01.01.1871 (Bianki, Çoba 1871). Contrary to the contract of 1869, its first article defined the financial contribution of each member to be equivalent to 100000 francs per annum. This change placed Engjëll Çoba in an equal position to Stefan Bianki regarding the division of the incomes. However, the trading firm would still continue to be named "Bianki" both in Venice and Shkodra.

## Trading activity of the firm

Once the firm of Stefan Bianki was set up, various people were employed as trading agents by signing legal working contracts. In these 1-year contracts obligations of each party were clearly defined.

The owners of the firm had to pay the employees, according to the agreement, their salary and all other kinds of expenses that the latter would have on behalf of the firm, including trips, meals and sleeping when they had to stay or travel away from Shkodra.

When the defined time length of the contract was about the end, if one of the parties wanted to disconnect, the other party had to let the first know about it 4 months in advance. On the contrary, automatically the contract was postponed for another year.

The firm had its branches in many cities both in the country and abroad. Its sales agents most of the time were in Kosovo, which was the main place of the goods to be exported. Such were in Peja, Prizren and Gjakova. These agents spread their activity beyond the area where they were placed. The sales agent of Gjakova would gather wool and leather of different kinds even from Mitrovica and Jenipazar and sent them to Shkodra, while sold coffee, salt, pesticides, etc., sent from Shkodra. Other sales agents were in Trieste, Podgorica and Budapest. Other moving agents traveled to Southern Albania (Berat), Macedonia and as far as Istanbul.

Information sent from sales agents to the center was not only economy-related, but also about world political events (Bianki 1876).

Regarding the payments for goods bought by firm agents, it was achieved in the following ways:

- Cash, sent through reliable people;
- Credit order or debit between center and its branches;
- Issuing convertible notes in those banks where the firm had deposits of financial means.

The last known contract related to the continuation of the trading activity of the joint company is that drafted in 1880, which included 8 items (Bianki 1880).

In comparison to the previous contracts, in the latter it was defined that after the 3-year time length if none of the parties had claimed its disconnection 6 months before the end, their cooperation could be postponed only 1 year. For trade operations both parties had to agree.

In the contract it was claimed that the financial balance of the society should be done every year and income division would be one month after the balance was completed. If there were disagreements on its division, then it would be added to the common capital of the society.

The financial credits given to the firm both from Engjëll and Stefani would be free, i. e. with no interest rate. This contract was another improvement of the two previous contracts. Definition of the financial balance time, income division and avoiding disagreements that could arouse from the above mentioned and approval by both parties of the trade operations represents a higher level of cooperation and hence strengthening functioning of the trade society.

The joint Bianki – Çoba trading firm ceased existing on 31.12.1884. The cause for stopping its trading activity was just Stefan Bianki's will to withdraw from trade. In his belief, incomes from other sources would be enough for him. He made this proposal even to Engjëll Çoba, but the latter didn't accept it (Çoba 1882).

Despite the financial results of many years, which proved non-profitable, the general balance of the 16-year Bianki – Çoba trading firm results active with profits of 20120, 77 gold franchs, which represents a meaningful indicator.

These results gain special importance if we take into consideration the economic and political background of Albania in those times and especially Shkodra regions, where the activity of this trading firm was concentrated.

It managed to successfully deal with the negative effect of the severe decline of economy in the country, especially after 1870, which was accompanied by a decrease of export and increase in import.

## Export

In this period, compared to the previous one, the structure of the exported goods was more diverse. The market of Budapest was added to the traditional markets of Venice and Trieste.

In the first place continue to be different kinds of wools. The greatest exported quantity was that of lamb wool. In 1869 its export was 10 000 kg. The export of this category of wool reached its peak in 1872 with about 46 000 kg (Çoba 1872).

The increase in amount, not only for this category of wool, but in all of its kinds, was in response to the increasing demands for this item. Regarding this, the sales agent in Trieste, Pjetër Dodmasej informed Engjëll Çoba in Shkodra that: "... there is a great demand for wools of any kind ... and in the future I hope we'll have high prices as long as there are consumers in England" (Dodmasej 1871, Çoba 1871).

After wools, there were cattle leathers. In this category, the most important were cordovans.<sup>1</sup> Most of them were sent to Trieste, as demands for this item were the highest there. In 1882, the firm spread its leather markets. Beside Venice and Trieste, by sea and then by train, they were sent to the trading piazza in Budapest. The second after cordovans was the export of ram leather. An unfavorable situation for the trade of this item in the traditional foreign markets urged the search for new ones. During 1874, a small amount of ram leather was sent to Vienna to be traded. Other leather categories such as lambs, goats, veal and wild animals mainly represented by rabbits, were exported in small quantities. Among the plant items to be exported the flax seed was ranked the first. Wheat export was not continuous. It was influenced by the crop results in the agricultural

<sup>1</sup> Processed ram leather.

region of Shkodra. The only amount exported to Venice was that in 1869. The annual floods in considerable areas in Shkodra, and war actions between Turkey and Montenegro and then operations of the Albanian League of Prizreni, office of Shkoder didn't enable it.

Silk in the shape of thread and larvae, once a much preferred article, continued to be exported in low amounts in this period. In 1869, only 450 kg silk were exported, while in 1881 the exported amount was a little bit greater. The severe pebrine disease continued to be present in Shkodra and nearby villages and harmed the local variety.

Wax and fire woods are two other articles to be exported in very low quantities. In February 1882, there was only one loaded ship with fire woods which was sold to the owner of a factory that produced soap in Corfu. Cash earned in this case was used to buy soap from him (Çoba 1882).

## Import

The colonial articles such as rice, sugar and coffee continue to be the main articles of import for Bianki – Çoba trading firm.

The beginning of 1870 witnesses the first case of import of kerosene. Then, it is widely used in Shkodra, by successfully competing with oil flex-seed use (Çoba 1870).

Because of the decent incomes the imported amount of kerosene increased rapidly. The appropriate conjuncture of prices in the Venice trading piazza and increasing demands for this fuel item in Shkoder caused an amount of 48 000 kg to be imported, which is the greatest amount ever imported by this firm (Polic – loads of goods 1884).

Also, salt was an item to be imported. Although it was produced in native saltworks, in some cases import from other countries was preferable. In November 1869, 60 units of salt was sold from Foggia, Italy, equal to 10 570 kg (Çoba 1870).

The import of salt from the above-mentioned countries was conditioned by the most favorable price on the market and safety of transport means.

Beside the import of goods on its account, the firm imported articles based on the demands of different customers. In this case, benefit from their trading was guaranteed earlier. So, in 1869 in Trieste a bell and candles were brought on the account of Church of Shkodra, while on account of other people glass, steel, coffee cups, pepper, paper, etc were brought (Polic – loads of goods 1869). Apart from importing various articles, Engjëll Çoba committed even weapon smuggling. Such an activity was related to the great demand of people for them, especially in periods of growing national movements, like movements of The Albanian League of Prizren. The first data about it are of year 1881, but they are not complete ones. This activity brought benefits, but posed considerable risks (Çoba 1883).

In January 1883, Engjëll delegates the Captain Faslli Guci to smuggle 30 cartridge guns. Stefan Bianki objected it and was unwilling to take such risks (Çoba 1883). However, weapon smuggling continued even during the following year. It was then when a large number of rifles and pistols were brought from Italy (Bianki 1884).

Although the structure of the imported goods during this period is diverse, it is a paradox in itself. Beside the import of such articles as coffee, sugar, rice, etc., also soap, salt, tables, candles, saws and oil were imported, even though these articles were produced in the country.

Bringing ready-made goods in large numbers from the Europe, exploiting the lack of customers' barrier, was destroying more and more the economy in the country. As a result, compared to the previous period, a further increase in the number of the imported goods was noticed, a phenomenon which continued to progress even in the future.

## “Engjëll Çoba Brothers” trading firm

On January 1<sup>st</sup> 1885 “Engjëll Çoba Brothers” trading firm started its activity, because part of it was even Engjëll's brother, Gasper (Çoba 1884). Their joint activity continued until May 1906.

At the end of 1884 efforts were made to recruit into this society sales agents from former Bianki-Çoba firm.

In December 1884 Engjëll Çoba invited the sales agent in Trieste, Nikolla Simoni, to work for the new firm. The previewed conditions to start activity in this society were:

- 1 % profit of goods sent from Trieste to Shkodra and vice-versa went for the sales agent;
- Debts among parties would be of 0.5% monthly interest;
- Bank operations in different banks after selling goods would be done by Nikolla Simoni without any reward;

These conditions were accepted and the above-mentioned agent started to work in this firm (Çoba 1884).

He would function also as a financial coordinator for the whole activity of the Çoba trading firm.

Other sales agents of the firm operated in Venice, Istanbul, Prizren and Gjakova. Further spreading of the activity was associated with an increase in the number of the sales agents. They operated in Ragusa, Kotor, Kastelnuovo, Rizano (Dalmatia), Brindisi, Gostivar and Cetinje. The latter covered also Rijeka and Vir Bazaar (Montenegro).

Apart from the above-mentioned sales agents Engjëll Çoba kept in touch with at least 35 other foreign traders in Corfu, Split, Trapano (Dalmatia), France, India, Vienna, Milan, Ankara, Genoa, Venice, Bari, Brindisi, Taranto, Monopoli, Naples, Alexandria and Malta (Addresses of traders, manufacturers, commissioners and trade firms, no date).



The data above show clearly the way and extent of organizing Bianki and Çoba trading firms. Entitling of sales agents in many important centers both in the country and abroad, contracts agreed between them where their rights and obligations are included, financial operations between various banks, etc., are indicators of an almost complete likeness of the above-mentioned trading firms to those in other parts of Europe. Beside his trade activity, Engjëll Çoba was engaged in other activities, as well.

In December 1877 he was approved by the Austrian-Hungarian Counsel in Shkodra, Lipich, as a translator of this consulate (Çoba 1877). He holds this position for a very long time. In 1902, on occasion of 25<sup>th</sup> anniversary of this post, Engjëll Çoba was honored by the King of Austria-Hungary (Çoba 1902).

At least since 1908 Engjëll was a representative in Shkodra of "Assicurazioni Generali" agency with its main office in Trieste. From 1894 and after, against an interest rate of 1% in his favor, Engjëll Çoba started to fund all the expenses of the Italian consulate in Shkodra and its consoul Felice Maisa, including also Italian schools that functioned in Shkodra during this period (Banca D'Italia 1894,1895 ), (Consulate of Italy 1895 – 1901).

## Export

In late 1880 the structure of the exported goods by Çoba trading firm changes. The destructive effects of the industrial goods from Europe in the home trade in Shkodra, combined with political factors, defined these changes.

The amount of leathers sent to the markets of Budapest, Vienna, Venice and Trieste declined as a consequence of competition. The year 1893 was the last one of leather export. Then, their export is random and in inconsiderable amount. Arrival in Shkodra of large amounts of leather articles, produced at low costs by European industry influenced in negative way. Tanners of Shkodra and Kosovo could not afford for a long time the competition. As a result, their products were reduced drastically and most of them bankrupted.

There was a similar situation even for wool export. Within a short period the exported amount was declined. The main markets were still Venice and Trieste. Sale of wools in international trade in low prices as a result of arrival of ready woolen productions in Shkodra caused their trading to be accompanied with losses. This fact defined their removal from the lists of export.

In the early 1890 the main articles of export were unprocessed agricultural articles, transport animals and wild natural herbs (rush plant).

Main articles exported were not products only from area of Shkodra. Most of them, especially corn for export came from Albania coastal areas. Further growing of this activity in the south was helped even by the continuous strengthening of the relations between Çoba trading firm and that of Beqiri situated in Fier.

In many cases, for speculating reasons, large quantities of corn were imported from different countries. Then they were exported mainly in Dalmatia, where the short distance from Shkodra and favorable prices of grains enabled Çoba and Beqiri partners great profits.

Regarding the export of fire woods an increase was noticed compared to the previous period. They were sent to Malta and Istanbul, Italy and Marseille. In 1891 to Bari an amount of olive residues was sent. This article, which previously was not exported, after being mixed with food waste, could be used as food for animals.

## Import

In this period a further growth in the types of imported goods was noticed. They showed an economic decline which had included all areas of Shkodra, like in the whole Albania. However, even in such an economic situation, the trading activity of Çoba firm developed successfully. Profits made were little but secure (Çoba 1885).

One of the articles, whose trading brought considerable profits, was kerosene. The imported quantity was increasing. Most of it, after arriving from Venice to Shkodra, was mainly sent to Dalmatia. In 1893 about 513 262 kg of kerosene were imported, which made up the greatest quantity imported by Çoba and Beqiri trading firms.

Related to the trading of this article in Shkodra, Engjëll Çoba made efforts to avoid competition and then to be the main provider of kerosene in this town. According to him, the annual amount of kerosene that was consumed in Shkodra in 1890 was about 6 000 crates or 180 000 l, an amount which could be fulfilled just from the import of Engjëll Çoba. He began to import kerosene secretly from Batumi (Georgia) to avoid any possible competition (Çoba 1890).

## Conclusions

The presented data related to the families and trading firms Çoba and Bianki from Shkodra allow us to draw some conclusions.

- Çoba and Bianki trading firm weren't created in an economic vacuum. They were a logical result of the ever increasing economic development noticed in the region of Shkodra at least since XVIIIth century.
- There was not any difference between them and other European trading firms of that period about organization and activity operated by them.

- Çoba and Bianki trading firms were amongst the most powerful firms in the region of Shkodra. The extent of their activity included not only Kosovo, but also the Balkan Peninsula, Central and Western Europe, Asia (Batum) and Northern Africa (Lebanon, Egypt).
- The structure of the exported and imported goods was diverse. In export the main articles were livestock and agricultural ones, but however in different times special articles predominated, which was defined by demands and offers. In the first period of their activity the main articles of export were different types of wools, most of which came from regions of Kosovo and less leather and agricultural articles. After that, the amount of the exported leather declined, while in the last period that we observed, they predominate over other articles.
- In import colonial articles such as coffee, sugar and rice predominated. Then, a much preferred article was kerosene, while at the beginning of the independent activity of Çoba trading firm such articles as soap, alcohol, wooden and metallic products, candles, etc., became more and more important.
- The whole trading activity of Bianki – Çoba firm ended with an active financial balance, even though the economic and trading environment in that period in and out of the country was experiencing a severe crisis. Differently from many traders and national firms, which bankrupted because of the difficult situation, this firm managed to survive and successfully continue its activity even after the Independence.

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# Exchange rate in Albania Lek: Random walk vs factor based models

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## Abstract

*Little or no study has been done regarding the Exchange rate determinants in Albania. Fundamentals that influence the exchange rate of a country have not fully explained the currency of Albania. The slowdown of growth of GDP, the fall in remittances from immigrants all point to the lower supply of euro and as a result a strengthening of euro versus lek but instead we have seen a weakening of euro and strengthening of lek. Why do we find this reality? We use the Monetary Model co-integrated with nominal exchange rate function to test exchange rate movement. Econometric literature suggests that the span of the data, not the frequency, determines the power of the co-integration tests but we are limited to the life of the existence of Euro. We test ALL relative to the US Dollar using annual data from 1999 – 2016. The results provide no support for the monetary model. The results show that there is no long-run co-integration between the nominal exchange rate and the output and money supply deviations.*

## Introduction

The goal of this paper is to test whether a simple form a Monetary Model can explain the fluctuations of Albanian lek versus the Monetary Union currency. The Monetary model is based on a simple intuition that the price level of a country depends on the amount of currency offered and demanded. The same principle should hold if the prices are denominated in a common currency. This model serves as a benchmark for testing the relative long-run nominal exchange rate between two or more countries.

The exchange rate market has been very volatile since the fall of the Bretton Woods system. In this system, that lasted from 1946 till 1973, the exchange rate was fixed by the governments.

Under the new “floating” system that was established in 1973 the exchange rate between the currencies is established in the exchange rate market by the supply for a currency and the demand it.

But this system has upset many economists. The exchange rate market and the fluctuations between currencies have been more volatile and less efficient than hoped for. Exchange rate risk has added to the costs of international investments and trade have caused several international financial crises. According to Paul Krugman, (Krugman, The Concise Encyclopedia of Economics \_ Library of Economics and Liberty) “The instability of floating rates has surprised and disappointed many economists and businessmen, who had not expected them to create so much uncertainty.

The issue of Exchange Rate and the distrust in the markets to determine the rate is a bipartisan issue. There are supports of Fix and Flexible exchange rates in both sides of the aisle.

In the “Concise Encyclopedia of Economics” on “Exchange Rates” Paul Krugman, 2007 Nobel Prize Winner, says:

“The policy implications of unstable exchange rates remain a subject of great dispute. Refreshingly, this is not the usual debate between laissezfaire economists who trust markets and distrust governments, and interventionist economists with the opposite instincts. Instead, both camps are divided, and advocates of both fixed and floating rates find themselves with unaccustomed allies. Laissezfaire economists are divided between those who, like Milton Friedman, want stable monetary growth and therefore want to leave the Exchange rate alone, and those who, like Columbia University’s Robert Mundell, want

the discipline of fixed exchange rates and even a return to the gold standard. Interventionists are divided between those who, like Yale's James Tobin, regard Exchange rate instability as a price worth paying for the freedom to pursue an activist monetary policy, and those who, like John Williamson of the Institute for International Economics, distrust financial markets too much to trust them with determining the exchange rate. "

Thus, the issue of floating exchange rate regime settled after the failure of Breton Woods remains far from settled. But economist need present solutions and not only problems.

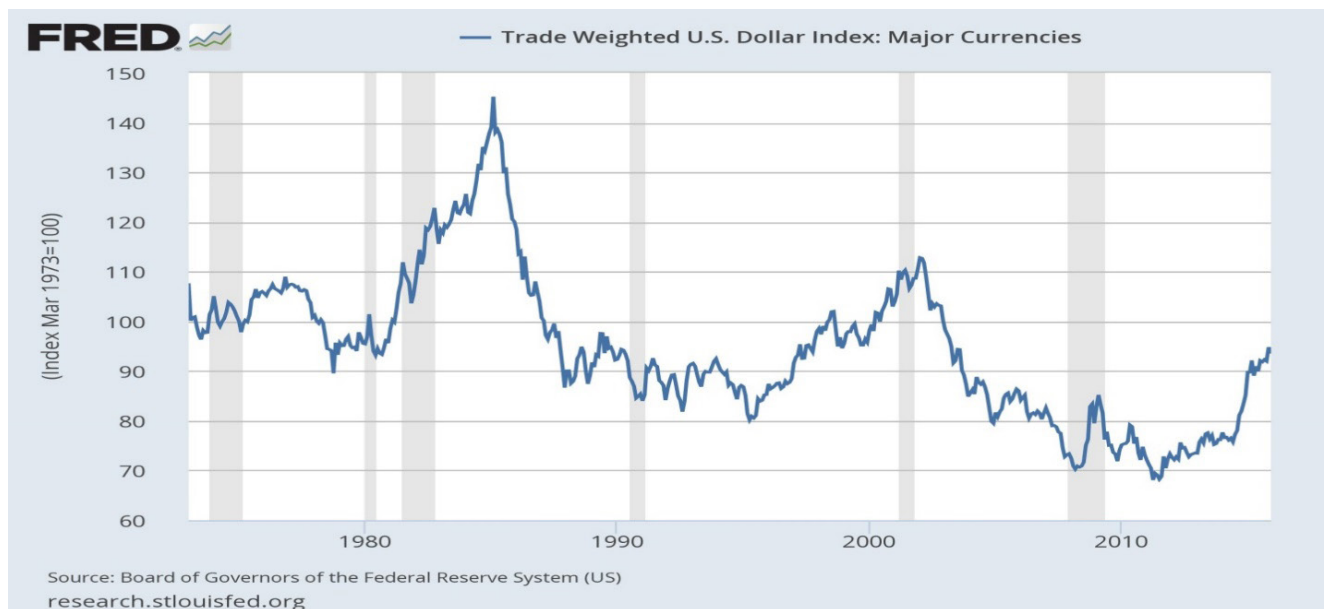
Such a response came about a decade after the launch of floating exchange regime. The response arose because of the volatility of exchange rate and the overvaluation of the USD (Frankel, 2015) by 44%. The response came from the meeting of Finance ministers of the G-5 (which later became the G-7). The conclusion of the meeting was to have a coordinated policy response to the fluctuation of exchange rates.

The need was urgent and risks high. Frankel (2015) sums the situation in a paper on the 30<sup>th</sup> anniversary of the Plaza Accord:

"The value of the dollar had climbed 44 per cent against other major currencies in the five years leading up to 1985.<sup>1</sup> (See Figure 1.) Largely as a result of the strong dollar and lost price competitiveness, the US trade balance had fallen to record lows as of 1985, a deficit of \$122 billion. The trade deficit spurred congressional support for proposed trade interventions that an economist would have found damaging."

The result of this coordinated policy on exchange rate were immediate. Within two years of the accord the dollar lost 40% of its value. The US trade balance improved and discouraged the US congress to enact trade barriers.

**FIGURE 1 – Trade Weighted US Dollar Index**



In recent years the Plaza Accord seems to have lost the fizz and to moving toward a more passive role in currency markets. This shift in policy of noted by Frankel (2015): "In light of the currency war concerns, the G-7 has refrained from foreign exchange intervention in recent years. The G-7 partners in February 2013 even accepted a proposal by the US Treasury to agree to refrain from unilateral foreign exchange intervention, in an insufficiently discussed ministers' agreement that we could call the "anti-Plaza" accord."

The Plaza Accord implementation taught important lessons summed up by Frankel (2015)

- Currency purchases and sales on the scale that governments are willing to make will not have an effect if the markets are convinced of the currency value. This is because the currency market is several trillion dollars in daily turnover.
- Interventions post-Plaza Accord had greater effect and the impact lessened in the later years due to surprise element.
- Operations are more likely to be effective if they are "concerted," i.e., coordinated among many major central banks as they were in 1985 and subsequent years
- The authorities are not necessarily able to affect the exchange rate for a long period, absent a corresponding change in fundamentals. The effect usually appeared still to be present one month after the intervention.

We will pick up the discussion on this last lesson learned by the post Plaza Accord to talk about whether the fundamentals justify the current ALL exchange rate.

<sup>1</sup> In log terms. The Fed index of the dollar against major currencies rose from 93 in September 1980 to 144 at the February 1985 peak (1973=100).



## Politics vs Economic Fundamentals

In recent years the winners and losers seem to be more victims of political turmoil rather than economic fundamentals. In such a conclusion come Kit Juckes, Head of Exchange Rate Department at Societe Generale Banke. Figure 2 below shows the winners and losers of exchange rate markets in the beginning of 2017.

**FIGURE 2** – Best and worst currency performers



Juckes, 2017

Six of the best performers – Australian Dollar, Russian Ruble, Columbian Peso, Brazilian Real, Canadian Dollar – all have one thing in common according to Juckes, they have high-Betas. So “it’s not as if investors are shunning volatile currencies per se, in stark contrast to 2016 when safe-haven currencies were the strongest out of the gates, and those of commodity exporters struggled.” (Juckes, 2017).

## Economic Fundamentals

Euro has been stable in the international markets, especially after the French Election and the win by Macron who promises a strong and united Europe. But euro has been very weak in the domestic market by losing the gains made in the last 10 years. This incoherence must be explained in order that we may have proper policy responses.

Theory suggests that in the long run exchange rate between two currencies is determined by economic fundamentals. These fundamentals must explain the fluctuations of euro vs Albanian Lek, in this case those of EU and Albania. Love dhe Payne (2002) concludes in the same vein as Evans dhe Lyons (2003 ) that “the exchange rate is determined by economic fundamentals.”

It is of great interest to determine the factors that have led to such overvaluation of ALL against Euro and the consequences it may have in our economic activity.

Figure 1 shows the historical levels of Euro vs ALL. As can be seen in Figure 1 Euro has weakened substantially against ALL since 2015.

Does this appreciation of ALL against the Euro necessitate intervention by the Bank of Albania (BoA)?

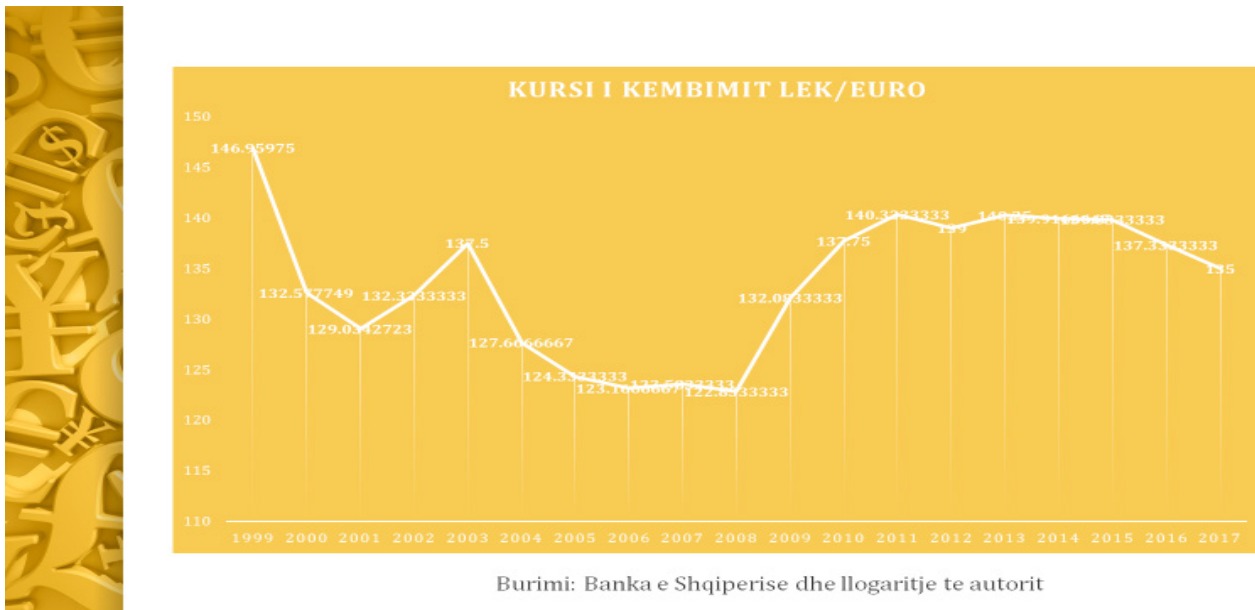
In the study of Rama.et.al (2016), at the Research Department of the BoA, argue that: “decisions to intervene are deeply discouraged when there is large fluctuation of the ALL exchange rate. This implies that a considerable strengthening of ALL could be understood as price move of ALL toward a new equilibrium and as a result discouraging the prompt interventions by the BoA.”.

Furthermore in the same study Rama .et.al (2016) posit what has long been stated by the Monetarist in relation to the exchange rate role. “Theory suggests that in spite of the arguments that exchange rate fluctuations absorbs different shock in the economy, in the long run exchange rate will reflect economic fundamentals. Economic agents position themselves in the currency market by basing their expectations in the long run economic performance, thus every unexpected value of economic fundamentals will call for a readjustment”.

These comments by the Research Department of the BoA suggests that the decision makers at the BoA could be observing a new equilibrium pricing of ALL. According to the theory on Lung Runs Exchange Rate the new equilibrium can only be explained by the economic fundamentals.

But can economic fundamentals explain the ALL vs Euro exchange rate fluctuations? We shall try to answer this question.

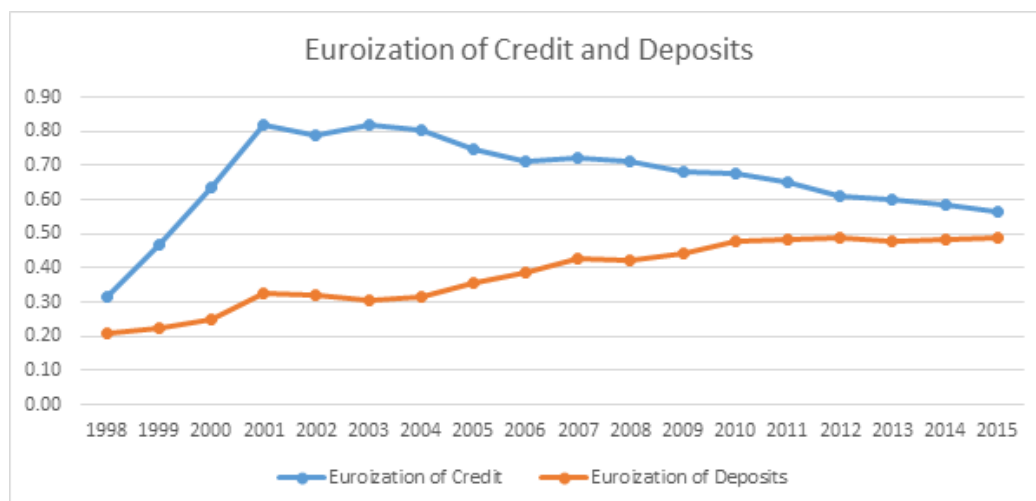
**FIGURE 3 – ALL Exchange rate vs Euro**



## Factors that make the answer to this question important

Of first importance is the fact that the Albanian government has declared its objective of creating a new economic model. This new Economic model is not based on consumption but on production and on exports to reduce the trade balance deficit. Strengthening of ALL weakens the competitiveness of our goods by making our goods more expensive and imported goods from our EU partners cheaper. A second factor is Euroization. Euroization is measured by the euroization of deposits and credit euroization.

**FIGURE 4 – Euroization of Credit and Deposits**



Source: Bank of Albania

These levels of credit and savings in euro increase credit risk and the risk associates with the symmetry of information. Banks in Albania are more incentivized to credit the economy in euro denominated loans because of the high levels of deposits in Euro and the effects that QE undertaken by ECB has had on the price of money in EU banks. On the other side, the income of most of the economic agents in Albania is in ALL and thus results in heightened credit risks.

## Euroization effects on Monetary Policy

Thirdly it is the failure by the BoA to take in consideration the level of euroization in its Monetary Policy. (Zefi/Shehu, 2015). In this study it is argued that there must be a positive beta between Euroization and monetary offer M3. Euroization, or dollarization as observed mostly in the Latin America countries, has a positive effect on the stability of the national currency. But euroization has also some side effects. Euroization causes a tightening the Monetary Policy of a central Bank. The central Bank of Albania maintains as its goal the stability of the prices in the economy. This stability is defined as inflation being centering around 3% with a policy range of 2 – 4 %. In 2011 the BoA abandoned monetary targeting as its instrument of Monetary Policy in favor of interest rate targeting.

In the first period, 1993 to 2010, the BoA used monetary base targeting as its main tool to reach the long-term objective of price stability. This policy is effected by the euroization of the economy. The evidence is that inflation has been persistently in the lower bound of policy target. This field needs to be studied more deeply.

In the second period, 2011 to 2016 (the period under study) the intermediate policy tool has been the interest rate. The effects of the euroization in the transition mechanism of this policy have not been studied ore considered.

The authors belief is that both mechanisms of monetary policy are influenced by the euroization and will in some occasions result in lower money supply and lower inflation. In other occasions, the result would depend on the monetary policy of Albanian's main trading partner. Thus, the central bank must account for the euroization in the monetary policy responses. To do so a central bank must monitor the other intermediate instruments of the monetary policy such as money supply. Because of the euroization the author expects that the monetary policy, applied as prescribed by the standard literature, results in tighter monetary policy which in turn causes stronger national currency.

In this study, we set out to answer the question of why ha Lek has appreciated against the Euro and if exchange rate models explain the current exchange rate in the long run

Other factors may influence exchange rate of ALL. We will just mention them but these factors are beyond the scope of this study:

- The level of national debt and the structure of the debt. Some of the debt borrowed internally is denominated in Euro. The multiplication factor of government spending would result in added supply of euros.
- Another factor that may affect the exchange rate is the "remittances" from illegal economy such as drug money and other trafficking. This factor has been hurled in the political environment by OSCE ambassador in Albania and other politicians. Further studies may be warranted to study this phenomenon.

## Empirical Methodology

As with all other exchange rate models that attempt to analyze and understand the underlying factors driving exchange rate behavior, the simple monetary model analyzes the specific relationship of the nominal exchange rate with the difference between the foreign and domestic money supply and the difference between foreign and domestic real gross domestic product (GDP). In this analysis, the US is denoted as the domestic country, and SA is denoted as the foreign country.

### The monetary Model is based on three identities

#### *Money market equilibrium*

There are three basic relationships contained in the standard monetary model: money market equilibrium, PPP and uncovered interest parity (UIP). The basic money demand functions for both foreign and domestic countries, which are assumed to be stable because the focus is on the long-run equilibrium relationship, are derived from the standard LM-curve representation:

$$\frac{M_t}{P_t} = L(Y_t, I) \quad (1)$$

where  $M_t$ ,  $P_t$ ,  $Y_t$  and  $I$  are the nominal money supply, the price level, the real output and the nominal interest rate, respectively. Variables are stated at time  $t$ , and  $L$  is a real money demand function.

#### *Purchasing Power Parity (PPP)*

The purchasing-power-parity exchange rate is an exchange rate measured on the assumption that the same set of (international) prices prevail for the same goods, adjusted by the quality, in both economies.

This assumption has been challenged but the Balassa-Samuelson effect. Balassa (1964) and Samuelson (1964) identified productivity growth differentials between the sectors producing tradable and non-tradable goods as a factor introducing systematic biases into the relationship between relative prices and real exchange rates.

$$P_t^* = \epsilon_t P_t \quad (2)$$

### Uncovered interest parity (UIP)

The simple assumption in interest parity model is that relative interest rate between two countries will have effects on the relative prices of one country's currency. An increase in the domestic to foreign short-term interest differential,  $i_t - i_t^*$ , *ceteris paribus*, is associated with an appreciation of the domestic currency. (see also Engel, Exchange Rates and Interest Parity)

$$i_t^* - i_t = E \left( \frac{\Delta e_{t+1}}{e_t} \right) \quad (3)$$

According to Bruyn et al. (2012) When,  $e_t, y_t^* - y_t, m_t^* - m_t \sim I$  the long-run monetary model will only hold if these three variables are co-integrated. The co-integration relationship to be estimated is the simple monetary model as below:

$$e_t = \beta_0 + \beta_1(m_t^* - m_t) + \beta_2(y_t^* - y_t) \quad (4)$$

The co-integration of PPP, money market equilibrium and UIP has produced test results in predicting, at some strength, the movement of exchange rate. (see for example Bruyn, Gupta and Stander. 2012). We test the co-integration of this model with OLS.

## Empirical results

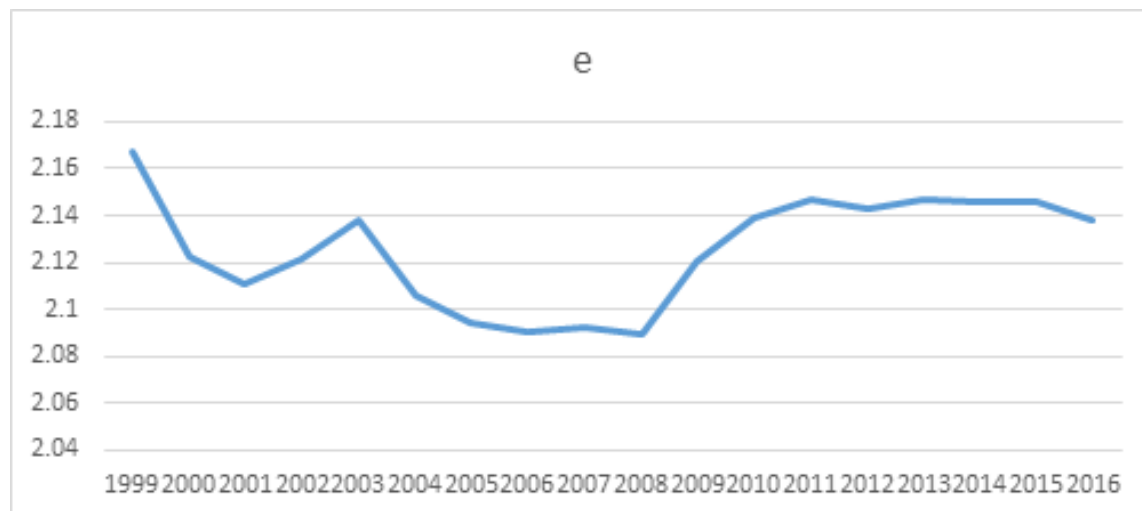
In this study, we use the annual exchange rate relationship of ALL and Euro with  $n = 18$  for the period of 1999 to 2016. The length of time is limited due to the short life of Euro, which started being traded in 1999.

The identity states that the exchange rate between Albania and EU depends on the relative relationship of the monetary policy and the national production.

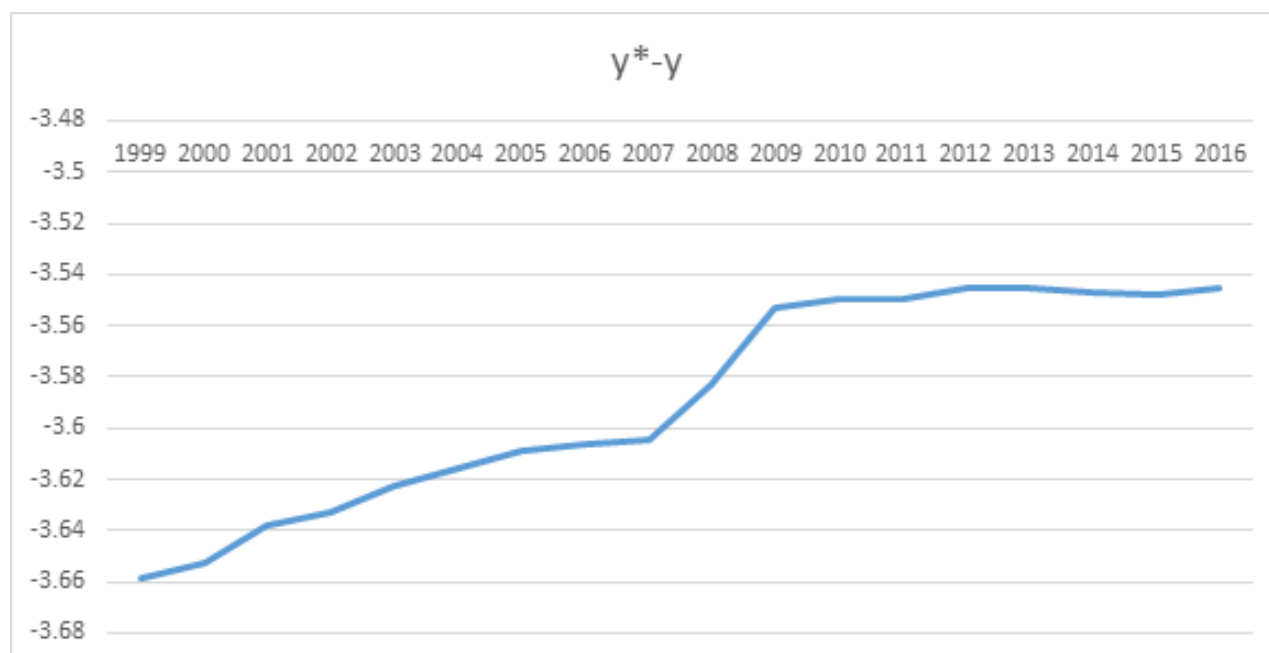
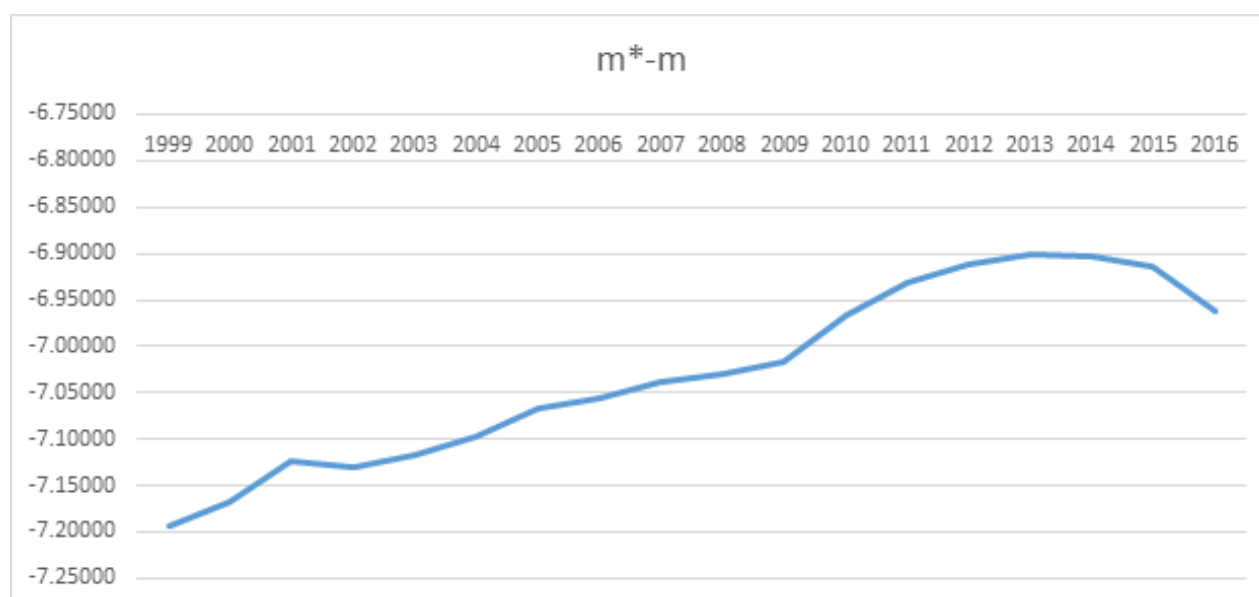
We take the measure of monetary measure M3 of Albania and 19 Eurozone countries. The same for the national output. All data is converted into log form and the integration studied with OLS.

The log exchange rate ( $e$ ) observed between ALL and Euro is:

**FIGURE 5.** Exchange rate of Euro vs ALL in log.



The Figure 4 below shows the results of relative production in log form.

**FIGURE 6.** Relative national output between EU and Albania.**FIGURE 7.** Money supply, M3, of EU and Albania in log form.

Using the OLS to measure the co-integration of these factors for the period of 1999 to 2016 we find the following results.

Model 1: OLS, using observations 1999-2016 (T = 18)

Dependent variable: LogExch

	Coefficient	Std. Error	t-ratio	p-value	
const	2.68549	0.54871	4.8942	0.0002	***
yy	0.0719872	0.533323	0.1350	0.8944	
mm	0.0429053	0.231419	0.1854	0.8554	

Mean dependent var	2.125503	S.D. dependent var	0.023700
Sum squared resid	0.008699	S.E. of regression	0.024082
R-squared	0.088930	Adjusted R-squared	-0.032546
F(2, 15)	0.732076	P-value(F)	0.497324
Log-likelihood	43.17313	Akaike criterion	-80.34627



Schwarz criterion	-77.67515	Hannan-Quinn	-79.97796
rho	0.532271	Durbin-Watson	0.603956
rho	0.493901	Durbin-Watson	0.703604

## Conclusion

Evidence in favor of the monetary model of exchange rate determination for the Albania is not supported. A co-integrating relationship between the nominal exchange rate and fundamentals forms the basis of the monetary model.

The econometric literature suggests that the results depend of the span of the data we are limited in the span by the life of Euro. This may be the reason of the poor co-integration of these monetary indicators.

The results do not provide a support for a co-integration of the simple monetary factors in determining the relative exchange rate of ALL and Euro.

We get the same results when we test the co-integration with  $t=1$  leg. The results of the model do not improve showing that statistically there is no co-integration.

Further study must be done into the subject because it is paramount to have models that explain this relationship. The Monetary model does not explain exchange rate fluctuation supporting a stochastic distribution or a random walk.

We would expect to see a strengthening of Euro because of the fall of the supply resulting from the fall of the remittances.

A strengthening of ALL vs the Euro that is not explained by a monetary model leads us to believe that the monetary policy of BoA is:

- Is tighter than the monetary policy of Eurozone and the Bank of Albania should resort to a more accommodative monetary policy. This direction would be in line with the non-conventional measures taken by the major central banks.
- The weakening of the Euro may have resulted in the increased supply of Euros in Albanian money markets from the “remittances” illegal trafficking such as drug money.

In either case the ALL is strong and the strengthening of ALL doesn't help the “New Economical model” (based on production and exports rather than consumption) that the Albanian government is trying to promote. Thus, further studies should be done to identify the exact causes and respond appropriately with the monetary policy.

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# Impact of fiscal policy in economic growth in Albania

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## Abstract

*Correlation analysis between fiscal policy and economic growth is an important topic that is discussed not only in the theoretical literature but in the empirical as well. Different authors and studies say that there is a positive correlation between fiscal policy and economic growth. Other authors deny this positive correlation saying that fiscal policy has a negative impact in the economy. But all the studies accept that the development, structuring and improvement of fiscal policy should be on the focus of government projects, because fiscal policies have a huge impact on generating employment. It helps in the equal distribution of income between poor people, affect public spending, public investment, etc. The purpose of this paper is to investigate the relationship between fiscal policy and economic growth in Albania by using a dynamic method of analyzing data during the time period between 1993 and 2015. We will analyse if there exists a long-term relationship between fiscal policy and economic performance in our country. The main findings of this paper intended to be: (i) To prove the existence of a strong relationship between economic performance and fiscal structure. Poor countries rely on international trade taxes, while revenue from taxes are important in developed economies (ii) the part of policy that affect economic performance measured by a country's human capital and its labor force; (iii) investment in transport and communication are constantly linked with growth; (iv) the tax effects are difficult to isolate empirically.*

**Key words:** fiscal policy, economic growth, correlation analysis, empirical studies

## Literature review

The effect of fiscal policy on economic growth has been one of the most debated and controversial issues in economics. There is a voluminous empirical literature examining the relationship between fiscal policy and economic growth. Some of the latest contributions include Levine and Renelt (1992), Engen and Skinner (1992), Easterly and Rebelo (1993), Easterly and others (1993), Villanueva (1994), Lin (1994), Kormendi and Meguire (1985), Landau (1986), Skinner (1987), Ram (1986) and (1987), Grier and Tullock (1989), Koester and Kormendi (1989), and Barro (1989 and 1991). Barro (1989 and 1991) finds that per capita GDP growth rate and investment-GDP ratio, are negatively correlated to government expenditure as a share of the GDP. A large number of studies have been carried out to examine the impact of fiscal policy variables on economic growth, investment, consumption, inflation, exchange rate, external deficit and other macroeconomic activities [Landau (1986); Hööppner (2003); Perotti (2005), Amanja and Morrissey (2005); Falk, et al. (2006); Rezk (2006); Castro, et al. (2006); Fatas and Mihov (1998); Sinha (1998); William and Orszag (2003); Claus, et al. (2006) and Kuk (2006)]. Government spending, tax revenues and budget deficits as fiscal policy variables have been used by these authors and found different responses of macroeconomic activities to fiscal innovations. According to Hööppner (2003), Claus, et al. (2006), Esau (2006), Heppke-Falk, et al. (2006) and Castro, et al. (2006), shocks to government spending positively affect GDP growth rate, whereas shocks to taxes inversely affect GDP growth rate. Furthermore, GDP growth rate responds negatively to budget deficit in the long run [Balassa (1988); Iqbal and Zahid (1998); Jafri, et al. (2006)]. Various extensions of the basic endogenous growth models have

been worked out, allowing publicly-provided goods to be productive in stock and/or flow form (e.g. Futagami-Morita-Sibata, 1993, Cashin 1995, Turnovsky 1997a, Tsoukis-Miller, 2003, Ghosh-Roy, 2004), different forms of expenditure to be productive (e.g. Devarajan et al. 1996, Sala-i-Martin 1997, Glomm-Ravikumar 1997, Kaganovich-Zilcha 1999, ZaglerDurnecker, 2003, Gomez, 2007), various forms of taxation (Ortigueira, 1998) and asymmetric equilibria ex-post (e.g. Glomm-Ravikumar 1992, Chang 1998). Also, there is research on models with adjustment costs (Hayashi, 1982, Turnovsky, 1996a), congestion effects (Glomm-Ravikumar, 1994, Eicher-Turnovsky, 2000, Ott-Turnovsky, 2006, OttSoretz, 2007), utility-enhancing public consumption (Cazzavillan, 1996, Turnovsky, 1996c) and endogenous labour supply (Turnovsky, 2000a, Raurich, 2003). Finally, work has been done on small open economies (Turnovsky, 1999a), public capital maintenance (Rioja, 2003, Kalaitzidakis-Kalyvitis, 2004), stochastic environments (Turnovsky, 1999c), increasing social returns (Abe, 1995, Zhang, 2000) and non-scale growth (EicherTurnovsky, 2000, Pintea-Turnovsky, 2006). Kormendi and Meguire (1985) find no evidence that the growth in the ratio of government consumption to output has any adverse effect on economic growth. Following Kormendi and Meguire and using a larger sample of countries including both the OECD and developing countries, Grier and Tullock (1989) find a strong negative correlation between growth of government consumption as a fraction of GDP and real GDP growth rate. Similarly, Landau (1986) in a cross-section study of 96 countries finds that government consumption reduces growth in four sample periods.

Barro (1991) suggested that government consumption induces distortions in the economy and provides no offsetting stimulus to GDP and investment. Kormendi and Meguire (1985) find no evidence that the growth in the ratio of government consumption to output has any adverse effect on economic growth. Following Kormendi and Meguire and using a larger sample of countries including both the OECD and developing countries, Grier and Tullock (1989) find a strong negative correlation between growth of government consumption as a fraction of GDP and real GDP growth rate. Similarly, Landau (1986) in a cross-section study of 96 countries finds that government consumption reduces growth in four sample periods (1961-70, 61-72, 61-74 and 61-76). Easterly and others (1993) failed to find a significant correlation between growth and government consumption share of the GDP. In a more comprehensive summary of the association between measures of fiscal policy and the rate of growth, Easterly and Rebelo (1993) find that the effect of fiscal variables on economic growth are statistically fragile. The only fiscal variable in their study that is consistently correlated with the growth of GDP and private investment is the government budget surplus. Koester and Kormendi (1989) find that average and marginal tax rates are negatively correlated with growth. However, the coefficients of both the marginal and average tax rates are not statistically significant. Likewise, Easterly and Rebelo (1993) concluded the evidence that tax rates matter for growth is fragile. When they controlled for other correlates of growth, only the marginal income tax rate and the ratio of income taxes to personal income remained significant in their cross-country regressions. Helms (1985) analyzed the growth effects of state and local taxes. He argues that higher taxes can stimulate economic growth if used to finance development expenditures. After controlling for all sources and uses of taxes in a pooled time-series-cross-section regressions in the period 1965-1975, Helms finds that taxes have a negative and significant effect on growth. The Helms regressions indicate that the coefficient of the tax rate can be positive if taxes finance productive expenditures, and can be negative if tax receipts are used to finance welfare transfers. Redistributive public transfers can adversely affect the pace of economic growth. Alesina and Rodrik (1994) and Lee (1992) find that for a given tax rate, an increase in public transfers reduces the rate of economic growth. In a crosssection empirical work, Barro (1989) and Barro and Sala-i-Martin (1992b) find that holding the size of government constant, public transfers are positively correlated to per capita income growth rate. The Keynesian approach is based on an assumption that consumption is related to current income. If consumers are Ricardian in the sense that they are forward-looking, and are fully aware of the government's intertemporal budget constraint, they will anticipate that a tax cut today, financed by issuing government debt, will result in higher taxes being imposed on their infinitely lived families in the future. Permanent income is therefore unaffected, and in the absence of liquidity constraints and with perfect capital markets, consumption will not change (Barro, 1974). Thus there is Ricardian equivalence between taxes and debt. Perfect Ricardian equivalence implies that a reduction in government saving resulting from a tax cut is fully offset by higher private saving, and aggregate demand is not affected. The fiscal multiplier is zero in this case. Ricardian equivalence is based on strong assumptions. Thus short time horizons, less than perfect foresight, partial liquidity constraints, imperfect capital markets, and a nonaltruistic desire to pass some of the current fiscal burden to future generations can reestablish a stronger link between fiscal policy and consumption (Mankiw and Summers, 1984; and Blanchard, 1985). Consequently, the practical significance of Ricardian equivalence is problematic, at least in its perfect form. Most of the literature on the effectiveness of fiscal policy has been written in an advanced economy context. In principle, almost all of the arguments discussed above should carry over to a developing country setting, although the fact that economic activity is more likely to be influenced by supply shocks in developing countries will present fewer opportunities to use fiscal policy for demand management (Agenor, McDermott, and Prasad, 1999)

Easterly and others (1993) failed to find a significant correlation between growth and government consumption share of the GDP. In a more comprehensive summary of the association between measures of fiscal policy and the rate of growth, Easterly and Rebelo (1993) find that the effect of fiscal variables on economic growth are statistically fragile. The only fiscal variable in their study that is consistently correlated with the growth of GDP and private investment is the government budget surplus. Helms (1985) analyzed the growth effects of state and local taxes. He argues that higher taxes can stimulate economic growth if used to finance development expenditures. After controlling for all sources and uses of taxes in a pooled time-series-cross-section regressions in the period 1965-1975, Helms finds that taxes have a negative and significant effect on growth. While some studies find that taxes have effects on long-term growth rate, others find no significant effect. After controlling for the initial level of GDP and using different tax measures, Koester and Kormendi (1989) find that average and

marginal tax rates are negatively correlated with growth. However, the coefficients of both the marginal and average tax rates are not statistically significant. Likewise, Easterly and Rebelo (1993) concluded the evidence that tax rates matter for growth is fragile. When they controlled for other correlates of growth, only the marginal income tax rate and the ratio of income taxes to personal income remained significant in their cross-country regressions. The Helms regressions indicate that the coefficient of the tax rate can be positive if taxes finance productive expenditures, and can be negative if tax receipts are used to finance welfare transfers. Redistributive public transfers can adversely affect the pace of economic growth. Alesina and Rodrik (1994) and Lee (1992) find that for a given tax rate, an increase in public transfers reduces the rate of economic growth.

Neoclassical growth models imply that government policy can affect only the output level but not the growth rate (Judd, 1985). However, endogenous growth models incorporate channels through which fiscal policy can affect long-run growth (Barro 1990, Barro-Sala-i-Martin 1992, 2004). Landau (1983) using cross-sectional data from 104 countries found a negative relation between public consumption as share of GDP and growth per capita using Summers-Heston data, while Kormendi-Meguire (1985) using cross-section/timeseries data for 47 countries found no statistically significant relation of the same variables for the post-World War II period. Barro (1989), with data from 98 countries in the post-World War II period, found that government consumption decreases per capita growth, while public investment does not affect growth. Levine-Renelt (1992) found that most results from earlier studies on the relationship between long-run growth and fiscal policy indicators are fragile to small changes in the conditioning set. In the next generation of studies, Easterly-Rebello (1993) (ER from now on) used cross-section data for 100 countries for 1970-1988 and panel data for 28 countries for 1870-1988. They found that public transportation, communication and educational investment are positively correlated with growth per capita and aggregate public investment is negatively correlated with growth per capita, although they admitted that many fiscal policy variables are highly correlated with initial income levels and fiscal variables are potentially endogenous. Cashin (1995) estimated a positive relationship between government transfers, public investment and growth and a negative one between distortionary taxes and growth from panel data for 23 developed countries between 1971 and 1988. Devarajan et al (1996) showed that public current expenditures increase growth, whilst government capital spending decreases growth in 43 developing countries 5 over 1970-1990. Kneller et al. (1999, 2001) showed that the biases related to the incomplete specification of the government budget constraint present in previous studies (see section 2 above) are significant and after taking them into account, they found for a panel of 22 OECD countries for 1970-1995 that: (1) distortionary taxation hampers growth, while non-distortionary taxes do not; (2) productive government expenditure increases growth, while non-productive expenditure does not; (3) long-run effects of fiscal policy are not fully captured by five-year averages commonly used in empirical studies. Poot (2000) in a survey of published articles in 1983-1998 did not find conclusive evidence for the relationship between government consumption and growth, while he found empirical support for the negative effect of taxes on growth. Also, he reported a positive link between growth and education spending, while the evidence on the negative growth impact of defense spending is moderately strong. Finally, Poot presented evidence of a robust positive association of infrastructure spending and growth. Easterly (2005) found a significant growth effect of budget balance, which disappeared when extreme observations were excluded from the analysis. Tervala (2005) argued that fiscal growth raises the output of non traded goods and crowds out private consumption of non traded goods. However, Blinder and Solow (1972) argued that in the simplified IS-LM framework the long run sign of the pure fiscal multiplier is undermined a priori, fiscal policy only acts perversely in unstable system.

## The hypothesis of study

**H<sub>0</sub>:** *There exist not a statistically significant link between fiscal policy and economic growth in Albania.*

**H<sub>a</sub>:** *There exist a statistically significant link between fiscal policy and economic growth in Albania.*

## Research Objectives

- To assess empirically the influence of fiscal policy in the economic growth of Albania. Analyze the impact of fiscal policy on the economic growth through statistical programs.
- To analyze or interpret causal links between fiscal policy and economic growth. So, to estimate why do fiscal policy affect or do not affect the economic growth in our country

## The research question

- Does fiscal policy have an impact on the economic growth of Albania?

## Scope of the study

The study has used the annual data for a period of 23 years. The data belong to the time period of 1993-2015. The economic growth model is based on capital, labour, trade openness and fiscal variables. The data on FGCF, real economic growth and employment rate are taken from the Albanian Institute of Statistics (INSTAT). Quarterly is interpolated from annual data by linear match last approach using EViews. The sum of total import + exports to nominal GDP ratio. The data on exports and imports of goods and services are taken from Bank of Albania.

## The correlation between fiscal policy and GDP in Albania

Through this study it is aimed to analyze whether fiscal policy in Albania affect the economic growth. Are studied the data which belong to the period 1993 – 2015. Government expenditure represents the total level and government revenue does not include grants since the later are donations and do not account for the state of the Albanian economic activity. results are driven by classification of fiscal variables into different types and a key issue is the allocation of taxes and expenditures, respectively, into distortionary versus non-distortionary revenues and productive versus non-productive expenditures. Distortionary government revenue is the sum of profit tax + personal income tax + national taxes and others + revenues from local government + social insurance contributions. Non-distortionary government revenue is the sum of Custom Duties + VAT + Excise Tax. Dissagregation of expenditure relates to the classification of the public expenditures based on budgetary indicators as an alternative solution to the unavailability of the appropriate time series for the public expenditures as in Barro and Sala-i-Martin (2004).

Therefore, productive government expenditure is the sum of public capital expenditures. Non-productive government expenditure is the sum of personel expenditure + subsidies + social insurance outlays + operational & maintenance + other expenditures + electricity compensation + compensation for expropriation + interest cost of bank restructuring + loans to KESH + payment for participation in BISH capital + energy support. Fiscal data and the public debt are taken from the Ministry of Finance. Data, besides economic and employment growth rate, are generated as a ratio of GDP (Afonso and Jales 2011). Variables taken in the study are:

- Y** dependent variable – GDP growth (annual %)
- X<sub>1</sub>** independent variable – distortionary revenues
- X<sub>2</sub>** independent variable – non-distortionary revenues
- X<sub>3</sub>** independent variable – productive expenditures
- X<sub>4</sub>** independent variable – non-productive expenditures

Once the data are added and processed in EVIEWS, the below output is taken:

Dependent Variable: Y				
Method: Least Squares				
Date: 02/07/17 Time: 09:35				
Sample: 1993 2017				
Included observations: 25				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.851130	3.486864	2.825212	0.0012
X1	-4.352205	0.000175	0.534466	0.0046
X2	-1.833405	0.000175	-0.103997	0.0013
X3	0.500108	0.000126	0.857887	0.0022
X4	7.936705	8.17E-05	-0.970956	0.0004
R-squared	0.979399	Mean dependent var		5.221739
Adjusted R-squared	0.979440	S.D. dependent var		4.686437
S.E. of regression	4.604409	Akaike info criterion		6.081566
Sum squared resid	381.6104	Schwarz criterion		6.328412
Log likelihood	-64.93801	Hannan-Quinn criter.		6.143647
F-statistic	1.197711	Durbin-Watson stat		2.298281
Prob(F-statistic)	0.000452			

Source: Author's computation, 2017

### Interpretation of the model

Based on the studied model, we have the following equation:

$$Y = 9.851130 - 4.3505 x_1 - 1.833405 x_2 - 0.500108 x_3 + 7.936705 x_4$$

$Prob.(F-statistic) = 0,000452 < 0.05$ , the alternative hypothesis is accepted, which means that there is at least one variable X that affects Y.



*Testing of importance/existence of parameters:*

- Parameter C (the constant) exists
- Parameter  $\beta_1$  exists because *Prob.*  $0.0046 < 0.05$
- Parameter  $\beta_2$  does exists because *Prob.*  $0.0013 < 0.05$
- Parameter  $\beta_3$  does not exists because *Prob.*  $0.0022 < 0.05$
- Parameter  $\beta_4$  exists because *Prob.*  $0.0004 < 0.05$

*Measurement of the variation:*

The coefficient of determination / Adjusted R<sup>2</sup> :

- The proportion on the variation of Y that "is explained" by all the X variables taken together.
- R<sup>2</sup> adjusted = 0.9794
- 97,94 % of Y variations are explained by X variation

Capital expenditure has provided bigger positive impact on growth and has also mitigated the negative affects that global financial and economic crisis had on the Albanian economy. This confirms findings by Bachmann and Sims (2011) that raising government investments, especially during downturns, boost business confidence. As Afonso (2006) puts forward, reveals the Albanian public sector efficiency on resource allocation and output scores maximisation. Second, the diminishing impact of expenditure on growth is mostly due to raising negative impact of non-productive expenditures. According to Cecchetti, et. al., (2011), suggests that debt burden is above a threshold of growthenhancing. According to results by Shijaku (2012) in the verge of raising cost of borrowing a further increase above Albanian repayment ability or sustainability level would discourage public investment within the budget structure and may crowd-out private investments. If government wishes to stimulate economic activity through boosting productive expenditure, it should do it through lowering the non-productive expenditure rather than borrowing instruments.

**Diagnostic tests and adaptability of the model**

These tests aim to test and certify all the initial assumptions of the model.

**1. Testing of homosedasticity**

a) ARCH test: is an autoregression procedure above the square of wastes over time:  $\varepsilon_{2t} = \varphi_1 \varepsilon_{2t-1} + \varphi_2 \varepsilon_{2t-2} + \dots + \varphi_p \varepsilon_{2t-p} + \eta_t$

**Hypotheses:**

- H<sub>0</sub>:  $\varphi_1 = \varphi_2 = \dots = \varphi_p = 0$  **Homosedasticity**
- H<sub>a</sub>: Të paktën një koeficient  $\neq 0$  : **Heterosedasticity**

Heteroskedasticity Test: ARCH				
F-statistic	0.108400	Prob. F(1,17)		0.7460
Obs*R-squared	0.120385	Prob. Chi-Square(1)		0.7286
Test Equation:				
Dependent Variable: RESID^2				
Method: Least Squares				
Date: 06/19/15 Time: 11:51				
Sample (adjusted): 1996 2017				
Included observations: 19 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.35E+09	6.87E+08	3.419244	0.0033
RESID^2(-1)	-0.079627	0.241851	-0.329241	0.7460
R-squared	0.006336	Mean dependent var		2.17E+09
Adjusted R-squared	-0.052115	S.D. dependent var		1.87E+09
S.E. of regression	1.92E+09	Akaike info criterion		45.69053
Sum squared resid	6.28E+19	Schwarz criterion		45.78995
Log likelihood	-432.0601	Hannan-Quinn criter.		45.70736
F-statistic	0.108400	Durbin-Watson stat		1.982362
Prob(F-statistic)	0.745995			

Source: Author's computation, 2017

**Prob = 0.7286 > 0.05** .So the probability to accept the basic hypothesis is high and we accept it. We have *homosedasticity*.

## 2. The average residue testing

Will test that the average residue is zero.

### Hypothesis:

→  $H_0: \bar{e} = 0$

→  $H_a: \bar{e} \neq 0$  (*parameters are not good for prediction*)

$$|t| / [Se / (n-1)^{1/2}] = -2.36e^{-16} / (47427.43 / 19^{1/2})$$

Factual value > **1.96** . We accept the alternative hypothesis, the residue does not have the average 0. This can be observed in the chart.

## 3. Testing the normality of the distribution of residue

a) **Jarque Berra** test, fully test whether the distribution is normal or not.

### Hypothesis:

→  $H_0$  : normality

→  $H_a$  : lack of normality (*parameters are not good for prediction*)

**Prob.= 0.443562 > 0.05**, The probability to accept the basic assumption is significant, so we say that we have normal residue.

b. The asymmetry test (**Skweness**), it test whether the distribution has a normal asymmetry or not.

Skweness follows :  $\beta \in N(0; \sqrt{6/n})$ .

Factual value : **Skweness** /  $\sqrt{6/n}$

### Hypothesis:

→  $H_0$  : normality of asymmetry

→  $H_a$  : lack of asymmetry normality (*parameters are not good for prediction*)

**Factual value of asymmetry: -0.2527/0.5477= -0.4613 < 1.96**

We accept the basic hypothesis with 5% risk, and have **Normality of Asymmetry** of the distribution of residue

c. Pressure test (**Kurtosis**), tests whether the distribution has a normal pressure or not.

Kurtosis follows :  $\beta \in N(3; \sqrt{24/n})$

Factual value: (**Kurtosis-3**) /  $\sqrt{24/n}$

### Hypothesis:

→  $H_0$  : normality of pressure

→  $H_a$  : lack of pressure normality (*parameters are not good for prediction*)

**Factual value of pressure: -1.302132 / 1.0954= - 1.18872 < 1.96**

We accept the basic hypothesis with 5% risk, and have **Normality of Pressure** of the distribution of residue

## 4. Testing of autocorrelation

Test by *Durbin Watson* test.

### Hypothesis:

→  $H_0$ : lack of autocorrelation

→  $H_a$ : autocorrelation (*parameters are not good for prediction*)

We are at  $d_2 < DW < 4-d_2$

We accept the null hypothesis. We have lack of autocorrelation

## Conclusions

- 1) Various researches show that there is a positive correlation between fiscal policy and economic growth. The philosophy of fiscal reforms in Albania was based on the idea of reducing current expenditures and boosting government revenues.
- 2) Regarding fiscal variables, the results obtained show that overall growth rate is affected negatively by government revenues and positively by expenditure policies. Considering the parameter magnitude government revenue effected growth more than government expenditure. Categorising tax revenues into distortionary and non-distortionary, we found that government revenues and the sub-categories reduce growth, but distortionary taxation has much larger and significant effect. Further, growth is positively affected by productive expenditure and negatively by non-productive, but the former has a greater impact.

- 3) Results demonstrate that rising revenues negative impact is mainly due to distortionary policies. Expenditure policies reflect the attitude of the counter-cyclical FP through capital and wages increase. Further, findings show that the coefficient value of debt burden is negatively related to growth rate. Financing government capital investment through borrowing mechanism has stimulated growth, but according to Cecchetti, et. al., (2011) debt burden is above a threshold of growth-enhancing.
- 4) The result achieved empirically, was also proved thanks to the various diagnostic tests, which confirmed the accuracy of the model, arguing that the model:
  - Has lack of heteroscedasticity
  - The overall residue equals zero
  - The distribution of residue follows a normal distribution
  - There is a lack of autocorrelation between residues

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# The diversification of the loan portfolio and its effect on the banking system performance. Evidence from Albania 2005-2015

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## Abstract

*This paper examines the effect of sectorial and geographical diversification on the performance of Albania banks and try to show how the diversification affects banks' performance. To investigate the relationship between the credit diversification and performance of 16 Albania banks between the time period of 2005 and 2015, data sources is Bank of Albania (BOA). In this manner the study is analyzed on 16 banks' data. In the present study, ROA (Return on Assets) and ROE (Return on Equity) are used as measure of performance and Herfindahl Index (HI) is used as a measure of diversification of banks. The number of credits and the amount of credits that banks let borrowers' use are employed as control variables. According to the result of the analysis it is determined that dependent variables ROA and ROE are explained by diversification.*

**Keywords:** Credit Diversification, Herfindahl Index, Bank Performance, ROA, ROE.

## Introduction

Diversification is one of the important subject of the finance literature. Banks can intend to diversify its credit portfolio to increase the performance and to reduce the credit portfolio risk. By carefully selecting and monitoring the borrower, a bank can influence the risk-return profile of the loan. Based on the theory on financial intermediation, a bank can accumulate expertise if it concentrates lending on certain industries or sectors. This expertise is valuable to the bank when it comes to choosing and monitoring borrowers, as it allows the bank to keep write-offs and write-downs in its credit portfolio below average compared with loans to similar borrowers.

Credit business is the core of traditional commercial banking. By carefully selecting and monitoring the borrower, the bank can, on average, reduce the credit risk of the loan portfolio. Selection and monitoring abilities depend on bank characteristics. One important feature is the sector concentration in the loan portfolio, whereas other characteristics are barely quantifiable – for instance, the management and process quality. The more a bank focuses on certain industries, the more it can acquire industry-specific knowledge and thereby realize specialization benefits, i.e. reduce, on average, the credit risk of the loan portfolio. However, a concentrated loan portfolio harbours increased concentration risks due to higher default correlations of borrowers within a given industry. The question of whether knowledge gains from loan portfolio concentration outweigh the foregone diversification benefits is rarely discussed in the theoretical and empirical banking literature.

## Literature Review

Diversification is one of the important subject of the finance literature. This strategy is also crucial for a bank as a financial institution. Banks can intend to diversify its credit portfolio to increase the performance and to reduce the credit portfolio risk. In the literature there are variety of studies that analyze diversification and bank performance. There have been multiple



studies on the effect of revenue diversification on profitability of banks in the US, European and also Asian countries with mixed results. Here we summarize a few of the results from past literature.

Theoretically, the literature on bank diversification analyses the benefits and costs associated to the strategy developed. Among the former are the results of the portfolio theory that postulate that as long as the revenue streams from different financial activities are less than perfectly correlated, income diversification should offer banks opportunities to grow their risk-adjusted profits. Thanks to economies of scope, diversification may lead to an increase in performance through cost savings or revenue improvements due to the joint production of a wide range of financial services (Teece, 1980 and 1982; Llewellyn, 1996; Klein and Saidenberg, 1997); moreover, diversified banks should realize revenue efficiencies when cross-selling various (fee-based) financial products alongside traditional lending-based services (Herring and Santomero, 1990).

In banking, diversification is done functionally by combining into what is called a conglomerate such activities as commercial banking, securities trading, insurance and other financial services (Baele et al., 2006) or forming a conglomerate of many banks through a bank holding company or banking groups (Kahloul and Hallara, 2010). Indeed Ebrahim and Hasan (2008) defined bank diversification as the expansion into new financial services and products other than the traditional intermediation activities. In his review of the benefits of relaxing the Glass-Steagall Act (Banking Act) of 1933, Christiansen and Pace (1994) defined diversification as the expansion of a banks allowable activities into non-traditional banking activities. This definition was also emphasized by Tabarrok (1998) in his review of the recommendations of the Glass-Steagall Act which had advocated for separation of commercial and investment banking activities. As such bank diversification can be better understood by disaggregating the various elements that constitute the operations, assets and liabilities of a commercial bank. In this regard, bank diversification can thus be defined as the conglomeration of different activities, income sources, assets and liabilities in banking operations.

Theory of bank diversification suggests the existence of several types of diversification which include amongst others, geographical diversification, international diversification (Lin, 2010; Obinne et al., 2012), income diversification (Gambacorta et al., 2014; Kiweu, 2012), product or services or activities diversification (Christiansen and Pace, 1994), deposit diversification, asset diversification and diversification into different economic sectors (Berger et al., 2010; Goetze et al., 2013). Liang and Rhoades (1991) argued that banks can diversify by investing in financial securities, participating in Fed funds and other securities in addition to making loans. Though Ebrahim and Hasan (2008) called this product diversification, it is closely related to the income diversification pointed out by Kiweu (2012). Additionally, Liang and Rhoades (1991) provide that banks can also diversify their loan portfolios across different types of loans in addition to being geographically diversified. Close to this, Saksonova and Solovjova (2011) argued that commercial banks can diversify not only their lending portfolio but also their investments. However, the key and common diversification strategies in banking are; income diversification, assets diversification, credit diversification, geographical diversification and international diversification.

Another approach through which banks can pursue diversification is the diversification of credit lines. This involves the diversification of loan portfolio across different sectors, industries or geographical localities (Acharya et al., 2006; Chen et al., 2013; Turkmen and Yigit, 2012; Behr et al., 2007; Tabak et al., 2011). The basic premise behind credit diversification is the project distribution or reduction of risks per entrepreneur by adding independent risks in the portfolio (Diamond, 1984). This may however not be the case as the firms monitoring efficiency is reduced as the number of sectors are added to the portfolio (Acharya et al., 2006). A comprehensive measure of credit diversification is the general diversification indices of Herfindahl-Hirschman Index (Acharya et al., 2006; Chen et al., 2013; Jahn et al., 2013) which ranges from zero indicating complete concentration with higher values of the index indicating more diversification (Jahn et al., 2013).

Acharya et al. (2006) empirically examine the impact of loan portfolio concentration versus diversification on performance indicators of Italian banks. The authors use the Herfindahl-Hirschman Index (HHI) as a measure of loan portfolio concentration across different industries and sectors. They find that industrial or sectoral diversification implies unaffected or marginally increased return and increased credit risk for banks with a moderate downside risk in the loan portfolio, whereas banks with a high credit risk in their loan portfolio experience decreased bank performance through diversification. The authors conclude that “diversification per se is no guarantee of superior performance or greater bank safety and soundness”.

Tabak et al. (2010), assessed whether banks operating within the Brazilian banking system concentrate or diversify their credit portfolio and how this choice impacts their performance and risk and they founded that Brazilian Banks' loan portfolios are more concentrated than those of developed countries like Germany, Italy and the U.S. Bebczuk and Galindo (2008), analysed sectoral diversification of Argentine banks and suggested that larger banks benefit more from diversification than smaller ones and that the benefits of diversification are greater during the downside of the business cycle.

The authors perform both static and dynamic regression analyses using traditional concentration as well as distance measures. They find a positive relationship between bank returns and loan portfolio concentration for both the HHI and the Shannon Entropy as well as for an absolute and a relative distance measure. In addition, the HHI and Shannon Entropy have a negative influence on banks' loan portfolio credit risk; in sum, the authors find that concentration has an overall positive effect on banks' performance. The above-mentioned studies suggest a slight positive impact of banks' concentration strategy on performance measures, whereas Rossi et al. (2009) and Bebczuk and Galindo (2007) come to the opposite conclusion examining large commercial Austrian banks and banks from Argentina, respectively.

Turning to the Italian situation, Acharya et al. (2006) analyse the relationship between industrial loan diversification and performance using data from 105 Italian banks over the period 1993-1999 concluding that diversification of bank assets is not guaranteed to produce superior performance and/or greater safety for banks. Chiorazzo et al. (2008) using annual data from 85 Italian banks over the period 1993-2003 find that income diversification increases risk-adjusted returns and that diversification

gains diminish with bank size. Cotugno and Stefanelli (2012) using a panel dataset comprising 4038 observations relative to Italian banks for the period 2005-2010 find a positive relationship between product diversification and bank performance also in terms of risk adjusted measures. Vallascas et al. (2012) on a sample of 145 Italian banks during the period 2006-2008, using detailed data on the composition of bank income verifies that institutions that were diversified within narrow activity classes before the crisis experienced large declines in performance during the financial crisis. By contrast, diversification across broad activity classes, such as lending and capital market activities, did not cause performance losses during the crisis.

Diversification is perceived to play a vital role in risk management. The central bank imposes restrictions on exposure to a single sector to ensure diversification in credit portfolios<sup>1</sup>. This is based on the assumption that better diversification removes the systemic risk of a particular sector and reduces the probability of bank failure. In this context, banks with bigger size, in terms of total assets and branch network, are expected to be better diversified than smaller banks. The diversification capacity for larger banks is expected to emanate from the economies of scale and scope that they are likely to compared to smaller banks. However, there could be at least two reasons because of which banks may not diversify. First, they might have moral hazards which may increase concentration in their loan portfolio. This moral hazard is likely to emerge from “*too big to fail*” doctrine where larger banks are presumed to be safer than smaller banks and therefore, they might continue to grow without diversifying their risks by investing in few profitable sectors.

The theory of Berger et al. (2005), Zarutskie (2013), that banks concentrate on different types of loans depending on the total amount of assets they own. Thus, we find that large banks prefer providing loans to the mortgage, consumer, service and commerce sectors; the coefficients of size when these loans stand for regress and are significantly positive at 5 and 10 percent level. The findings are the opposite to what was documented by Zarutskie (2013): that small banks of the US prefer commercial and personal loans. This idea was based on the hypothesis that the smaller banks build their relationship based on soft personal information (Berger et al., 2005). However, their theory is supported by the fact that mortgage loans are positively related to size, thus, following the idea that large banks have a greater share of real-estate loans.

Classical portfolio theory according to Markowitz (1952) suggests optimal portfolio selection through diversification as regards the typical trade-off between portfolio risk and expected return. However, Kamp (2006) points out that data limitations concerning the calculation of risk, return and default correlations hinder the applicability to financial intermediation. More

importantly, in contrast to the Markowitz model, banks can influence the expected return of a granted loan by monitoring it closely, which suggests that credit risk is endogenous. As a consequence, banks usually adopt simpler strategies to allocate their loan portfolios. The heuristic of naïve diversification is a possible starting point, assuming that increased diversification reduces credit risk. For the data used in our study, perfect naïve diversification corresponds to equal shares of the loan exposures to 27 industries. If loans are granted to one industry only, the loan portfolio is perfectly concentrated. The Herfindahl-Hirschman Index (HHI) comprises naïve diversification in a concentration measure and has been widely used in the loan portfolio concentration literature. Another measure of naïve diversification is the Shannon entropy. Among other things, it is used to indicate industrial concentration or income inequality.<sup>23</sup> Naïve diversification measures well illustrate the risk concentration on single industries or segments. However, neither measure accounts for possible differences in the importance of several industries and sectors in an economy.

Acharya et al. (2002), performed one of the first and important study about diversification on banks' credit portfolio. They analyzed Italian banks and found that both industrial and sectoral diversification reduces bank returns while producing riskier loans. However Hayden et al. (2007), investigated German banks and found that diversification tends to be associated with reductions in bank returns, even after controlling for risk. Only in a few cases (e.g., high-risk banks and industrial diversification) did they reach statistically significant positive relationships between diversification and bank returns. Kamp et al. (2004), analysed whether German banks diversify their loan portfolios or focus on certain industries and founded that a majority of banks significantly increased loan portfolio diversification. David and Dionne (2005), discussed how large banks in Sweden manage their loan portfolios and investigated the strategy behind loan portfolio diversification at banks. Schertler (2006), found that total domestic lending by savings banks and credit cooperatives (including their regional institutions), smaller banks, and banks that are highly specialized in specific sectors responds positively and, in relevant cases, more strongly to domestic sectoral growth.

Stiroh (2004), examined the link between diversification and risk adjusted performance for small community banks and resulted that diversification benefits within broad activity classes but not between them.

## Banking Sector in Albania and Credit Portfolio Diversification

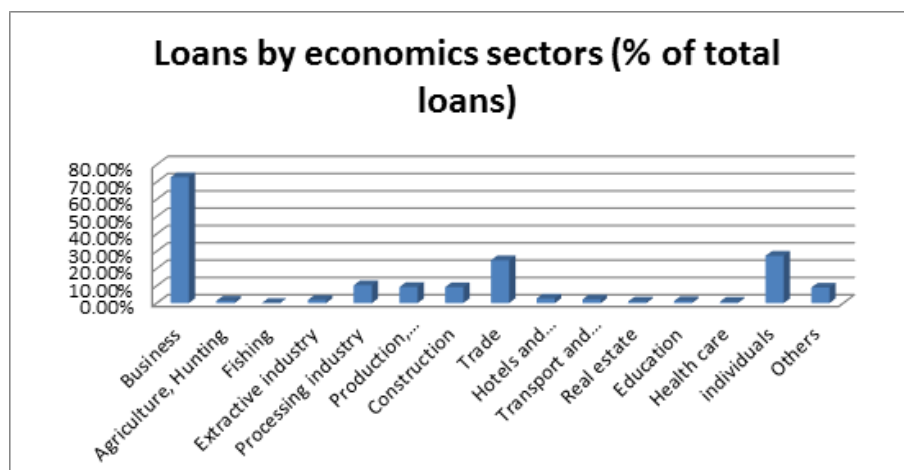
Credit to the private sector was supported by both the moderate expansion of lending and the cleanup of banks' balance sheets from loss loans<sup>37</sup>. Lending showed a sluggish performance in 2015. Adjusted for written off loans, outstanding credit to the private sector rose by ALL 12 billion, or at 2.2% compared to 2.0% in 2014. The credit performance in the second half of 2015 was driven by the appreciation of the exchange rate<sup>38</sup>, especially in December. Adjusted for exchange rate fluctuations, annual growth of credit to the private sector amounts to around ALL 14 billion, or 2.8% higher than in 2014. By sector, loans to households rose by 4.8%, whereas loans to enterprises rose only 1.2% during 2015. Consumer loans recorded 11.4% annual growth. In parallel, credit for house purchase recovered in the second half of the year, recording 3.0% annual growth. The growth of loans to enterprises was overall weak. This performance reflected the lower need by enterprises for support

with short-term monetary assets, in response to the improved liquidity situation following the payment of arrears. Loans to enterprises for liquidity rose by 0.9% at the end of the year, after fluctuating in negative territory for some months. Credit for investments showed positive growth rates, recording 1.7% annual growth at the end of the year. (Bank of Albania, 2016)

Credit supply also tightened. This performance reflected the prudent approach by banks towards lending, in the presence of tightened policies by parent groups, of regulatory capital requirements and its high costs in the euro area, as well as of the high risk level perceived in Albania due to the high level of non-performing loans and difficulties surrounding collateral execution. The tightening of supply was reflected in worsened credit conditions, such as increase in collateral requirements, reduction of the disbursed credit size, and reduction of term to maturity. Bank lending surveys show that households demand expanded during the year, and demand by enterprises grew in the last quarter. Credit conditions are reported as overall eased during 2015. For enterprises, this performance reflects the easing of conditions for small and medium-sized enterprises, and tightening for larger corporations. The credit conditions tightened generally due to factors related to the firms' financial situation, sector-specific problems, and high level of non-performing loans in the banking system. The implementation of tightened policies is reflected in the widening of the margin for risk-rated credits, reduction of the disbursed credit size, and reduction of term to maturity. On the other hand, credit conditions for households eased over the three last quarters, both for consumer and house purchase credit. The increase in interbank competition and the accommodative monetary policy of the Bank of Albania have constantly contributed to the easing side of credit conditions. (Bank of Albania, 2016)

While credit conditions have eased, both enterprises and households perceive them as still tight. According to Business and Consumer Confidence Surveys, most respondents state that bank credit conditions remain tightened, in terms of credit cost, collateral requirements and commissions. The chart shows responses by sectors of the economy. The chart also reveals that the industry sector and households have the highest share of responses for tightened or very tightened credit conditions. Interviewed households have not opted to get a loan not only due to their assessment of conditions as inadequate, but also because they do not meet the required conditions by the banks. (Bank of Albania, 2016)

**GRAPHIC 1:** Loans by economics sectors (% of total loans)



Source: Bank of Albania, 2016

Structure of loans by sectors of the economy for 2015 does not record any significant changes compared with a year ago. Sectors credited economy remain "Trade, repair of motor vehicles and household goods" with a weight of 24.7% of the portfolio (with a decrease of 0.6 percentage points), followed by "manufacturing sector" with a weight of 10.3% (down by 0.5 percentage points). The "construction" (which ranks fourth in terms of weight item) at the end of 2015, resulting in a weight of 9.2% from 9.7% which resulted in December 2014. (Bank of Albania, 2016)

In 2016 Q4, loans to enterprises supported the services sector but less the construction sector, whereas loans to industry and agriculture sectors shrank. The annual dynamics of these portfolios shows that the growth of loans to the sector of trade, hotels and restaurants slowed down to an average of 1.4%, compared with 2.8% in 2016 Q3. Meanwhile, lending to "other services" maintained high growth rates of 10.4%. Loans to the construction sector showed 1.2% growth, higher than the 0.8% rate in the previous quarter. In October-November, loans to industry and agriculture sectors shrank -1.9% and -4.8%, respectively. These developments seem to reflect the performance of both economic activity and the confidence indicators in 2016.

## Lending trends in the region

Developments in regional terms continue to show a relative segmented performance, where Central Europe has contributed mostly to the increase of lending in the CESEE countries. However, the slowdown of lending rates in the region during recent months, in parallel with a slight increase trend of lending in the Balkan countries, have contributed to the narrowing of the

gap between the performance of lending in these two regions. The slowdown in lending rates in the region of Central Europe is mainly driven by the deepening of loan contraction in Hungary, along with more contained rates of growth recorded in Poland and the Czech Republic during October-November. Developments in the Balkan region reflect the positive performance of lending in Romania, Bulgaria and Serbia. Albania ranks well in terms of growth of credit the private sector, which is faster than the average of the Balkan countries in annual terms. (Bank of Albania, 2017)

Business loan portfolio marks a steady growth in the countries of Central Europe. The bank lending survey in the region of CESEE reports for slightly improved conditions for loans to large enterprises. Loans to enterprises performance remains in negative territory for the Balkan region, although more moderate compared to the third quarter of the year. Loans to enterprises in Albania marked a low but relatively stable increase. Loans to households leads the expansion of the loan portfolio to the private sector. Its performance is stable, both in Central Europe countries as well as in the Balkans. According to the lending activity of CESEE, factors such as consumer confidence, developments in the housing market and consumer spending not for housing, have positively led to the increase of households demand for loans.(Bank of Albania, 2017)

## Data and Methods

Quantitative data were obtained mainly from the financial statements of commercial banks, by Bank of Albania and Albanian Association of Banks, in order to make empirical analysis needed to identify and measure the determinants of bank profitability.

To measure diversification, we use the Herfindahl Index. This index is the sum of the squares of exposures as a fraction of total exposure under a given classification (Acharya et al. 2002). The Herfindahl index is calculated as the sum of squares of lending as a percentage of the square of total lending. A Herfindahl index close to its minimum means that banks are highly diversified across sectors (Schertler et al. 2006).

$$DI = 1 - HI = \sum_{i=1}^N w_i^2$$

Where, DI is the diversification index, HI is the Herfindahl Index,  $W_i$  is the proportion of portfolio market value invested in security  $i$  (in decimal form), and  $N$  stands for the number of securities in the portfolio (Yiğit and Tür, 2012).

It is accepted that "Return on Assets" and "Return on Equity" are important measurement ratios to determine the effectiveness of banks (Acharya et al. 2002; D'Souza and Lai, 2003; Schertler, 2006; Busch and Kick, 2009; Cotugno and Stefanelli, 2012). Return on Assets and Return on Assets are calculated as follows:

Return on Assets (ROA): Net Income / Total Assets

Return on Assets (ROE): Net Income / Equity.

**Control variables** are the size of banks and the number of loans supplied by banks.

**Hypothesis:** There is a negative relationship between sectoral diversification and banks' performance.

**TABLE 1:** Diversification, ROA and ROE Correlation Analysis

	ROE	ROA	HI LOAN	LOAN AMOUNT
ROE	1.000000	0.974050	-0.434711	-0.835391
ROA	0.974050	1.000000	-0.320826	-0.713636
HI LOAN	-0.434711	-0.320826	1.000000	0.738535
LOAN AMOUNT	-0.835391	-0.713636	0.738535	1.000000
NR BANKS	16	16	16	16

Source: Author

In order to understand the relationship, ROA and ROE, the dependent variables, loan amount, loan number and degree of sectoral diversification (Herfindahl Index), the independent variables, are subjected to correlation analysis separately. It can also be seen in the table that there are correlations between ROE/ROA and each variable of the research as well. Thus, hypothesis 1 is accepted. Accordingly, there is a negative relation between dependent variables and independent variables.

In order to understand the relationship, ROA and ROE, the dependent variables, loan amount, loan number and degree of sectoral diversification (Herfindahl Index), the independent variables, are subjected to regression analysis.



**TABLE 2:** Regression analysis results, Dependent variable ROE

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HILOAN	278.4809	34.01199	8.187729	0.0000
LOANAMOUNT	-0.049922	0.008823	-5.657932	0.0003
R-squared	0.761802	Mean dependent var		11.02909
Adjusted R-squared	0.735335	S.D. dependent var		7.355797
S.E. of regression	3.784232	Akaike info criterion		5.662528
Sum squared resid	128.8837	Schwarz criterion		5.734873
Log likelihood	-29.14391	Hannan-Quinn criter.		5.616925
Durbin-Watson stat	1.121155			

From the results, we see that the model is accepted, adjusted R-squared is 73%. HI Loan and Loan amount accepted, because Prob. < 0.05. ROE is a positive relation with HI loan and a negative relation with loan amount. So, HI loan affect to ROE, while the amount of the loan does not affect the ROE.

**TABLE 3:** Regression analysis results, Dependent variable ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HILOAN	18.17497	2.981584	6.095742	0.0002
LOANAMOUNT	-0.002931	0.000773	-3.789690	0.0043
R-squared	0.584734	Mean dependent var		0.855455
Adjusted R-squared	0.538593	S.D. dependent var		0.488372
S.E. of regression	0.331736	Akaike info criterion		0.794012
Sum squared resid	0.990440	Schwarz criterion		0.866356
Log likelihood	-2.367064	Hannan-Quinn criter.		0.748409
Durbin-Watson stat	1.216953			

From the results, we see that the model is accepted, adjusted R-squared is 53.8%. HI Loan and Loan amount accepted, because Prob. < 0.05. ROA is a positive relation with HI loan and a negative relation with loan amount. So, HI loan affect to ROA; while the amount of the loan does not affect the ROA.

## Conclusion

The performance of a bank concerns other firms and sectors in the economy. Focusing or diversifying credit portfolios influence the risk level that banks take on. Losses in one sector or location can be compensated from the gain obtained from other sector or location etc. On the other hand, if the diversification level increases, it leads to rising of costs that are undertaken and diversification may not be associated with higher returns in every circumstances. It is important to make strategic decisions for a bank, in cases of risk and return preferences.

Results of the studies provided from E.U. banks and U.S. contradict to each other in terms of diversification. Furthermore there are certain differences like credit periods between E.U. and Turkish banks. Henceforth diversification of credit portfolio applications may differ from region to region.

This paper examines the importance of credit diversification on banks performance. The study is executed on 16 banks' data, between the time period of 2005 and 2015. Our main finding confirms whether a credit diversification, in terms of performance, negative effect for a sample of Albanian banks in the period 2005-2015.

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# A general view of knowledge management in albanian business organizations. (A fundamental concept for intellectual property management)

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## Abstract

*The fast pace of globalization and technological progress have dramatically changed market conditions and competition strategies. In the society of today, which is based on knowledge, or „knowledge - based society“, the amount of knowledge in use has increased considerably and has produced many challenges for its (knowledge) control and management. Today, Knowledge Management (KM) is becoming one of the most significant practices of companies in developed countries, aiming toward the increase of profits and competitive advantages. For a successful implementation of Knowledge Management, the identification of barriers or critical factors which affect the success of the KM process, is of a special importance. Most of these factors belong to human resources department. For the purpose of our research, is important to understand the level of recognition and usage of Knowledge Management in business organizations in our country. So, the purpose of this paper is to investigate the level of recognition and implementation of Knowledge Management in business organizations in Albania, and to reveal some of the barriers and critical success factors of KM in such organizations, as well. The purpose of this paper fully supports the research questions expressed as: Question 1. What is the level of the recognition and implementation of KM in business organizations in Albania? Question 2. What are some barriers and critical success faktors that affect the success of KM process, in albanian business organizations? The research methodology is specified following its main dimensions, and the research is based on primary and secondary data collection. Some conclusions are also part of this paper.*

**Key words:** Knowledge management, barriers and critical success factors, business organizations in Albania

## Introduction

Knowledge is essential in every working day. Everyone knows how to perform his work by using knowledge, which he may reuse in similar situations, or adapt to new situations. Increased number of employees in organizations has brought the essential need for developing methods to capture the knowledge that employees have obtained during their work, by filing and saving it as contents in management systems. The goal is that such preserved knowledge be used by other people in order to enrich them and to learn quickly from the efforts of others. This often creates difficulties, since the motivation of employees to share knowledge is a difficult task. Employees are inclined to preserve their knowledge fanatically, as knowledge sharing is perceived that will reduce the importance and as a consequence they would feel in risk for keeping the job .

Quick steps of globalization and technological progress have dramatically changed market conditions and competition strategies. Countries already compete in growing markets, not any further with their raw natural assets or simply with the

cheap labor arm. In recent decades, organizations have moved from industrialization, towards Knowledge as a strategic asset to the present and the future. *"Today knowledge is considered as the most important asset of the organization"* (Carneiro, 2000). *"Most important thing is to create new knowledge, but it's important as well to use silent and old knowledge to be effective. To create new knowledge, at the right time, in the right way, at the right place is important"* (Strommer, R.1999).

In this context, Knowledge Management is now seen as one of the hottest issues in economic development, referring to the world of industry, service and information research. Evidence shows that organizations are paying increasing attention to their systems of knowledge management to ensure that they are capturing, sharing and using productive knowledge within their organizations, in order to increase learning and to improve performance.

KPMG in a study on Knowledge Management, over 450 non-profit and profit organizations in several European countries (Great Britain, France, Germany, Netherlands), reveals several significant data on the role of Knowledge Management (KM) in these organizations. Hence 80% of these organizations consider knowledge as a strategic asset; 75% of them see KM as a key role in improving competitive advantages and increase of profits, 65% think that KM will improve innovation in product, 57% cite it in the development of employees, 71% believe that KM better leads decision-taking, 65% see KM as an achievement to respond more quickly to important issues of business and a better treatment of customers, 78% of them estimate that they are currently losing their business opportunities from the failure to use knowledge effectively.

Albanian business organizations are already part of the global market economy. In conditions when markets become increasingly more competitive and the speed of innovation emergency is growing constantly, these organizations need to recognize and implement this new management practice, in order to improve performance and provision of competitive advantages. In fact, the adoption and implementation of KM practices may be viewed as a critical stage for companies that wish to be integrated into a knowledge-based economy.

## Knowledge and Knowledge Management

When talking about knowledge, several disagreements are encountered about the meaning and content of data concept, information and knowledge. *The data* is a distinctive group or the facts are objective regarding the events; *information* a message, usually in the form of a document or an audio communication, or visual communication, and *knowledge* a fluid mix of experience, values, contextual information and expert knowledge, which provides a framework for evaluating and incorporating new experiences and information (Davenport and Prusak, 1998). Referring to Drucker (1997), knowledge is *"information that changes something"* or *"information into action"*.

Nonaka (1994) reveals that knowledge may be hidden and displayed. Hidden Knowledge lives in the human brain, difficult to be moved out or intermediated, or *"knowing more than you can say"* Michael Polanyi (1966). The inner, the subjective or intuition, are examples of hidden knowledge, reflected in confidence, actions, commitments, values and ideas. Otherwise, displayed knowledge comes formalized, recorded on video, in documents, graphics, books, etc. Studies show that 80% of the organization's knowledge is hidden knowledge and only 20% is displayed knowledge. *"Hidden knowledge is nowadays the only competitive advantage of every organization"* Peter Drucker (2000).

Literature knows no universal definition to define Knowledge Management. Different definitions, but which basically have the same approach, will be used to define KM. Alavi & Leidner (1999) define KM as: *"a systematic and specifically organized for absorption, organization and communication of hidden and displayed knowledge of employees, so that other employees may use them more effectively and productively in their work."* O'Dell (1998) defines KM as *"a concise strategy to get the right knowledge, from the right people, at the right time and as an aid for other people, in the way of sharing and setting information into operation, in order to improve the performance of the organization"*.

The above illustrations lead KM refers to a multi-discipline that is presented so as to achieve the objectives of the organization, through better use of knowledge. It includes processes such as: identifying proper knowledge based on the needs of the organization, selection, creation, adoption, filing and distribution of knowledge across the organization, as well as the creation of a culture and techniques that support them.

In this framework of discussion, it should be noted that, notwithstanding explanations above, information and knowledge are closely linked, it is important to distinguish Knowledge Management (KM), from the concept of Information Management (IM) in the organization. While KM assumes IM (Klaus & Gasble, 2000) and KM success depends on the effectiveness of IM (Bukowitz and Williams, 2000), they are different in terms of input, data processing, and the scope.

Nonaka & Takeuchi (1995), through the SECI model, identified four ways of knowledge conversion. Referring to the model, the creation of knowledge consists in a social process, where knowledge is transformed not simply in one direction, but in an interactive process from the individual across organizational groups and levels. The process starts with *socialization* (*sharing of knowledge across social interaction*), which includes the transfer of experience and sharing of knowledge hidden in individuals, by supporting the generation of knowledge.

Dialogue between members of the organization, allows the conception of hidden knowledge and helps *incarnation* (*the visible form of hidden knowledge*), by allowing the passage from hidden knowledge to displayed knowledge. Finally, the newly-created knowledge *combines* with existing knowledge and *is codified* by creating new experiences and expanding knowledge (*benefit of new knowledge, learn by doing*). Afterwards, the process restarts from the beginning, on the increased basis of knowledge, in the form of a spiral in order to create new knowledge.

## Methodology of the study

In this research paper, we propose to take a look over the importance of the recognition and implementation of Knowledge Management in business organizations in Albania. This issue makes the rationale of this paper. The purpose of this paper is to investigate the level of recognition and implementation of Knowledge Management in business organizations in Albania, and to reveal some of the barriers and critical success factors of KM in such organizations, as well.

The objectives of the research are to evaluate the level of the knowledge of managers and other employees, in regard with:

- The recognition of Knowledge Management
- The implementation of Knowledge Management
- Finding out some barriers toward KM
- Finding out some critical success factors of KM

The purpose of this paper fully supports the research questions expressed as: *Question 1. What is the level of the recognition and implementation of KM in business organizations in Albania?* *Question 2. What are some barriers and critical success factors that affect the success of KM process, in albanian business organizations?*

The methodology used for the research is based on some dimensions such as: *specification of research subjects, tools used for research, sampling, implementation plan, ethical issues and evaluation of results.* The research is based on primary and secondary data collection.

### *Specification of research subjects*

After defining the research questions, we started the work about selection of the subjects of this research that could be of interest for the purpose of this study. After distinguishing a number of companies of interest, we started the survey to collect the required information from the managers and other employees of these companies. The data for the study were collected from business organizations, with activity in several areas: service, construction, manufacturing, trade. The respondents were senior managers (sales, marketing and executive directors). This category was considered to be the best to respond, for the simple fact that they were supervisors of operations in their companies, having the tendency to be closely associated with knowledge management and its pertaining decision making.

### *Tools used for research*

In order to collect the necessary information to analyze the data, and to draw conclusions, several interviews were conducted based on a list of some basic questions. The interviews were intended to collect important data on different aspects of KM. The analyses of the collected information would give us the overall level of knowledge about issues stated above. To answer the two research questions raised, the qualitative research method was selected, by distributing questionnaires and developing interviews. Since KM constitutes a new field in the business organization practice in Albania, conducting face to face interviews was of a high importance, so that the discussion with the respondents would clarify more what was meant by Knowledge Management, and what the degree of implementation of the KM initiatives in these organizations was.

### *Sampling*

Our original sampling consisted of interviews with managers, and other employees, in 70 companies, in the Tirana region. Questionnaires' return rate was 51.4% or 36 collected questionnaires. However, only the representatives of 26 companies were directly interviewed, because some of them lacked substantial information. However, the collected data could be considered as being representative.

### *Implementation plan*

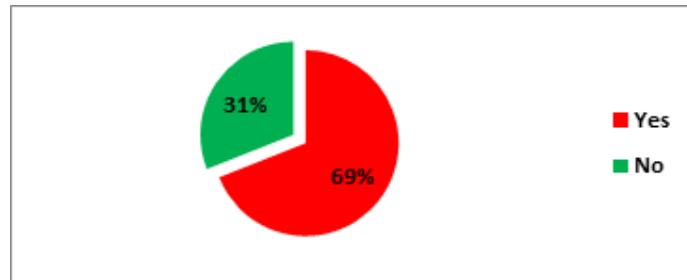
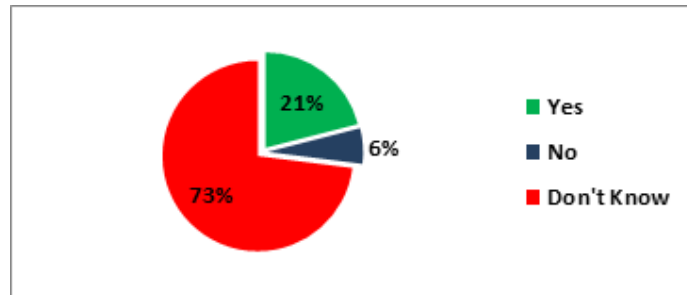
Interviews were used to collect the necessary data from the research subjects. The way we were organized helped us in reducing the time required to perform the interviews and in reducing the costs. Collected data were processed in order to prepare the information and to draw conclusions.

### *Ethical issues*

The information collected from the interviews was very important for analyzing and interpreting the findings. The names of the respondents (companies', managers', employees') due to ethical obligations werenot disclosed in this paper.

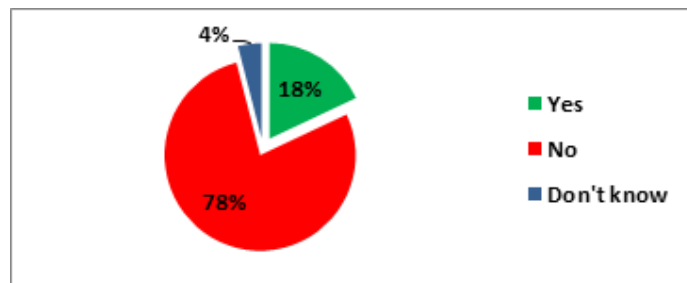
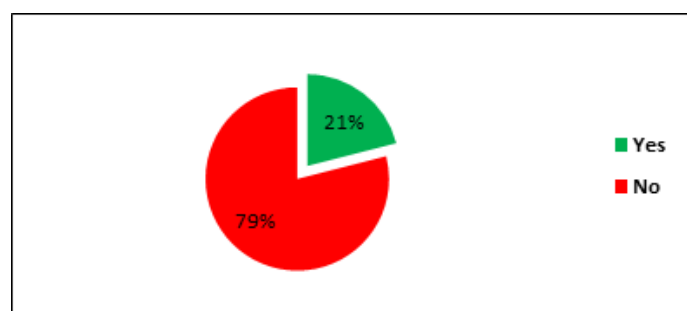
## Analyzes and Interpretation of research findings (*Evaluation of results*)

In relation to the level of Knowledge recognition as an important source, a strategic business asset and Knowledge Management as a management practice, the results of the analysis are the following:

**FIGURE 1:** Do you know where knowledge stems in your business?**FIGURE 2 :** Do you think that knowledge is an important asset of your business?

The above results indicate that 69% of these companies manage to identify the need for knowledge and the way to provide it. However, on the other hand, they fail to identify Knowledge as an important asset for their business (73%).

The success of businesses in the 21st century depends on the quality of knowledge that companies apply in their key activities, which put forward new demands to companies; from the investment that they exert constantly on the development of knowledge, based on competitors, customers, employees and labor force and global imperatives (Macintosh, 1998).

**FIGURE 3:** Is your company familiar with the concept of Knowledge Management?**FIGURE 4:** Do you know how to profit from Knowledge Management in your business?

The data clearly show that 78% of companies are not familiar with Knowledge Management. One of the basic reasons is the fact that they do not recognize the benefits that may come to their businesses from KM (79%). People in these organizations do not see a clear business reason why they need to transfer and preserve their knowledge. Consequently someone who has



knowledge does not know that someone else can use them beneficently, and someone who may benefit from knowledge does not know that someone within the organization possesses such knowledge.

To see the implementation level of KM in these organizations, 10 initiatives of KM were selected.

Questions related to the fact of naming specifically which initiatives out of the 10-selected-initiative-list, they had implemented in their companies (they could select more than one answer).

Table 1 describes results. From the 24 companies that have implemented KM practices, none of the interviewees responded that their company had implemented all 10 activities (initiatives).

On top of initiatives implemented in these organizations were *apprehension of basic knowledge* (100%); *use of information technology* in sharing and transferring of knowledge constituted an important role (91.6%), *use of intranet* to publish and access information (75%).

Initiatives such as *development of strategies for KM* 41.7%, *appointment of leaders and groups of KM* 33.3%, *reward for employees* who are examples relating the attitude to knowledge share 33.3%, were not a high feature of these companies.

Another activity with a very low rate was *measuring intellectual capital value* 25% (but this was expected as long as there was a systematic measurement system of KM).

Conclusions are that different initiatives of KM practices were used in these companies. On the other hand, their strategies, structure and culture were not formalized to support Knowledge Management. The rate of KM implementation was low.

**TABLE 1:** Types of implemented KM initiatives

Initiatives	Frequency	Percentage
Apprehension /electronic storage of basic knowledge	24	100
Use of IT in sharing and trasfering knowledge	22	91.6
Use of intranet for the publication and access of information	18	75
Building and maintaining expertize and skills of employees	16	66.6
Identification of the best internal and external practices	16	66.6
Establishment of a supportive environment for knowledge sharing	12	50
Strategy development for knowledge management	10	41.7
Appointment of leaders and knowledge management groups	8	33.3
Remuneration of employees who contribute to knowledge sharing	8	33.3
Measuring intellectual capital values	6	25

In response to research question 2, related to barriers or critical factors of KM success in these organizations, at the companies which did not practise KM practices, the interview was conducted on the following questions:

*To determin why KM practices were not practised?*

*What were some of the barriers which impeded the implementation of KM?*

A list of reasons was aligned and again the interviewees could select more than one alternative. As Table 2 shows, a considerable part of the interviewees showed that *they did not understand nor had any idea of the Knowledge Management concept* (85.7%), just as much as *they are not sure about the benefits of KM* (85.7%). This leads to the fact that the concept of KM is still unknown and not established in these organizations.

*Leadership in management* constituted an obvious barrier (78.6%). This category included the lack of leaders' experience in KM practices in order to promote the creation of a culture for sharing knowledge, being an example with their behavior. Leadership in management plays a key influential role in the success of Knowledge Management. In essence, leaders establish, create the required conditions for the effectiveness of Knowledge Management, being examples in showing the willingness to share and offer their knowledge freely with others in the organization, to learn continuously, and to seek new knowledge and ideas. Only by doing so, they naturally influence other employees for participation in KM. (Holsapple & Joshi, 2000).

*Organisational culture and organisational infrastructure* created barriers in communication (64.3%) by making more difficult the sharing of knowledge accorss the members of organization. The presence of proper organizational communication was not found and a lack of culture existed in knowledge sharing.

Culture is an essential factor for the success of KM (Davenport et al, 1998; Pan & Scarbrough,1998; Martensson, 2000). Generally, a supportive culture supportive of KM is what highly praises knowledge and encourages its creation, sharing and application. The greatest challenge for many KM efforts currently lies in the development of such culture. Goh (2002), asserts that a collaborative culture is an important condition for the transfer of knowledge between individuals and groups. This is due to the fact that transfer of knowledge requires that individuals interact together to exchange ideas, and share knowledge with each other.

This was significantly affected by the barrier of *a lack of confidence between members of the organization* (35.7%), displayed, inter alia, displayed in the absence of genuine opening, where errors are not shared openly, without the fear of punishment. The idea that errors and failures should not be tolerated, but allowed and pardoned, was not part of the culture of these

organizations. Making errors is not viewed as an investment process at individuals, thus neglecting the fact that those (errors) are also learning resources.

Without a high level of mutual trust, people will be skeptical about the intentions and behavior of others towards them, they would like to keep the knowledge to themselves. (Stonehouse & Pemberton, 1999; De Tienné & Jackson, 2001; Lee and Choi, 2003).

In addition it is necessary *the incentive of an innovative culture* where individuals are continuously encouraged to generate ideas, knowledge and new solutions. Individuals should also be allowed to express doubts, questions about existing practices and undertake actions to be strengthened (Stonehouse & Pemberton, 1999).

Proper degree absence of *information technology* created a barrier to an efficient communication of knowledge (57.1.%). On one hand, often because of financial adequacy, it had not been provided the appropriate technology to share and store knowledge in these organizations, and on the other hand, there was a scarcity of qualified human resources to manage technology efficiently. Technology is an important tool in the success of KM. Softwares, their simplicity to be understood by members of the organization and the efficient use, play a significant role in the successful implementation of KM practices.

**TABLE 2:** Reasons for not practising KM

Reasons	Frequency	Percentage
Did not understand or had no knowledge on KM concept	12	85.7
Not sure for its benefits	12	85.7
Top management does not support it	11	78.6
Organizational culture was not inclined towards knowledge sharing	9	64.3
Insufficient technology / and inefficient use of IT	8	57.1
KM measuring systems are not known	7	50
Organizational communication /lack of trust among members	5	35.7
Lack of human resources	3	21.4
Other	1	7

## Conclusions

At the end of the paper, based on secondary data and analyzes performed on the collected answers, we were able to draw the following conclusions:

Although there is a broad literature for KM, in business organizations in Albania there is a low level of attention on Knowledge as a key asset and implementation of KM practices. In the current conditions in which they operate, actually as an integral part of the global market economy, Albanian business organizations have to recognize and enforce in their developments and business strategies, this new practice of management (KM), with the aim of increasing competitive advantages and performance.

Despite the fact that several KM initiatives are implemented, such as: *apprehension of basic knowledge; use of information technology* in sharing and transferring knowledge, *use of intranet* to publish and access information; strategy, structure or culture of these organizations are not formalized to support Knowledge Management

From the moment people are reluctant, unwilling, to share their knowledge dhe ability, a range of barriers is created for KM. For business companies, KM barriers are the challenges they face in developing and deploying people to take part in the initiatives of KM. Most of these factors belong to human sector.

Some of the most encountered categories and barriers in these organizations across KM are: *lack of leadership in management*, displayed as a lack of experience by leaders in KM practices; *information technology* displayed as an absence in tools and training for communication, sharing and efficient storage of knowledge, *organisational culture and infrastructure*, where it is not found the presence of proper organisational communication and there is a lack of culture in knowledge sharing. Within this framework there existed barriers to a lack of trust among members of the organization to share knowledge.

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# The Impact of Credit Risk on Profitability of the Commercial Banks in Albania

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## Abstract

*Credit risk is one of the most significant risks that banks face, considering that granting credit is one of the main sources of income in commercial banks. Therefore, the management of the risk related to that credit affects the profitability of the banks. This paper aimed to analyze the impact of credit risk on profitability of commercial banks in Albania. For measuring profitability, two dependent variables ROA and ROE were considered whereas two variables for credit risks were: Capital Adequacy Ratio (CAR) and Non-Performing Loans (NPL). Multiple statistical analyses were conducted on bank data from 2008 to 2015. The aim of the research is to provide stakeholders with accurate information regarding the credit risk management of commercial banks with its impact on profitability. The main purpose of the research is to investigate if there is a relationship between credit risk management and profitability of commercial banks in Albania. In the research model, ROE and ROA are defined as proxies of profitability while NPL and CAR are defined as proxies of credit risk management.*

**Keywords:** ROA, ROE, NPL, CAR, Regression model

## Introduction

Commercial banks are the foundation of the payment system in many economies by playing an intermediary role between savers and borrowers. They further enhance the financial system by ensuring that financial institutions are stable and are able to effectively facilitate financial transactions. The main challenges to commercial banks in their operations are the disbursement of loans and advances. There is need for commercial banks to adopt appropriate credit as raise techniques to minimize the possibility of loan defaults since defaults on loan repayments leads to adverse effects such as the depositors losing their money, loss of confidence in the banking system, and financial instability. Credit risk management in banks has become more important not only because of the financial crisis that the world is experiencing nowadays but also the introduction of Basel II. Since granting credit is one of the main sources of income in commercial banks, the management of the risk related to that credit affects the profitability of the banks. In this study, I try to find out how the credit risk management affects the profitability in banks. The study is limited to identifying the relationship of credit risk management and profitability in 16 banks in Albania from 2008-2015.

## Scope and objectives of the study

### Scope of the study

The study has used the annual data for a period of 7 years. The data belong to the time period of 2008-2015. The data are taken for every three month. Quarterly is interpolated from annual data by linear match last approach using Eviews. The data are taken from Bank of Albania and Albanian Associations of Banks.

## Research Objectives

The main purpose of the research is to analyze how the credit risk management will influence the profitability of commercial banks in Albania. To analyze the effect, we need to find whether the relationship of those two variables exists or not firstly. The major issue is the indicators of credit risk management and profitability. We will use capital adequacy ratio (CAR) and non-performing loan (NPL) as variables to represent credit risk management and ROE and ROA as variables to measure the profitability of commercial banks. When we have found if the relationship truly exists, the next step will be to investigate whether the relationship is positive or negative.

## Research question and hypothesis

### The hypothesis of study

Previous researches have been inclusive in the relationship between credit risk management and profitability of commercial banks. Therefore, it becomes a topic that is worth studying. This study is based on the data from annual reports of Bank of Albania from 2008 to 2015. In the previous chapters I have explained all the indicators which have been selected to present credit risk management and profitability of commercial banks. All of these have led to the following hypotheses:

### Hypothesis 1:

Null hypothesis: There is no correlation between CAR and NPL and ROE of commercial banks in Albania.

Alternative hypothesis: There is a correlation between CAR and NPL and ROE of commercial banks in Albania.

### Hypothesis 2:

Null hypothesis: There is no correlation between CAR and NPL and ROA of commercial banks in Albania.

Alternative hypothesis: There is a correlation between CAR and NPL and ROA of commercial banks in Albania.

### The research question

What is the relationship between the credit risk management and profitability of commercial banks in Albania?

## Literature Review

### Profitability of commercial bank

Banks today are the largest financial institutions around the world, with branches and subsidiaries throughout everyone's life. There are plenty of differentiations between types of banks. And much of this differentiation rests in the products and services that banks offer (Howells & Bain, 2008, p.34). To determine the profitability of banks, simply looking at the earnings per share isn't quite enough. It's also important to know how efficiently a bank is using its assets and equity to generate profits. For this reason, two key profitability ratios to look at when evaluating a bank stock are:

- Return on assets (ROA)
- Return on equity (ROE)

Although net income gives us an idea of how well a bank is doing, it suffers from one major drawback: It does not adjust for the bank's size, thus making it hard to compare how well one bank is doing relative to another. A basic measure of bank profitability that corrects for the size of the bank is the return on assets (ROA), mentioned earlier in the chapter, which divides the net income of the bank by the amount of its assets. ROA is a useful measure of how well a bank manager is doing on the job because it indicates how well a bank's assets are being used to generate profits. To calculate a bank's return on assets, you need to know two pieces of information. First, you need to find the net income, which can be found on the bank's income statement. Next, you need to find the bank's assets (loans, securities, cash, etc.), which can be found on the bank's balance sheet. To calculate return on assets, simply divide the net income by the total assets, then multiply by 100 to express it as a percentage. Return on equity (ROE) value the overall profitability of the fixed income per dollar of equity (Saunders & Marcia, 2011, p. 23).

ROA, which is the ratio of net income to total assets, measure how profitable and efficient a bank's management is, based on the total assets (Guru et.al, 1999, p.7). However, the increasing of ROE demonstrates the increasing risk. For example, as the defined equation indicates if total equity capital decreases relative to net income, ROE will have an increase under the constant of net income (Saunders & Marcia, 2011, p. 24)

In a report by the European Central Bank (ECB, 2010), return on equity (ROE) was considered as a poor performance measure for banks. It was indicated that as the most common bank performance indicator, ROE reflects only one side of coin, because a good level of ROE shows either high profitability or low equity capital. The commonly used ROE measure may not be sufficient to show a bank's performance, mainly because it is not risk sensitive and it can expose banks to higher unexpected risk levels. The traditional risk and return analysis may not be adequate, and the complete picture should take



into consideration, especially in times of higher volatility, different risk dimensions for forward looking and sustainability. Bessis (2002) indicated that the disadvantage of ROE, return on assets (ROA), and other profitability measures is the lack of risk adjustment. We cannot compare different assets without looking at their risk levels. The concept of a risk adjusted performance measure has arisen to eliminate this drawback.

Generally, in the literature, only one kind of risk, a credit or an indicator related with problematic loans, is used to analyze the risk factors. Laeven (1999) criticized the efficiency measurement studies for not including the risk-taking activities of banks and for assuming banks to be risk neutral institutions. Sun and Chang (2011) criticized existing studies for mainly using credit risk indicators but not considering other kinds of risk to explain efficiency.

## Bank's risk management

Banks involve businesses of taking and managing risks. The management of banking risks has become more important to financial stability and economic growth in modern economies (Ferguson, 2003, p. 395). And under the condition that Latin American debt crisis has hit the economy heavily, the Basel Committee, backed by the G10 Governors, "resolved to halt the erosion of capital standards in their banking systems and to work towards greater convergence in the measurement of capital adequacy. This resulted in a broad consensus on a weighted approach to the measurement of risk, both on and off banks' balance sheets" (BCBS, 2013, p.2)

Credit risk has commonly been identified as a greatest risk on bank's performance (Boffey& Robson, 2007, p.66). It is a risk that counterparties in loan transactions and derivatives transactions might default, which means counterparties fail to repay the principal and interest on a timely basis (Koch& MacDonald, 2000, p. 109). Credit risk can also be a risk of loss on credit derivative market. It can be credit migration such as a downgrade in credit rating (Choudhry, 2011, p. 131).

Credit risk management is very vital to measuring and optimizing the profitability of banks. The long term success of any banking institution depended on effective system that ensures repayments of loans by borrowers which was critical in dealing with asymmetric information problems, thus, reduced the level of loan losses, Basel (1999).

Sound credit risk management system (which include risk identification, measurement, assessment, monitoring and control) are policies and strategies(guidelines) which clearly outline the purview and allocation of a bank credit facilities and the way in which credit portfolio is managed; that is, how loans were originated, appraised, supervised and collected (Basel, 1999; Greuning and Bratanovic 2003, Pricewaterhouse, 1994)

Smirlock (1985) discovered a positive relationship between bank size and profitability. According to him, larger banks generally tend to be more profitable, because they achieve savings on account of their size, as opposed to small banks, which are conversely associated with loss on account of their size. Generally, bank size tends to be measured according to balance sheet amounts. Abreu and Mendes (2002) used the ratio of high risk loans to assets as a substitute for risk in their analysis. A greater accumulation of unpaid loans can lower the profits of banks that are afflicted in this way, which means a negative relationship between risk and bank profitability.

Hull (2007) explains that one of the basic formation of every organization, most importantly a banker is to understand the portfolio of risk it faced currently and the risk it plans to take in future. Credit risk is the likelihood that a borrower will not pay its debt on time or failed to make repayment at all (Sinkey 2002; Coyle 2000). It is the possibility that the actual return on a loan portfolio will deviate from the expected return (Conford, 2000). That is loan delinquency and default by borrowers.

Credit risk in the banking industry is mostly caused by adverse selection and moral hazards due to information asymmetry. The credit risk situation of a bank can be exacerbated by inadequate institutional capacity, inefficient credit guidelines, inefficient board of directors, low capital adequacy ratios and liquidity, compulsory quota-lending as a result of government interference and lack of proper supervision by the central bank (Sandstorm, 2009; Laker, 2007; Bank Supervision Annual Report, 2006; Kithinji, 2010).

The most productive approach to strategic management of credit risk lies in the definition of basic credit risk policies and preferences of banking activities in accordance with the chosen direction of development Lapteva (2004). Strategic management of credit risk as a process can be presented in a sequence of several phases:

- definition of the philosophy and mission of the bank on credit risk;
- consolidated analysis of exogenous and endogenous factors affecting the system of credit risks;
- strategic planning for the desired conditions of the given risky positions;
- choice of credit risk strategy and the development of credit policies on the related credit risks;
- development of mechanisms for implementing credit risk policies and objectives of bank lending policies;
- monitoring and adjustment.

For the indicators of credit risk management, we choose CAR and NPL. The reason we involve them is based on their properties related to the credit risk management and their frequency of occurrence in previous studies

A non-performing loan, or NPL, is a loan that is in default or close to being in default. Many loans become non-performing after being in default for 90 days, but this can depend on the contract terms. According to International Monetary Fund, "A loan is nonperforming when payments of interest and principal are past due by 90 days or more, or at least 90 days of interest payments have been capitalized, refinanced or delayed by agreement, or payments are less than 90 days overdue, but there are

other good reasons to doubt that payments will be made in full". By bank regulatory definition, citation needed on-performing loans consist of: other real estate owned which is taken by foreclosure or a deed in lieu of foreclosure, loans that are 90 days or more past due and still accruing interest, and loans which have been placed on nonaccrual. Later in time, Basel committee was still endeavoring to make the Basel Accord more completed and up-to-date (Bis.org, 2014). So they released a new capital adequacy framework called Basel II in June 2004. However, the 2007 financial crisis made the Basel committee realized that Basel II seems not enough in the complicated financial markets. A major overhaul of Basel II was necessary. The banking sector had entered the crisis with too much leverage and inadequate liquidity buffers (Bis.org, 2014). These defects were accompanied by poor governance and risk management, as well as inappropriate incentive structures. The combination of these factors was manifest in the mispricing of credit and liquidity risk, and excess credit growth (Bis.org, 2014). Therefore, a new standard Basel III was published in December 2010 and will be fully effective by the end of 2019. It strengthened the Basel II framework and made some innovations, including tightened definition of capital, requirements for leverage ratio and a countercyclical buffer, the capital for liquidity risk and counterparty credit risk as the derivatives had gained their population in 20th century. Although the regulations have been evolutionarily developed, the three Basel Accords all have placed explicitly the onus on banks to adopt sound internal credit risk management practices to assess their capital adequacy requirement.

## Empirical studies

This part of the study summarizes various studies conducted in different countries which is related with banks profitability and credit risk management. The researcher start reviewing empirical studies first those studies which concluded on the existence of significant impact of credit risk on banks profitability and then reviewing those empirical studies which concluded the existence of positive impact of credit risk management on banks profitability and then later reviewing those studies which shows the negative relationship of credit risk and banks profitability. Finally the researcher has reviewed those empirical studies with the same topic but conducted by taking in to consideration external determinants of bank profitability and also studies conducted in Ethiopia as well. In year 2013 the study conducted by Noraini et al on Risk Management Practices and Financial Performance of Islamic Banks aims to analyze the relationship between risk management practices and financial performance in the Islamic banks in Malaysia. In efforts to assess the risk management practices in the Islamic banks by using the descriptive tests, the study used the 5-Likert scale approach in the questionnaire. The higher the scale indicates that the 11respondent strongly agrees to such practices adopted by their banks. Risk management practices are covered in five parts: Risk Management Environment, Policies and Procedures, Risk Measurement Practices, Risk Mitigation Practices, Risk Monitoring Practices and Internal Control Practices as suggested by the Basel Committee on Banking Supervision. The study uses both the primary (survey questionnaires) and secondary data (annual reports). Overall, the findings on risk management practices show the importance of board of directors to approve the overall policies and to ensure that management takes necessary actions to manage the risks. Nair and Fissha (2010) indicated in a similar study of the Ghanaian rural banking industry that, the degree of loan delinquencies or impaired loans in an RCB's loan portfolio is often considered the best leading indicator of the institution's financial performance. Nair and Fissha, further revealed that the percentage of loan portfolio that was in default (among the sample banks) for more than one month was 16 percent. The study conducted with the title of Efficiency of Credit Risk Management on the Performance of Banks in Nigeria A Study of Union Bank PLC (2006-2010) by Rufai, 2013 aimed at assessing the efficacy of credit risk management on banks performance. Also to determine if credit risk have effect on the profitability and examining the relationship between interest income and bad debt of the Union Bank. In this study, Return on equity and Return on assets indicates the overall profitability and efficiency while Non-performing loan over total assets shows the level of banks' exposure to credit risk. The study population of the twenty-10one (21) commercial banks in Nigeria. Secondary sources of data were used for the study. Time series and trend analysis are used for the analysis. Correlation coefficient and regression analysis were used in testing the hypotheses. The study conclude that credit risk affect the performance of Union Bank PLC and that to maintain high interest income, attention needs to be given to credit risk management especially regarding the lending philosophy of Union Bank.

Moreover the study titled Credit Risk Management and Profitability of Selected Rural Banks In Ghana (Harrison Owusu Afriye, 2013). This study examines the impact of credit risk management on the profitability of rural and community banks in the BrongAhafo Region of Ghana. In the model, definition of Return on Equity (ROE) and Return on Asset (ROA) were used as profitability indicator while Non-Performing Loans (NLP) and Capital Adequacy Ratio (CAR) as credit risk management indicators. The data used for analysis, ten rural banks financial statements from the period of 2006 to 2010 (five years). The panel regression model was employed for the estimation. The findings indicate a significant positive relationship between nonperforming loans and rural banks' profitability revealing that, there are higher loan losses but banks still earn profit.

The profitability of banks is influenced by different factors including management, size, location and time according to a study conducted by Haslem (1968). And it is of great interest to see how the profitability is affected by the risks faced by commercial banks. There have been lots of researchers devoted into this topic. For example, Bourke (1989) found there exists a positive relationship between liquidity and profitability of banks in 12 European, Northern American and Australian countries while Molyneux & Thornton (1992) in their study found the two variables are negatively related. Berger in 1995 in his empirical study surprisingly reported that for U.S. banks in the 1980s, there was a strong positive relationship between capital-assets ratio and profitability under the condition he considered the relationship should be

negative. Several latest researchers have also dug into these topics, Ara, Bakaeva and Sun (2009) have found the positive relationship between credit risk management and profitability of commercial banks in Sweden. Kolapo, Ayeni and Oke (2012) showed that credit risk management is positively related to profitability of banks in Nigeria. Kithinji (2010) assessed the effect of credit risk management on the profitability of commercial banks in Kenya and found that banks' profitability is not affected by credit risk management. When it comes to both credit risk and liquidity risk, Ruziqa (2013) has tested the impact of credit risk and liquidity risk on the financial performance of conventional banks in Indonesia. The results illustrated that credit risk was negatively related to profitability while liquidity risk demonstrated a positive effect. These kinds of researches show that no exact final conclusion could be drawn until now and thus make this area worth studying.

## The correlation between credit risk management and profitability of commercial banks in Albania

To examine the correlation between credit risk management and profitability of commercial banks in Albania we use a panel data and a regression analysis. In order to perform our regression analysis, we need to collect the data for the variables that we are going to use. The variables that we are going to use are ROE, ROA, CAR, NPLR and Size of the bank. In our research, we use two indicators to measure the credit risk management: capital adequacy ratio (CAR) and non-performing loans ratio (NPLR), which are main indicators used to assess the soundness of the banking system (Bhavani & Bhanumurthy, 2012, p. 10).

Non- Performing Loans (NPL): This is an independent variable and it is chosen because it is an indicator of credit risk management. NPL, in particular, indicates how banks manage their credit risk because it defines the proportion of loan losses amount in relation to Total Loan amount (Hosna et al, 2009).

Capital Adequacy Ratio (CAR): This is also an independent variable and is chosen because it is the core measure of a bank's financial strength from a regulator's point of view. It consists of the types of financial capital considered the most reliable and liquid, primarily shareholders' equity. Banks with good Capital Adequacy Ratio have good profitability.

The variables I will use are ROE, ROA, CAR, NPL and Bank Size. ROE and ROA are dependent variables while independent variables include CAR and NPL.

LogROE is the log of the return on equity at time t (Y)

LogNPL is the log the non-performing loan ratio at time t (X1)

LogCAR is the log of the capital adequacy ratio at time t (X2)

LogNTA is the natural log of total assets of banks(X3)

Once the data are added and processed in Eviews, the below output is taken:

**TABLE 1:** Regression of Return of Equity

Dependent Variable: LOGROE				
Method: Least Squares				
Sample: 2008Q1 2015Q4				
Included observations: 32				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-21.99323	7.399788	-2.972144	0.0060
LOGNPL	-0.933795	0.375551	-2.486469	0.0191
LOGCAR	-7.843969	1.833776	4.277495	0.0002
LOGASETE	2.391333	1.334352	1.792131	0.0839
R-squared	0.634406	Mean dependent var		0.860328
Adjusted R-squared	0.595235	S.D. dependent var		0.324935
S.E. of regression	0.206727	Akaike info criterion		-0.198365
Sum squared resid	1.196611	Schwarz criterion		-0.015148
Log likelihood	7.173846	Hannan-Quinn criter.		-0.137634
F-statistic	16.19586	Durbin-Watson stat		1.928033
Prob(F-statistic)	0.000003			

Source: Authors' own calculation

### Interpretation of the model

Based on the studied model, we have the following equation

$$Y = -21.99 - 0.933X_1 - 7.84X_2 + 2.3X_3$$

$Prob.(F\text{-statistic}) = 0,000003 < 0.05$ , the alternative hypothesis is accepted, which means that there is at least one variable X that affects Y.

*Testing of importance/existence of parameters:*

- Parameter C (the constant) exists
- Parameter  $\beta_1$  does exists because  $Prob. 0.0191 < 0.05$
- Parameter  $\beta_2$  does exists because  $Prob. 0.0022 < 0.05$
- Parameter  $\beta_3$  does not exists because  $Prob. 0.0839 > 0.05$

*Measurement of the variation:*

The coefficient of determination / Adjusted R2:

- The proportion on the variation of Y that "is explained" by all the X variables taken together.
- $R^2$  adjusted = 0.595235
- 59,52 % of Y variations are explained by X variation

**We reject** null hypothesis: There is no correlation between CAR and NPL and ROE of commercial banks and accept alternative hypothesis: There is a correlation between CAR and NPL and ROE of commercial banks.

LogROA is the natural log of the return on equity at time t (Y)

LogNPL is the natural log the non-performing loan ratio at time t (X1)

LogCAR is the natural log of the capital adequacy ratio at time t (X2)

LogNTA is the natural log of total assets of banks t (X3)

Once the data are added and processed in EVIEWS, the below output is taken

**TABLE2 : Regression Return on Assets**

Dependent Variable: LOGROA				
Method: Least Squares				
Sample: 2008Q1 2015Q4				
Included observations: 32				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-21.50985	7.565704	-2.843073	0.0083
LOGNPL	-0.841524	0.383971	-2.191633	0.0369
LOGCAR	7.370008	1.874893	3.930896	0.0005
LOGASETE	2.212742	1.364270	1.621924	0.1160
R-squared	0.983263	Mean dependent var		-0.202102
Adjusted R-squared	0.938613	S.D. dependent var		0.311168
S.E. of regression	0.211362	Akaike info criterion		-0.154017
Sum squared resid	1.250873	Schwarz criterion		0.029200
Log likelihood	6.464277	Hannan-Quinn criter.		-0.093286
F-statistic	13.06290	Durbin-Watson stat		1.801793
Prob(F-statistic)	0.000016			

Source: Authors' own calculation

### Interpretation of the model

Based on the studied model, we have the following equation

$$Y = -21.50 - 0.841524X_1 - 7.370008X_2 + 2.212742X_3$$

$Prob.(F\text{-statistic}) = 0,000003 < 0.05$ , the alternative hypothesis is accepted, which means that there is at least one variable X that affects Y.

*Testing of importance/existence of parameters:*

- Parameter C (the constant) exists
- Parameter  $\beta_1$  does exists because  $Prob. 0.0369 < 0.05$
- Parameter  $\beta_2$  does exists because  $Prob. 0.0005 < 0.05$
- Parameter  $\beta_3$  does not exists because  $Prob. 0.1160 > 0.05$

*Measurement of the variation:*

The coefficient of determination / Adjusted R<sup>2</sup> :

- The proportion on the variation of Y that "is explained" by all the X variables taken together.
- R<sup>2</sup> adjusted = 0.938613
- 93.86 % of Y variations are explained by X variation

**We reject** null hypothesis: There is no correlation between CAR and NPL and ROA of commercial banks in Albania and accept alternative hypothesis: There is a correlation between CAR and NPL and ROA of commercial banks in Albania.

## Conclusions

At the beginning of research I explained that purpose is to investigate the relationship between credit risk management and profitability of commercial banks in Albania. This was done by collecting data from the annual reports from Banks of Albania from 2008 to 2015. In order to test the relationship for two abstract concepts, we used proxies for them. I have chosen the ROE and ROA as the proxies for profitability, and CAR and NPL as proxies for credit risk management. After finished the data collection, we used statistic program Eviews to test for our research question. The research question "What is the relationship between the credit risk management and profitability of commercial banks in Albania from 2008 to 2015?" should be answered after I have made a series of regression analyses. With the statistical evidence, I am able to conclude that there exists a relationship between credit risk management and profitability.

Firstly, empirical findings show that the relationship between CAR and ROE and CAR and ROA is significant and there is a negative relationship between CAR and ROE and ROA.

Secondly, I have found that there is a negative relationship between NPL and ROE and between NPL and ROA. This is in accordance with most of the previous researches that conducted in one specific country. The higher the NPL is, the less the available capital for banks to invest. Combined with the findings from the two proxies (CAR and NPL) for credit risk management, I conclude that there is a positive relationship between credit risk management and profitability of commercial banks. That is to say, the better the credit risk management is, the higher the profitability of commercial bank is.

After I have concluded the research, I would like to give some recommendations to commercial banks. Considering there is a positive relationship between credit risk management and profitability, we recommend the bank managers put more efforts to the credit risk management, especially to control the NPL. That is to say, managers should evaluate more accurately regarding the ability to pay back when borrowing

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# A platform for increasing transparency of Supreme Audit Institution in Albania

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## Abstract

*In the framework of good governance, information sharing is becoming increasingly important. The institution responsible for auditing public entities in Albania, operating as a Supreme Audit Institution in Albania is Supreme State Control. This institution works as a risk buffer, positively contributing to the security of potential investors. It also aims to offer the trust that public funds are well administrated and controls are productive and efficient supporting public interests. This study aims to identify a way to improve communication patterns between the public and Supreme Audit Institution, on behalf of increasing credibility of Supreme State Control Institution in Albania. This study is organised in two main parts: (i) the first part consists of a qualitative and quantitative analysis of the transparency level of Supreme State Control Institution and also identifying the potential factors to increase SSC transparency; (ii) the second part consists in designing a platform for increasing reporting transparency of this Supreme Authority. In this framework, we propose establishing an agency as an intermediate authority, which will significantly increase the transparency of SAI. The budgeting opening index is used as an indicator of measuring transparency. Studies suggest that an increase in transparency is associated with a decrease in budget deficit, based on the fact that the more transparent the budgeting is, the higher will become the pressure for accountability, hence leading to a higher public responsibility. Beyond the quantitative analysis of the transparency and budget deficit relationship—this study provides a set of recommendations for improving the credibility of the public towards Supreme State Control Institution.*

**Key words:** Supreme Audit Institution, Agency, Budgeting Opening Index, Budgeting Deficit.

**JEL Code:** H61, H10, G38.

## Introduction

The aim of Supreme Audit Institution is to continuously monitor the management of public funds. This role is usually labelled to be in service of the executives and governments; the relationship with the citizens, whose funds circulate in public entities, is very weak. This perception on the SAI is not only obvious in our country, but also in different countries where there is continuous effort to increase public participation in governance aiming to improve the information channels from entities to the public. This study aims to reduce the communication barriers between Supreme State Control (operating as SAI in Albania) and public and improve the effect of this communication to the macroeconomic indicators of the country.

Parallel to the society development, the transparency programme has been continually updating. This institution has its own genesis since 1925 with the Constitution development; by that time transparency programme was not primary issue, because it used to work as an institution under the hierarchy of executives. It took many years to put the information under public service. The only information tool has been through periodical bulletins and recently through website-publication. The question arising is whether this is enough. How many individuals would consider getting the bulletin to get information about audits from SSA, unless they are working on that topic?

The development of the new information tools and channels has considerably facilitated the amount of communication between public and SAI. Hence increasing the responsibility and pressure of public entities to share the information towards public. Even though there is some information available to the public, it must be accepted that this information is incomplete, due to the technical language that it is served to the public. Considering here that not all individuals do have access and technical skills to decode this information.

Some of the methods suggested for the liberalisation of the relationship between the public and public institutions are the group meeting, simulations, surveys etc. A mutual collaboration is necessary to make this effort successful.

Albania is a country that has shown a very weak collaboration between public and government; a clear indication in this context is the election participation which has shown to be considerably low. In this framework, a big effort is asked from the SAI, which should work on building a “communication bridge” toward public in order to help them get a clearly understandable information.

## Main Goal and Objectives

This study aims to analyse the transparency of SAI in Albania. It aims to generate a recommendation platform for increasing the transparency for public information. The main objectives following this study are:

(i) firstly to analyse theoretical aspects of how Supreme State Control Institution, which operates as SAI in Albania, works; (ii) secondly, to analyse the transparency of public information through estimating the budget opening index; (iii) thirdly, to identify factors contributing in transparency growth of SAI in Albania; (iv) fourthly, to empirically analyse the effect of such factors in transparency level; (v) fifthly, to analyse the agency role as an intermediate aiming to improve the process; (vi) lastly, to offer a recommendation platform for increasing SAI transparency towards public;

## Research Question and Methodology

As mentioned above, the foundation of this study is transparency and its importance in the framework of public information. There have been many debates about how SAI and its information channels work. Based on latest discussions and the problem arising from information and transparency in Albania, this study comes up with this research question:

*How to increase transparency level in the framework of SAI reporting to the public.*

Aiming to answer to this question and also considering the literature and latest discussions this study further hypothesises that:

*Hypothesis 1: Corruption is considered to negatively affect transparency.*

*Hypothesis 2: An increase in transparency of SAI in Albania, would improve the Budget Deficit.*

From a methodological perspective, this study is based on a qualitative analysis. From the qualitative perspective the study identifies the main indicators affecting transparency and further analyses the transparency level, tools and alternatives of increasing it. This information is all summarised in the table below.

**TABLE NR. 1: Variable Description**

Variable description summarizes the descriptions, abbreviations, and expected relationships (with dependent variable) of the variables we used in this analysis. These assumptions on expected relationships are based on the mainstream literature summarized in Column 4 of Table 1. The variables are also grouped together according to their features. Data are generated from International Budget Partnership (Opening Budget Index), Open Data Albania (Budget Deficit) and Transparency International Data (Corruption Perception Index)					
Indicator	Variable	Description	Literature	Cor	Abbr.
Transparency	Opening Budget Index	OBIndex is considered to be the most suitable proxy to measure transparency. It is an independent, comparative measure of central government budget transparency, on a 100-point scale using 109 of the 140 questions on the Survey.	Sedlmayr, E. L. & Haas, J., (2012) Jarmuzek, M., (2006) Gerunor, A., (2016) Thompson, T. & Shah, A. (2005) Alt, E. J., & Lassen, D. D. (2006)	-	OBIndex
Corruption	Corruption Perception Index	CPI is used to measure the level of corruption in countries, ranking them based on the perception of the existing corruption, using a scale from 0 (highly corrupted) to 100 (not corrupted).	Anderson, S., Heywood, M. P. (2009) Paul G. Wilhelm, (2002) Thompson, T. & Shah, A. (2005)	-	CPI
Budget	Budget Deficit	Budget Deficit is an indicator of measuring Economic Health and is significantly related to government spendings.	Jarmuzek, M., (2006) Alt, E. J., & Lassen, D. D. (2006) Alesina, A., Hausmann, R., Hommes, R., Stein, E. (1999)	-	BD

Source: Authors

The explained variable is budget deficit, which is an indicator of evaluating efficiency from the good-governance. Meanwhile, the explanatory variable is the budgeting opening index, which is used as a proxy for measuring transparency. Based on the previous, a negative relationship between budget deficit and budgeting opening index is expected.

## Theoretical Aspects of transparency

*Corruption is a problem that all countries have to confront. Solutions, however, can only be home-grown. National leaders need to take a stand. Civil society plays a key role as well.*

(James D. Wolfensohn, 1996)

The idea that citizen collaboration with government institutions is beneficial for both is not new. In 1970s and 1980s the joint provision of a public service by the public agency as well as by the service consumers was defined as co-production (Levine 1984). <sup>1</sup>This literature took instrumental approach focusing on the practical benefits of such collaboration as cost savings and improved focus that governments may benefit from by collaborating with citizens (Rich 1981; Brudney and England 1983). <sup>2</sup>Both instrumental and normative benefits of citizen participation directly apply to collaboration between SAI and citizens, perhaps more so than to other government agencies since these two have important complementarities. They are both accountability watchdogs aiming to increase the quality of governance from within and outside the government respectively. Both use and depend on good quality information to expose problems and identify areas for improvement. More importantly, SAI is citizens agents entrusted with keeping the government and governance process accountable.

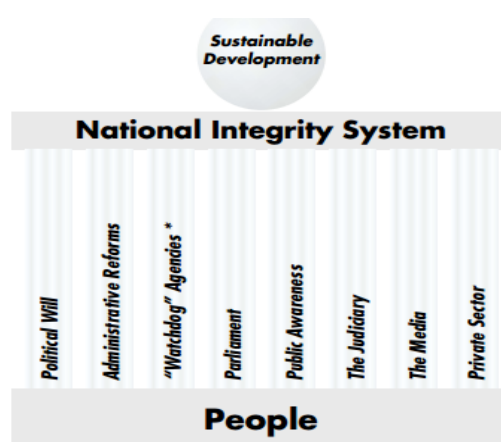
In developing countries, Supreme Audit Institution plays an important role in public sector. SAI by its controls identify waste and suggest ways in which government institutions can operate better. In countries receiving a high percentage of foreign aid, SAI can play a role in mitigating donor risk. Despite the recognized importance of SAIs for development effectiveness, evidence shows that public sector auditing in a number of countries is the weakest component of Public Financial Management. (OECD, 29 Sep 2016).

## Transparency and Corruption

Corruption is a problem that manifests problems in state management, it shows that the public entities are not using with efficiency public funds, and this public performance can be disclosed to the public by the existence of an agency that might be between public and government in their paper Dye and Stapenhurst discuss the role of Supreme Audit Institutions (SAIs) in promoting accountability and transparency within government.

Appropriate economic policies, which reduce the opportunity for corruption, may be considered a prior condition for successfully curbing corruption. With regards to institutional strengthening, country strategies vary a great deal, but worldwide the policy responses to corruption typically involve one or more of the eight following institutions or “pillars”: i) political will; ii) administrative reforms; iii) “watchdog” agencies; iv) parliaments; v) public awareness/ involvement; vi) the judiciary; vii) the media; viii) the private sector. These eight institutions are interdependent and together support the notional of ‘national integrity’; much the same pillars might support the roof of a house.

**FIGURE NR.1: The Pillars of Integrity**



Source: Langseth, Pope, and Stapenhurst (1997).

<sup>1</sup> Levine, C. H., & Fisher, G. (1984). Citizenship and service delivery: The promise of coproduction. *Public Administration Review*, 44, 178-189.

<sup>2</sup> Brudney, J. L., & England, R. E. (1983). Toward a definition of the coproduction concept. *Public Administration Review*, 59-65.

The general equilibrium of the pillars is therefore important, and a government has an incentive to keep the eight pillars in balance. As the agency responsible for auditing government income and expenditure, the supreme audit institution acts as a watchdog over financial integrity and the credibility of reported information, it provides valuable insights and information to the person or entity conferring the responsibility. Audits are fundamental to accountability and are a necessary component of public sector performance. They can be a very cost-effective means of promoting transparency and openness in government operations, and can contribute to improved government performance. Also, the audit function contributes to public information about violations of accepted standards of ethics and deviations from principles of legality, accounting, economy, efficiency and effectiveness. (Stapenhurst, 1998)<sup>3</sup> Audit can help reinforce the legal, financial and institutional framework which, when weak, allows corruption to flourish; it can help establish a predictable framework of government behavior and law conducive to development, it can reduce the arbitrariness in the applications of rules and law and it can help simplify administrative procedures, particularly where they hinder the smooth functioning of markets (Sahgal, 1996). It can also expose non-transparent decision making that is clearly not in the public interest (World Bank, 1991).

SAI has an important role, but nowadays with the rapid developments in technologies and communication tools have been opening a broad range of possibilities for citizen participation in governance. Particularly the Internet has made information more accessible to citizens; allowed greater monitoring of governmental organizations and provided the possibility of greater interaction. For instance, e-government tools have expanded and serve as an important tool for participation. Social media channels are slowly diffusing across all levels of government facilitating citizen's initiatives to hold governments accountable (Mergel and Bretschneider 2013, 1). As such, social media have a significant potential to bring about a greater engagement by the public in government.

It is no longer sufficient for SAIs to keep themselves insulated from the public in order to effectively fulfill their mission. As the governance process and scope is becoming increasingly complex as mentioned above, SAIs should be open to the participation of the public in its decision-making process, must heed citizens' concerns in their work, and communicate accordingly. For example, CSOs<sup>4</sup>, through social audits and other such processes can provide information to the SAI that can complement and augment the work of the SAI (Ramkumar and Krafchik 2005, 20).<sup>5</sup> The irregularities SAIs highlight in their reports has higher chances of being remedied if pressure comes from stakeholders both inside and outside the public oversight system.

Collaboration between auditors and civil society can take variety of forms. INTOSAI's survey of its members reveal three main types of interactions in SAI's engagement with citizens, as reported in UN DESA's "Citizen Engagement Practices by Supreme Audit Institutions: Compendium of Innovative Practices of Citizen Engagement by Supreme Audit Institutions for Public Accountability" (2013)<sup>6</sup>. Collaboration between citizen and SAI has some levels. The first one is "Information Provision to Citizens" - The most basic form of engagement between SAIs and citizens is one way communication from SAIs to public. The second level is "Consultation with Citizens" - This type of engagement is becoming more common although it is not yet widespread among most SAIs. Among the most common and more passive forms of receiving citizen input are official websites, as well as postal and electronic mails. The third level is "Joint Decision Making at Various Stages of the Auditing Process" - The highest level of engagement is partnership in decision-making between SAIs and citizens at one or all stages of audit including planning, field work and data collection, reporting, and monitoring of the extent to which audit recommendations are implemented. At the planning stage citizens can identify entities that should be the subject of audit including by participating in appointment of SAI members, as practiced in Ecuador, Guatemala and Columbia (Ramkumar 2007, 9)

## Agency implementation

Agencies play an important role in monitoring the executive's exercise of power; they play an important role in public management in the countries that are characterized by a high degree of corruption and lack of efficiency. At beginning these agencies weren't considered by public as a place to be part and to get involved. Public participation in these agencies has increased the demand for government accountability and transparency that make government policies and programs to be considered more credible into the public. Over time, agencies started to play an important role, INTOSAI in 2007 began to establish cooperative relations with civil society organizations and set indicators for sharing information from the Supreme Audit Institution and agencies.

Agencies are categorized into internal agencies or external agencies. External agencies are not part of the organization that will be audited, while internal agencies are located in the organization that will be audited. External agencies have greater autonomy and are therefore more cooperative with civil society. It is difficult to determine how much information should be disclosed to the public, and for defining this INTOSAI is making efforts, but it still hasn't a regulatory framework, which determines the rules for transmitting information. Agencies and SAIs functions seem different, but they are complementary to

<sup>3</sup> Dye, K. M., & Stapenhurst, R. (1998). *Pillars of integrity: the importance of supreme audit institutions in curbing corruption*. Washington, DC: Economic Development Institute of the World Bank

<sup>4</sup> Civil society organizations

<sup>5</sup> Carlitz, R., de Renzio, P., Krafchik, W., & Ramkumar, V. (2009). Budget transparency around the World: Results from the 2008 open budget survey. *OECD Journal on Budgeting*, 9(2), 81.

<sup>6</sup> KÖSE, R. A. H. Ö. (2013). Auditing and governance: Importance of citizen participation and the role of Supreme Audit Institutions to enhance democratic governance. *Journal of Yaşar University*, 8(32), 5495-5514.



each other. The Supreme Audit Institution aim to control and audit if the external auditors of the public entities have audited in accordance with the applicable rules and regulations and to see if the budget is implemented efficiently. Supreme Audit Institutions and agencies do not have the same functions, SAIs have more advantages compared to agencies:

- i. Access to information- Supreme Audit Institution is mandated to obtain the necessary information for judging compliance with the legislation and budget implementation by public entities.
- ii. Adequate staff (economists, lawyers, auditors, etc.) SAIs provides competitive pay and benefits, and subscribe to the principle of continuous staff development. To ensure high-quality work, they need well-qualified, adequately remunerated staff who is encouraged to improve continuously especially their subject-matter expertise. For example, auditors could enhance their skills in fraud detection and information technology through a combination of training, education, and experience.
- iii. Technical capacity-this institution is part of international organizations and constantly it adapts the newest innovations, such as audit software and control techniques.

For their part, agencies also have distinct characteristics, different from those of SAIs—that enable them to strengthen the execution of external oversight:

- i. The possibility of using the information resulting from monitoring efforts for concrete advocacy actions;
- ii. Greater closeness to service delivery and, hence, to the users;
- iii. Sensitivity to the implementation of government programs in practice;
- iv. Capacity to go beyond the time and procedural limits (predefined types of audit) that govern the work of SAI;
- v. A lower degree of bureaucratization.

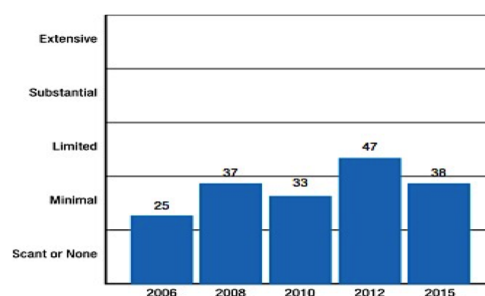
Both types of actors, with different but complementary roles, can benefit from each other. Even more so, it may be asserted that they must interact. Agencies do not have the resources or the access to the valuable information available to SAIs, but the collaboration with SAIs can serve as a starting point from which agencies may initiate the monitoring of public administration activities.

## A context of transparency in Albania

In terms of transparency, International Budget Partnership marks Albania with the score 38 out of 100, indicating that the budget information that government provides to the public is minimal; compared to other countries this score is a below average indication. On the other side they evaluate public participation in the budgeting process is marked 15 out of 100. This is an indication of a very weak public involvement in the budgeting process, mainly because of the lack of commutation and information sharing.

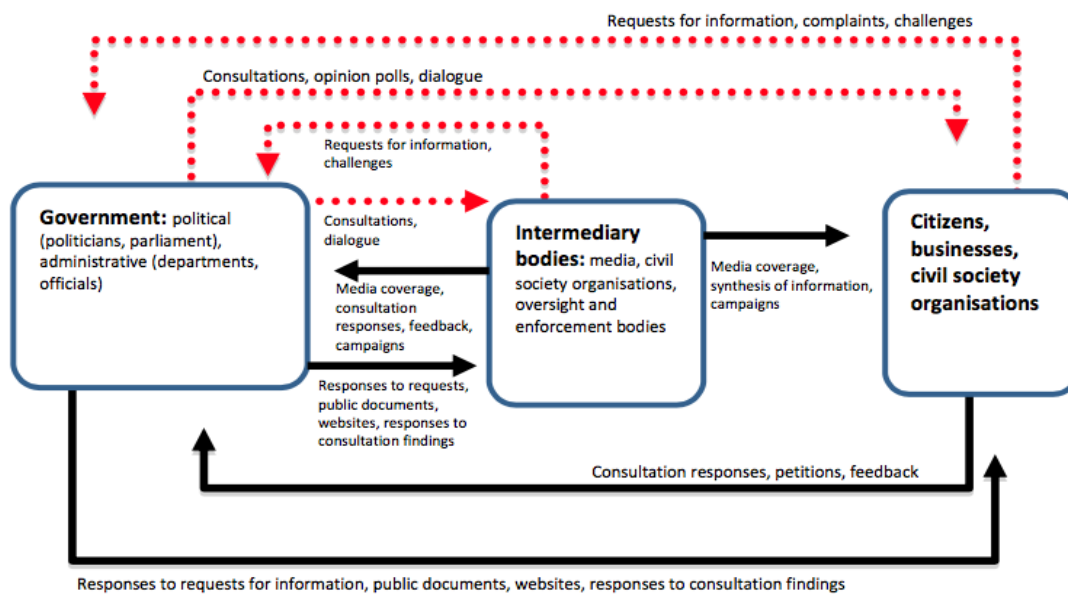
In a wider frame Albania's transparency score is considerably below average (45/100 scores); in comparison with the region and neighbour countries, our country is behind Slovenia, Croatia, Serbia and Bosnia Herzegovina, leaving behind only Macedonia.

**Graph nr.1: Transparency in Albania**



Source: International Budgeting Partnership

Even though, transparency has been a serious issue for Albania, the last decade in overall shows a positive trend. From 2006 until 2010, transparency in our country was considered to be minimal, scoring less than 40. The evaluation of 2012, appeared to be considerably optimistic, as Albania's transparency level jumped up to 47 out of 100, indicating a limited transparency level; this was followed afterwards from a slight decrease, which immediately dropped Albania down to a minimal transparency again. This step back shows how instable our transparency policy is working; therefore this article comes up with a set of conclusions on how policy makers should adjust their policies to improve transparency.

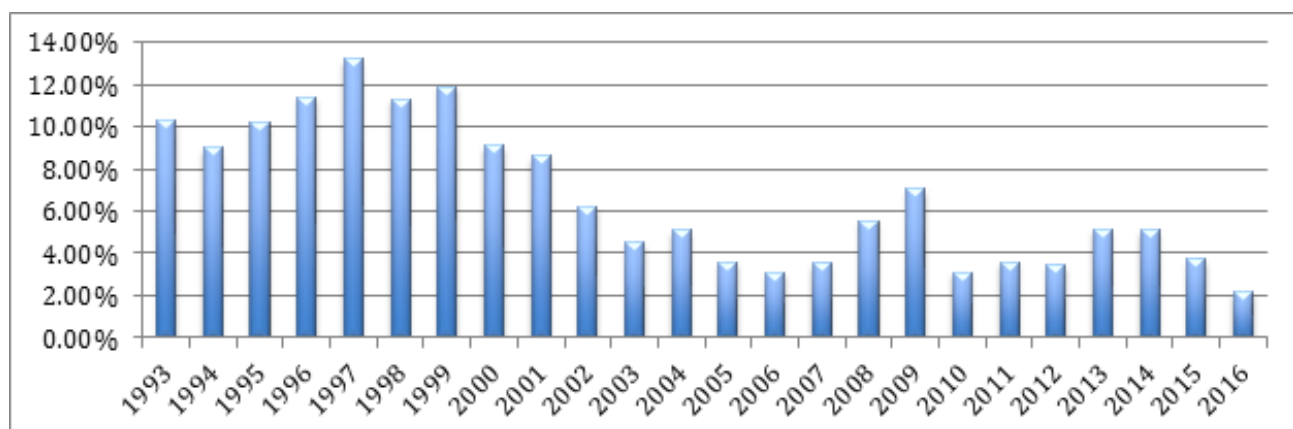
**FIGURE NR.2:** A scheme of implementing Agency between public and SAI

Source: Open Government: beyond static measures (2009)

This figure illustrates in a simplified manner how an ideal information flow might look, with information requests (dashed arrows) leading to information provision (black arrows).

Decision makers are responsive to the needs, ideas and priorities of citizens and external bodies, and provide a number of effective and accessible channels for these to be voiced. Meanwhile, citizens, businesses and civil society organizations have easy access to services and information, the skills and means to hold decision makers to account (without fear of repercussions) and regular opportunities to feed their views into policy making. This free flow of information from government to the public and third parties such as civil society organizations and the media, and critically back from the public and third parties to government, is at the heart of well-functioning open governments.

Based on previous studies (Rich 1981; Brudney and England 1983) transparency and corruption are closely related to budget deficit, which is used as an indicator of economic performance. As indicated in the graph below (see graph nr. 2), budget deficit, which is measured as a percentage of Growth Domestic Product, despite the cycle path, in overall follows a decline tendency. Budget deficit is a very important indicator of Albanian economy, as it gives important information about the payment balance. A decrease of budget deficit indicates that the expenditures are overcoming revenues. Following in this section, we try to empirically measure the factors that are negatively contributing in this matter.

**GRAPH NR. 2:** Budget Deficit as a percentage of GDP

The declining trend of budget deficit, is an indication that transparency and corruption are consistently increasing, considering here the negative relationship found from Andersson, S, Heywood, M.P. (2009), Paul, G.Wilhelm, (2002), Thompson, T. & Shah, A., (2005), Jarmuzek, M., (2006), Alesina, A., Hausmann, R., Hommes, R., Stein, E., (1999) etc.

## Conclusions and Recommendations

This study concludes that increasing transparency level of Supreme State Control Institution is a key element to be taken into account in the framework of public funds management, whose basic condition is budget opening.

Reducing corruption can be done through improving commutation channels towards public and also through continuous publication reports, simulations, surveys etc., and hence increasing transparency of information sharing. Therefore it can be concluded that high corruption levels, directly reduce information sharing and reduce transparency, contributing in this way to a worsening of Budget Deficit. This findings support the first hypothesis. On the other side, an increase in transparency is expected to improve the budget deficit of Albania; this finding is in line with the second hypothesis.

Some other conclusions that derive from this study are as follows: (i) actors and SAI should collaborate in order to increase transparency indicator to positive values, up to 60 points; (ii) the Agency can not guarantee a full transparency if there is no collaboration within actors; (iii) in order to guarantee a productive auditing, it is important to monitor the implementation of the recommendations suggested from KLSH.

International Budget Partnership suggests that the following suggestions should be followed to help the country in terms of information sharing and transparency increase. They recommend an increase the amount of Public information, publishing year-end reports, producing and publishing citizens budget and review, establishing a specialized budget research for the legislature, and establishing tools such as: public hearings, surveys, focus groups for capturing a range of public perspectives on budget matters.

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# Corporate decisions and manager's personal characteristics: A literature review

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## Abstract

*The relationship between corporate decisions and manager's characteristics has been largely ignored in standard financial theory. According to the standard financial theory agents are considered fully rational and that they are able to make optimal decision that maximize firm value. The recent crises, especially the spectacular rise and fall of Internet stocks between the mid-1990s and 2000, have shown that agents are not fully rational in their decisions. In order to explain the irrationality of financial agents a new branch, behavioral corporate finance, has emerged and become a new paradigm of finance. Behavioral corporate finance is based on 2 main paths. The first path is based on the fact that investors are consider not fully rational and that the financial decisions made by management are the response to investors behavior. The second path is based on the idea that corporate managers can be subject to behavioral biases and that some of their decision are influenced by these biases. This approach argues that managers are frapped by some psychological and emotional biases. They may make certain decisions because they are overconfident and optimist about their abilities and so they can act in a suboptimal way. Managers have personal investment, financing styles and preferences. Cronqvist and al. (2012) in their working paper concluded that managers that use bigger mortgages for their own home purchases also use more leverage in their firms. Certain executive ability characteristics are correlated with firm performance. In this paper, we will review the effect of manager's personal characteristics; namely the nature of his/her education, corporate ownership structure, and overconfidence and optimism bias on corporate decisions.*

**Keywords:** Characteristics, manager, corporate decisions, psychological biases, irrationality.

## Introduction

Corporates history is marked by facts which have determined their success or failure and which in most of the cases are attributed to their managers. The financial press and academic literature have often been focused on corporate manager's personality and the impacts of their personality on the financial situation of the corporate they lead.

The manager's influence on corporate performance and more generally, organization performance is one of the traditional topics at the center of strategic debate. The influence that the manager exercises on the performance of their company depends certainly on his managerial skills, but also on the discretionary space allocated to him (Hambrick and Finkelstein, 1987). Managers make decisions based on the pressure exerted by different control mechanisms (Charreaux, 1994). Thus, shareholders raise the question if manager's concern is the maximization of the firm value and if the manager has the ability to realize it. The potential divergence between manager's interests and shareholders' interests can be harmful to the company and involve agency costs (Jensen and Meckling, 1976).

In the classic financial theory the economic agents are consider fully rational and according to this they are able to make optimal decisions that maximize firm value (Oliveira, 2007). The reality shows that the economic agents are not fully rational and so a lot of critics emerge with a new financial theory called behavioral corporate finance (Shefrin, 2001 and Baker, Ruback et al, 2005).

A number of elements from the behavioral literature and, more specifically, from the researches in behavioral finance allow us to better consider the individuals irrational behavior in extreme situations, for example the sacrifice of the soldier during the war. Jensen points out that his research was inspired by the research in three fields: neuroscience, organizational learning (Argyris, 1990) and behavioral economics (Thaler and Sheffrin, 1981). He considers behavioral biases to be an additional source of agency costs, “agency costs with himself”, associated with self-control problems. Managers, as economic agents, are not fully rational and also they are frapped by some psychological and emotional biases (Baker, Ruback, & Wurgler, 2012; Fairchild, 2005, 2007; Ben Mohamed, Fairchild, & Bouri, 2014). Statman (2005) argues that managers are normal and so they can act in a suboptimal way (Heaton, 2002). Managers may make certain decisions because they are overconfident and optimist about their abilities and so they can act in a suboptimal way. Managers have personal investment, financing styles and preferences. Cronqvist and al. (2012) in their working paper concluded that managers that use bigger mortgages for their own home purchases also use more financial leverage in their corporates. Certain manager ability characteristics are correlated with corporate performance. In this paper, we will analyze the effect of manager’s personal characteristics; namely the nature of his/her education, corporate ownership structure, and overconfidence and optimism bias on corporate decisions.

## Literature review

Managers are in the center of corporate finance decisions; the agency costs argue that managers are principal agents and so they play a central role in the corporate they lead (Jensen & Meckling, 1976). Mintzberg (1973) and Andrews (1987) consider that manger as an organization’s leader is the most powerful actor.

The relationship between corporate decisions and managers characteristics has been largely ignored in standard financial theory which supposes that agents are fully rational and so they make decision that maximizes firm value (Oliveira, 2007). Agency costs (Jensen & Meckling, 1976) and asymmetric information problems (Myers & Majluf, 1984) have been used to explain corporate financial decisions and the investment cash flow relationship. The last financial crises have shown that agents are irrational and don’t make anytime optimal decisions. Behavioral corporate finance, a sub-branch of behavioral finance, explains that managers are irrational and that they don’t act always in an optimal way.

Heaton (2002) wrote a paper about the effect of managerial optimism on corporate policy. He studies the case of optimistic managers and how the optimism bias can affect investment cash flow sensitivity. Empirical researches tested the investment cash flow sensitivity under managerial optimism and found that investment cash flow sensitivity may increase due to optimism bias and so explains why companies doesn’t realize optimal investment strategy and why they can’t trade at their optimal value (Malmendier and Tate (2005a, 2005b), Lin, Hu, and Chen (2005), Huang, Jiang, Liu, and Zhang (2011), Campbell, Jhonson, Rutherford, & Stanley, 2011 and Ben Mohamed et al. (2014)). Based on a simple corporate finance model, Heaton (2002), predicted theoretically that optimistic managers will estimate external financing as high costly because they will consider that stock markets undervalue their company’s shares. Heaton forecasted that the existence and level of internal cash flow will impact corporate investment decision. This will affect corporate investment policy since it will cause overinvestment in case of large internal cash flow availability and underinvestment in case of short cash flow. Malmendier and Tate (2005a, 2005b), Lin et al. (2005), Huang et al. (2011), Campbell et al. (2011) and Ben Mohamed et al. (2014) validate empirically Heaton results. They show that under optimism bias, managers will make their corporate investment decisions according to internal liquidity availability.

Mangers optimism is not the only factor that affects corporate’s financial decisions, some other manager’s characteristics can also explain corporate’s financial decisions and the investment cash flow sensitivity (Malmendier & Tate, 2005a). Despite the fact that behavioral corporate finance recent literature is mainly based on the effect of managerial optimism on corporate decisions, Malmendier and Tate (2005a) paper suggests the potential effect of other managers characteristics.

Holmstrom & Costa (1986), Scharfstein & Stein (1990) and Hirshlifer (1993) propose that managers’ careers can have an effect on corporate capital investments. Barker and Mueller (2002) argue that managers’ experience, in different functions, can be an important factor that can affect corporates Research and Development investments. Lin et al. (2005) study is focused on managers’ professional background. In their research, they show a positive and significant correlation between managers’ professional background and the investment in Research and Development activities. Also, managers’ education can affect investment cash flow sensitivity. They test also the hypothesis that managers’ education can affect corporate investment. They show a positive and significant correlation between colleges’ educated managers and the possibility to invest in innovation projects.

Corporate ownerships structure affects also corporate decision. Jensen (1986), in the free cash flow theory, shows that if managers shares in the company increase their interests will become to be in line with the interests of corporate’s shareholders. Morck, Shleifer and Vishny (1988) confirm that the investment cash flow sensitivity will decrease if the managerial ownership becomes sufficiently high. Pawlina et al. (2005) assert that by increasing managerial ownership, the investment cash flow sensitivity will probably decrease at the beginning as managers interests will be the firm value maximization.

## Manager influence

Regarding the question of manager impact on corporate performance two schools of thought are opposed. According to the “School of Constraints” adherents, the manager is so constrained by his environment that he doesn’t have the capacity



to significantly influence corporate's performance. Manager action is restrained by internal constraints (internal policies, previous investments, existence of control systems ...) and external factors (competition, barriers to entry ...). According to Hannan and Freeman (1989), "managers have no impact on the organization characteristic". The manager's mission is perceived as an adaptation work to the constraints imposed by the market, a work that would be realized with the same vision and the same interests, whatever the manager in place.

In opposition, the "Leadership School" adherents consider that the manager is able to establish strategies to surpass his competitors even in case of environmental constraints. The manager is perceived as the one who determines the success of the organization "not only by establishing the structure of the organization but also by being adapted to the characteristics of its environment" (Child, 1975). "Depending on the environment in which the company operates, the manager does not have the same discretionary power" (Pfeffer and Salancik, 1977). Managers adapt the organizational structure in response to technological and environmental changes. They are able to manipulate the characteristics of the environment (Child, 1972). The manager tends to impose his style but his action varies according to the context in which he evolves. More recently, Adams (2005), Almeida et al. (2005) show that manager's influence depends on his discretionary power as well as on the interaction between his managerial characteristics and the organizational context. Chevalier and Ellison (1999) have been interested in the performance of fund managers by showing the existence of a category of managers presenting a better performance than the others. In order to show these results, they test the existence of significant differences on the managers' performance according to his personal characteristic as the age of the manager, whether he holds an MBA or not.

### Decision-making and cognitive bias

Managers are the principal responsible of corporate decisions and their decision-making processes should be in accordance with the rational model but it is obvious that managers are affected by anomalies. These anomalies have their origin on the natural faulty reasoning of the decision-makers. These differences of thought compared to the rational model are called "cognitive biases". The economic literature has produced a lot of papers on judgmental activities and individual's cognitive biases (Tversky & Kahneman, 1974, Hogarth, 1987, Bazerman, 1990). These researches, generally grouped under the name of "behavioral decision theory", aims to develop in line with reality the microeconomics hypotheses on economic agents behavior which today find applications in various fields of management (especially accounting, Hogarth, 1993). The manager, as a decision-maker, can benefit from the results of behavioral decision theory (Russo and Shoemaker, 1990).

The managers' personal characteristics can reduce the investment cash flow sensitivity and as a result managers will invest in an optimal way however their financial constraint, the existence and the level of internal liquidity.

In summary, companies should take care about managers' personal characteristics which can in addition to external factors influence companies' value and corporate policies

### Managerial discretion or latitude of action

As explained above the manager has an important role in the governance and the decisions made in a corporate and its personal characteristics influence these decisions. According to this, Hambrick (2007, p.334) presents two related postulates:

- (1) Managers act on the basis of their personal interpretations of the strategic situations they face;
- (2) These interpretations are a function of managers' experiences, values and personality.

In other words, managers' cognitive schemas and behavioral biases are supposed to play a key role in business strategies and financial decisions. According to Hambrick, these frameworks can be correctly apprehended on the basis of "demographic characteristics" (training, functional experience, duration of functions in industry or in the firm, etc.), even if he recognizes that the measures derived from this hypothesis can only give an imprecise and incomplete image.

Hambrick and Finkelstein (1987) propose to introduce the notion of managerial discretion or latitude of action in the initial model of Hambrick and Mason as a "moderator" variable in order to improve the explanatory power of their approach by recognizing that the effect of the personal characteristics of managers obviously depends on the managerial latitude they have. In other words, if managers have no latitude then the corporate strategy and performance should be insensitive to managers' personal characteristics. For Hambrick and Mason, this latitude exists when we are in presence of absence of constraints and when an important causal ambiguity exist according to the resources-results relation, namely, when the manager has a lot of alternatives to achieve the objectives set to him. The authors identify three categories of latitude determinants:

- The determinants associated to environmental conditions which make possible to evaluate "how the environment accepts varieties and changes", i.e. the possibility for managers to have a different strategy from those of other corporates and to develop easily their strategy.
- The organizational determinants that allow evaluating the latitude according to the capacity of the corporate to be guided. In other words, is the management team able to develop and implement the strategic decisions it deems necessary for the corporate? Hambrick (1987) mentions Board of Directors' power as an example of organizational determinant. Other determinants mentioned include the availability of resources.

- The determinants related to the manager (or managers) personality for example their ambiguity tolerance. Another psychological dimension that can be included in this category, even if it is not explicitly considered in Hambrick and Finkelstein analysis, is the locus of control notion introduced in psychology by Rotter (1966), which explains the idea of the control that an individual thinks have on the events. Miller et al. (1982) demonstrate that a direct relation exist between this notion and the nature of corporate strategy. Also, manager social networks and his social status can be part of personal determinants. In fact, this category may include both psychological and sociological determinants.

## Managers characteristics

### Optimism and overconfidence

Manager's attitude, such as optimism, overconfidence and the illusion of control influence the evaluation of investment and financing alternatives (Camerer et al., 2004, Duhaime and Schwenk, 1983). Optimism (Parisi and Smith, 2005) increases the probability of success of the event. While over-confidence or "overconfidence", contrary to optimism, reduces perceived risk levels or increases surplus value by over-valuing the individual's abilities (Baker et al., 2004). In addition, the individual may believe that they have a level of control over the event even if it is not real.

Indeed, by way of example, according to Baker et al. (2004), an optimistic or overconfident manager will always consider that his company is undervalued by the market. He will thereby avoid as much as possible to finance the corporate through the financial market (Initial Public Offering (IPO) or capital raising). Moreover, in order to retain as much as possible benefits for his corporate, he will make maximum use of self-financing and then the firm's debt capacities (Heaton, 2002). Obviously, a pessimistic or under-confident manager will have the opposite behave as he will estimate that the market is overestimating the company even if this "negative" attitude is not very widespread among the leaders.

#### Manager's Optimism

An optimistic or overconfident manager evaluates more investment opportunities (Baker et al., 2004, Heaton, 2002, Malmendier and Tate, 2002). He will therefore not tend to realize dividend policies. On the other hand, a manager with this type of attitude will consider that the market is underevaluating the real value of his corporate. He will therefore have an interest to buy back the shares in order to realize a capital gain based on the valuation of the corporate, always if he has the available funds.

A fortiori, in case of crisis, this type of manager will consider that this is only a temporary phase, either by dignity since he won't to admit the failure of his corporate, either out of habit or fear to lose his investors, or even by a 'magical' thought considering that dividends payment will give a signal that will relaunching corporate's activity.

#### Manager's Overconfidence

Overconfidence is one of the most documented behavioral biases (Daniel and Titman, 1999). Overconfidence characterizes a person who has excessive confidence in his own skills, abilities or knowledge.

DeBondt and Thaler (1995) in their synthesis on the foundations of behavioral finance, point out that "perhaps the most robust finding in the psychology of judgment is that people are overconfident".

Empirical researchs in psychology has shown that individuals tend to overestimate their abilities and the accuracy of their knowledge. For example, Svenson (1981) shows that 93% of the drivers based on driving abilities placed themselves above-average, effect which is known as *better-than-average-effect*.

Overconfidence has been observed in many professional areas: doctors, bankers, lawyers, etc. (Yates, 1990), entrepreneurs (Cooper et al., 1988) and venture capitalists (Zacharakis and Shepherd, 2001).

Managers are also subject to overconfidence bias. The specific attributes associated to management function would also tend to justify a higher presence of overconfidence bias among managers than in the rest of the population. This bias could be the result of a selection. Managers qualities and the candidate to this type of position imply strong self-confidence (Hiller and Hambrick, 2005, Kahneman and Lovallo, 1993). The ability to maintain and confirm his own position is based on success, but also on the propensity to attribute the success to himself (through self-attribution that reinforces overconfidence bias). In their synthesis on managers risk perception, March and Shapira highlight some essential features. According to these authors, most of managers:

- (1) Consider that they are taking risks judiciously and that they have less risk aversion than their colleagues;
- (2) Perceive risk as largely controllable;
- (3) Attribute this controllability to their competence and information;
- (4) Believe that the results will be greater than those forecasted during decision-making process.

These features results in overestimation of corporate value and its investment projects. This naturally leads to overinvestment. Malmendier and Tate (2005a) studied the sensitivity of investment to cash flow. In their model, overconfident managers over-invest and, when financial constraints are strong (involving the use of the capital increase to obtain additional resources), the investment sensitivity to cash flow increases. In a later research, Malmendier et al. (2005) show that based on the difference

between the market value and the value perceived by managers (of the shares or bonds to be issued to finance the investment) and manager's choice we can formally deduct manager's financial structure preferences. The rational manager is indifferent between the financing resources, whereas the overconfident manager prefers liquidity or unsecured debt beyond a level of overconfidence.

## Education

The manager background has an impact on corporate investment decision and in particular manager financial education can decrease the investment cash flow sensitivity. In their research, Malmendier and Tate (2005a) make a distinction between two forms of education;

- The financial education and;
- The technical education.

Financial educations correspond to a manager that has a Bachelor degree and a Master degree in finance, accounting, business and economics. In the other side, technical education represents a manager that has a Bachelor degree and a Master degree in mathematics, physics, chemistry, biology, engineering, pharmacy and other applied sciences. Malmendier and Tate (2005a) state a negative correlation between manager's financial education and corporate investment and internal cash flow. This signifies that manager's irrational behavior can be reduced when the manager has an excellent knowledge in terms of finance, investment strategies, accounting, and economics. This correlation can be explained by the fact that financial education offers to managers a theoretical background which makes them more rational. On the contrary, based on their results, managers with technical education may increase the investment cash flow sensitivity. This is due to the fact that he is short of financial knowledge and esprit.

## Ownerships structure

The manager's personal financial investment in the corporate capital involve that the manager may be directly concerned about the corporate investment decisions. The measure of manager ownership in the corporate is the percentage of the corporate total shares that the manager holds. Managerial ownership contributes to reduce agency costs, if the manager has a low ownership power he will maximize his own utility instead of maximizing corporate's value which is the principal interest of corporate shareholders (Jensen and Meckling, 1976; Fama and Jensen, 1983). The more, the manager holds shares in the company, the more he will avoid risky strategy. The property structure, more specifically managers' ownership has a very important effect on investment decisions and investment cash flow sensitivity. Corporates should look after their corporate governance structure which can lead to managerial psychological biases as it is theoretically predict by Paredes (2005) and empirically validated by Ben Mohamed, Baccar, Fairchild and Bourri (2012) and Baccar, Ben Mohamed and Bourri (2013). The abovementioned authors' recommend to the corporates to consider managerial participation on their ownership structure in order to reduces corporate investment irrationalities and investment cash flow sensitivity.

## Conclusions

This paper aims to present the effect of managers' personal characteristics namely, managerial optimism, overconfidence, education, professional background and ownership structure on corporate financial decision, investment cash flow sensitivity and their investment policy.

Managers are in the center of corporate finance decisions and so they play an important role in the corporate they lead. "Leadership School" adherents consider that the manager is perceived as the one who determines the success of the organization and so he is able to establish strategies to surpass his competitors even in case of environmental constraints.

Even the manager is consider as the most powerful actor of the corporate, the relationship between corporate decisions and managers personal characteristics has been largely ignored in standard financial theory which supposes that agents are fully rational and so they make decision that maximizes firm value. The reality shows that the economic agents are not fully rational and so a lot of critics emerge with a new financial theory called behavioral corporate finance. Based on this new branch of finance, managers are considered as not fully rational and that they are frapped by some psychological and emotional biases, such as overconfidence and optimism. An optimistic or overconfident manager will always consider that his company is undervalued by the market. He will thereby avoid as much as possible to finance the corporate through the financial market.

Also the ownership structure can explain corporate investment decisions. Managers who are financially involved in the company are more prudent about risk taking and accept more easily the opinion and interest of shareholders.

Our paper also shows that some other managers characteristics such as financial education indeed technical education and their career have an impact on corporate investment decision and can decrease the investment cash flow sensitivity.

As a conclusion, corporates should take into consideration managers' personal characteristics which can in addition to external factors influence companies' value and corporate policies.

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# Exchange Rate Risk: Measure and its evaluation using VaR and Variation Coefficient. A comparative study of two methods of calculating VaR: Historical Method and Monte Carlo simulation

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## Abstract

*The increase in the number of transactions in the financial markets, the numerous cases of financial instabilities, and a large number of losses on the banks' balance sheets in the last 20 years, led to the re-analysis of risk and the way in which it is measured. Nowadays, the most common approach used to measure the market value risk is the Value at Risk also known as the VaR Model. There are three main approaches to calculate VaR: Variance-Covariance Model, Historical Model and Monte Carlo simulation. In the last year's paper, we calculated VaR using the historical model, an approach that uses historical data on daily returns to determine the value of VaR. In this paper, we will use Monte Carlo simulation for calculating VaR, in order to compare the two results. On the other side, the coefficient of variation is a measure of the relative variability, which is very useful in cases when it is necessary to compare investments with different expected returns. The higher the coefficient of variation, the higher the risk and therefore the expected return (Gitman 2007). The aim of this paper is to evaluate the performance of the VaR model, where the values of VaR are calculated by Monte Carlo simulation, for measuring the relative risk in the foreign exchange market in Albania using the coefficient of variation. The instrument used is the simple linear regression, where the Dependent Variable is VaR and the Independent Variable is the coefficient of variation. The data used in this paper is taken from the official website of the Bank of Albania, corresponding to the daily rates of exchange in the Albanian foreign exchange market of January 3, 2013 to September 30 2015. The currencies used are the US Dollar, Euro, Great Britain Pound, Suisse Franc, Japanese Yen (100), Australian Dollar, Canadian Dollar, Swedish Krona, Norwegian Krone, Denmark Krone, Special Drawing Rights, Gold (OZ 1), Silver (OZ 1).*

**Key words:** Measuring Risk, Exchange Rates, VaR Model, the coefficient of variation, etc.

## Introduction

Measuring the financial risk has become one of the main objectives of all actors operating in the market. It is very important to identify and measure different categories of risks that characterize the companies and various transactions in the financial market and non. Many transactions are characterized by market risks such as exchange rate risk that is one of the most important market risk. Measurement and risk assessment models are numerous and have evolved over time. The exchange rate risk models are many but in this paper we will use the VaR mode for measuring it.

In the paper presented last year in the Albanian Studies Days 2016, we came to a conclusion that the VaR is not an efficient methodology for risk measurement in the foreign exchange market in Albania (Xhindi & Kripa, (2016), „Exchange Rate Risk: Measurement and Evaluation Using VaR and coefficient of variation „, DSSH 2016, UET.

We reached this result in the condition when we:

- Accept that the coefficient of variation is a measure that it used theoretically and practically for the assessment of the relative risk.
- For the calculation of VaR, were used the historical data for the foreign exchange rate, Foreign currency – albanian lek.

But, which is the definition of the Value at Risk? The mathematics that underlie VaR were largely developed in the context of portfolio theory by Harry Markowitz and others, though their efforts were directed towards a different end – devising optimal portfolios for equity investors. In particular, the focus on market risks and the effects of the comovements in these risks are central to how VaR is computed. Value at risk (VaR) summarizes the worst loss of a portfolio over a given period with a given level of confidence (Jorion, 2000). VaR has become widely used by financial institutions, corporations and asset managers (Morgan 1996). The Basle Committee on Banking Supervision (BIS) and other central bank regulators also use VaR as a benchmark risk measure to determine the minimum amount of capital a bank is required to maintain as reserves against market risk (Pallota, Zenti 2000). There are some methods to calculate option portfolio VaR. The most widely used is the Delta normal method. The method used in this paper for measuring VaR is the Monte-Carlo Simulation. We recall that the historical simulation uses data on daily returns to determine a VaR value and that this model has no assumptions regarding the statistical distributions of these returns. On the other hand, with all the debates, the coefficient of variation is often used as a relative risk meter, in comparative cases when we have to choose between different opportunities for investing. Mathematically, the coefficient of variation is calculated through the formula:

$$CV = \frac{\sigma}{\mu} * 100\%$$

Where:  $\sigma$  is the standard deviation of X observations and  $\mu$  is their mean.

In addition to the historical simulation method, for the calculation of Var is used the Monte Carlo csimulation. In this case, the future values series of the foreign currency-to- albanian lek exchange rate are generated based on the equation:

$$\text{Today value of exchange rate} = \text{Yesterday value of exchange rate} * e^{r\Delta t} \quad (1)$$

Where,  $r$  is the case variable with normal theoretical distribution. This formula was proposed and realized for the first time by French mathematician Louis Bachelier, the first person to model the stochastic process called Brownian Motion. In this paper we want to investigate whether the VaR, already calculated with the Monte Carlo simulation, is a good method for measuring the risk in the foreign exchange market in Albania, assuming that the coefficient of variation is such. Given the results achieved in the last year's work, this also means that we can conclude that the way of calculating VaR impact the main outcome or results of this study. In order to investigate the goodness of VaR use, calculated with the Monte-Carlo simulation, in the foreign exchange market in Albania, we will make the simple linear regression in which as the independent variable we will use the coefficient values of the variation for the 13 currencies, the exchange rate of which is available on the official website of the Bank of Albania, and as a dependent variable we will use VaR data for these currencies. The confidence level used in this paper is 95%.

## Purpose and objectives of the study

*The main purpose of this paper is to investigate the goodness of use of VaR, calculated with Monte Carlo simulation, for measuring the risk in the foreign exchange market in Albania.*

### Objectives of the study:

*Based on the exchange daily rate data, foreign currency - lek over a year, we count:*

- Mean, variance and standard deviation for daily periodical return rates
- the expected value of periodic daily return

*Based on the formula (1), generate the future values of foreign currency exchange rate – lek.*

*From the output of the regressive analysis to conclude for the "goodness of the approach" and for the purpose of this work.*

## The research question, hypothesis and methodology

The research questions are as follows:

1. Is VAR calculated with Monte-Carlo simulation one good instrument to measure the risk in the exchange market in Albania when we accept that the coefficient of variation is?
2. Does the method of VAR calculation affects the result?

**Hypothesis:**

*H01: There isn't a statistically significant relationship between the coefficient of variation and VaR calculated with Monte Carlo simulation.*

*H02: The method of Var calculation doesn't affect the result*

The methodology and data collection:

The currencies taken into consideration are: US Dollar, Euro, Great Britain Pound, Swiss Franc, Japanese Yen (100), Australian Dollar, Canadian Dollars, Swedish Krona, Norwegian Krone, Denmark Krone, Special Drawing Rights, Gold (OZ 1), Silver (OZ 1). The coefficient of variation is a measure of volatility in exchange rate market. Sometimes it is more preferable than the standard deviation (or variance) especially in cases when is important to identify the quick change periods of exchange rate. Based on data taken for day exchange rate from the website of Albania National Bank, from 03 th January till 03th January 2014, the following measures are calculated for every currency: The daily periodic return, based on formula  $r = \ln \frac{P_1}{P_0}$ , where  $P_1$  and  $P_0$  are respectively the exchange rates in two consecutive days. The mean, variance and standard deviation for one year daily periodic return. We rely on following equation to generate with Monte Carlo simulation the future values for exchange rates for every currencies:

$$\text{Today value of exchange rate} = \text{Yesterday value of exchange rate} * e^r \quad (1)$$

$r$  is the daily periodic return. Monte Carlo simulation generate the future theoretical values of  $r$  that is a random variable with theoretical normal distribution. To model the motion and to determine the probable future values we use a equation that model the random motion. This equation was proposed and realized for the first time a hundred year before from the French mathematician Louis Bachelier, the first person that model the stock prices similarly with Brownian motion. The stochastic process named Brownian motion suppose that are two parts on the amount of change in the exchange rate:

- The deterministic part or fixed drift rate
- The random part or random stochastic variable

The daily periodic return  $r$  can be modeled as follow:

$$r = \ln \frac{P_1}{P_0} = \alpha + \sigma Z_t \quad (2)$$

Where:

$\alpha$  - the deterministic part, the expected periodic return daily value

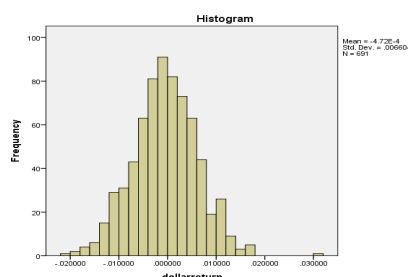
$\sigma$  - the random part, random shock

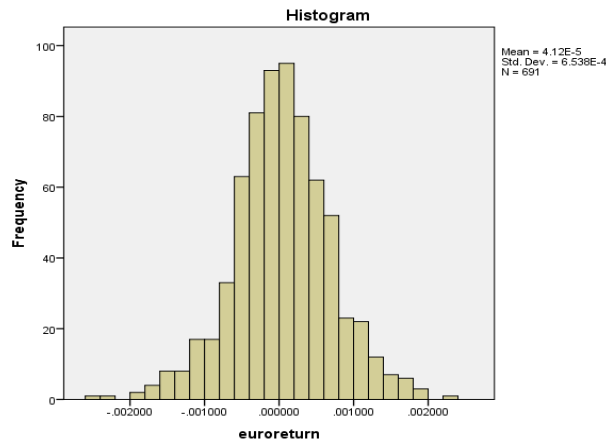
The calculation of the deterministic part  $\alpha$ , is done by formula:

$$\alpha = \mu - \frac{\sigma^2}{2}$$

where  $\mu$  and  $\sigma^2$  are respectively the mean and variance of periodic daily return for one year exchange rate data. The calculation of the random part, is done by multiplying the standard deviation of periodic daily return for one year exchange rate data with normal standard values, which are generated from random selection of different probability levels. After calculation of  $r$ , we use the formula 1) to generate the future price values in foreign exchange market. We generate the future values from 04th january 2014 till 30th september 2015. The reason is the time period to be the same as the one used in the last year's paper. In figures 1 and 2 are given the histograms of frequency distribution for periodic daily return for two main currencies in albanian foreign exchange market: euro and dollar.

**FIGURE 1:** Histogram of frequency distribution for periodic daily return data for dollar/lek



**FIGURE 2:** Histogram of frequency distribution for periodic daily return data for euro/lek

The probability distribution in both two cases is approximately normal.

After the data were generated, for every exchange rate foreign currency series, were calculated the periodic daily return and coefficient of variation (the later by formula  $CV = \sigma/\mu$ )

Also, from these data, after ranking the return value series from smallest to largest, VaR was calculated as a 5% percentile of daily return values \* 1.000.000.000 ALL (since we chose the 95 % level of confidence).

The results from these calculations are presented in the table below:

Currencies	Mean	Standard Deviation	CV	VaR Monte-Carlo/milion
US Dollar	-0.000471831	0.006598935	-13.98579424	-11398968.19
Euro	4.11687E-05	0.000653362	15.87036039	-1034217.789
Great Britain Pound	0.000164159	0.005350619	32.59421899	-8854421.252
Suisse Franc	0.0002214	0.010316536	46.59687695	-14695155.23
Japanese Yen (100)	-0.000214012	0.006145445	-28.71540561	-10058024.92
Australian Dollar	0.000198535	0.007071258	35.61716542	-11310054.55
Canadian Dollar	0.000270015	0.00698685	25.87577828	-11085364.55
Swedish Krona	4.88632E-05	0.004853144	99.3210777	-7968257.484
Norwegian Krone	9.48651E-05	0.007279517	76.73548754	-11649793.76
Denmark Krone	2.20002E-05	0.00100088	45.4942268	-1602136.981
Special Drawing Rights	-0.000167454	0.007130887	-42.5842152	-12326599.71
Gold (OZ 1)	-0.000513406	0.009003692	-17.53718828	-15521462.73
Silver (OZ 1)	0.000510596	0.014932307	29.24483269	-23641977.1

Below is a summary of the steps for Monte-Carlo simulation:

1. Download the prices of exchange rate for one year period
2. Calculate the daily periodic return by formula:  $r = \ln(P_1/P_0)$ , where  $P_0$  and  $P_1$  are the prices in the two consecutive days
3. Calculate the mean, variance and standard deviation of daily periodic returns
4. Model the return values  $r$  by equation:  $r = (\mu - \sigma^2/2) + \sigma * \text{normsinv}(\text{rand}())$
5. Calculate the future values of exchange rate by equation:

**Today value of exchange rate = Yesterday value of exchange rate \*  $e^r$**

By this calculations, we obtain the values for dependent variable VaR and for independent variable CV, necessary for regression analysis. We use the IBM SPSS Statistics 20 package to do the regression analysis.

## The interpretation of results

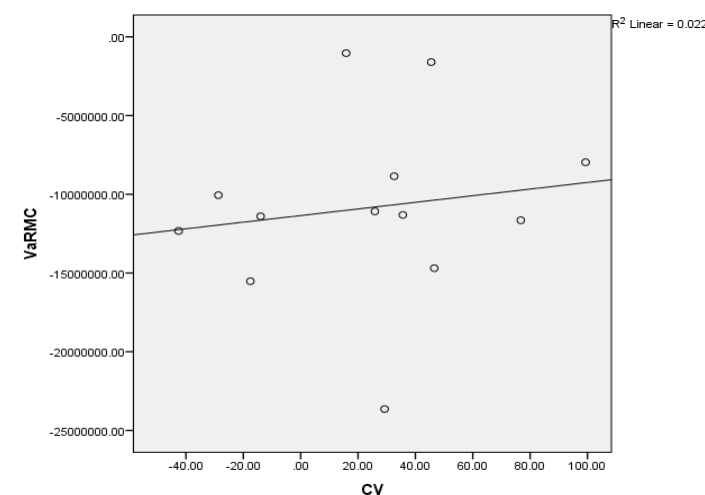
We set the null and alternative hypothesis:

$H_0$ : There is not a significance relationship between VaR and coefficient of variation

$H_a$ : There is a significance relationship between VaR and coefficient of variation

The tables below are obtain from the output of SPSS:

**FIGURE 3:** The scatterplot for the relationship between VaR and coefficient of variation



**FIGURE 4:** The normality tests for the variables VaR and CV

Tests of Normality						
	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
CV	.139	13	.200*	.964	13	.820
*. This is a lower bound of the true significance.						
a. Lilliefors Significance Correction						

Tests of Normality						
	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
VaRMC	.169	13	.200*	.920	13	.254
*. This is a lower bound of the true significance.						
a. Lilliefors Significance Correction						

**FIGURE 5:** The some statistics from the output of the regression analysis

Correlation	R-square	Durbin-Watson	Test statistic	p-value
0.149	0.022	1.406	0.501	0.626

From the output, as the p-value = 0.626 > 0.05, we can't reject the null hypothesis.

At = 0.05 level, we conclude that there is not a significance relationship between coefficient of variation and VaR calculated with Monte-Carlo simulation. This mean that the VaR model is not a valid methodology for risk calculation in exchange market in Albania, when we accept that the coefficient of variation is.

## Conclusions / Recommendations

Using the regression analysiss, in this paper we have proved that the VaR model is not a good measure for calculation of relative exchange rate risk in the Albanian exchange market, when we accept that the coefficient of variation is. The VaR was calculated from simulated exchange rate values, using the prices of exchange rate for one year period and the formula:

$$\text{Today value of exchange rate} = \text{Yesterday value of exchange rate} * e^r$$



This conclusion is the same as the one obtain in last year's paper, in which the VaR was calculated using the historical data. This means that the VaR calculation method does not matter, however it is, or using historical data or Monte Carlo simulation, the result is the same.

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# PANEL 7

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UET - MAJOR RESEARCH PROGRAM / INNOVATIVE ALBANIA 2015-2020

## RP/ CONTEMPORARY MODELS OF SOCIAL - ECONOMIC ANALYSIS: FROM TRADITIONAL ANALYSIS TO BIG DATA SYSTEMS

Prof. Dr. Engjëll Pere



# Tourists' perceptions on ecotourism

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## Abstract

*Rural development plays a very important role in the overall development of Albania. Rural areas of Albania possess sufficient natural resources, assets and authentic cultural and local heritage, to develop rural tourism by turning this region into an attractive travel destination. Ecotourism is related to the development of sustainable tourism by grouping different types of tourism around the natural environment element. Sustainable tourism affects not only the protection of natural and cultural assets but also improve of the quality of life of the regions involved. The study aims to analyze the ecotourism phenomenon within different age groups of tourists. The main objective of this study is to analyze the perception of the tourists concerning ecotourism term. The study has been carried out by using a questionnaire created by using the appropriate software for the collection of the interested data. Questionnaire was provided in Albanian language and all surveyed people lives in Albania. The question posed allows maximum freedom of expression to the survey sample and have the purpose of bringing out the deep perception of the phenomenon. According to the results, the majority of respondents explain the meaning of ecotourism with the indication of nature and ecology terms.*

**Keywords:** ecotourism, rural development, sustainable tourism, Albania

## Introduction

Albania is a country that offers wonderful natural landscapes and interesting cultural monuments. In recent years, some rural areas of our country have become attractive and promotional areas of the region by attracting domestic and foreign tourists. The development of tourism is an important factor which can influence the growth and economic development of a country. Sustainable tourism affects the protection of natural and cultural assets and also the improvement of the quality of life of the regions involved. The increase of the tourist flow to the most attractive rural areas of our country shows the interest of domestic and foreign tourists on natural tourism and the diversity of natural activities (hiking, rafting, cycling, climbing, fishing, etc.) offered on it. Although ecotourism is recognized as an element of interest to people engaging in exploration of diverse countries, in our country is a lake of information concerning this type of tourism. The study aims to analyze the ecotourism phenomenon within different age groups of tourists. The main objective of this study is to analyze the perception of the tourists concerning ecotourism term. The study has been carried out by using a questionnaire created by using the appropriate software for the collection of the interested data. Questionnaire was provided in Albanian language and all surveyed people lives in Albania. The question posed allows maximum freedom of expression to the survey sample and have the purpose of bringing out the deep perception of the phenomenon.

## What is Ecotourism?

The term ecotourism has been used for the first time by Hetzer in 1965, suggesting “ecological tourism” as an alternative to the traditional tourism (Wallace, 1992). It is a type of tourism activity that supports environmental education and conservation



(Powell & Ham, 2008), and reduces environmental degradation or weakening of ecosystems and biodiversity (Salum, 2009) in the process of economic development (Powell & Ham, 2008).

Ecotourism has been conceptualised in different ways with synonymous terms such as: visiting and observing natural areas (Boyd & Butler, 1996b: 558), responsible tourism, sustainable tourism development, soft/hard tourism (Reichel et al. 2008: 38), nature-oriented tourism, environmental-friendly tourism, socioecological tourism, low-impact travel, ecocultural travel and non-consumptive tourism (Sirakaya et al. 1999: 171). Have been offered also a variety of descriptions for the concept of ecotourism, captured in phrases like 'getting off the beaten track', 'responsible travel' and 'tread lightly, take only photographs and leave only footprints' (Sirakaya et al. 1999: 169-172).

Many scholars have defined the term of ecotourism in their own ways. Although there is no definition agreed among scholars on ecotourism, the definition of the Ecotourism Society is generally shared by them. In 1991, Ecotourism Society defined ecotourism as a visit to natural areas to understand the environment, protecting the integrity of the ecosystem and making the conservation of the natural resources beneficial to local citizens (Wood, 1993).

While in 1996 the World Conservation Union defined ecotourism as an environmentally responsible travel and visitation of quiet natural areas to appreciate and conserve nature, low negative impact of visitors and socio – economic involvement of local population (Wood, 2002). It reflects that ecotourism is not a simple tour to natural areas, but a tour bearing social responsibilities (Dimanche and Smith, 1996).

The International Ecotourism Society (TES) has developed a set of ecotourism principles, which are being accepted by NGO-s, private sector businesses, governments, academia and local communities such as: reduce the negative impacts on nature and culture of destination; traveler education on the conservation; direct incomes to the management of protected areas; developing infrastructure in harmony with the environment.

According to Chesworth (1995), ecotourism has six characteristics: a) involvement of travel to relatively undisturbed natural areas and/or archeological sites, b) focus on learning and quality of experience, c) create economic benefits to local communities, d) ecotourists seek to view rare species, spectacular landscapes and/or the unusual and exotic, e) ecotourists help to reduce damage to the environment, and f) ecotourists respect and appreciate local culture and traditions.

## Definition of Ecotourist

Ecotourist's definitions have been discussed within the domain of ecotourism definitions (Perera et al., 2012; Juric et al., 2002). Some studies define ecotourists as consumers of tourism who prefer ecotourism from all variety of tourism types, because of their natural inclination, preferences, convictions, in other words their pro-environmental psychological orientation (Perkins & Grace, 2009). According to Fennell (2003) ecotourist can be divided into two groups, "born ecotourists" and "made ecotourists". While "born ecotourists" represent the group of visitors who have internal predisposition toward nature travel, "made ecotourists" represent the group of visitors who are unfamiliar with this type of tourism, but can be involved in ecotourism through effective marketing.

According to the literature, the way of identifying ecotourists can be based on the basis of the three core criteria of ecotourism: nature-based, education or learning, and sustainability (Beaumont, 1998; Blamey, 1995; Weaver, 2008). When observing and comparing the definitions of different literature two main groups may be distinguished: the first one including 'hard' or 'committed' ecotourists who are generally perceived to be well aware of their travel and consumption preferences as well as global and local issues regarding sustainability, responsibility and ecological lifestyle. This group of ecotourist is comprehensively committed to carry out their leisure time respecting the components involved in ecotourism: with minimal impact on nature and host culture, preservation, learning and direct or indirect contribution to destination's well-being. Another group comprises the "soft", ecotourists who might be aware of environmental issues to some extent but still regard their own comfort as priority. (Weaver and Lawton 2001, 5-8; Valtonen, 2013). Very often "soft" ecotourists are satisfied with superficial scratch of the eco-setting without going any deeper into the issues concerning the nature or community in the destination (Fuad-Luke 2008; Valtonen, 2013).

To implement the principles mentioned above would be developed the perception of ecotourism for tourists participating in ecotourism. Chan and Baum (2007) have revealed that eco-tourists' perception is multidimensional in nature and consists of participation in eco-activities, interaction with service staff, socialization with other eco-tourists and acquiring information. Therefore, as eco-tourists perception is multidimensional and determinant to ecotourism, it is necessary to understand the perception of eco-tourists.

## The role of Ecotourism in rural development

Rural areas usually have few sources of comparative advantage for attracting economic activities other than agriculture or industries based on harvesting natural resources (Wiggins et al. 2001). The development of tourism can help through economic growth and employment which generate income for rural community (Gannon 1994; Kieselbach & Long 1990). Various literatures consider tourism as an alternative way for improving the living standards of local communities in rural areas (Cabrini, 2002; OECD, 1994; Viljoen & Tlabela, 2007; Hall & Brown, 2000;). Tourism is viewed as a practical tool that can be utilized in achieving sustainable rural development that considers the tourists and the rural population (Kim et al.

2006). It is viewed as a sustainable development channel through which rural areas can achieve environmental, economic, and socio-cultural growth (Reeder & Brown, 2005; Haghssetan et al., 2011).

Ecotourism can be viewed as an alternative tourism which aims the sustainable tourism. The current ecotourism can be considered as an integrated form of all the interests arising from environmental, economic and social worries beyond the concept of experiencing intact nature and culture (Western, 1993; Kang, 2000). The most positive issue of ecotourism's contribution is related with the sustainable resource management on a direct or indirect basis (Cater, 1993, 1994; Dearden, 1995).

Goodwin (1995) specified that ecotourism has a positive impact since it adds to the preservation of species and habitats through enhancing the management of own location, generating funds to the local community sufficient enough to make them value their land, and motivate them to protect their wildlife heritage area. Ecotourism contributes to the area visited through labour means by creating employment opportunities for local communities (Ziffer 1989; Boo, 1991b: 4) and sustains the economic well-being of local residents (Orams, 1995a: 5). It aims at directly benefiting the conservation and the maintenance of the place.

Summarizing the above, can be concluded that ecotourism support to minimizes negative impacts upon the natural and socio-cultural environment and protect the maintenance of natural areas that are used as ecotourism attractions, by creating opportunities for providing alternative employment and generation of income for local rural communities, which can affect the reduction of the depopulation and of the poverty.

## Methodology

There are several research approaches that can be selected depending on the nature of the study (Ghauri and Gronhaug, 2005). Exploratory research refers to a study that combines different methods of data collection and different findings within the studied area (Ghauri and Gronhaug, 2005). Another type of research is the explanatory research (Williamson, 2002), which is carried out through statistical tests and intend to explain why things are in the way they are. For the study of social facts is more appropriate the quantitative approach (Bryman and Bell, 2007). The purpose of quantitative research refers to the construction of statistical models as an attempt to explain what is being observed. This approach involves the analysis of numerical data. In addition, quantitative data are more reliable to test existing hypotheses (Neill, 2007).

In order to collect the quantitative data we are interested in, a questionnaire was created and data were collected from the selected sample. The questionnaire was created by using the appropriate survey software (SurveyMonkey) enabling it completing online. Using the electronic questionnaire can be very useful as it is fast, low-cost, does not require help, and can be easily distributed to a large number of people (Williamson, 2002). The questionnaire is formulated in Albanian language. All surveyed people are Albanian citizens and lives in Albania.

The questionnaire has two sections. The first section includes personal information about respondents such as: gender, income, education level, place of living – whether respondent lives in rural or urban area, information with whom respondent usually prefers to travel with, favored tourist destination, and whether respondent has ever visited rural tourism areas. In this section are used closed-ended questions.

The second section of the questionnaire it is focused on the definition or perception of the term ecotourism by the respondents. In this section is used an open-ended question that allow to respondents of survey sample maximum freedom of expression and aims to point out awareness from the ecotourism phenomenon.

The sample of participants involved in research consists of 109 people. This research is based on convenience sampling design which refers to the collection of information concerning ecotourism phenomenon from members of the population who are conveniently available to provide it. The selection was done by using snowball sampling technique, as a type of technique of convenience sample. Based on indication from initial participants to generate additional subjects The selection criteria refers to the visiting at least one time attractive touristic rural area of Albania such as Thethi, Valbona, Voskopoja, Dardha etc; and the knowledge of ecotourism phenomenon, at least more than half of the participants had heard about it.

A great variety of answers was predicted from the sample. Out of 109 participants, 4 (3.7 %) did not indicate any term or phrase associated with ecotourism. Based on definitions and interpretation from different scholars mentioned in this paper, the answers were grouped into five large areas:

- 1) Nature-oriented tourism - visiting and observing natural areas to appreciate nature (Sirakaya et al. 1999; Wood, 2002) and to reduce the negative impacts of visitors on it (Boyd & Butler, 1996b).
- 2) Ecological tourism (Hetzer, 1965) - understand, conserve and protect the environment and natural resources (Powell & Ham, 2008; Wood, 1993) and reducing environmental degradation or weakening of ecosystems and biodiversity (Salum, 2009).
- 3) Sustainable development - an alternative tourism which aims the sustainable tourism, of areas involved (Reichel et al. 2008, Western, 1993; Kang, 2000) by generating direct incomes to the management of protected areas (Wood, 2002) and creating economic benefits to local communities (Chesworth, 1995).
- 4) Responsible tourism (Sirakaya et al. 1999: 169-172).
- 5) Alternative tourism - compared to traditional tourist practice.

## Results and discussion

### Socio-demographic characteristics of respondents

The gender distribution is not balanced, since 72,4% of respondents are female and 27,6% male. In terms of age, the largest group is between 18 and 34 years old (68,5%), followed by the group between 35 and 44 (18,5%) and the group between 45 and 54 (12%) . According to these results, it is obviously that the sample is represented by young group of people.

**TABLE NO.1-** Socio-demographic characteristics of respondents

Characteristics		Percentage
Gender	Male	27,6%
	Female	72.40%
Age	18-34	68.50%
	35-44	18.5%
	45-54	12.0%
	55-64	0.9%
	>65	0.0%
Education level	Primary school	-
	High school	0.9%
	Student	3.7%
	Higher education	33.3%
	Master/PhD	62.0%
Monthly income (ALL)	< 22.000	10.2%
	23.000 - 44.000	25.0%
	45.000 - 66.000	25.0%
	67.000 - 88.000	19.4%
	> 89.000	20.4%

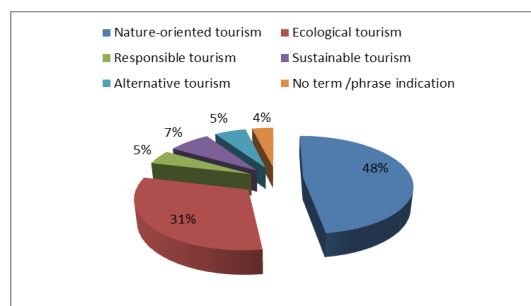
According to the literature, results are different. Different age groups were interested in different offers. From the surveyed people 62.0% of respondents has master or PhD degree, 33,3% has high education and 3,7% are still students. According to these results, connecting with literature review, it can be supposed that people with higher level of education will have higher interest for ecotourism. From survey sample, lead two groups of respondents (25.0%) with monthly income between 23.000 and 44.000 ALL and 45.000 and 66.000 ALL. which is around average income in Albania. A significant result (20,4%) concerns the respondents with higher monthly income than 89.000 ALL. According to the literature, tourists choose rural destinations because of their affordability (Tsephe and Eyono Obono, 2013; Haldar, 2007).

All the respondents (100%) of the survey sample lives in the town. According to this result, it is possible to aspect that people who lives in town would like to travel to some rural destination, in order to escape from urban area, and to enjoy nature.

35.2% of the survey sample usually travels with family, 32.4% with friends, 29.6% with partner, and only 2.8% usually travels alone. 81.5% of the respondents have already visited rural tourism.

### Perception of Ecotourism

**FIG. NO.1 -** Perception of Ecotourism



From the survey sample **48%** of respondents perceive ecotourism as a **nature-oriented tourism** that allows to be recognized with all its elements and with the ecosystem in its entirety. Some of respondents define ecotourism as an exploration of natural areas, especially visiting spectacular and exotic landscapes and viewing rare species and observing wildlife. They also connected it with using various natural resources to appreciate and preserve those. Some other respondents define ecotourism as a sort of vacation in nature, trying organic foods and experience the life style of the countryside. Receiving the positive side that nature offers by supporting and taking care of it. According to this result, connecting with literature review, ecotourism is defined as visiting and observing natural areas to appreciate nature (Sirakaya et al. 1999; Wood, 2002) and to reduce the negative impacts of visitors on it (Boyd & Butler, 1996b).

**31%** of respondents' perceive ecotourism as **ecological tourism**. Respondents define ecotourism as a preservation and protection of the natural environment and its living organisms by reducing environmental degradation. Respondents also define it as a conservation of ecosystems and their components. Some respondents define ecotourism as preservation of the visited areas, the preservation of traditions and cultures of the rare visited areas. According to this result, connecting with literature review, ecotourism is defined as understanding, conserving and protecting the environment and natural resources (Powell & Ham, 2008; Wood, 1993) by reducing weakening of ecosystems and biodiversity (Salum, 2009).

**7%** of respondents perceive ecotourism as **sustainable development tourism**. Respondents define ecotourism as a sustainable environmental protection and development of the area involved, where both tourists and local residents benefit from it. And also as an alternative tourism which support local economies. Some respondents define it as further economic development of the local areas involved, and also of the country. According to this result, connecting with literature review, ecotourism is defined as an alternative tourism which aims the sustainable tourism, of areas involved (Reichel et al. 2008, Western, 1993; Kang, 2000) by generating direct incomes to the management of protected areas (Wood, 2002) and creating economic benefits to local communities (Chesworth, 1995).

**5 %** of respondents perceive ecotourism as **responsible tourism** (Sirakaya et al. 1999: 169-172). Respondents define ecotourism as their compatibility with nature, social responsibility for travel and personal development. Respondents feel responsible for the environment and nature, by protecting them.

**5%** of respondents perceive ecotourism as an **alternative tourism** compared to traditional tourist practice.

**2.7 %** of respondents did not indicate any term or phrase associated with ecotourism.

## Conclusions

Although in our country is a lack of information concerning ecotourism, the increase of visiting attractive rural areas of our country show the interest of domestic tourists on ecotourism referring to the fact that almost all of the surveyed sample determine ecotourism with the same definitions that are found on the literature.

Young group of people show an interest on diversity of natural activities (hiking, rafting, cycling, climbing, fishing, etc.) offered in those attractive rural areas of the country

The higher interest for ecotourism is shown by the people with higher level of education. People choose rural destinations because of their affordability. People who live in town are more interested than people who live in rural areas to travel to some rural destination, in order to escape from urban area, and to enjoy the nature.

A great part of domestic surveyed tourists perceive ecotourism as a nature-oriented tourism. Visiting and observing natural areas not only to appreciate nature but also to reduce the negative impacts of visitors on it. Another considerable part of domestic tourists perceive ecotourism as ecological tourism. Understanding and protecting natural environment and contributing to the reducing of the weakening of ecosystems and biodiversity.

Albania, as a country that offers wonderful natural landscapes and interesting cultural monuments, has become in recent years an attractive and promotional region by attracting domestic tourists. Albanian tourists have interest to visit the nature as ecotourist. Development of ecotourism could have an important impact on rural areas in Albania by developing the economy of the areas involved. Economic development could be achieved by creation of income of rural inhabitants, with further expanding the quality of life and living standard.

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# Developing Corporate Bond Market and their Institutions in Albania

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## Abstract

*Corporate bond markets are defined as the segment of capital markets in the economy that deals with corporate bonds. The building of the corporate bond market is a challenging process that requires a considerable amount of time to develop, but can act as a source of stability for a country's financial system. Developing liquid corporate bond markets would help reduce reliance on bank financing and lead to greater diversification of the sources of funding. The corporate bond market would help reduce the risk of currency particularly for long term projects. However, the issuance of corporate bonds may be challenging for corporations in Albania. The qualitative case study was chosen as the research strategy in order to study, explain and understand the corporate bond market and institutions in Albania. Corporate bond market experiences across developed and emerging markets will underline the importance of strong institutional and regulatory framework, along with support from policymakers for building corporate debt markets. Review of literature and an analysis of key trends in corporate debt market will help to identify the issues with the three pillars of corporate debt markets: institution and regulators, market participants, and instruments.*

**Key words:** Corporate bonds, capital market, institutional development, Albania

## Introduction

A bond is a contract to pay interest and repay principal. It is both a financial instrument and a legal obligation enforceable in court. The building of corporate bond markets is a challenging process and may take a considerable attention. The development of deep and liquid corporate bond markets will help reduce reliance on bank financing and lead to greater diversification of the sources of funding across the various asset classes. The development of an efficient corporate bond market offers several additional benefits for issuers, investors and the overall economy: enables corporations to reduce their financing costs and provides for a more efficient allocation of savings; provides an asset class for portfolio diversification, particularly for investors with long-term liabilities; facilitates the efficient pricing of credit risk by way of the various continuous disclosure requirements imposed by regulators; enhances the transparency and disclosure of companies through the access provided by capital markets; provides risk management benefits through the introduction of risk management instruments, thus limiting the impact of exposures by borrowers.

The specific reason for developing local debt markets in most countries is to finance fiscal deficits and second specific reason is to secure a large capital inflows (Turner, 2002). In order to have efficient investment and financing decisions, the most fundamental reason is to make financial markets more complete by generating market interest rates that reflect the opportunity cost of funds at each maturity. Developing bond markets is a means of avoiding the concentration of intermediation uniquely on banks. Since banks are highly leveraged, this may make the economy more vulnerable to crises. The damage caused by such crises to the real economy is generally much higher, and the restructuring process more difficult, in the absence of a well-functioning bond market. However, only developed capital markets can realistically be expected to substitute the banks; in emerging markets bank intermediation continues to dominate.

The emerging markets corporate bond debt universe is large, diverse and growing fast. Its higher spread and lower duration characteristics in comparison to developed market credit indices offer one of the most compelling opportunities in global fixed income markets today. In emerging markets corporate debt can provide an attractive opportunity to add diversification and enhance returns to fixed income portfolios. Emerging markets corporate debt provides investors with the opportunity to capitalize upon the growth of private sector companies as they become leaders in the domestic market and relevant in the global arena.

Emerging market regulators have increasingly recognized the need to develop and strengthen domestic corporate bond markets in order to provide an alternative source of long-term financing for private sector issuers and quality investments for investors. Critical aspect in development of corporate bond markets are disclosure and transparency, because one of the risks that exist for bond investors is the risk of default.

## Literature Review

The existence of an effective bond market plays a crucial role in reducing financial sector fragility and provides an alternative cheap capital for firms (Yoshitomi & Shirai 2001). According to Tendulkar & Hancock (2014), corporate bonds have been widely used by firms to raise capital for business activities and debt financing, especially in the long run. The development of bond markets is the key for the efficiency of the economic system, besides the fact that it would bring more opportunities for investors and deepen the financial markets (Herring and Chatusripitak, 2007).

Development of corporate debt markets needs strong institutional and regulatory support. According to Wells and Schou-Zibell (2008), the development of regulatory and financial supervisory framework plays an important role in the vibrancy of corporate debt markets. The report of IOSCO (2011) provided its surveys on 36 emerging markets in 2010. These market which were characterized by poor quality bond offerings, small size of issuances and illiquidity secondary markets inside about the corporate bond markets. The report suggested that the key priorities by regulators in order to develop corporate bond markets were: prioritizing the development of corporate bond markets; improving market efficiency; enhancing market infrastructure; diversifying the investment instruments; reducing risks for investors; as well as building a conducive taxation framework. Hakansson (1999) substitutes 'institutions and regulations' with the word 'mechanisms'.

According to Kahn (2005), a well-developed bond market not only provides useful market signals for the policy makers, in terms of macroeconomic policy, but it is also a tool of financing fiscal deficits. Fabella and Madhur (2003) underline that a stable and predictable macroeconomic environment would promote the development of the bond markets and conversely, it would need large supports from government. Herring and Chatusripitak (2007) highlighted the role of the bond market in reducing the inefficiency of capital allocation, the loss of welfare to savers, the firm's cost of funds and the dominant of banking sector. Fabella & Madhur (2003), said that the domestic debt market is useful in the way it reduces the corporate's over-dependence on foreign aid and financial institutions such as banks.

Demircuc-Kunt (2005) found that the small size is the main constraint that prevented emerging countries from raising fund abroad. The small amount of issuance in these markets may not be attractive enough to multinational corporations and potential foreign investors. According to the IOSCO Report (2011) corporate bond markets in emerging markets tend to be largely institutional markets with very small retail participation. In the surveys of this report, banks and financial institutions form the largest group of investors and account for 27% of buyers in corporate bond markets, followed by mutual funds with an 18% share, pension funds with a 15% share and insurance companies with a 9% share. Retail investors account for only 9% of corporate bond investors.

As corporate bond markets have become an important channel of raising capital for the private sector and the issues of corporate bonds in emerging market may be a challenging for many corporations. Corporate bond issuance need the authorization by the issuer, prospectus as an important document, approval by the regulator and offering to the market. Liquidity in the corporate bond market is affected by investors. They prefer to invest in government bonds as a safer form of investment, issued in a market-based, sizable, widely distributed, regular, predictable and transparent manner, and are often accompanied by an active market-making mechanism. Corporate bond market development has benefitted from the existence of a government benchmark yield curve. The government securities market can provide a yardstick for pricing various debt instruments, including corporate bonds. As De la Torre & Schmukler (2007) said, "liquid government bond markets are arguably needed to generate a yield curve that is key to the development of corporate bond markets".

## Recent trends in corporate bond market in Albania

Corporate bond market in Albania is relatively a new market. According to AFSA (2017), the regulatory framework on corporate and municipal bonds issuance and trade includes the Securities Law, the Corporate and Municipal Bonds Law and respective bylaws. The Bonds Law has been in place since 2009 and in broad accord with best practice. Several corporations have issued bonds, albeit through private offers, and market sources indicate for increased interest on public issuance of corporate bonds. The first corporate bond was issued by Credins Bank on 2011 (Santo, 2012), followed by FondiBesa, and the last was NOA that issued corporate bond this year. Balfin Ltd, the largest private company in Albania, had develop additional resources/ alternative financing by issuing short-term Commercial Paper (3 and 6 months maturity). Balfin Ltd is the owner of

some of the most prestigious companies in Albania and in the region. The potential investors are banks, insurance companies, pension funds, asset managers, associations or natural persons. Banks can keep these in their own name, or may offer high value to individual customers. By offering short-term investments, the investors may benefit from a short-term investment which pays significantly more than government securities. Short-term nature of the investment allows investors to receive an excellent return on investment, without it being necessary to block funds for a long time.

The Corporate debt market in Albania is regulated and supervisory by Albanian Financial Supervisory Authority. According to the Law “On Securities” and the Law “On Corporate and Municipal Bonds”, a bond is a medium-term or long-term debt security binding the issuer to pay the bond owner, on a determined date, the nominal value and the interest of the bond, in one or in more installments. A bond is a contract to pay interest and repay principal. Debt issuance is a long-term commitment to the holders of bonds that the company will be able to meet its obligations to them for as long as the bond is outstanding. Bonds shall be issued through a public or private offer in the Republic of Albania or abroad. Public offer of bonds shall be a publicly announced invitation to subscribe securities, an indefinite number of people. Private offer of bonds shall be the issuance in which the offer to subscribe securities has been extended only to institutional investors, issuer’s shareholders or employees and up to 100 external investors, who address the issuer directly.

According to the Law “On Securities” the company makes the decision to issue securities (equity or bonds). This phase will prepare the company, legal structure, and company corporate finance analysis as well. The estimate of a company’s future funding requirements is the first step to take in raising the new capital. The process should include an analysis of the purposes for which the company raises funds. In this phase a detailed business plan for investment will be prepared, where the company will invest the fund that generate issuing bond. After making the decision to issue bonds, a company and its advisory will determine which investors in which market are likely to be interested in buying its bonds and where it is likely to get the best price. In this phase it is necessary to evaluate market analysis, when seeking to introduce the proposal project. Potential issuers and their advisors considering to bonds issuance in its domestic market will need to understand the level of development of their local market to determine whether the domestic market will support the type of financing they are seeking. In bond markets, liquidity is one of the most important determinates of good execution.

Bond Structure is the basic structural elements of bonds and the choices involved in the design of a bond issue will be prepared. This phase includes the process of determining the amount of funds that a company needs, the size of the issue, pricing, maturity and coupon, currency, secure (or insecure) bonds.

The most important document is the prospectus. When the issuer issues securities in the Republic of Albania, it shall publish a prospectus on the public offer for sale of securities, or it shall submit a prospectus on the private offer to the potential investors. The prospectus will be prepared according to the Law and Rules of AFSA. The process of documentation takes place in parallel with deal structuring. According to the Law “On Securities” the prospectus must be approved in the Albanian Financial Securities Authority. The selection of the Custody Bank and Registrar, for the purpose of being the continuation of the process is needed.

A corporate bond issuer will want to evaluate the merits of placing its securities in the public markets or offering them privately to a limited number of investors. The process of listing a company in the stock exchange is more complicated compared to a private offer. This process includes legal, managerial corporate restructuring, prepare for roadshow. The shareholders of the company make the decision to make their company public in the local Stock Exchange or in foreign Stock Exchanges. The post issuance requirement is that a bond issuer must make timely payments of interest and principal as required in the bond contract. In order to ensure that a company can meet these obligations it must have the ability to manage and forecast cash flow. A strong, sound corporate governance atmosphere is important to engender investor confidence in a country’s capital markets, and is likely to ultimately be reflected in investor interest and price.

## **Bondholders Agent**

The investor protection is the most important issue in terms of investment in capital market. The Law “On Corporate and Municipal Bonds” include the Bondholders Agent as a representative of bondholders. The terms of Bond loan contained in the Bond loan program being sold through public offer must provide for the appointment of a Bondholders’ agent and his deputy. In Albanian corporate bond market one Brokerage Company serves as Bondholders Agent. The Bondholders’ agent and his deputy to be appointed shall be selected from a list of candidates (minimum of five persons) drafted by the issuer. The issuer shall convene a meeting of the group of Bondholders for the appointment of the Bondholders’ agent. The criteria for drafting such list shall be detailed in the terms of the Bond loan contained in the Bond loan program. Under circumstances where Bond loans are distributed by means of public offer, only a Bank or a Brokerage Company can be appointed as Bondholder’s agent after verification of its license from the Bank of Albania (BoA) to conduct banking activity and after being licensed by the AFSA to conduct transactions with Securities. In the event that a Bond loan is being sold through private placement, a Bondholders’ agent and his deputy can be appointed by the issuer.

The Bondholders’ agent act exclusively in the interest of the Bondholders. The Bondholders’ agent and the Bond loan’s underwriter cannot be the same person. The Bondholders’ agent responsibilities are defined exclusively in the law, the terms of the Bond loan contained in the Bond loan program and the decisions of the group of Bondholders. Additional competencies to the Bondholders’ agent can be attributed by decision of the group of Bondholders with the consent of the issuer. The group of Bondholders is legally represented in court and out of court actions versus the issuer and third parties by the Bondholders’ agent.

## Conclusion

From virtually no capital market activities some years ago, Albania has experienced positive development of specific market segments. This raises prospects for meaningful development of capital market in the future. According to AFSA (2017), the investment funds sector, emerging in 2012, has grown remarkably fast reaching close to 5% of GDP. Several corporations have issued bonds, albeit through private offers, and market sources indicate for increased interest on public issuance of corporate and municipal bonds. As the EU directives and international standards related to capital market have evolved substantially in the past five years, there is a need to review the current bonds related legal framework and lay the ground for substantial changes to this framework in the future, in line with expected market developments. Perform a review of current Law “On corporate and municipal bonds” need a quick fixes in AFSA bylaws that would enable it to adequately and properly handle applications for bonds private or public offers in the near to medium future. Long term changes to the legal, regulatory and supervisory framework to bring it in line with the evolved local and EU legislation, and international standards is needed as well.

The companies that want to raise capital, may use corporate bonds as an alternative. The investors on the other side, can invest on corporate bonds, short and/or long terms, issued by companies in Albania, and consider this market as an asset class for portfolio diversification, particularly for investors with long-term liabilities.

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# Valuation of factors that affect employment in the albania banking system: an analysis based on design of experiment (DOE) method

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## Abstract

*Design of Experiments (DOE) is a statistical method well known in assessing the quality of products and services. The particularity in this work consist in the use and design of DOE to assess factors that affect employment in the banking system in Albania. Typically, this paper aims to design DOE in the view of analyzing different factors that affects employment, particularly young people, in the banking system. In this regard, a survey was conducted with heads of key departments at various banks in Albania, heads of human resource departments included, trying to evaluate different factors that are considered more important in the employment process. Furthermore, an orthogonal matrix is created for proper data processing, by using a standard matrix of Taguchi L28. The analysis has estimated the impact and weight of factors taken in study, which resulted more significant in employment of young graduated people into the banking system in Albania. The paper aims to improve orientation in high education studies, particularly in economic and financial faculties, in view of labor market.*

**Key words:** Employment, DOE, banking system.

## Introduction

Nowdays, employment is one of the main social and economic issues of every society, especially of our society. The problem is even thorny when discussed about the youth group, which according to the standard UN definition refers to young people as those belonging to the 15-24 age-group (O'Higgins 2004), where the unemployment rate as is known is even higher than the average level of the population as a whole. The main reason of the generally worse youth labour market performance with respect to adults is related to the lower level (and/or different quality) of human capital (and productivity), which – ceteris paribus – makes employers prefer adult people to young (Choudhry et.al.2012). In the frame of such issue, knowing the key aspects and demands of labor market is of particular importance. In this perspective, a special attention is paid to the formation of young people in higher education institutions, their preparation with necessary labor market needs and knowledge. In this regard, this paper focuses on identifying the requirements and factors affecting the employment of young people in the Albanian banking system, after the completion of their higher studies. A unique feature of this paper is the use of the "Design-of-Experiment" method, in assessing various factors that affect such employment.

## Methodology

As regards the methodology, we have constructed the matrix  $7^2$  according to the Taguchi model ("Design-of-Experiment" method), i.e. a matrix of 7 factors, each of which is considered in two levels (1 and 2). Some 25 interviews (questionnaires) were conducted, at 10 commercial banks in Albania, mainly with heads of human resources, risk management and finance departments. Based upon the model, we have identified the most influent factors in terms of young age group (up to 27 years) employment, within the Albanian banking system.



## Design of experiment (DoE) and its use in the employment analysis

The DoE model (Design of Experiment) is a well-known model, primarily and initially used in the quality analysis of industrial products, driven by the influence of particular factors in this quality. The feature of this paper is the use of such model to study the particular factors affecting the employment of young people in the Albanian banking system. Thus, the “product” in the model is considered “employment” and factors influencing the “quality” of this “product” are considered, as follows:

1. Graduated in Bank & Finance.
2. Grades obtained at university.
3. Study in a public university.
4. Gender
5. Personal recommendation or personal recognition
6. Experience in bank system (CV)
7. Age (under 27 years)

Based on these factors, some 25 interviews were conducted with heads of human resources, risk management and finance departments, at 10 commercial banks. During the interviews each of the above factors is considered at two levels 1 and 2, where: 1 - means that the factor is not taken into account for employment, and 2 - means that the factor has been taken too much into consideration for employment. Given the above seven factors and their two levels, we would normally have 128 different combinations of factors, ( $2^7$ ), which would complicate the factors' impact analysis. In this respect, the Taguchi  $2^7$  orthogonal matrix comes of help. This represents an 8 different combination variants' matrix, according to their two levels (1 and 2) – as it appears in Table 1. In our case, the Taguchi  $2^7$  matrix is displayed in Table 2, based upon 7 factors taken into the analysis.

**TABLE 1** (Taguchi  $2^7$ )

	A	B	C	D	E	F	G
1	1	1	1	1	1	1	1
2	1	1	1	2	2	2	2
3	1	2	2	1	1	2	2
4	1	2	2	2	2	1	1
5	2	1	2	1	2	1	2
6	2	1	2	2	1	2	1
7	2	2	1	1	2	2	1
8	2	2	1	2	1	1	2

**TABLE 2**

Variants	Has been graduated in Bank & Finance	Grades obtained at university	Has studied in a public university	Gender - Male	Personal recommendation or personal recognition	Has had an experience in bank system (CV)	Has been under 27 years old
1	1	1	1	1	1	1	1
2	1	1	1	2	2	2	2
3	1	2	2	1	1	2	2
4	1	2	2	2	2	1	1
5	2	1	2	1	2	1	2
6	2	1	2	2	1	2	1
7	2	2	1	1	2	2	1
8	2	2	1	2	1	1	2

The interviewed respondents within the banking system have individually evaluated each of 8 above presented variants, through a scoring system from 1 to 6. This scoring assumed:

1. The variant has occurred in very few cases
2. The variant has occurred in few cases
3. The variant has occurred in some cases
4. The variant has occurred normally
5. The variant has occurred in many cases
6. The variant has been happening nearly all time.

In order to process the obtained results, the scoring system 1 to 6 is further converted in the following way:

1	10%
2	20%

3	40%
4	60%
5	80%
6	100%

The obtained results from interviews are shown in Table 3.

**TABLE 3**

Variants	Has been graduated in Bank & Finance	Grades obtained at university	Has studied in a public university	Gender - Male	Personal recommendation or personal recognition	Has had an experience in bank system (CV)	Has been under 27 years old	Estimation of experts (1 to 6) average	%
1	1	1	1	1	1	1	1	1.42	15.8
2	1	1	1	2	2	2	2	2.46	30.4
3	1	2	2	1	1	2	2	3.77	55.8
4	1	2	2	2	2	1	1	3.04	42.3
5	2	1	2	1	2	1	2	3.04	41.9
6	2	1	2	2	1	2	1	3.04	40.8
7	2	2	1	1	2	2	1	4.42	68.5
8	2	2	1	2	1	1	2	3.50	50.0

## Results and factors' analysis

### The descriptive analysis of factors, by respective levels

The results obtained from interviews were processed with MINITAB, which is quite suitable for the variation analysis, in case of DoE and the Taguchi method. This analysis is based on three main indicators:

- Means of Means analysis
- SN Ratios analysis
- Standard Deviation analysis

In the "Mean" model the average value of the respective factor is presented, for each respective level (i.e. 1 or 2). Given that we are interested for a greater impact of the factor in the results, namely the employment, the fact that there will have a greater deviation from the mean for the two levels, 1 and 2, will be considered as the most important. Not the result. MINITAB processing shows the following data of means (averages), by factors (Table 4 and Graph 1). Here we see that the most important faktor for employment is: "grades obtained at university" whereas delta of this factor (the difference of factors for level 1 and 2 of the factor) is 21.93. Then, the second most important (considered) faktor is whether s/he "has been graduated for Bank & Finance", and in furtherance, whether s/he "has had an experience within the banking system, or not" and spo forth. In Graph 1, such factors' influence and rankings are presented through factors' mean, compared to the Means of Means.

**TABLE 4**

**Taguchi Analysis: C9, C10, ... versus Has been gra, Grades obtai, ...**

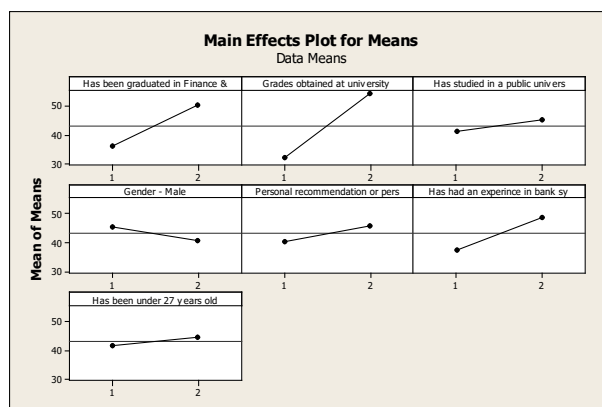
Response Table for Means

Level	Has been graduated in Finance &	Grades obtained at university	Has studied in a public univers	Gender - Male	Personal recommendation or pers
1	36.07	32.21	41.15	45.48	40.58
2	50.29	54.14	45.20	40.88	45.78
Delta	14.22	21.93	4.05	4.61	5.20
Rank	2	1	6	5	4

Level	Has had an experience in bank sy	Has been under 27 years old
1	37.51	41.84
2	48.85	44.52
Delta	11.34	2.68
Rank	3	7

GRAPH 1



In Taguchi DoE, another important indicator of the analysis is that of the “signal-to-noise-ratio” (SN ratios). This indicator is based on the assumption that two sets of factors can be included in the experiment: factors that can be controlled by the user and indicators which, although affecting the result, can not be controlled by the user (noise factors). One of the goals of DoE analysis is to determine such factors that ensure a smaller impact of “noise” factors, with the aim to reduce the variation in the result. Precisely, this is the purpose of calculating the SN ratio indicator. Factors that result with greater SN ratio are considered factors that minimize most the impact of noise factors. The results for the presented model are showed in Table 5 and Graph 2. The data show that the most reduction of the effect of unchecked factors in the system is provided by the factor “Has been graduated in Bank & Finance”, or not, with a delta of 8.09 and “Has had an experience in bank system” with a delta of 6.68.

TABLE 5

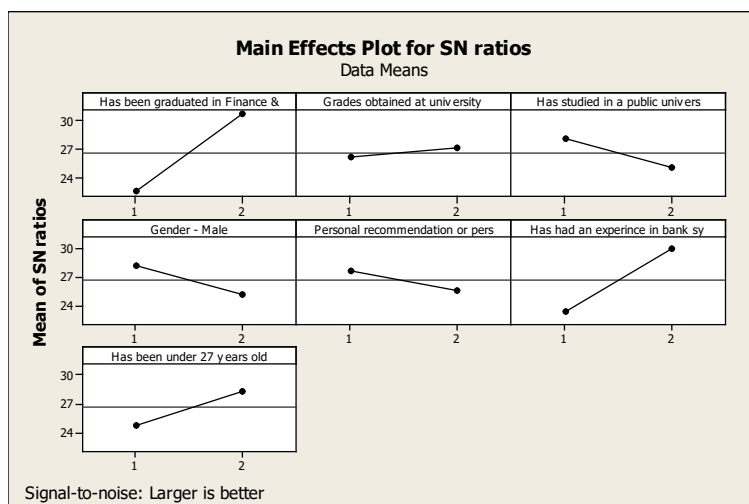
**Taguchi Analysis: C9, C10, ... versus Has been gra, Grades obtai, ...**

Response Table for Signal to Noise Ratios  
Larger is better

	Has been graduated in Finance &	Grades obtained at university	Has studied in a public univers	Gender - Male	Personal recommendation or pers
Level					
1	22.58	26.17	28.13	28.12	27.65
2	30.66	27.07	25.11	25.12	25.59
Delta	8.09	0.90	3.02	2.99	2.05
Rank	1	7	4	5	6

	Has had an experience in bank sy	Has been under 27 years old
Level		
1	23.28	24.88
2	29.96	28.36
Delta	6.68	3.49
Rank	2	3

GRAPH 2



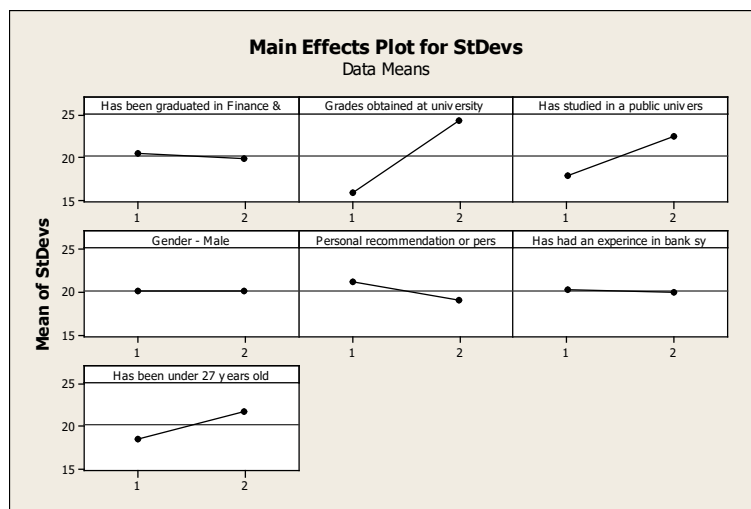
**TABLE 6****Taguchi Analysis: C9, C10, ... versus Has been gra, Grades obtai, ...**

Response Table for Standard Deviations

	Has been graduated in Finance &	Grades obtained at university	Has studied in a public univers	Gender - Male	Personal recommendation or pers
Level	1	2	1	2	1
1	20.45	15.97	17.91	20.12	21.32
2	19.92	24.41	22.47	20.25	19.05
Delta	0.52	8.44	4.56	0.12	2.26
Rank	5	1	2	7	4

	Has had an experience in bank sy	Has been under 27 years old
Level	1	2
1	20.37	18.60
2	20.01	21.77
Delta	0.36	3.16
Rank	6	3

**GRAPH 3**

Standard Deviation is another indicator, used in assessing the factors' impact in the final result. In the Taguchi model the Standard Deviation characterizes the result's variation (in our case "the employment"), as a result of the "noise" factors. Since the influence of these factors should be minimized, then the model intends to determine those factors that maximize the standard deviation. Through the calculations in the minitab, the standard deviation is determined as a result of each factor considered in the analysis. The results are presented in Table 6 and Graph 3. Here we see that the standard deviation is greater for the factor "Grades obtained at university" –with a delta of 8.44 and "Has studied at a public university", or not – with a delta of 4.56.

### Analysis of Variation, ANOVA

Further analysis of factors' influence continues with ANOVA. Data processed in MINITAB are showed in Table 7.

**TABLE 7**

Factors		f	S	V	F	P
Has been graduated in Bank & Finance	A	1	404.5	404.5		22.9%
Grades obtained at university	B	1	962.1	962.1		54.4%
Has studied in a public university	C	1	32.8	32.8		1.9%
Gender - Male	D	1	42.4	42.4		2.4%
Personal recommendation or personal recognition	E	1	54.1	54.1		3.1%
Has had an experience in bank system (CV)	F	1	257.0	257.0		14.5%
Has been under 27 years old	G	1	14.4	14.4		0.8%
Other / Error	e	0	0	0		
Total		7	1763.3			100.00%

$f$  – Degrees of freedom –DOF

$S$  –sum of squares

$V$  – Variance – mean of square

$P$  – Percentage of contributions in the assessed output.

$F$  – Factor ratio (an indicator for assessing factor's statistical significance)

In this table, the most important is the  $P$  indicator. This indicator shows that the factors with the most significant impact are “Grades obtained at university” - 54.4% and “Has been graduated in Bank & Finance” - 22.9%.

However, in assessing the variation,  $S_e$ ,  $V_e$  and  $F$  indicators (the second last row) are also important, which relate to the assumed error in the model, as well as with the statistical significance of each factor. Such indicators, in Table 7, result in 0, which does not allow for further assessment. For this reason, factors that have a small percentage of impact on the outcome (result) are therefore eliminated. In our case such factors are: “Has been under 27 years old” (G) and “Has studied in a public university” (C). In this way, the recalculated coefficients  $S_e$ ,  $V_e$  and  $F$  will receive a value different from zero. The calculations are presented in Table 8.

**TABLE 8**

Factors		$f$	$S$	$V$	$F$	$P$
Has been graduated in Bank & Finance	A	1	380.9	404.5	17.2	21.6%
Grades obtained at university	B	1	938.5	962.1	40.8	53.1%
Gender - Male	D	1	18.8	42.4	1.8	1.1%
Personal recommendation or personal recognition	E	1	30.5	54.1	2.3	1.7%
Has had an experience in bank system (CV)	F	1	233.5	257.0	10.3	13.2%
Other / Error	e	0	0	23.6		9.3%
Total		7	1602.2			100.0%

The most important thing behind these calculations is the assessment of factors' significance. According to the Taguchi method, this is analyzed by comparing the  $F$  factor (factor ratio) of each factor with the values calculated in the standard tables, according to the given confidence level. In order to consider a statistically significant factor, it is required that the  $F$  value of the factor in the experiment to be greater than the tabular value.

The last column in Table 8 shows the extent of the employment impact of each factor. As it may be seen, the greatest impact comes from “Grades obtained at university” (53.1%) and whether “Has been graduated in Bank & Finance” (21.6%).

MINITAB calculations for ANOVA produce the results of Table 9. It is seen that  $R$ -Sq is high (97.33%), indicating that these factors explain, almost completely the outcome in employment. On the other hand, the  $P$  coefficient, for two factors: “Gender-Male” and “Personal Recommendation”, or “Personal recognition” is significantly greater than 0.05; which means that the influence of such factors can not be considered as statistically significant. On the other hand, with the safety level  $P < 0.1$ , the factors: “Grades obtained at university” ( $P = 0.024$ ), “Has been graduated in Bank & Finance” ( $P = 0.054$ ) and “Has had an experience in banking system” ( $P = 0.081$ ), can be considered as statistically significant. These assessments may be carried out based upon the value of  $F$  for the factor. For a 95% confidence level, the DOF of factor = 1 and the DOF of the error term = 2, the tabular value of  $F$ , for which the factor is considered as significant, is 18.513, i.e. the  $F$  factor must be  $F > 18.513$ . Alternatively, for a 90% confidence level, the value of  $F$  for the factor should be  $F > 8.5263$ , in order to be considered as statistically significant.

**TABLE 9**

**General Linear Model: Ratio versus Has been gra, Grades obtai, ...**

Factor	Type	Levels	Values
Has been graduated in Finance &	random	2	1, 2
Grades obtained at university	random	2	1, 2
Gender - Male	random	2	1, 2
Personal recommendation or pers	random	2	1, 2
Has had an experience in bank sy	random	2	1, 2

**Analysis of Variance for Ratio, using Adjusted SS for Tests**

Source	DF	Seq SS	Adj SS	Adj MS	F	P
Has been graduated in Finance &	1	404.48	404.48	404.48	17.15	0.054
Grades obtained at university	1	962.09	962.09	962.09	40.79	0.024
Gender - Male	1	42.43	42.43	42.43	1.80	0.312
Personal recommendation or pers	1	54.12	54.12	54.12	2.29	0.269
Has had an experience in bank sy	1	257.03	257.03	257.03	10.90	0.081
Error	2	47.17	47.17	23.58		
Total	7	1767.32				



S = 4.85631 R-Sq = 97.33% R-Sq(adj) = 90.66%

Term	Coef	SE Coef	T	P
Constant	43.178	1.717	25.15	0.002
Has been graduated in Finance &	-7.111	1.717	-4.14	0.054
Grades obtained at university	-10.966	1.717	-6.39	0.024
Gender - Male	2.303	1.717	1.34	0.312
Personal recommendation or pers	-2.601	1.717	-1.51	0.269
Has had an experince in bank sy	-5.668	1.717	-3.30	0.081

Regarding coefficients, ANOVA produces the value of factors for level “1” (“less”) and “2” (“most”). In this regard, the dependence of output (Y) (employment) form factors taken into consideration, for their both levels, may be written down as the following equation.

$$Y=43,178+(-7.111+7.111)A+(-10.966+10.966)B+(-5.668+5.668 )F$$

In the equation, we see that the factors that produce the most impact in the employment are considered: “Grades obtained at university” (B), “Has been graduated in Bank & Finance” (A) and “Has had an experince in bank system (CV)” (F).

## Conclusions

In methodological view, this paper proposes an alternative method for analyzing the factors affecting employment of young people in the Albanian banking system. The paper shows how the Design of Experiment Method (DoE) can be used for a more complete analysis of this aspect. The main advantages of the method relate with the fact that through a limited number of experiments/interviews (as is the case in concern), we may draw important conclusions about the impact of different factors in employment in the banking system. In this view, the paper uses the orthogonal matrixes, as proposed by Taguchi.

In a practical aspect, the paper shows step by step how we can use the DoE method to perform a descriptive and analysis of variation. By focusing in employment of young people in the Albanian banking system, the paper shows that among the seven factors taken in consideration, the most important are:

- (i) the level of performance of studies, (“Grades obtained at university”), which has 53.1% of the total impact factor;
- (ii) graduated in bank & finance (“Has been graduated in Bank & Finance”), with 26.1% and
- (iii) experience in the banking system (“Has had an experince in the banking system”) with 13.2% of total.

The paper shows that other factors, which are gender, age, graduated in a public or privat university, or personal recomandation (reference), have no important impact in employment, or are statistically not significant.

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## Questionnaire on assessing the employment in the banking system

Position in the banking system (1 "Human Resources", 2 "Head of Division/Unit", 3 "Head of Sector"), put X

1

2

3

In the table below there are 7 criteria which are considered as important in assessing employment in the banking system. They are placed by columns (A, B, C, D, E, F, G), and considered at two levels: 1 and 2:

**Level 1** - means that the factor is not taken into account for employment, and **Level 2** - means that the factor has been taken too much into consideration for employment and therefore it has positively impacted the employment. Variants are a combination of various criteria (please read the note and request).

### Questionnaire on assessing the employment in the banking system

Variants	Has been graduated in Bank & Finance	Grades obtained at university	Has studied in a public university	Gender - Male	Personal recommendation or personal recognition	Has had an experience in bank system (CV)	Has been under 27 years old
	A	B	C	D	E	F	G
1	1	1	1	1	1	1	1
2	1	1	1	2	2	2	2
3	1	2	2	1	1	2	2
4	1	2	2	2	2	1	1
5	2	1	2	1	2	1	2
6	2	1	2	2	1	2	1
7	2	2	1	1	2	2	1
8	2	2	1	2	1	1	2

Notes:

1. The employment assessment, according to the above criteria (A-G) and the respective variants (1-8), must rely on **"real"** cases, and not in the frame of **"must"** principle.
2. To make it simple, please keep in mind that, except for first variant (1), where all factors are considered as "neglected" in employment, in all other variants (2-8), 4 factors are considered as (2) – which means that they have been highly considered, whereas 3 other have been considered (1), so they may have also be neglected during the employment process.

REQUEST:

Please give your assessment form 1 to 6, for each of the following 8 combinations (variants). The assessment may be repeated in various variants.

- 1 - The variant has occurred in very few cases
- 2 - The variant has occurred in few cases
- 3 - The variant has occurred in some cases
- 4 - The variant has occurred normally
- 5 - The variant has occurred in many cases
- 6 - The variant has been happening nearly all time.

# Mainstreaming ICTs adoption for SMEs in Albania

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## Abstract

*Small and medium enterprises (SMEs) in Albania, similar to other markets, operate in complex, fast-paced and unpredictable environments due to their size and nature. In our contemporary knowledge-based economy, business is constantly changing and SMEs are thus continually faced with the challenge to find new and innovative ways to improve and adapt to the rapid transformations. As a result, there is a growing interest and necessity for SMEs to explore and adapt new and innovative mechanisms for better decision making, which will then lead to improved performance and competitiveness. Digitalization of SMEs with the use of Business Intelligence (BI) and Knowledge Management (KM) systems is one such innovative instrument open to SMEs for a better performance and competitiveness. This paper will present part of the findings of my doctoral thesis with a focus on mainstreaming ICTs adoption for SMEs in Albania with an emphasis on start-ups and entrepreneurship. Based on in-depth interviews with selected SMEs, the paper argues that SMEs are particularly important for transition economies such as Albania due to the encouragement of entrepreneurship in a landscape where entrepreneurship has not been developed nor encouraged traditionally. Secondly, they generate employment and can utilize labour intensive technologies thus contributing directly to the community they operate. Third, they can be establishment more rapidly than a big firm and operate in a more flexible way. Fourth, they may become a countervailing force against the economic power of larger enterprises and there fore in a wider socio-economic context, the development.*

**Key words:** SMEs, ICTs mainstreaming, digitalization, and performance

## Introduction

SMEs in Albania play an important role in terms of employment, turnover, and value added to the economic landscape. A thorough report on assessment of SMEs in Albania (BFC, 2016) confirms that trade still dominates and drives the SME sector, but other sectors have the potential to grow, such as agriculture, tourism, hydro-power generation, and ICT sector with the highest potential for growth. Despite a number of reforms that made it easier to do business in Albania, traditional bottlenecks remain unsolved and various challenges are faced by SMEs (EC Report 2015; BFC, 2016). It is widely recognized that Albanian firms have a weak technological capacity to upgrade by absorbing existing advanced technologies (EC Report 2015; BFC, 2016). There is no data available for Albania for the indicators related to innovation within the SME sector (EC Report 2015; BFC, 2016). This is coupled also with limited systematic research on innovation and advanced ICTs adopted and used in SMEs in Albania as the dominant research focus remains on large firms and corporations.

Despite this gap, other studies and observations (BFC, 2016; Bazini, 2011; Start Up Profile Albania, 2016) show that there are SMEs that introduce product, process, marketing, or organizational innovations in Albania, although the number might be low and there are yet no reliable data. The screening of the current state of affairs also shows that in-house innovation remains weak and as the entire economy, SMEs are skewed towards relatively low levels of advanced technology.

This research is set precisely in this configuration whereby: on one hand the current level of adoption and use of advanced ICTs and technological innovation within SMEs, or business digitalization as coined here, is relatively limited due to a variety of factors; and on the other hand advanced ICTs are a major driver of innovation, modernization and growth for the Albanian economy. This paper will present part of the findings of my doctoral thesis with a focus on mainstreaming ICTs adoption for SMEs in Albania with an emphasis on start-ups and entrepreneurship.

## Theoretical framework: Business Digitalization

The theoretical framework of this research, as shown in the research scope, represents a crosscutting area between management and ICTs research fields. Primarily it looks into theories of SMEs performance, growth and role of innovation as a process and outcome. Secondly, it looks onto the digitalization of business, models of ICTs adoption and emerging trends such as the deployment of BI and its success factors. The research argues that performance is a very complex and multidimensional concept. As such, the conceptualization of performance only in terms of results serves the scope of this research. Therefore the concept of growth is used to operationalize performance. Growth as a concept and unit of analysis is more objective. This research operationalizes growth in terms of financial dimension by looking at change in turnover, profit and employment. These are also the key financial metrics of SMEs.

The research is, however, wary of the argument that turnover and profitability do not equally contribute to building value in an entrepreneurial sense and therefore do not automatically imply success and that not all growth is profitable. It is though argued here that change in turnover, profit and employment are indicators of the fitness of an SME and therefore of growth. This research draws from empirical studies that view growth of an enterprise, especially an SME, as one of the most significant performance indicators (Atkinson, 2012; Watson, 2011). Business growth is dependent on various factors and it is a complex process. This research focuses on: SMEs characteristics such as size, location and sector; business strategy and management, leadership or entrepreneur or owner-manager characteristics such as age, gender, education, style and innovativeness and external environment.

This research adopts the Actor-Network Theory as designed by Mahring et al., 2004; Latour, 1987; Callon, 1999. ANT was adopted for this research because traditional adoption theories have limitations in capturing the constant technology advancements and the dynamic and evolutionary nature of technology adoption (Eze et al., 2011). Also it is better suited for the particular features of SMEs. The literature review suggests that Actor Network Theory (ANT) may be suitable for this research because it is associated with the emerging perspective –that is the process that shaped the outcome of the interaction between technology, process and people (Cordella and Shaikh, 2006). This implies that this research approach challenges technology determinism and also looks at other social aspects such as the role of owner-manager or staff in ICTs adoption. In addition, this research does not consider ICTs adoption as one-off decision, but as a multidimensional process and that it is why it uses the term digitalization to encompass the complexity of the process. ANT is particularly relevant in a small business context because SMEs are flexible, unique, and associated with complex tasks and operate in a much more dynamic and unpredictable business environment. Using ANT as a theoretical lens, the theory may help to unveil how SMEs progress in the digitalization journey. In this way a better balance between technology and society will be provided in the analysis.

## SMEs sector in Albania

The transition from a centrally planned to a market-oriented economy, together with substantive international aid and other strategic assistance (European Union, World Bank, International Monetary Fund, European Bank for Reconstruction and Development, OECD etc.) helped Albania to make progress in the past 25 years. The major indicator of progress is the fact that Albania grew from the poorest nation in Europe in the early 1990s to lower middle-income status in 2008, with poverty declining by half during that period (World Bank, 2015). Nonetheless, the economic landscape in Albania faces still major constraints and thus affecting every aspect of life. For instance, the global financial crisis exposed the weaknesses of its growth model and highlighted the need to shift from consumption-fueled to investment- and export-led growth (World Bank, 2015; European Commission, 2015).

The economy of Albania has undergone multifaceted structural changes over the last decade. Emigration and urbanization brought a shift away from agriculture and toward industry and service, allowing SME development in a variety of economic sectors such as construction, transport, information and communication technologies (EC SBA Factsheet 2015; CFB Report 2016). SMEs account for employment in the private sector has more than doubled since 2000 and their added value for the entire economy structure has also increased as will be analyzed below. Despite this trend, agriculture remains one of the largest and most important sectors in Albania. Agriculture contributes around 23% to GVA and is a main source of employment and income, especially in the country's rural areas (EC SBA Factsheet 2015; CFB Report 2016). SMEs account for 99.4% of total registered agricultural enterprises. Albania's agricultural sector, however, continues to face a number of challenges such as small farm size and land fragmentation, poor infrastructure, market limitations, limited access to credit and grants, and inadequate rural institutions, which hinder faster development of agricultural SMEs. The SME sector is expected to be further dominated by trade and services with a growth of ICTs.

**TABLE 7:** Size and Share of SMEs by Economic Sector in Albania

Economic sector	Number of enterprises	Number of employees	Value added
Agriculture, hunting and forestry	1.5%	excluded	excluded
Mining and quarrying		1.6%	3.7%
Manufacturing	9.1%	15.0%	12.1%
Electricity, gas, and water		1.8%	4.7%
Construction	4.3%	10.7%	17.4%
Trade	40.8%	34.0%	33.5%
Accommodation and food services	16.2%	13.2%	5.5%
Transportation and storage	7.3%	7.5%	8.1%
Information and communications	2.2%		
Other services	18.5%	16.3%	14.9%

Note: \* The most recent available data.

Source: INSTAT, Business Register (count) and Results on the Structural Survey of Enterprises (employment and value added).

Even though exact figures might vary depending on the categories used for analysis, it is widely accepted that in Albania over 80 % of all employment is in SMEs, compared to the EU average of around 67 % (EC SBA Fact Sheet, 2015; CFB, 2016). Due to the fact that the Albanian economy is led by SMEs, it is expected that the projected economic upswing will result in increased SME employment and output growth (EC SBA Fact Sheet, 2015; CFB, 2016). Most SMEs are privately owned. In 2014, foreign capital was present in 4.5% of the total number of SMEs. The single largest origin of foreign investment is Italy, citizens of which invested in 2,116 Albanian SMEs or 42.7% of all SMEs with foreign capital (CFB, 2016). Other countries include Greece, Turkey and Kosovo. Traditionally, most SMEs are located in the capital city of Tirana, and the trend has been moving upward from 38.3% in 2010 to 43.8% in 2014. Northern, central, and southern regions account for approximately 20%, almost half of which are in Durrës.

**TABLE 8:** Definition of SMEs in Albanian Law

Size	No. of employees	Annual turnover or total assets
Micro	0–9	Up to ALL 10 million (or EUR 72,844)*
Small	10–49	Up to ALL 50 million (or EUR 364,219)*
Medium	50–249	Up to ALL 250 million (or EUR 1,821,096)*

Note: \* Exchange rate of year-end 2015

Source: Law No. 1042 of 22.12.2008

It is recognized that Albanian firms have a weak technological capacity to upgrade by absorbing existing advanced technologies. According to the European Commission 2015 SBA Fact Sheet, there is no data available for Albania for the indicators related to innovation. Based on interviews and desk research, it can be confidently assumed that there are SMEs that introduce product, process, marketing, or organizational innovations in Albania, although their number is believed to be rather low. In addition, in-house innovation remains weak. Economic competitiveness and exports are low with the economy still heavily skewed towards low technology (EC SBA Fact Sheet, 2015; CFB, 2016). Specific measures are needed to strengthen innovation capacity by establishing stronger links between science, technology, higher education and businesses (BIDS 2014; CSDAA 2014). The introduction of incubators, clusters and technological parks deserves more emphasis. Expenditure for scientific research and development in Albania is among the lowest in Europe. This will be analyzed in the last section of this Chapter.

The main challenges that SMEs currently face in regards to digitalization and adoption of ICTs are: inheritance of poor and highly costive communication infrastructure; low level of awareness of ICTs suitable for SMEs and not just complex systems for large firms; high cost in adopting ICTs systems and resistance from internal enterprise working practices; limited ICTs literacy of SME owners hinders their ability to choose the appropriate technology and understand the concrete benefits it can bring to their business (Bazini et.al., 2011); limited ICTs literacy of employees in SMEs hinders ICT adoption (Qarri, et.al., 2012); limited financial opportunities and legal infrastructure; highly competitive market with unfair competition, informality and corruption.

## Mainstreaming ICTs in Albania – Towards business digitalisation

The ICTs sector in Albania has marked some considerable progress with the market liberalization, the expansion of the Internet use, the improvements in e-government services and in the policy framework (EC, Progress Report 2012; NSDI, Draft, 2014-2020). Although there are relatively limited reliable and exhaustive data regarding the IT market share in Albania,



a recent study shows that it grew 5.5% in 2011 to reach a total of 190.43 million USD (IDC Report, 2012). Research shows that there are approximately 1800 registered IT companies in Albania as SMEs, i.e. 1.9% of the total number of registered companies, but only 200 of them are active (AITA, 2012: 10). There are currently four major mobile operators and more than 80 other electronic communication enterprises operate offering fixed telephony and internet services (AKEP, 2013). Also, various training and certification centres operate (Microsoft, InfoSoft, DM Consulting, ISSETI, TETRA, etc.). The ICTs companies operate mainly at the domestic level and there is need to gain better recognition at the regional and international level. The ICTs companies operating in Tirana are mainly registered as SMEs and work in the local market.

According to the World Economic Forum, Albania is ranked 83<sup>rd</sup> out of 144 countries in the Networked Readiness Index, marking a slight improvement from previous years. As far as the availability of the latest ICTs is concerned, Albania is ranked 106/144 (World Economic Forum, 2013: 304). Most notably, Albania has progressed in the absorption of ICTs at the firm-level ranking 80/144 in 2012 (p. 338). However, Albania is ranked 128/144 when it comes to the capacity of innovation, which means that firms rarely use formal research to pioneer their own new ICTs products and processes (p. 339). There are no data available for Albania regarding the business-to-business and business-to-consumers use of the ICTs. A high relevant index is that of the extent of staff training in ICTs in business. Albania is ranked 36/144, which means that companies in Albania are interested in investing in their staff training.

The ICTs sector is considered as a crucial dimension of the economic growth and progress in Albania. Given that ICTs sector is envisaged as a priority area for the development of the country, it is part of the National Strategy for Development and Integration (2007-2013) and the draft for the new strategy for the period 2014-2020. In addition, other national strategies have been designed to support the development of the ICTs sector such as the Cross-Sector Strategy for Information Society and the Digital Albania Initiative in 2009. A major step in this regard was the adaptation for the first time in 2007 of the National Strategy for Science, Technology and Innovation. Other policy initiatives include the Policy for Electronic Communications in the Republic of Albania, covering the development of telecommunications, data transmission and broadcast media and the National Broadband Plan 2012, outlining actions to enhance availability, affordability and accessibility of Broadband communications services in Albania. What is more, the e-Government Interoperability Framework (e-GIF) aims at the improvement of the communication between government institutions through the creation of a centralized datacenter for public services. The new government, which took office in September 2013, has confirmed the ICTs sector as a priority area of development, but policy and institutional changes are expected.

In line with the national strategies and policies mentioned above, the government has also established institutions to support the development of the ICTs sector such as:

- Minister for Innovation and Public Administration at the Council of Ministers with the main focus on the development of the ICT policy and private sector in Albania, including telecommunication, audio-video media; electronic communication and postal services;
- Albania's National Agency for the Information Society, established by the Council of Ministers and duties include: Policymaking, Coordinating all ICT related projects and Standardization and Technical Assistance;
- Electronic and Postal Communication Authority, the regulatory authority in the area of electronic and postal communication;
- National Authority for Electronic Certification.

Similar with the policy framework, changes are expected from the new government regarding former agencies such as Digital Albania Department at the Prime Minister Office, Agency for Research, Technology and Innovation; as well possibilities for new agencies to be established.

According to the GoA analysis on the digital agenda, the main challenges remain:

- Legal and regulatory amendments and improvements that would respond to the dynamic development of this field and the establishment of the single digital market ready to become part of the regional and global developments;
- ICT infrastructure developments which should be oriented toward the growth and expansion of the fast and super fast broadband in the whole territory of the country; Increase of Internet penetration in the family and business in the framework of reducing the digital gap;
- Increase of numbers of online services that facilitate their utilization partially or fully in electronic ways ranging from information to a complete online transaction;
- Development of the proper ways of providing public services through the online contact points and one-stop-shops; Implementation of the interaction framework of systems and services;
- Standardization of ICT as a guarantee for an integrated and sustainable development of information society extended in all sectors;
- Stimulation of the private sector in relation to development of applications in the interest and response to the needs of citizens and businesses;
- Development of supporting infrastructure in the public administration, both at the central and local level, intending to advance both systems and services;
- Increase of knowledge capacities of ICT for the administration and other users, i.e. citizens and businesses;
- Inter-institutional cooperation even at the regional and global level for a safer Internet and information society.

The primary methods of innovation used in Albania are: acquisition of new machinery/ equipment's and recruitment of qualified personnel. The main factors that affect the capacity of firms to absorb advanced technology concerns the investment climate, in which they operate, and the existing skills level and technological capabilities. In terms of skills level, there is a mismatch between skill needs from businesses and graduates' fields of study. Businesses in agriculture and agro-processing, textile and foot wear, tourism, construction, transport and communication, energy, information communication technology lack specialists and technicians (USAID, 2013; European Commission, 2015). The vocational education and training system is still affected by limited involvement of the social partners; a highly centralized system with low responsiveness to local needs; a dichotomy between vocational education and training due to the slow development of occupational standards and programmes that are aligned to labour market needs; and inadequate monitoring and evaluation approaches able to measure the quality, as well as quantity, of vocational education, training and lifelong learning.

The relations between the vocational education and training system and industry are weak and most curricula offer little scope for practicing the skills learnt. The lack of qualifications that reflects the new competencies required by emerging economic sectors and an innovation-driven economy, coupled with labour market information gaps, complicate matters further (USAID, 2013; European Commission, 2015). The system is still underfinanced, with poor incentives for the participation of employers as well as limited resources invested in upgrading the quality of infrastructure and teachers' and instructors' training. The attractiveness of vocational education is still low and perceived as a second best path to tertiary education, rather than a route to labour market entry. The SWOT analysis of Albanian ICTs environment generated the following conclusions as summarized in the table below.

**TABLE 1: SWOT of ICTs Sector in Albania**

<p><b>Strengths:</b>  Presence of ICT in government agencies;  In general the Albanian companies are aware of the need to implement the latest standards relevant to IT companies;  The Albanian ICT companies could boast of qualified human resources, flexibility, short time-to market period;  Labor costs are considerably lower than in Western Europe;  Companies have key knowledge of emerging markets in the Balkans and the Eastern markets;  Local IT companies could be small but with relatively good management;  The Government has already realized the need of faster ICT development in all sectors of the country and investments are increasing.</p>	<p><b>Weaknesses:</b>  Country does not have the image of an IT supplier;  Outdated products/services;  State and public monopolies in the area of telecommunications, leading to low-quality service and high prices;  Lack of specialization among firms;  Lack of international marketing skills and expertise;  Lack of focused international marketing strategy;  Company size and resources of many ICT companies are too small for international expansion;  Lack of project management skills and/or industrial production of software;  Lack of capital for implementation of new competitive standards which can ensure the potential clients in the quality of the provided services;  Extent of business Internet use;  Accessibility of digital content;  Insufficient international connectivity.</p>
<p><b>Opportunities:</b>  Increased understanding of software process improvement methodologies;  Implementation of world recognized models and practices;  Entering regional/international competition;  Gaining advantage from international growth prospects;  Especially European Union growth market potential;  Partnerships with significant foreign companies can subsequently support the „professionalization“ of ICT companies;  New ICT opportunities will increase active participation in economy and society. Albania is among the youngest nations in Europe;  Strategic alliances with foreign companies to increase exports;  Clustering with other competitive sectors in Albania and the region;  Strengthen business-education links.</p>	<p><b>Threats:</b>  The industry's representation may remain fragmented;  Lack of domestic market to enable industry to develop expertise;  Lack of a coherent industry image;  “Brain Drain” of IT specialists in search of higher salaries;  Challenges in gaining an image of new-born IT supplier.</p>

Source: Adopted from USAID, 2013 & CFB, 2016

## The importance of ICTs within SMEs

SMEs are particularly important for transition economies such as Albania due to the encouragement of entrepreneurship in a landscape where entrepreneurship has not been developed nor encouraged traditionally. Secondly, they generate employment

and can utilize labour intensive technologies thus contributing directly to the community they operate. Third, they can be establishment more rapidly than a big firm and operate in a more flexible way. Fourth, they may become a countervailing force against the economic power of larger enterprises and there fore in a wider socio-economic context, the development of SMEs accelerates the achievement of wider economic and socio economic objectives. The research on economic transition in post communist countries, like the case of Albania, indicate that the small and medium enterprises derived from the privatisation process from state owner to outsider and /or insider owners, who had incentives to restructuring their enterprises. These barriers to the growth of SMEs in transition economies can be classified as: (i) institutional barriers; (ii) internal organisational and resource barriers; (iii) external market barriers, and financial and socio-cultural barriers (Smallbone, 2003; Bartlett & Bukovic, 2001). In this sense the barriers to SMEs development are linked either to the internal settings of the firm or to the external context in which firms operate.

In the case of Albania, over 98% of total active enterprises are micro in scale, which implies that they employ fewer than five people as per the national legislation on enterprises. Most of those firms are derived from the privatisation process of the state owned enterprises and more recently established as family business particularly with funds from remittances. According to EBRD (2013), the private sector in Albania provides 75 percent of the GDP and 83 percent of the employment is working in private sector. As such according to the survey conducted by INSTAT (2009) 93 percent of the SMEs in Albania are micro firms with 1-4 employment an average number of employees 1.5 employees, and 1 percent is medium size enterprises with an average number of 42 employees. The SME activities in Albania are focused in the local market and very few work in the export sector.

The distinctive characteristic of SME development in Albania is that services and trades sectors are dominated by micro-enterprises, while industry and construction sectors are dominated by medium enterprises. The SMEs that work in the services and construction sectors provide the primary contribution in GDP (Xhepa, 2010: p. 66). Similarly, the SME territorial distribution in Albania is not harmonized provided the human material and natural resources potential of various regions. There is a high concentration of SMEs in Tirana, central Albania and coast. More than half of SMEs operate in the Tirana-Durres corridor. Other regions with a strong presence of SMEs are the cities of Korca, Fier and Vlora. In the northern part of the country, there is a weak business activity. This has been caused by lack of clear economic development policies and lack of financial access in these areas. In this light, it is sufficient to mention that at the end of 2010, the loan portfolio of the banking system for districts of Tirana, Durres, Elbasan, Vlore and Fier made up 88.6 percent of the loaning activities countrywide (Xhepa, 2010: p. 67). Enterprises with 80 and more employees have contributed by 2.3 percent in total annual growth rate of turnover even they have the highest share of turnover by 38.6 percent. Enterprises with 5-19 employed have the major contribution by 2.7 percent.

The results can provide effective and useful insights for investors and business owners to utilize more appropriate BI tools and functions to reach more idealistic organizational advantages. Also it enables managers to better understand the application of BI functions in the process of achieving the specified managerial support benefits. SMEs can achieve the integration of BI and KM, which is proven to be a necessity for them in the knowledge economy. This research shows that some of the determinants of the business digitalisation and thus business performance are related to macro and micro economic settings such as institutional barriers (procedural requirements for registration and licensing, number of institutions for entrepreneurs to report to, rules and regulations governing entrepreneurial activities, laws to protect property rights, etc.); entrepreneurial and business skills (including entrepreneurial training and business education, availability of information); social and economic condition for entrepreneurship (including public attitude toward entrepreneurship, presence of experienced entrepreneurs, existence of persons with entrepreneurial characteristics); financial assistance to small and medium enterprises (including venture capital, alternative sources of financing, low cost loans, etc.); non financial assistance to small and medium enterprises (including counselling and supportive services, entrepreneurial networks, support for research and development). Also a major component is that of access to market. On other hand, the level of barrier to entry and to exit in a certain market is indicator of the state of the competition. Sound competition policy can help markets work better, and is a key part of the investment climate that can help investor confidence, and provide a level playing field for domestic SMEs.

## Conclusions

A number of external and internal barriers are listed and are discussed for decision-maker of SMEs. The research found that SMEs in Albania are usually rational in their decision process; they look for outcome benefits from each investment they have to make. Because SMEs have limited resources available to evaluate benefits and justify the value of implementing ICT and e-business solutions, information should be made available for them to gain an understanding of how ICT and e-business can be beneficial. Understanding the importance of ICT adoption, manager's ICT knowledge and skills could be the most important factor that organization must consider before implementing ICT. Overall, ICT integration amongst SMEs in service sector in Albania can be improved and enhanced by cooperation among various parties. Besides government, SMEs should diversify their current business activities through use of broadband Internet. With a better understanding of the potential benefits that ICT can bring, managers should develop a more favorable attitude and become more receptive to the idea of adopting the Web. ICTs provide all businesses with opportunities for development, innovation and improved productivity. More specifically, where SMEs are concerned, it is information exchange tools that increase the efficiency of traditional exchange procedures,

both within the company and with suppliers and customers. ICTs offer companies considerable potential to extend and give structure to the scope of their influence at very little cost.

Use of and investment in ICT requires complementary investments in skills, organization and innovation and investment and change entails risks and costs as well as bringing potential benefits. While many studies point to the possibility of market expansion as a major benefit for SMEs, larger businesses can also expand into areas in which SMEs dominated. Moreover, it is not easy for SMEs to implement and operate an on-line business, as this involves complementary costs for training and organizational changes as well as direct costs of investing in hardware and software solutions. In Albania, better part of SMEs still use basic communication technology such as fixed phone line and fax, and only a small part use CRM software. This study showed that the impacts of business digitalization and ICTs on firm performance are positive overall. One cause of limited adoption is the lack of dynamism between ICT firms and SMEs outside of the ICT sector. ICT firms have not provided goods and services tailored to SMEs in the past because demand from SMEs has been low. However, their demand is low in part because ICT products available in the market are too complex and expensive. The result is a vicious cycle of limited supply and limited demand that ultimately excludes SMEs from the benefits of ICT.

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# The effects of exchange rate and inflation on public debt

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## Abstract

*It is very important for policymakers to see the relationship that exists between the government's public debt and the exchange rate or even with inflation. In this case whenever the government faces public expenditures greater than public revenues, the most common phenomenon is that budget deficit rises and in order to finance this deficit, governments try to finance its deficits by borrowing money or printing process money. This is why it is clear that there is a relevant relationship between a budget deficit and the exchange rate whenever the government borrows money from abroad and with the level of inflation in the economy also, whenever the government borrows money from its people or when it tries to print money to finance the deficit. Another concern of policymakers and researchers in this case is if a government budget deficit leads to higher inflation? In this research will try to define and explain the link between these important macroeconomic indicators in the case of Albania. The period taken into account is between 2000-2015, an important period in terms of economic performance of Albania. This study will give an answer through the application of an econometric model, considering primarily these indicators. The data are obtained from IMF and Ministry of Finance. In the econometric model, there is an evident connection of the public debt with the exchange rate and with the inflation rate. Also there is a clear connection between money supply and public debt whenever this debt is financed by printing more money in the country.*

**Keywords:** Public debt, exchange rate, money, inflation rate, budget deficit

## Research Issue

The budget deficit and inflation are two of several aspects and main economic indicators in a country, whether developed, transitional or underdeveloped. Historically, in Albania, like in any other developing countries, governments are very sensitive to the macroeconomics indicators and the main target of governments is to focus the attention on how to improve the economy in general and financial public sector in particular. Within this objective any government in Albania, especially in the last years, has been increasing public expenditures over time at an optimum level and resulting in a moderate budget deficit, as well as achieving a stable and moderate stage of inflation rate. Albania has recorded a continuous increase, especially, as the government in order to play an active role in the development of the economy invests in the infrastructure and institutional superstructure necessary for economic growth and development. This tendency to increase public expenditure can be attributed to factors like the growing population and for that increasing urbanization, which require increase of state traditional functions. Most of developing countries do not have the adequate level of capital resources (to meet these higher public expenditures) to offer better quality services because of higher costs that these services require.

A great emphasis to these indicators was given by internationals, to the level of public debt, especially after the start of different procedures and integration agreements in EU membership. According to their suggestions the public debt should not exceed from the optimal line<sup>1</sup>, this one as this form of preventing a further increase of budget deficit.

<sup>1</sup> In 2006 Albania issued the law of public debt, precising that public debt should not exceed a level of 60% of GDP

The expenditures of the government in 2013 raised the budget deficit beyond 60% of public debts. As a result the government in order to finance this budget deficit made a change in the law, but the skeptics believe this level of debt was used more for the purpose of election expenses. On the other hand inflation has been maintained at moderate rates, regardless of fluctuations in some periods. In the academic field, there is a problem regarding these two important indicators in the economy that there are not enough empirical albanian studies, focusing on the existence or not of a link between the budget deficit and inflation or even a link between the budget deficit and exchange rate. And for that reason this is why our country governments have not taken adequate measures to prevent the growth of the budget deficit and its impact on inflation and exchange rates.

## General Issue

The main issue of this paper is to make evident the existence or not of an interaction between the budget deficit, money supply and inflation in our country also on the exchange rate EUR/ALL. This study is based on some economic theories, of some foreign authors who have studied the relationship and influence between these two indicators, we seek to treat theoretical and empirical implications of inflation budget deficit for the period 2000 – 2015 in Albania. The existence of a link, based on studying the empirical data, will make this issue more clear and it will motivate further studies and it will show the suitable policies that must be undertaken by the governments to better control the budget deficit and inflation, thus helping to reduce the public debt and improving the money supply, increasing welfare and consumer purchasing power.

Money supply is primarily related to the theory of Milton Friedman, who states that inflation is everywhere especially where there is a monetary phenomenon. The theory explains that the continuous increase in prices is followed by a specific increase in the money supply. A state budget with deficit must be careful with the outstanding amounts issued, in order to avoid a budget surplus in the future. Relationship budget deficit - inflation is also discussed considering the direct effect of inflation on debt, tax revenues and possible extensions like exchange rates affecting also the inflation rate. The dynamic interaction of budget deficit and inflation can go in two directions, first the effect of inflation can reduce the real value of dominant debt, or inflation may worsen the fiscal position of the state. Resulting in a decline in revenue which is accepted as a contributing factor in the inflationary process by increasing the money supply to finance the deficit inflationary.

On the other hand a continuous increase in public expenditures and low capital formation, a tipic characteristics of any developing countries, many governments try to borrow within and outside the country. However, most borrowings come with interest attached, which results in debt servicing. Higher external debt may involve a higher demand for foreign currency which tends to affect the exchange rate of the country. Hence, this study examines the impact of public external debt also on exchange rate in Albania. Using the Ordinary Least Square, on the primary data sourced from the Instat among other sources, findings reveals that the dependent variable of exchange rate, is influenced especially by external debt, and it is proved to be statistically significant in explaining exchange rate fluctuation in Albania within the period of observation, with a strong effect.

### *General objective*

The main objective of this study is to analyze the effect of public debt on exchange rate and on inflation in Albania.

### *Specific Objectives*

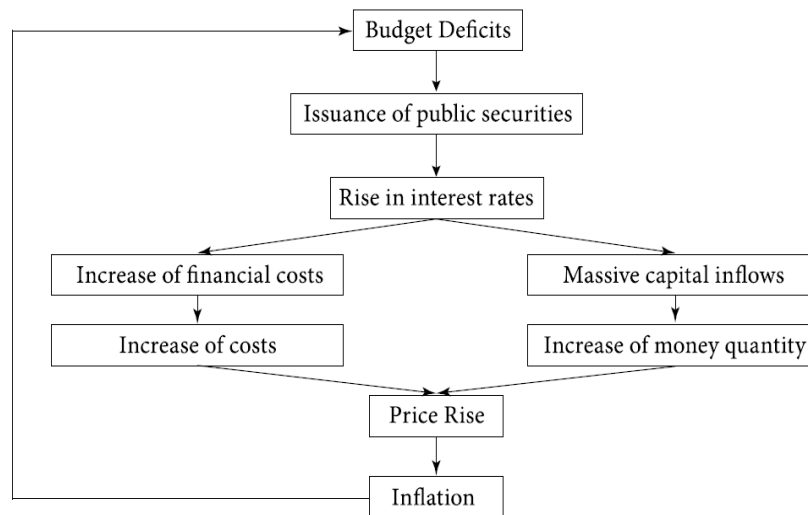
1. To empirically investigate the relationship between the public debt and exchange rate.
2. To empirically investigate the relationship between the public debt and inflation.
3. To establish whether public debt has any significant effect on inflation and exchange rate in Albania.
4. To suggest policy measures in debt management in line with the findings of the study.

### *Research questions*

1. Is there a relationship between external public debt and exchange rate in Albania?
2. Is there a relationship between external public debt and inflation in Albania?
3. What is the nature of the relationship between external public debt and inflation /exchange rate?
4. What are relevant policy interventions in debt management required based on the study findings?

Different empirical works on revealing the relationship between budget deficit and inflation has given conflicting results. However the cause of the direction is resulted to be from deficit to inflation, which is empirical evidence and for this fact is still not a definitive conclusions (Hamburger & Zwick, 1981; Ahking & Miller, 1985; Barnhart & Darrat, 1988; Dwyer, 1982).

A lot of studies state that the relationship “budget deficit - inflation” actually shows a two-way interaction, so the budget deficit through its impact brings inflationary pressure and this inflation has a subsequent effect by increasing the budget deficit. The problem lies in the fact that duties (taxes) are paid late, high inflation reduces the difficulty in collecting taxes, which leads to a budget deficit and to higher inflation which reduces the real income from taxes; real reduction of tax revenues will again bring the budget deficit, and so on will continue the cycle.



Different studies<sup>2</sup> suggest that domestic financing of the budget deficit, especially from the banking system, is inflationary in the long run. The deficit can be financed also by the issuance of a new currency (money supply), borrowing from the banking and non-banking institutions or international financial institutions. All this increases the money supply in the economy and then turns into inflation.

On the other hand some authors examined the relationship between the budget deficit and exchange rate. As an other way to finance the National Debt, also known as public debt, is the sum total of government financial obligations, resulting from either state's borrowing from its population, or from foreign governments, or international institutions. This public debts tend to be credit operations and different studies consider public debt as the resource of money generated from outside or within the country with interest attached to the payment when this payment is over. According to Bamidele and Joseph (2013), debt is defined as the resource or liquid asset and could be external or internal. It can include currency and transferable deposits, other deposits, short-term bills and bonds, long-term loans (not classified elsewhere), and trade credit and advances. Such foreign borrowings are meant to supplement national resources (domestic) without an immediate reduction in other uses of resources, whether for consumption or capital formation (Musgrave, 1959). From the point of view of the creditors, external debts if properly utilized, is expected to help the debtor country's economy, but the sum of principal payments and interest actually paid in foreign currency, especially in foreign currency tends to affect exchange rate.

As stated above, we may ask some questions:

- Is budget deficit a good indicator to fight inflation and fluctuations in the exchange rate?
- What are the ways to keep the deficit low in order to maintain stable inflation?
- Is it better that the deficit be financed by issuing currency, borrowings, increase revenues through taxes or spending cuts?

## Literature review

In this part we will take a general look how others have treated the relationship between these indicators and budget deficit. Most less developed countries are characterised by a shortage of capital resources to meet the increasing public expenditures, and it is generally expected that developing countries, will acquire external debt to supplement domestic saving (Aliko & Arowolo, 2010).

Hence, resorting to public borrowing. The issue of Albania's public debt it is very important in recent years especially because of its debt's level and the amount which was required to service such debts, as well as, its attendant possible effects on different operating sectors of the economy especially the banking sector and the growth of the economy at large.

But we came across a large barrier about finding studies for Albania. According to Bruno (1995), a higher inflation rate is accompanied by serious imbalances in public finances. His detailed analysis shows that in all cases of inflationary crisis, the country showed large budget deficits before the crisis, much more prevalent during the crisis and on average during recovery after crisis. Empirical observation confirms the monetarist assumption that budget deficits contribute to the growth of money supply and that excessive creation of money is responsible for inflation. However, empirical work does not always lead to this conclusion. For Barro (1978) is the increasing of public spending that increases the money supply, not the amount of the budget deficit. However, American experience offers ambivalent results. Dual meaning of a link between money supply growth and public finance imbalances continues in the works dedicated to other developed economies. A similar model to that of Barro for ten industrialized countries does not find a significant link between the budget deficit and money supply growth. In contrast, for the same countries. Conflicting results were

<sup>2</sup> Hamburger & Zwick, 1981

obtained by the researchers also in the developing countries. For economists the main cause that does not bring meaningful positive relationship between public finance imbalances, increasing the money supply and the inflation rate is the method of financing the budget deficit. The traditional Ricardo Theory of Public Debt Ricardo's theory of public debt was based on an emphasis of the fact that the primary burden to the community was derived from wasteful nature of public expenditure itself rather than from the methods adopted to finance such expenditure. Regarding the question of financing public expenditure, his view was that the requisite funds would ultimately have to be drawn from the liquid resources of the community and that in point of economy, it would make no great difference whether such funds were raised by taxes or by loans. However, where the funds were raised through the later, it would be referred as public debt. External debt involves debt servicing, which in most cases require payment in foreign currency. Whereas, the continue increase or decrease in demand for foreign currency tends to influences the exchange rate.

The threshold school of thought which emphasizes the non-linear relationship between debt and growth (Calvo, 1998) emphasizes the burden of external debt. Debt and growth are related from the fact that at high debt levels, a country's growth falls, especially due to the higher distortionary tax burden on capital required to service the debt. That means that a lower rate of return on capital, leads to lower investment and hence lower growth. On the other hand low debt regimes have higher growth rate with positive effect on domestic savings and investment and thus on growth which leads to poverty reduction via appropriate targeting of domestic savings and investment (Calvo, 1998)

Some economists do not view external debt as indispensable for the economic development of LDCs. To them, public debt both external and internal but especially external, does not help in overcoming balance of payment difficulties and also does not avoid inflationary pressures (Alam and Taib (2003)). In their opinion, public debt encourages governments of LDCs to embark on ambitious and ambiguous plans involving large expenditures financed by inflationary monetary and fiscal policies and also run down their external reserve, so their studies obtained a positive relationship of external public debt with budget deficit, current account deficit and exchange rate depreciation.

Many researchers, have focused their research on public debt and exchange rate. Although there is a debate, different studies like the one of Sene (2004), who examines the relationship between external public debt and equilibrium real exchange rate in developing countries using an extension of Obstfeld and Rogoff model, tends to show that debt overhang tends to appreciate real exchange rate in the long run. While, Lin (1994), examines the steady-state effect of government debt on the real exchange rate within a two-country overlapping generations (OLG) model with production, and came up with findings which indicates that increase in government debt depreciates the real exchange rate of the country.

However, it is acknowledged that monetary financing is inflationary because it causes an increase in the money supply. And in many developing countries and countries in transition, inflationary pressure is different from what is observed in industrialized countries and in countries with rapid expansion, because of the important role played by budget deficit, limited development of domestic financial markets, as well as restrictions on the use of external financing. Due to the narrowing of domestic financial markets, the financing through money creation remains a privileged way or the last way, through which the Treasury can obtain the necessary funds. Hyperinflation and inflation pressures are highlighted chronic in many countries that have large budget deficits flows.

### **Research Hypothesis**

Main hypothesis of this research project is:

***“Any attempt to raise the budget deficit and the money supply, will result in a higher the rate of inflation “***

***“Any attempt to raise the budget deficit and the money supply, will result in a lower exchange rate (depreciation) “***

## **Methods and Procedures**

Theoretical studies made for the link: budget deficit - inflation (Sargence & Wallance 1985) have shown that if the budget deficit is not funded or will not be funded in the future, prices will rise. These studies have also proven that if state debt becomes unbearable, the budget deficit will have a tendency to lead to inflation.

An adjustment to the budget deficit to eliminate the inflation can be successful and make this relationship a positive one, if the study will be made simultaneously for both phenomenons.

The purpose of this paper is to identify whether there is a link between the budget deficit and inflation, and is this a stable connection in the period 2000-2015. To better see the connection we have taken into consideration and the money supply which serves as a bridge for both of them.

Data for the study were secondary data and were obtained from official sources such as the World Bank for the inflation rate, the rate of GDP and money supply, exchange rate and budget deficit; this is because only here we could find the data for the years **2000-2015**. As for the budget deficit we used for the study, INSTAT<sup>3</sup> data. These data are time series because the variable annual budget deficit is published once a year. The conclusions will be based on the study that will be performed on the data obtained from the above.

The scale of the problem formulation is not high, given that exist the lack of a suitable theoretical approach to justification of the link between indicators. There is only one work by Milo (2012)<sup>4</sup>, where we are based for building an econometric model

<sup>3</sup> Albanian Institute of Statistics and Database

<sup>4</sup> “The impact of budget deficit on the currency and inflation in the transition economies”

**Concepts:**

The **budget deficit** is the negative difference between income and expenditure, when budget expenditures are higher than budget revenues. The revenues aren't realized because, not all taxpayers are correct with the law and avoid obligations to pay; due to difficulties in collecting taxes; due to social policy that follows the country etc. Costs are high because of the high amount of public investments.

1. **Exchange rate** which expresses the rate of exchange EURO to Albanian Lek from year 2000-2015
3. **Inflation** is the stable and sustainable growth of prices, which comes always and anywhere as a monetary phenomenon caused by the surplus of money in relation to product release. It is measured by the Consumer Price Index (CPI) and it comes as the result of excessive growth of aggregate demand in relation to aggregate supply.
4. **M2** is called broad money, which includes M1 and other forms of assets that are not money transactions, but that can rapidly return into money, such as short-term deposits, mutual funds of monetary markets accounts.
5. **Real GDP** which expresses the value of goods and services measured at fixed price. This is the most accurate measure of country's economic welfare.

The first model tries to highlight the impact of budget deficit and money supply growth and inflation rate. Albania is known as a country in transition and study where we trust more is Milo (2012), which has study precisely transition countries like Romania, Bulgaria and Albania. The model starts with two basic equations:

1. The money supply growth equation.
2. The inflation equation.

The reduced form of growth rate of money supply that we have used is specified as follows:

$$m = \beta_0 + \beta_1 \Delta m + \beta_2 \Delta def + \beta_3 \Delta g + \varepsilon \quad (1)$$

m = annual growth rate of money supply

def = budget deficit

g<sub>t</sub> = growth rate of GDP

The impact of the budget deficit on inflation analysis, is to specify an equation base of price change, which would explain inflation ranging from money supply growth. In our analysis, we used a monetarist equation price which differs as follows (Giannaros and Kolluri, 1985):

$$\pi_t = \delta_0 + \delta_1 \Delta m + \varepsilon \quad (2)$$

$\pi_t$  = inflation rate, which depends on the growth of money supply, increased budget deficit and delayed inflation.

In equation (2) the actual inflation rate depends on the current and past rates of money supply. Equation (2) allows us to measure the effect of monetary expansion on inflation. In other words, it measures the impact of excessive money creation in connection with the financing of the budget deficit. But this does not allow us to identify the effect of other factors on the inflation rate, meaning, the contribution of the same amount of budget deficit and the contribution of inertial inflation.

Here we have added two other variables such as the budget deficit that allows capturing the impact of aggregate demand growth in prices due to high budget deficit, and then the inflation rate with dynamic delay which allows capturing the effects of inertia. We have taken an equation formulated as follows:

$$k_t = \lambda_0 + \lambda_1 \Delta def + \varepsilon \quad (3)$$

kk = exchange rate EUR/ALL

def = budget deficit

In equation (3) the actual exchange rate depends on the current and past rates of budget deficit in Albania.

**Evaluations and interpretations**

Based on the assessment by E-views 6 the exchange rate model affected from the budget deficit, we managed to conclude that an increase in the budget deficit and lead to a depreciation of the exchange rate. The coefficient of determination shows that 86% of the variance of the exchange rate depends on the variation of the budget deficit. So, we are dealing with a very good model.

$$k_t = 4.165488 - 1.289468 \Delta def + \varepsilon \quad (3)$$

R<sup>2</sup> = 0.867      Prob(F-statistic) = 0.0216



This model is consistent with the theory because the value Prob(F-statistic) is  $0.0216 < 0,05$

Dependent Variable: KK				
Method: Least Squares				
Sample (adjusted): 2000 2015				
Included observations: 16 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.165488	0.446623	9.326623	0.0000
DEF1	-1.289468	0.488372	-2.640339	0.0216
R-squared	0.867469	Mean dependent var		4.067857
Adjusted R-squared	0.314758	S.D. dependent var		2.011823
S.E. of regression	1.665375	Akaike info criterion		3.989541
Sum squared resid	33.28168	Schwarz criterion		4.080835
Log likelihood	-25.92679	Hannan-Quinn criter.		3.981090
F-statistic	6.971389	Durbin-Watson stat		1.104362
Prob(F-statistic)	0.021560			

**While for model 2-----**Based on the assessment by E-views 6 money supply model about the budget deficit and economic growth, we managed to conclude that an increase in the budget deficit and an increase in the level of economic growth lead to an money supply growth. The coefficient of determination shows that 99% of the variance of money supply depends on the variation of the budget deficit and economic growth. So, we are dealing with a very good model.

$$m = 16.7 + 1.099 \Delta m + 119.96 \Delta \text{def} + 143.9 \Delta y + \varepsilon \quad (1)$$

$$R^2 = 0.99 \quad \text{Prob(F-statistic)} = 0.01$$

The relationship between inflation and money supply is positive, based on economic logic, so we can say that is a proven link. For this reason the connection will serve as a “bridge” to prove the link between inflation and the deficit in equation (2). So, in equation (1) it appears that the increase in deficit will increase the money supply, which the latter leads to an increased inflation.

For Albania case, relationship between inflation and money supply turns out to be inconsistent with the theory, because of “non-existence of the state” in before years ‘99, the not function private sector and the almost nonexistent activity of the banking sector. For this reason we built a model for the period 2000-2015, which is estimated as follows:

$$\pi = 16.99 - 10 \Delta m + \varepsilon \quad (2)$$

$$R^2 = 0.74 \quad \text{Prob(F-statistic)} = 0.026922$$

This model is consistent with the theory because the value Prob(F-statistic)  $< 0,05$

## Conclusions and recommendations

This paper relied on secondary data (time series data), to empirically investigate the effect of public debt on exchange rate and inflation rate, based on data covering the period 2000 to 2015. Data on these variables were sourced from Central Bank of Albania, International Monetary Fund and World Bank International Financial statistics .

In order to achieve the objectives of the study, the linear regression model is adopted to estimate the impact of public debt on exchange rate and inflation rate in Albania. The ADF tests were conducted on all the variables, and the results of the unit root tests showed that all the variables are stationary at first difference and as well as constant at 5% level of significance. As the variables are found to be stationary, it implies that they are cointegrated. In other words, the result implies that the joint probability distribution of these variables do not change when shifted in time, as such, the mean and variance, if present, are also expected not to change over time. The F-stat indicates that the entire model is significant. The result indicates that all the explanatory variables are statistically significant in explaining exchange rate and inflation respectively. Also all the explanatory variables have positive impact on inflation rate fluctuation. By implication, a change in any of the explanatory variables will causes fluctuation in the exchange rate. For instance, a percentage change in the Budget deficit will fluctuate the exchange rate by 1.29 percent. Calvo and Reinhart (2002) state that most developing countries seem to be more tolerant of the exchange

rate fluctuation. Hence, a country experiencing exchange rate fluctuations use the foreign reserve stock to intervene in foreign exchange market to dampen the exchange rate volatility. This result confirms the general belief that volatility in exchange rate is greatly influenced by the foreign reserve.

The growth of the budget deficit and increase the level of economic growth leading to increased money supply. This connection results to be a very strong one and in full consistency with economic logic.

Based on the inflation model only in relation with money supply, it results a positive results, this only for the money supply. Completely logical link results for logarithmic model (2), which expresses the positive relationship between inflation and money supply.

In the extended model of inflation, its connection with the budget deficit, not only comes out as negative, but the level of determination for this relationship is very low. This has no theoretical consistency and, most importantly, is a very unclear link between these two indicators.

We recommend that further studies be constantly connected to the above problems, to have a clearer picture of the impact and consistency of the budget deficit on inflation.

We hope and believe that the more research done to study this issue, the more it will be helpful to the expansion and materialization of economic theory and practice. This will help stakeholders to develop concrete and safe policies for the budget deficit and inflation, as an interactive indicator of each other.

However, we hope that our research can draw the attention of researchers in this field, by preceding with other studies that will enrich the empirical and scientific studies for Albania.

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# The implementation of NS-2 network simulator for making simulations over real time applications

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## **Abstract**

*In this paper of experimental environment will be processed through the possibilities and tools provided by NS-2, by using all the pros derived from this simulation. To boot up this environment, download the source code for ns2 and its respective modules for the implementation of BGP and VoIP, as well as their installation. It is important to say that the implementation of NS-2 on different PC software will lead to a parallel connection between hardware devices. Network simulators are the main 'network traffic' facilitators that make it possible to send real-time information to the recipient. Also, here we will look at the difference between Tcl and C++ language. In the implementation of the NS-2 are also two languages OTcl and C++, where they will be treated as their function as well as the function in the NS-2 network simulator. The NS-2 provides significant and essential support for simulating router and multitask wireless protocols. The network simulator can control the behaviours of different protocols. Part of this thesis is also the simulation elements as an important part of the design process of a real-world system that performs experiments to understand the behaviour of the system and considers the various strategies used during system operation.*

**Key words:** NS2, entity, simulation, event

## **Introduction**

System modelling refers to the action of presenting a current system in a simplified way. There are two main ways to realize a system modelling: analytical and simulation mode.

Analytical modelling is intended to achieve a mathematical description of the system. If implemented correctly, this modelling can be cost-effective and provide an abstract look of components interacting with each other in the system.

Modelling with the simulator requires less model abstraction (and less simplification assumptions) since virtually every detail of the system can be included in the simulation. This type of modelling is suitable for large systems where a direct mathematical formulation is not enough. As well as analytical modelling, modelling with simulators may leave without some details as otherwise we would have an unmanageable simulation and high processing skills would be required.

A simulation can be thought of as a flow of network entities (eg nodes, packets, etc.). As entities move through the system, they interact with other entities, join some activities, engage events, cause some changes to the system's state, and exit the process. Occasionally they compete or wait for a certain source. This implies that there must be a logical execution sequence that will cause the execution of these actions in a manner that is understandable and manageable. An execution sequence plays an important role in supervising the simulation and is sometimes used to characterize the simulation type.

## Simulation Elements

The main elements of the simulation are as follows:

- Entities - Objects interacting with one another in a simulation program to cause system changes. Entities differ from their attributes.
- Resources - These are usually resources that are shared between a set of resources
- Activities and Events - From time to time, entities are involved in some events that create events and trigger changes in the system's state of affairs (eg waiting event in queue)
- Schedule - Schedule keeps the list of events and their execution time
- Global Variables - Available from any function or entity in the system and providing information about some of the simulation values (eg total number of transmitted packets, the length of packets, etc.)
- Random Number Generator (RNG) - Serves to create random processes through random variables and thus obtaining statistical data.
- Collector of statistics - the main purpose is to collect data from the simulations.

## Time-dependent simulations

These are simulations that follow chronologically with the help of a simulation clock. The simulation continues until the time reaches a certain limit value. These simulations can be further divided into: Simulation run by time and Simulations run by events.

Time-simulated simulations - Simulation time advances exactly to a fixed time interval. After each clock advancement, it is checked whether there was an event at that interval, if that event is then considered to have occurred at the end of the interval. This poses a problem when more than one interval event occurs because a procedure needs to be established to determine which event should occur first. For these reasons, these simulations are not advised in cases where events take place in significant periods of time.

Simulations run by events - Unlike the first, the advancement of simulations is done from one event to another and not from one interval to another. Events take place in a sequence and the time between the two events is not the same. As the simulation advances, an event may trigger another event that will be chronologically included in the chain of current events. The simulation continues until the entire list of specified events is completed or until the execution time expires.

## Network Simulator 2 (Network Simulator 2 - ns2)

NS-2 [25] is a simulator driven by events that enable the study of the dynamic nature of computer networks. Thanks to its flexibility and modularity, it has gained a great popularity in the research community since its birth in 1989. Since then many reviews have been made of this simulation tool and among the key contributors we can mention the University of California and Cornell University who developed the basics This simulator.

In this thesis, ns-BGP is implemented as an addition to the predecessor version of the network simulator ns2-2.34. It should be noted that this add-on was applied a second addition named ns-2.34-bgp 2.0 fld mrai. The latter adds the functionality of the Route Flap Damping as well as the Adaptive Minimal Route Advertisement Interval. Ns-2 was originally developed at ISI (Southern California University). The main purpose of creation was to add to the REAL network simulator. Ns-2 is currently part of the VINT project including USC / ISI, Xerox PARC, LBNL and UC Berkeley.

As one of the most popular discrete event simulators, ns-2 supports TCP simulation, multitask routing and protocols over cable or satellite networks. Ns-2 is written both in C ++ and OTcl and supports object oriented patterns. C ++ is used for low-level packet-oriented implementation, where performance is most important. OTcl is a scripting language for implementing a high level, where flexibility is more important. A graphic namer called nam is used to visualize the simulation results.

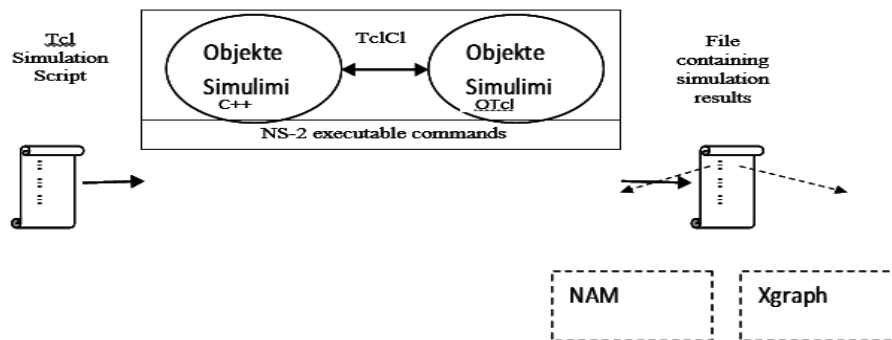
## Architecture of NS2

The basic architecture for NS2 is given in Figure 4.3.1. NS2 provides users with an execution command ns which as an argument argues for a Tcl simulation script.

NS2 consists of two main languages: C ++ and Object-oriented Tool Command Language (OTcl). While C ++ defines the internal mechanisms of the simulation objects, Otcl raises the simulation by assembling and configuring the objects as well as scheduling discrete events. C ++ and Otcl bind to each other through TclCl. When linked to a C ++ object, variables in the OTcl field are known as the 'handle'. From a conceptual standpoint, a 'handle' (for example, as the node handle) is merely a

string in the OTcl field and does not contain any functionality. Functionality is defined in the C++ object associated with it (eg Connector class). Saying in a simpler 'grip' language in the OTcl field can be considered as the frontend that interacts with other users and OTcl objects. It can define its own procedures and variables to facilitate interaction.

**FIGURE 4.1:** The basic architecture of NS-2



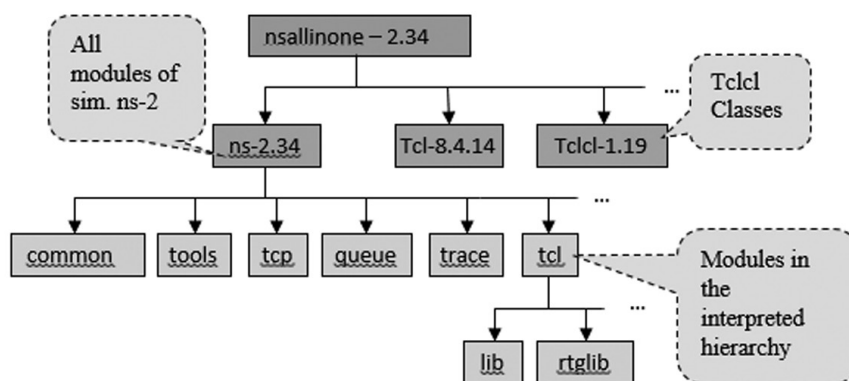
After the simulation, the NS2 outputs the results in text or animated format. To interpret this data graphically, tools such as NAM (Network Animator) and XGraph have been created. To analyse a certain network behaviour, users can extract a subset of data in text format and transform them into a more understandable format.

Ns-BGP classes are derived from the existing class hierarchy ns-2. First, we will give a description of the unicast routing structure of the simulator ns-2. Based on this structure, we will describe the ns-BGP structure together with the other functionalities it supports. To increase the quality of service (QoS), some of the files have been modified to support RFD. This affects: 1) Increases stability and 2) Increases network convergence.

## NS-2 directories

Let's assume that NS-2 is installed in the nsallinone-2.34 directory. Figure 4.3.2 shows the directory structure under the nsallinone-2.34 directory. The nsallinone-2.34 directory is at the first level. At the second level, the tclcl-1.1.19 directory contains classes in TclCL (eg Tcl, TclObject, TclClass).

**FIGURA 4.2:** Struktura e direktorive të ns2



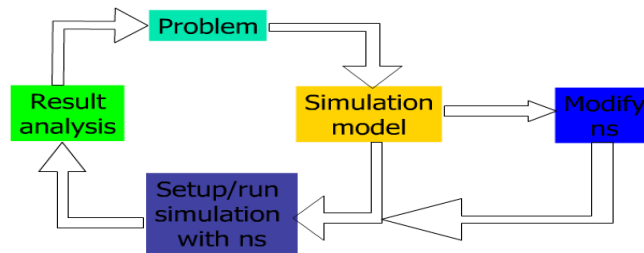
At the third level, the modules in the interpreted hierarchy are under the tcl directory. The most commonly used among these modules are ns-lib.tcl, ns-node.tcl, ns-link.tcl etc. Under level 4 lib directory.

The simulation modules in the compiled hierarchy are classified in the level 2 directories. Directory Tools maintains various auxiliary classes like random variable generators. Common directory contains basic modules related to packet advancement such as simulator, file manager, binders, and packages.

## Use of NS-2

The use of ns2 passes through several phases that are also described in the following figure:



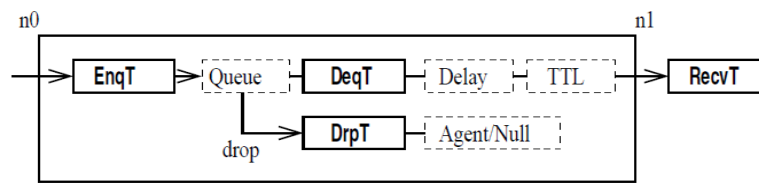
**FIGURE 4.3:** Steps of NS-2 use

As the figure shows, the first step is to clearly define the problem to be tackled through simulations.

In the concrete case, it is intended to show that BGP update moments can really affect the quality of VoIP call service. To solve this problem, the step is to identify the simulation model. This model, as we will consider later, involves modeling typology, traffic, data and simulation files. Each of these models may require the implementation of new modules in ns2. The basic package of ns2 does not always respond to our simulation requests.

Once the relevant models have been identified and the necessary modifications to ns2 can be passed to the pause step that involves the realization of the simulations. As mentioned above, this means creating the respective tcl files and executing them on the ns2 interface via the command `ns <file.tcl>`.

To see the results of the simulation, files are generated with the .nam suffix that is executed through as a graphical tool for visualization of the simulation results. Also generate .tr (trace files) files that provide more complete simulation information, as shown in the figure below:

**FIGURE 4.4:** Object registration in a link

## Conclusions

A simulation can be thought of as a process of flow of network entities. Ns-2 [25] is a simulator driven by events that enable the study of the dynamic nature of computer networks. In this thesis, ns-BGP is implemented as an addition to the predecessor version of the network simulator ns2-2.34. It should be noted that this add-on was applied a second addition named ns-2.34-bgp 2.0 fld mrai. The latter adds the functionality of the Route Flap Damping as well as the Adaptive Minimal Route Advertisement Interval. Ns-2 is written both in C++ and OTcl and supports object oriented patterns. C++ is used for low-level packet-oriented implementation, where performance is most important. OTcl is a scripting language for implementing a high level, where flexibility is more important. After the NS2 simulation outputs results in text or animated format. To interpret this data graphically, tools such as NAM (Network Animator) and XGraph have been created. To analyse a certain network behaviour, users can extract a subset of data in text format and transform them into a more understandable format. To increase the quality of service (QoS), some of the files have been modified to support RFD. This affects: 1) Increases stability and 2) Increases network convergence. Usage of ns2 passes through several steps initially initiated by problem identification, followed by simulation model construction, passes with ns2 modification, followed by execution of simulations and Ends with the analysis of the results. In our situation, the objective is to point out that BGP update moments can really affect the quality of VoIP call service. To overcome this problem, the next link is to identify the simulation model. This model includes the modelling of topology, traffic, data and simulation scenarios. Each of these models may require the implementation of new modules in ns2. Once the relevant templates and necessary modifiers for ns2 have been identified, it can be switched to the next link that consists of realizing the simulations that means creating the respective files tcl and executing them in the ns2 interface via the `<skedar.tcl>` command. To see simulation results, generated files with .nam suffixes are executed as a graphical tool for visualization of simulation results. Also generate .tr (trace files) files that provide more complete simulation information.

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# Online Accreditation Process and DAK Management Information System (DAK-MIS)

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### **Abstract**

*General Directorate for Accreditation of Kosovo (DAK) is the only National Accreditation Body in the Republic of Kosovo, based on Law No. 05 / L-117 approved in the Kosovo Assembly on 20.12.2016 and published in the Official Newspaper of the Republic of Kosovo, No. 2/12 January 2017, in accordance with international standards, assesses technical competences of the Conformity Assessment Bodies (CAB)s that deals with activities such as: testing, calibration, certification and inspection both in public and private sector. Till now application for accreditation process and all other procedures for accreditation of CABs are carried out manually, and all the documents of the application and the receipt of the certificate of accreditation are conducted in the offices of DAK manually not using an appropriate Management Information System, DAK-MIS System. Through DAK Management Information System (DAK-MIS), customers will get and proceed all needed documents online, starting from: Application for accreditation, Application review, Cost estimates and Accreditation contract, Appointment of Lead Assessor, Preliminary visit, Appointment of assessment team, Document and records review, Assessment, Reporting, Follow up assessment, Decision, Accreditation surveillance, Renewal of accreditation, Extending accreditation, Extraordinary visits, Suspending, withdrawing or reducing the accreditation through this database and getting finally the official document of accreditation. The only condition for the customers is to have internet access, following the accreditation procedure online on the new system. DAK-MIS System will facilitate the work of DAK and CABs informing through this paper the CAB's and other Interested Parties about DAK- MIS database.*

**Keywords:** DAK, MIS, CABs, Accreditation, Online, Database

### **Introduction**

Today, the world economy is under the strong influence of globalization processes and has become flexible, open and integrated. Internet, many aspects of our life have had transformed. Using online DAK-MIS application system may be cost-effective and straightforward for Accreditation Bodies. It is example of small companies or Accreditation Bodies in the early beginning, allowing them to expand their offers and services. Now, all we need is computer and internet connection. Applying for accreditation online doesn't need to worry about fulfilling in error-free hard-copy forms and other documents, spending time money on postage to return them. There are other benefits like knowing an application it has been safely received by DAK or CABs, confirmation at the end of the application process. Online DAK-MIS application system provides clients with a facility to save their work and time. The goal of this work is to facilitate hereby with DAK-MIS System, work of DAK and other Accreditation Bodies about online accreditation process of CABs, possibilities and challenges. DAK-MIS System and online accreditation process is based on standards, regulations and guidelines which are in force in the European Accreditation (EA), International Accreditation Forum (IAF) and International Laboratory Accreditation Cooperation (ILAC). Using DAK Management Information System (DAK-MIS), conformity assessment bodies will get and proceed all needed documents online, starting from: Application for accreditation, Application review, Cost estimates and Accreditation

contract, Appointment of Lead Assessor, Preliminary visit, Appointment of assessment team, Document and records review, Assessment, Reporting, Follow up assessment, Decision, Accreditation surveillance, Renewal of accreditation, Extending accreditation, Extraordinary visits, Suspending, withdrawing or reducing the accreditation through this database and getting finally the official document of accreditation.

## DAK-MIS System, Online Application Form

CABs [10] till now have download from the DAK webpage [3] the application for accreditation (testing [8], calibration [8], medical labs [9], inspection bodies [12], certification bodies [13, 14, 15] etc.) have filled in and have come in DAK offices for application. When we have to establish this application that CAB's (Conformity Assessment Body) will apply through the official web page of DAK [3] at the DAK-MIS button, to be registered and getting the proper information for the accreditation procedure and respective documents needed to receive the accreditation process [2] and certificate.

The process of online registering will be explained for better clarifications of CAB's in line with requests of ISO/IEC 17011:2004 standard, general requirements for accreditation bodies accrediting conformity assessment bodies [2]. DAK will organize trainings for all interesting parties regarding the use of this database. It is agreement between DAK and CAB's that it would be transition period for 2 years. On this time period it would be double documents (if they are agree), in hard copy and electronically, through database, If not CABs have to choose one solution but after two years they are obligated to apply for accreditation through database for online accreditation. The process of using of this database is: At the beginning CAB's need to be registered first at the pre-registration form fulfilling the following fields as mandatory field by field; fig. 1, fig. 2, fig. 3 and fig. 4:

Data of the company interested to apply for and receive accreditation.

Following more detailed data of the company: Official Address, Phone and Email Address.

**FIGURE 1. E-Registration Form**

E-Registration form/E-Regjistrimi/Obrazac za registraciju

1
2
3
4

Organization/ Kompania/  
Organizacija
TVK/ CAB/  
Organizacija
Authorized Contact Person/ Personi i Autorizuar  
i Kontaktit/  
Ovlašteni Kontakt osoba
Registration Process/ Procesi i Regjistrimit /Proces  
Registracije

Name of the Organization/ Emri Kompanise/ Ime organizacije *	<input style="width: 90%;" type="text"/>
Address/Adresa/Adresa *	<input style="width: 90%;" type="text"/>
Telephone/Telefon/Telefon *	<input style="width: 90%;" type="text"/>
e-mail/adresa e-mail-it/e-mail adresa *	<input style="width: 90%;" type="text"/>
Website	<input style="width: 90%;" type="text"/>

**FIGURE 2. E-Registration form/CAB**

E-Registration form/E-Regjistrimi/Obrazac za registraciju

1
2
3
4

Organization/ Kompania/  
Organizacija
TVK/ CAB/  
Organizacija
Authorized Contact Person/ Personi i Autorizuar  
i Kontaktit/  
Ovlašteni Kontakt osoba
Registration Process/ Procesi i Regjistrimit /Proces  
Registracije

Name of the CAB/Emri i TVK-se/Ime TOU *	<input style="width: 90%;" type="text"/>
Address/Adresa/Adresa *	<input style="width: 90%;" type="text"/>
Telephone/Telefon/Telefon *	<input style="width: 90%;" type="text"/>
e-mail/adresa e-mail-it/e-mail adresa *	<input style="width: 90%;" type="text"/>
Website	<input style="width: 90%;" type="text"/>
Personi kontaktues-Menaxheri i Cilësisë/ Contact person-Quality Manager/ Osoba za kontakt, rukovodilac kvaliteta:	<input style="width: 90%;" type="text"/>

Authorized Contact Person from the Company Data: Phone, E-Mail Address and Upload of the Official Document of the Authorized Person from the Company. Registration Process: Level/Type of Accreditation and pre-registration Bank Payment.

**FIGURE 3. E-Registration form/Authorized Contact Person**

E-Registration form/E-Regjistrimi/Obrazac za registraciju

1 2 3 4

Organization/ Kompania/  
Organizacija

TVK/ CAB/  
Organizacija

Authorized Contact Person/ Personi i Autorizuar  
i Kontaktit/  
Ovlašćeni Kontakt osoba

Registration Process/ Procesi i Regjistrimit /Proces  
Registracije

• Authorized Contact Person/Personi i Autorizuar i Kontaktit/Ovlašćeni Kontakt osoba

\* Name Surname/ Emer Mbiemer/Ime  
Prezime

\* e-mail/adresa e-mail-it/e-mail adresa

\* telephone/telefon/telefon

authorized person documentation/dokumenti vertetues i  
personit te autorizuar te kompanise/Dokumenat ovlašćene  
osobe od organizacije Choose File No file chosen

**FIGURE 4. E-Registration form/Registration Process**

E-Registration form/E-Regjistrimi/Obrazac za registraciju

1 2 3 4

Organization/ Kompania/  
Organizacija

TVK/ CAB/  
Organizacija

Authorized Contact Person/ Personi i Autorizuar  
i Kontaktit/  
Ovlašćeni Kontakt osoba

Registration Process/ Procesi i Regjistrimit /Proces  
Registracije

Registration Process/ Procesi i Regjistrimit /Proces Registracije

Level of accreditation applying for/Niveli i Akreditimit i kerkuar per aplikim/Nivo akreditacije  
Podnošenje zahteva za:

Initial Accreditation/Akreditimi Fillestar/Prva akrex ▼

### Type of accreditation scope

- a. Testing / calibration laboratories [8]
- b. Medical laboratories [9]
- c. Inspection Bodies [12]
- d. Product Certification Bodies [15]
- e. Management systems Certification Bodies [13]
- f. Certification Bodies for persons [14]
- g. Others (by the new applications it would be extension of scopes)

### Tariff Application and CABs credentials generation

The application for accreditation is based on form PT-001-F01 (PT-001-F01-1, for Testing Laboratories, PT-001-F01-2 for Calibration Laboratories and PT-001-F01-3 for Inspection Bodies), and the related records and documents submitted by CAB, are registered in the Protocol Book, form PT-001-F02, by the DAK-MIS File Manager who checks if all the forms have been submitted and the application fee was paid, according to the Administrative Instruction on Accreditation fees.

Application request tariff to be paid at the Bank before applying on-line at the DAK MIS System and to be uploaded the scanned document of the payment recipe on the official DAK-MIS System during the time of CAB filling out the request application form. After the conclusion of this process, the system will generate to the CAB the credentials of using the DAK-MIS System: username and password for further continuity at the DAK-MIS.

## Proceeding with the Application Form for the Accreditation Process on the DAK-MIS System Online

After CAB will finalized the pre-registration form and get the credentials to enter at DAK-MIS system, CAB will be entered at DAK-MIS system and download the proper documents needed to follow the accreditation process called the “applicant for accreditation” [2].



In the meantime CAB if needed can request for an initial explanation meeting with the respective DAK-MIS officer, whereby he explains the whole accreditation procedure, fees and documents that CAB shall upload at DAK-MIS [1] for accreditation procedure. The whole general information will be found at the official website of DAK as well.

### Application Review

After application for accreditation DAK-MIS File Manager reviews the application (using the second part B of application for accreditation) in order to check if:

- DAK is able to carry out the assessment of the applicant CAB, in terms of its own policy (is within its declared accreditation activities),
- Has the DAK necessary competence available (suitable assessors and experts),
- Has the DAK ability to carry out the initial assessment in a timely manner.

CAB by the application, have to send to the DAK package of documents which contains:

- The accreditation procedure, according to the CAB request to be accredited
- Application form, according to CAB request
- Administrative instruction “For accreditation fees”
- Procedures and obligations of the CAB based on respective standard.

The respective officer of DAK will receive the proper information from the pre-registration form filled-in from the CAB regarding the type of the accreditation scope, number of employees, CAB location and contact details and bank invoice for the payment proceed for the pre-registration process.

### Going ahead through Online Accreditation Procedures with DAK-MIS System

The CAB is considered to have applied for accreditation once it has filled out electronically the pre-registration form, paid the pre-registration fee and the got the CAB credentials (username, password) accessing the DAK-MIS system [7] according to the respective standards and uploading the needed documentations in accordance with the standard requirements for which it is seeking accreditation.

Once it upload the full set of documentation need for the accreditation process, the CAB shall declare whether it wants a pre-assessment visit through fulfilling a request form for that electronically on DAK-MIS [6].

The respective accreditation officer performs:

- The analysis of the accreditation scope requested by the CAB
- The analysis of the technical experts listed for the assessment of the procedures
- The respective accreditation officer from DAK makes a formal evaluation process within 7 working days:
- If there are the type of non-conformities when the documents submitted by the applicant do not fulfil the requirements of the standard for which the accreditation is requested, the accreditation process will be stopped the whole documentation part will be archived on DAK-MIS [4] and the CAB will be informed officially.
- If there are type of non-conformities where proper corrections need to be done from CAB, CAB here needs to close all the nonconformities and to upload again the documentation of undertaken corrective actions to the DAK-MIS system [4], and after the CAB will go ahead with the accreditation process.

### Contractual Agreement between DAK and CAB

DAK-MIS File Manager makes a cost estimate (form PT-001-F03/1 form) which includes: preliminary visit, assessment visits and issuance of certificates, in accordance with the fees foreseen in the Administrative Instruction for tariffs and sends it to the CAB.

The deadline for the approval or disapproval of the cost estimate by the CAB is 15 working days. After this date, the accreditation process is stopped. In such case, the documentation of the CAB is archived according to the procedure PM-002 [3].

If the CAB agrees with the cost estimate, form PT-001-F03/1, the contract is signed by CAB and DAK, form PT-001-F03. If the CAB accepts the calculated preliminary cost, it must pay 50 % of it from this stage and 50% at the end of the process.

The respective officer of DAK prepares the approximate pre-assessment cost, fig. 5.

**FIGURE 5.** Cost Estimation and Accreditation Contract Agreement

## Assessment Team

The assessment team is appointed taking into account the accreditation standard against which the CAB is requesting accreditation, the technical scope submitted to accreditation.

When DAK appoint the assessment team, shall ensure that the expertise brought to each assignment is appropriate, the team as a whole shall have appropriate knowledge of the specific scope for which accreditation is sought, and shall have understanding sufficient to make a reliable assessment of the competence of the CAB to operate within its scope of accreditation. DAK shall inform the CAB of the names of the members of the assessment team and the organization they belong to, sufficiently in advance to allow the CAB to object to the appointment of any particular assessor or expert [2].

The Director of Accreditation Department within 7 working days from the date of submission of the formal evaluation by the respective officer of DAK, fig. 6.

**FIGURE 6.** Appointment of Lead Assessor

Proper templates need to be generated and saved on DAK system [6] where predefined assessors/lead assessors/experts are part of this procedure. This assessment team is attached to and linked to the CAB applied for the accreditation process.

All technical experts need to be declared and entered on the DAK-MIS system [4], to be ready to create the evaluation team for the next requests for the accreditation process from different CAB's, fig. 7.

**FIGURE 7.** Appointment of Assessment Team

A. Initial Accreditation

2 Change CAB

2.1 Documentation

2.2 Application Review from the DAK

2.3 Cost Estimation and Accreditation Contract Agreement.

2.4 Appointment of Lead Assessors

2.6 Assessment Team.

2.7 Documents and Records Review

2.8 Assessment

2.9 Report

2.10 Follow up Assessment

2.11 Decision Making File

2.12 Decision

2.13 Intranet DOC

## Appointment of the Assessment Team.

- DAK-SMI File Manager appoint the Assessment Team, and propose the Assessment date visit through filling-in online the web form PT-001-F05 to the DAK-SMI system.

### Fill the Form

Fill the Form

PT\_001\_F05 Part: A

### Download cab info

Cab nuk ka upload akoma pjesen B

Download PT\_001\_F05 part B

### Upload Final

Browse... Upload

PT\_001\_F05 Final

Note:

The Assessment Team declares if there is any conflicts of interest with the CAB under assessment and each of them will sign the confidentiality agreement, impartiality and conflict of interest, downloading the template [PM-003-F05](#), fill-in in manually, sing-stamp-scan and upload on the DAK-SMI system by the DAK-SMI File Manager.

### Upload PM\_003\_F05

Browse... Upload

PM\_003\_F05

The assessment team initially declares to have no conflict of interest with the CAB under assessment and they shall sign online the confidentiality agreement, impartiality and conflict of interest. The assessment team get access over the DAK-MIS system on the documentation of the specific CAB within 7 working days from the date of its approval through internet/intranet using assessment team credentials accessing DAK-MIS system [7]. The assessment team meets in the DAK premises, where it reviews the accreditation scope, (the list of analysis of the accreditation program), recommends a date for the assessment visit and the assessment plan.

## Assessment Evaluation Procedure

### Assessment Procedure, Document Control

The control of the documentation of the Management Systems is done by the lead assessor, who makes an assessment in accordance with the respective standard, and the technical assessor makes the technical assessment, fig. 8.

**FIGURE 8.** Documents and Records Review

2 Change CAB

2.1 Documentation

2.2 Application Review from the DAK

2.3 Cost Estimation and Accreditation Contract Agreement.

2.4 Appointment of Lead Assessors

2.6 Assessment Team.

2.7 Documents and Records Review

2.8 Assessment

2.9 Report

2.10 Follow up Assessment

2.11 Decision Making File

2.12 Decision

2.12 Intranet DOC

Surveillance Process

## Documents and Records Reviews.

- Management System Documentation of the CAB;  
**Quality Manual: It's not uploaded yet**  
**Procedures: It's not uploaded yet**  
**Forms: It's not uploaded yet**  
**Other Documents: It's not uploaded yet**

In case any findings, those are reported to the CAB as non-conformities (after they classified them as type A or filling in the web form Part A:PT-001-F06.pdf "Notification of document review".

### Fill the Form

Fill the Form

PT\_001\_F06 Part: A

### Upload

Browse... Upload

PT\_001\_F06 A

### Cab Doc LIST

PT\_001\_F06 A

- CAB's is requested to solve the non-conformities within at maximum **15 working days**.
- All extra other documents needed will be uploaded at the DAK-SMI system (Documentation and Records Review).

Note:

Control Process: Part B: [PT-001-F06.pdf](#) "Notification of document review", DAK will proceed through filling in this web form.

## Pre-Assessment, Preliminary Visit

Preliminary visit or pre-assessment is carried out by the Lead Assessor who analyses the documents and may decide if a preliminary visit is necessary in order to clarify some aspects that aren't clear or can't be assessed from documents. The preliminary visit is optional and the CAB has the right to decline the preliminary visit [2].

## Assessment Visit

The assessment process is carried out according to the procedure and requirements of standard items and the purpose of the assessment visit is to verify whether the CAB meets the requirements of the respective standard and verify the technical competencies already assessed during the pre-assessment and the document control, fig. 9.

FIGURE 9. Assessment

The assessment visit includes the following steps:

- Opening meeting of the assessment team
- Opening the meeting with the management of the CAB chaired by the Lead Assessor
- Assessment of the CAB's management system and technical competence

The assessment team shall complete the applicable forms:

- Checklist according to the respective standard, PT-001-F15-1 for laboratories and PT-001-F15-2 for inspection bodies;
- Assessment reports according to the standard requirements (form PT-001-F10-1 for laboratories and PT-001-F10-2 for inspection bodies);
- Nonconformity form, form PT-001-F09.

## Closing meeting with the management of the CAB chaired by the Lead Assessor

Within two weeks from the assessment, the assessment team provides to the respective officer of DAK all the documents received from DAK, the assessment report according to the CAB and all the filled out forms, and the latter, after having reviewed the whole practice, sends the assessment report to the CAB, which has the right to send within ten days the remarks and suggestions about the report. The deadline for carrying out the corrective actions for a new CAB is three months. The CAB, within the specified deadlines, shall send to DAK a report about the solutions of the nonconformities (comments, scanned document solving the non-conformities, the scanned certificates), the document will be uploaded on DAK-MIS system [6] as well. The lead assessor, in cooperation with the assessment team assesses how the CAB solves the nonconformities; if necessary the assessment team may send additional information to the CAB (electronically at the CAB account space on the DAK System). In case the CAB does not solve the nonconformities within the deadline, then the lead assessor requests the initiation of the rejection procedure of the accreditation of the unsolved nonconformities. If the CAB has solved the nonconformities, the lead assessor reports electronically on DAK System fulfilling the form, fig. 10.

FIGURE 10. Report

## Decision

The respective officer of DAK, after having reviewed the materials electronically on the DAK-MIS System submitted by the assessment team, the assessment report and the proposals of the Accreditation Council, renders the final decision for the accreditation of the CAB, this document as well will be saved on DAK-MIS System [2].

Director of DAK shall render a decision, fig. 12, within 15 working days from the date the documentation was presented to him. Director of DAK fills out the respective form and sends it to the respective officer of DAK for the notification of the CAB, about the accreditation decision the whole notification process is done electronically as well through the DAK-MIS System to the CAB, fig. 11.

**FIGURE 11.** Decision Making File

**Decision Making File**

DAK File Manager present to the members of the Accreditation Council the Documents of Decisin Making File DMF. Director General of DAK appoints the members of the Accreditation Council through the form PT-001-F12-1.

**Upload PT\_001\_F12\_1 only DAK**

PT\_001\_F12 1

**Upload PT\_001\_F12**

PT\_001\_F12

When all nonconformities are closed out, the DAK-SMI File Manager, after receiving the records from the Lead Assessor, prepares the decision making file (DMF) and fills in the Summary of Accreditation process document.

If the decision is positive, then the procedure for compiling the certificate is carried out, according to the respective procedure (this process will be done in DAK-MIS System as well). The CAB receives within 7 working days electronically by DAK-MIS system and in hard copy as well [2]:

- The Accreditation Certificate, including the annex of the accreditation scope
- Rights and obligations of CAB procedure
- Copy of assessment report
- Procedure for using the accreditation symbol

**FIGURE 12.** Decision

**A. Iniatial Accreditation**

**Decision**

The DAK General Director, after having reviewed the DMF file and based on the recommendation made by the Accreditation Council, within **5 working days** from the date of the recommendation, takes the decision and fills in manually the template PT-001-F13 "DAK General Director Decision Making" and upload to the DAK-SMI system the signed-stamped-scanned official document.

The CAB should make the final payments before the accreditation is granted, and will upload at the DAK-SMI system the scanned payment recipe from the Bank.

- If the **decision is positive**, the DAK General Director fills-in to the DAK-SMI system the Decision web form PT-001-F14.pdf and the Accreditation Certificate, web form I-001-F01 according to the instruction for the preparation of the certificate DAK-I-001.pdf document. Both documents will be submitted printed/signed/stamped scanned and uploaded at DAK-SMI System.

CAB is informed about the decision by the DAK-SMI File Manager, by email/official letter and at the DAK-SMI system are the following official documents:

- The Accreditation Certificate I-001-F01.ppt,

**Upload I\_001\_F01**

I\_001\_F01

**I-001-F02-1 or I-001-F02-2;**

**Upload I-001-F02\_1**

I\_001\_F02\_1

- Accreditation symbol as per the DAK-PO-004 Policy;
- Surveillance program, PT-001-F16.pdf (the surveillance programme will be filled in using the PT-001-F16 web form at the DAK-SMI system).



In the end, the CAB is issued the final financial invoice on what it shall pay (the certificate and other additional actions that may have been carried out during the accreditation procedure). The accreditation is valid for a period of four years.

The Accreditation Directorate places the accredited CAB-s in the list of accredited entities in DAK's webpage. From the DAK-MIS System [7] the announced to the DAK web page goes automatically.

## Accreditation Surveillance

During an accreditation cycle (4 years) DAK carries out 4 assessment surveillances [2]. DAK will perform the first surveillance no later than 12 months after the initial accreditation was granted and the subsequent surveillances every year.

The last surveillance (S4) becomes reassessment in case the CAB submits the application for renewal of accreditation with 6 months in advance of the expiry date of the accreditation certificate.

The File Manager together with the Lead Assessor prepares the surveillance program of the CAB (PT-001-F16) for each calendar year from the time the CAB was accredited or re-accredited. The surveillance program includes the witness assessments that shall be undertaken by the accreditation body. In each accreditation cycle the full scope of the CAB will be assessed.

The Director of Accreditation and Development Direction appoints the assessment team that will conduct the surveillance assessment.

Before each surveillance visit DAK informs the CAB on the assessment plan and date of the visit, in order to receive its approval. At the same time, DAK sends to CAB its cost estimate.

The surveillance visit is conducted in a similar way as the initial assessment visit, but is less comprehensive.

During each surveillance visit, at least the following areas will be assessed:

- The effectiveness of the corrective actions taken in response of nonconformities raised during the last DAK visit
- Changes made to the management system
- Changes within the organization and/or, if applicable, the mother organization
- Changes of key personnel
- Participation in PT/ILC and the results obtained (for laboratories)
- Internal audits
- Management review
- Complaints and (if applicable) appeals
- Corrective action
- Quality control (for laboratories)
- Reporting
- Use of the DAK accreditation symbol

The reporting process for surveillance visit is the same as for initial assessment visits.

The corrective action process for surveillance visit is the same as for initial assessment visits, with the exception that for the corrective actions shall be implemented within 2 (two) months after the closing meeting.

The DAK General Director confirms the continuation of accreditation based on the documents provided by the assessment team, using form PT-001-F13. File Manager inform the CAB on the continuation of accreditation by e-mail.

## Renewal, Extending, Extraordinary Visits, Suspending-Withdrawing-Reducing of Accreditation

### Renewal

No later than six months before the accreditation expires, the CAB shall file a request for renewal of accreditation to DAK if it wants to continue its accreditation [2]. Upon receiving the request for renewal of accreditation (PT-001-F01), DAK initiates the process of renewal of accreditation which is a similar process as for the initial accreditation, with the exception that a preliminary visit is not conducted, as mentioned above.

### Extending Accreditation

The extending of accreditation is carried out similarly as the initial accreditation process [2]. Usually, the extension assessment is performed with the next planned surveillance visit. The assessment for extending accreditation is not carried out unless the CAB is paying the invoice sent by DAK for the respective assessment.

- The General Director may take the following decisions, based on the recommendation of the Accreditation Council:
- Extending of accreditation;
- Partially extending of accredited scope;

Not granting the extending of accreditation. General Director informs the CAB on the decision, through the File Manager. In case of a negative decision the CAB shall be informed on the reasons that lead to the respective decision. The extension of accreditation is granted within the same validity period of accreditation certificate issued initially.

### Extraordinary Visits

DAK may conduct extraordinary visits (unplanned) in cases when the continuity of the fulfilment of the requirements of the applicable accreditation standard(s) is suspected to be breached [2].

Extraordinary visits are carried out in the following situations: there are changes in the CAB's legal entity status, changes of the CAB's organizational structure or within its mother organization, changes in resources and premises, changes of the scope of accreditation, complaints from the authorities, clients or users, etc. These additional visits are organised in the same manner as regular surveillance visits.

### Suspending, Withdrawing or Reducing the Accreditation

DAK suspends the accreditation of a CAB in the following situations:

At CAB's request due to temporary inability to carry out its activities under the accreditation - CAB may request to DAK to suspend totally or partially its accreditation, for a period of maximum 6 month. The recommendation is made by the Accreditation Council and based on the recommendation the General Director makes the decision. The CAB is notified by General Director of DAK, through File Manager, on the suspending decision. The official notification includes the accreditation scope for which the suspension was applied and the reasons for suspension, as well as the conditions for lifting the suspension.

CAB can appeal the decision on suspending the accreditation, according to DAK's Procedure on Appeals, code DAK-PM-006. During the suspension period the CAB shall not issue any reports or certificates under accreditation and shall not make reference to its accreditation status or use the accreditation symbol for the scope for which it was suspended. DAK reduce or withdraw the accreditation of a CAB in the following situations:

- a) At CAB's request, specifying:
  - The accreditation scope for which is requested the withdrawal /reducing of accreditation;
  - The situations leading to not meeting the accreditation requirements;
  - Date when the reducing/withdrawal requested by the CAB starts.
- b) In the below mentioned situations, reducing/withdrawing accreditation of an accredited CAB:
  - When the CAB does not fulfill, repeatedly, any of the accreditation requirements, as they are mentioned in the accreditation contract and DAK documents;
  - If the CAB could not demonstrate the solving the situation for which was suspended (6.16.1.1 b));
  - In case DAK finds out that an accredited CAB provided intentionally false information or deliberately breached the accreditation rules.

The CAB is notified by General Director of DAK on the reducing/withdrawal of accreditation decision and the reasons behind the decision. The official notification includes the accreditation scope for which the reducing of accreditation was applied. CAB can appeal the decision on reducing/withdrawal the accreditation, according to DAK's Procedure on Appeals, code DAK-PM-006. Since the moment DAK took the reducing/ withdrawal decision, the CAB shall not issue any reports or certificates under accreditation and shall not make reference to its accreditation status or use the accreditation symbol for the scope for which it was reduced/ withdrawn. The person in charge with maintenance of DAK's website:

- Publish the accreditation certificate following the reducing of accreditation;
- Withdraw from the website the accreditation certificate in case of withdrawal of accreditation.

## Benefits and disadvantages from Online Accreditation

Accreditation is confidence but by online DAK-MIS application system, personal information and other data for Accreditation Bodies and CABs, online sometimes can present a security risk for them.

Disadvantages of online DAK-MIS application system for DAK, Accreditation Bodies and CABs may be at the time when there occur more and more requests at time which gets difficult to handle it. In case of hardware failures, online DAK-MIS application system, clients get in trouble and their online transactions get affected. Online DAK-MIS application system is atomicity. Atomicity ensures that if any step of online DAK-MIS application system fails in the process of the transaction, the entire transaction must failed. After that all of those steps have to be repeated again.

DAK staff is small in number and by increasing the number of accredited Conformity Assessment Bodies (CABs) the volume of work has been increased. It's forecasted that by increasing the volume of work more and more Going LIVE with DAK-MIS system will be a necessity as well and it would be possible implementation of all activities on the accreditation process of CABs.

Due to implementation of DAK-MIS System, it would be reduced considerably the volume of work and accreditation costs. Until now representatives of CABs for every document and other activities has to come physically to the DAK offices, now through this web application all activities will be performed by the location of the CAB, by the only condition, having access on the internet. The Web Application/Database for online accreditation DAK-MIS, has a crucial importance for fulfilment of the requirements of DAK customers and other Accreditation Bodies. We keep into consideration that usage of the DAK-MIS System will allow DAK to use the same number of staff, as per the unable capabilities on increasing of the DAK budget as per increase request on the DAK Staff which will be not possible. This database it would be very important instrument for quality work and helpful for surviving small Accreditation Bodies as ours.

## Conclusions

As per requirements, DAK shall improve and update the actual official Web Page and develop further the DAK-MIS System IT Application for managing the whole accreditation process online even though there are difficulties on missing the digital signature law and infrastructure to be implemented. The future DAK-MIS fully integrated system with all Accreditation Processes needs to be developed to the second phase of DAK-MIS System implementation. The 1<sup>st</sup> Part: "Initial Accreditation Process" is fully online including: E-Registration Form; Log in- Accreditation Process; Main Menu of DAK-MIS and Documentation: Documents, Rules and Standards; Application Fill-in; Application Review; Cost Estimation and Accreditation Contract Agreement; Personnel Database; Appointment of Lead Assessors; Preliminary Visit; Appointment of the assessment team; Documents and Records Review; Assessment; Report; Follow up Assessment and Decision. 2<sup>nd</sup> Part of Surveillance and Renewal of Accreditation need to be developed on the second Project online Application as the 1<sup>st</sup> Development of the System supporting the digital signature process and getting interface with the standardization system as well.

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- ISO/IEC 17024, Conformity assessment - General requirements for bodies operating certification of persons;
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# WIRELESS SENSOR NETWORKS FOR FOREST FIRE PROTECTION

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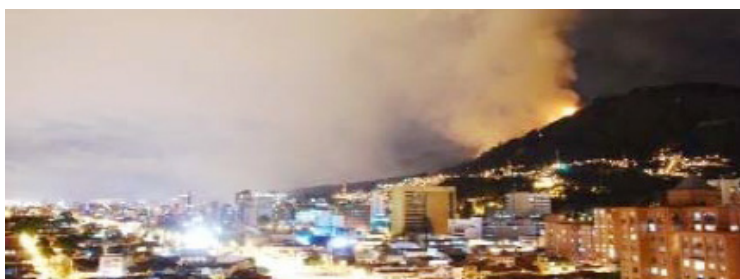
## Abstract

*The human challenges with the nature are the most difficult ones. The industrial and technology development is helping a lot in human efforts to prevent or survive the natural disasters but sometimes this is very challenging. This is the case of the use of technology tools to prevent or survive the forest fires. In this paper we present a new sensor communication protocol that would increase the possibility to prevent the forest fires. According to this protocol a certain number of sensors are deployed in critical condition areas and their communication with the base center is facilitated by the use of the hierarchical protocol. The critical condition area is divided in clusters, and for each one a center holds the communication for the whole cluster. The sensors used might record the air humidity, temperature and CO levels monitoring this way the critical areas. The sensors used can work in a sleep-wake mode for saving the energy. The information gets collected sequentially from one cluster center to the others till reaching the central data center. According to the data oscillation the control gets tuned by increasing the number of wake nodes, the number and the hierarchy levels of the clusters or the humidity, temperature or CO levels thresholds. This protocol gives the possibility to monitor the forest areas by using a tunable risk control even in the areas without any infrastructure with a minimum energy consumption and limited network load.*

**Keywords;** Wireless sensors networks, GPS, wireless sensors protocols, ad-hoc networks, hierarchical schemes, etc.

## Introduction

It's hard to believe that still in 21 century the forest fire are causing so much problems and even worse their number and surface spread is increasing. Causes are different but the main factor is the air dryness, winds and high temperatures. The peak temperatures are increasing because of the global warming problem. Other than that there are forests fires which are caused by the human nature and man-nature interaction. Several other causes of forest fires are result of agricultural activities, some can be unintentional, 16% of bonfire, careless smoking 8%, 3% forestry activities, 1% rights of way, 1% other activities production and 6% other causes [5]. Besides the natural causes there are countries and cultures where humans negligence or behavioral problems might cause the spread of forest fires. For example in Colombia, according to the Ministry of Environment, 95% of wildfires are caused by man, either intentionally or negligently.



Facing this serious challenge the people around the world developed and are continuing to find new ways how to create the best provision in order to prevent or to minimize the harm created by the forest fires. The traditional ways included cameras monitoring the critical areas, but the use of information technology, image transmission made it possible to transmit in real time the registrations of those cameras. By using the wireless communication protocols it is possible to transmit the Forest Fire Surveillance and Control communications. But the biggest problem with the camera recordings is the fact that this data is a gross grained data, which means that when the camera records the fire it is too late to prevent the spread. The use of different kinds of sensors such as humidity, temperature or CO might help to monitor and prevent the start of fire or its spread. The lack of the infrastructure such as network coverage is another challenge that disturbs the researcher's community. For this purpose many ad-hoc wireless network protocols have been developed. In this study we present a new ad-hoc wireless protocol to prevent, monitor and control the spread of forest fire. Our protocol SafeForestComm is based in IEEE802.11 and ZigBee protocols for wireless ad-hoc networks. In this protocol we consider the creation of a virtual infrastructure of group of sensors divided in clusters and communicating according to a tunable hierarchical scheme depending on the number of nodes covering a certain area.

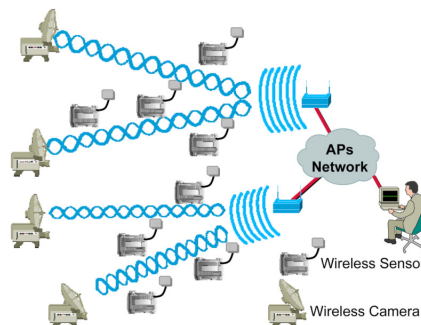
## Traditional forest monitoring systems

Several systems have been traditionally used for forest fire protection. Systems such as: Fixed Earth System with observation towers located at strategic points higher and with specialized personnel who observes and reports throughout the day the presence of fire. Another more advanced way used for forest fire prevention was the use of monitoring IP cameras covering different areas and transmitting the recorded movies to the Forest fire Control Centers. The main problems of such systems were related to the low effectiveness caused by the fact that the information transmission is not happening in real time. In both cases the moment of distinguishing the fire is the low effectiveness due to the moment of detecting the critical situation when it might be too late to control the spread of the fire. On the other hand the problems of such systems are related to the lack of the wireless infrastructure due to the fact that the forests are far away from the urban areas. The recorded images can't be transmitted if the infrastructure doesn't exist. This brings the need of using the wireless ad-hoc networks where the data transmission flows from one node to the other ones till reaching to the sink. Besides that many wireless ad hoc protocols have been developed where the monitoring of the temperature use humidity is done by sensors for sensing the risk of fire in a certain area and this is a more efficient way to prevent the disaster from happening.

## The Polytechnic University of Valencia work

As we mentioned before many problems and situations raise the need for Forest Fire Surveillance such as: High rate of forest fires throughout the world communications quality, range of surfaces surveyed, need for recording forest fire high risk situation. These are serious challenges for the research community and raise the need to use new sensing ways and communication control techniques. The Polytechnic University of Valencia work can be illustrated through the following image (fig.2). As we can see this approach considers the use of both the wireless cameras and the wireless sensors. The data collected from both of those sources is transmitted by using the wireless infrastructure.

**FIG. 2** Camera's and sensors data transmitted to the control center.



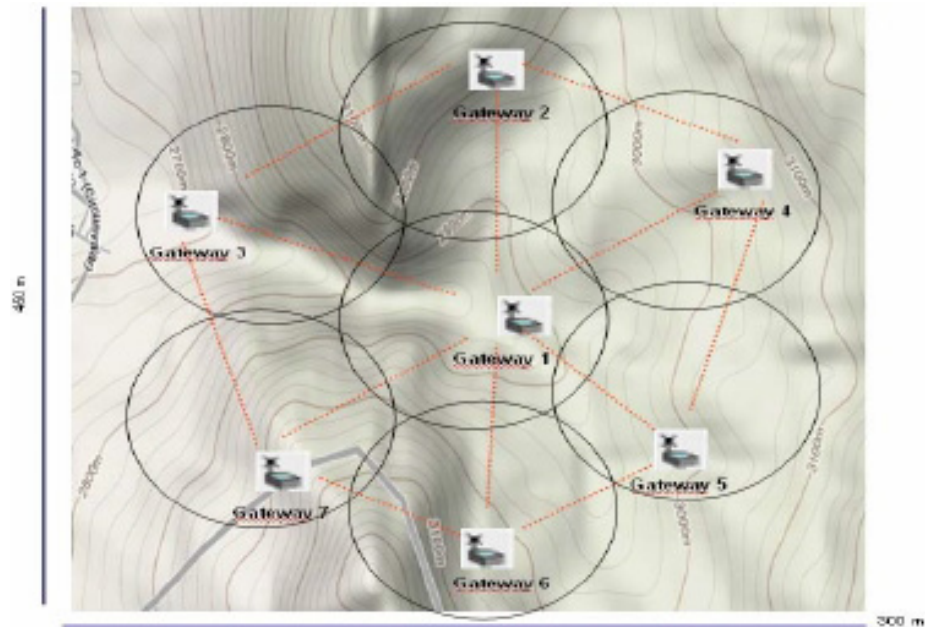
## The Columbia approach

As by the abovementioned approach there is no communication protocol and this causes delay in fire risk detection. The network load is high and this causes problem to the signal transmission quality. On the other hand the fact that this approach uses an wireless infrastructure makes it limited to certain areas. Columbia researchers are involved a lot in this research because this is related to the fact that they are the fifth most deforested country. As by their protocol temperature sensors are distributed in the critical area. Their communication is done by using the ZigBee protocol with limited distance transmission.



The communication is done through the Base Stations, which means that this protocol can be applied in infrastructure covered areas. The way how this protocol works can be explained through the Figure(3). The advantage of using this protocol is the implementation of a fine grained structure which makes it possible to collect data much earlier than the fire can be seen with human eye, the data can be transmitted by using a certain protocol which makes it possible to have a good use of network resources by having a good distribution of network load and a good signal quality. The main disadvantage of this protocol is presence of wireless infrastructure which is not possible in most of forest areas. This one and the efficient use of sensors battery is included in the focus of our work.

**FIG. 3** Clusters of Wireless Sensor Networks, interconnected nodes through their gateways



## Wireless Ad-Hoc Networks

A wireless ad-hoc network is the network created without any fixed infrastructure, but it is a dynamic network with moving nodes. This technology started to get spreaded at the beginning of years 1970 with DARPA, PRNet and SURAN projects. Later these architectures started to be used for new applications even in the civil environment. These new applications are related with new aspects of this technology like multicasting and security. These new aspects are considered in our protocol. In this work we will consider the geographical routing too, by having the use of the GPS service provided from the satellite system.

## Ad-hoc wireless sensors' network

Sensors are small units that can be used for different purposes. Those units can be used to measure temperature, humidity, density of gases or for many other purposes. Today's technological development made it possible to have sensors used everywhere and for innumerable purposes. We have heard of sensors used for weather forecast, smart homes, smart cars and also for biosensors used to sense and cure different diseases inside humans' body. But their power is multiplied when those sensors are used to work in groups forming in this way the networks' nodes. This network can be a fix or mobile one, wireless or ad-hoc. In the wireless ad-hoc sensors' network the sensors are distributed and their communication is not supported by from any infrastructure.

## SafeForestComm Protocol

In this protocol we suggest the use of both the IEEE802.11 and the ZigBee protocols by mixing them in the way which means the use of ZigBee inside the Cluster members and the use of IEEE802.11 in the case of communication between the Clusters. In order to avoid the increase in the network load the communication toward the Forest Fire Control Centers is carried on by sequential Cluster Centers. Their position is changeable and can be updated through the use of GPS, as well as their working mode which can be controlled by putting the sensors to sleep for example in the case of high humidity weather or low temperatures. The sensor in its work mode will be recording continually (we can control the data update rate according

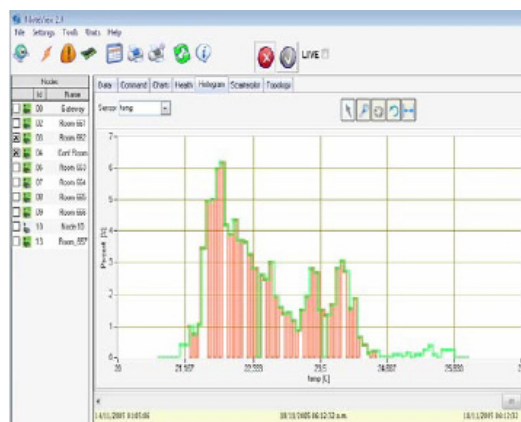
to fire risk situations) and the data recorded by each sensor will be represented through a similar histogram as the one given in fig.4.

According to SafeForestComm, it might be the case of three levels of hierarchy Cluster Centers, This can be tunable according to the rate of sensors being in work mode compared to those in sleep mode. As a result a flexible Virtual Infrastructure is created and maintained to enable scalable and effective communications. In each cluster we select one Cluster Centers (CC) for a certain interval of time. The hierarchical distribution of cluster Centers will be transferred to the hierarchy of their costs and to the communication traffic distribution.

The fact of using hierarchical communication scheme brings several benefits, such as:

- 1) Low cost for the hardware. Only the Cluster centers need to have more complex design, memory and transmission power or can be in work mode.
- 2) Low network load. Less communication load for the network. There is communication only in the directions Center-Member, there are few communications between the first and second hierarchy levels till reaching the Base Station.
- 3) Low consumption of battery power and latency in communications.
- 4) Represents a fine grained sampling scheme, which means more sampling points :more locations, higher data frequency.

**FIGURE (4):** Histogram of the variation in temperature detected by each sensor



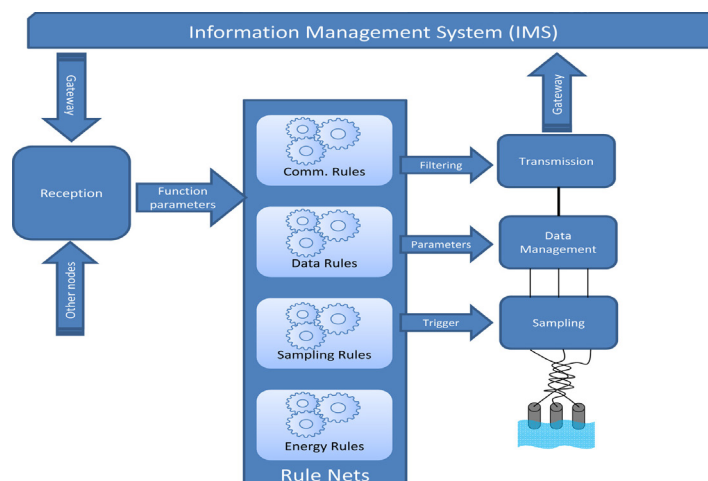
## The information flow from sensors module to Information Management System

The information flow rate that starts with the sensors position update rate and then reflected to their data collection rate can be represented by the following diagram (fig.5) At a certain rate each node updates the data from the GPS, which gives the Coordinates (x,y) for each node at a certain moment.

Then the higher ranked nodes transmit the data along to each-other, from Second Hierarchy cluster\_Centers to First Hierarchy ones, using them as intermediate communication points and finally transmit the data to the gateway ->Internet-IMS (Information Management System). This can be a data center connected to the traffic controlling centers.

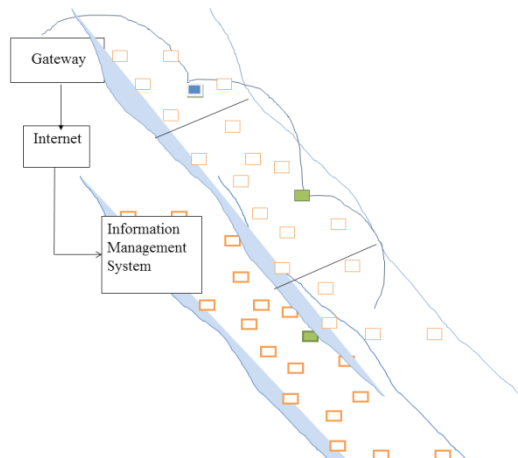
After analyzing the data and comparing to the threshold levels of temperature, humidity and CO levels, the data center (IMS) decides about the fire risk in a certain area and the measurements needed to be taken such as the use of a sprinkling system that can be controlled remotely, etc.

**FIG. 5.** The information flow from sensors module to Information Management System



For this model, we can use a packed Fire Risk Sensors Box (FRSB) that includes a microcontroller board with add-on sensors, a peripheral GPS receiver and a cellular modem. This box can be connected a solar panel which can optimize the battery consumption. The protocol to be used inside the clusters is ZigBee, but inside the higher rank hierarchy clusters is IEEE802.11. ZigBee provides higher security but IEEE802.11 supports higher range of communications. On the other hand this combination saves the power consumption.

**FIG 6:** Fire Protection Wireless Sensors distributed along the forest area

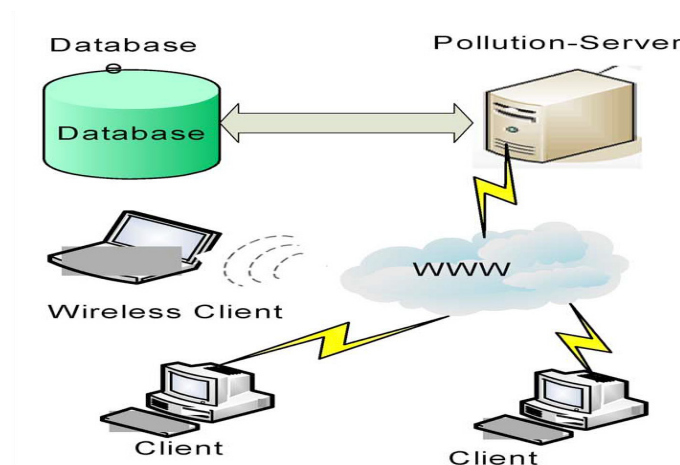


If we compare the in the cluster protocol with the between the Cluster Cells ones we can say that ZigBee represents a high-level communication protocols used to create personal area networks built from small, low-power digital radios. ZigBee is based on an IEEE 802.15.4 standard. Though its low power consumption limits transmission distances to 10–100 meters, depending on power output and environmental characteristics,[1]<sup>this</sup> can be increased by using intermediate nodes.

ZigBee is typically used in low data rate applications that require long battery life and secure networking (ZigBee networks are secured by 128 bit symmetric encryption keys.) ZigBee has a defined rate of 250 Kbit/s, best suited for intermittent data transmissions from a sensor or input device. As a conclusion we can say that this protocol contributes for a fine grained collecting data scheme which will help to have a clearer and detailed view of air pollution situation almost in real time.

In a bigger picture we can say that the use of forest fire monitoring control can be organized in different ways, as represented in fig.6 where different watch areas in a forest or in different ones collected from different owners can be transmitted in real time toward the National Forest Fire Monitoring and Control Center.

**FIG. 6.** The real time data Communication toward the National Forest Fire Monitoring and Control Center



## Conclusions and Future Work

As a conclusion we can say that this protocol contributes for a fine grained collecting data scheme which will help to have a real-time information about the high risk fire areas by monitoring continuously those areas. The advantage of this protocol consists in the fact that the information collecting rate is tunable, same as working nodes density and the hierarchical

collecting information scheme. As a result we can say that this a protocol represents a fine-grained monitoring a controlling fire protection systems that can be monitoring high risk areas by using temperature, humidity and CO sensors.

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# The role of internal audit in cyber security

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## Abstract

*While internal audit has taken some steps toward keeping up with the dynamic changings and complex technology, recently survey indicate that it appears still a challenge to address technology risks as cyber-attacks have become more sophisticated and more complex. Cyber threats to economic security are increasing in frequency, scale, sophistication and severity of impact. The ranges of cyber threat actors, methods of attack, targeted systems and victims are also expanding. In Ernst and Young 2016 report "Creating trust in the digital world", the company warns that cyber security risks have been underestimated. Cyber security refers to the measures taken to protect company data in computer-based systems from loss, destruction, unauthorized access, or misuse by unintended parties. According to IIA's 2016 Global Perspectives and Insights, Internal Audit as Trusted Cyber Adviser: "Cyber security must be considered holistically and systemically, as the effects of failure can range from an inability to conduct basic transactions, to loss of intellectual property, to potentially significant reputational damage. It is not solely a technology risk; it is a business risk and, as such, internal auditors have a critical role to play." How can internal audit help in cyber security? Yet, most survey of board members rate technology risks, most notably cyber, as high (if not at the very top) on the list of their concerns. A growing number of well-informed internal audit leaders are making steps toward positioning internal audit to be an organization's trusted cyber adviser by building competencies and demonstrating proficiency in IT issues such as cyber security and big data, and providing a full range of internal audit services related to those issues. The challenge of internal audit departments is not only to understand cyber security risks but to translate that understanding into action.*

**Keywords:** Internal audit, cyber security, cyber-attacks, technology, risks.

## Introduction

In less than a generation, we have passed from the industrial age to the digital age. Digital technologies related with digital era have an effect on every aspect of our daily lives such as our physiology, our identity and the way we built and manage relationships, our privacy and also on national issues such as economics and national defense. Consequently, internet and digital technologies are without a doubt one of the most influential and important inventions in the history of humanity. However, the technology has also undesirable consequences for our society.

The new digital technologies make companies more and more vulnerable. The technology evolves and the cyber-attacks have become more sophisticated and more complex. The increasing number of cyber-attacks and data theft cost to businesses and to the public sector several million each year. Consequently, cyber-security has captured the attention of businesses in all industries, which are investing more and more in information security. Preventing cyber-attack threats has become now a strategic priority for both private and public sector.

As awareness related to the cyber threat has increased, both public and private policymakers have developed ideas, prescriptions, technologies and advice in order to fight against cyber risks. Very often this large amount of information has led to confusion and uncertainty with a resulting paralysis of action just when clear and decisive policies are needed.



Cyber risk is not important at the same level for all companies and industries type since it can impact different fields from one sector to another (industrial systems in Industry sector, personal data and supply chain in Retail, etc.). In some sectors of activity, as Banks and Insurance, the managers are already very sensitive to this risk. However, other sectors, consider this risk as a real strategic risk. Consequently, the cyber risk must be treated, analyzed and well positioned on the scale of company's priorities, according to their business risk factors.

Internal audit is playing an important role in addressing technology risks. The role of the audit committee is crucial: it must monitor the level of management awareness and cyber threats. The Committee shall also monitor developments in business regulation and policies. Now, most of the businesses have placed technology risk and especially cyber-risk is in the top of their concerns. Internal audit managers are making steps toward positioning internal audit as an organization's cyber consultant through building competencies and demonstrating skills in IT issues such as cyber-security and providing audit services related to those issues.

The technology has changed our word and as a result the industry is developing strategies to meet these changes.

## Cyber-security Problem and Policies to address it

Technological innovations have made it easy for attackers to exploit vulnerabilities from anywhere in a matter of seconds. The exploitation of such vulnerabilities at a smaller institution such as a community bank poses the risk of a domino effect across systemically important financial institutions, and possibly other industries and economies. Attacks against the financial and non-financial sectors have, for now, been very serious, including schemes resulting in hundreds of millions of dollars in losses. Phishing, or emails designed to trick users into giving sensitive information or to download malware, is an old-fashioned method that attackers have not yet abandoned simply because it is effective. According to a survey from cyber-security firm Cloudmark, "91 percent of companies' encountered phishing attacks in 2015, with the lion's share 84 percent of companies claiming attacks successfully snuck past their security defenses". Spear-phishing, which are emails that look like they come from a trusted source, have an even more harmful effect. The pattern of sending a message to the accounting department which looks like it is from the company's CEO has become quite popular, with 63 percent of companies having encountered the tactic. Phishing is a widespread and a low-cost technique that attackers use to infiltrate corporate networks. Phishing sites can generate tens of thousands of emails with the goal of getting just one attachment opened by a consumer or employee. Some 30 to 35 such sites per day are shut down by one of the Internet Security Alliance's financial sector members in collaboration with outside vendors.

In February 2015, James Clapper, Director of National Intelligence, resumed the effects of our current vulnerability: "We must be prepared for a catastrophic large-scale cyber strike. We've been living with a constant and expanding barrage of cyber-attacks for some time. This insidious trend will continue. Cyber poses a very complex set of threats, because profit- motivated criminals, ideologically motivated hackers, or extremists in variously capable nation-states, like Russia, China, North Korea, and Iran, are all potential adversaries, who, if they choose, can do great harm."<sup>1</sup>

All the economic incentives in cyber-security favor the attackers. While hardware, software vulnerabilities, and technological standards are all-important when discussing cybersecurity, a little consideration is given to the economics of cybersecurity.

Cyber-attacks are becoming more common and technology can help to illustrate *how* they occur. However, to address this issue in a more systematic and proactive way, it is also needed to investigate *why* they occur. From a private sector viewpoint, economics is concerned primarily with the *why*.

Various independent studies from PricewaterhouseCoopers/CIO Magazine<sup>2</sup> CSIS/McAfee<sup>3</sup> have found the deciding factor in cyber-security is not technology, but economics.

When one considers the cost and the value of cybersecurity, it becomes apparent that the economic balance is slanted in favor of the attackers.

## Traditional mechanisms

Most of the modern communications are subject to cybersecurity attacks. Traditional mechanisms such as government regulation, independent regulatory agencies and consumer lawsuits are ineffective in making the security stronger in light of these threats. This is largely due to the fact that much of traditional regulatory and judicial enforcement were designed to address malfeasance and not the types of problems that the companies are facing today. The central problem with cybersecurity, however, is that technology is under attack. Technology is constantly being constructed and many companies are willing to invest in reasonable security, but there are overwhelming incentives to attack them. In the case of Enron and WorldCom scandals of the 1990s, for instance, the independent agencies and regulators, took the right side of consumers to fight against corporate malfeasance. In the present cybersecurity environment, the side of the government, consumers and industry are opposed to the vast criminal syndicates and ever more nation states.

<sup>1</sup> *Opening Statement to Worldwide Threat Assessment Hearing: Senate Armed Services Committee*, 114th Cong., (2015) (testimony of The Honorable James R. Clapper, Director of National Intelligence).

<sup>2</sup> PricewaterhouseCoopers. *The Global State of Information Security*, 2008.

<sup>3</sup> Center for Strategic and International Studies, and McAfee. *Net Losses: Estimating the Global Cost of Cybercrime*. Rep. Intel Security.

Cyber regulations should also be considered from a broader systems viewpoint. A slow pace of regulation will have an effect on investment, innovation and job creation. Major organizations find cybersecurity to be a complicated and costly undertaking, and ask to know how compliant their configuration will be before they can afford to make substantial investments?

## Cyber-security in the Banking and Financial Sector

In a digital world where the number of targets that could be hacked has grown exponentially, banks and other financial institutions remain a top target for cyber-attacks, whether for retaliation, financial gain, or data theft. State adversaries or activists disrupt the financial services industry in order to wound the interconnected global economy and the integrated nature of today's society. As cyber-attacks become more sophisticated, financial service firms are investing in cybersecurity to reduce vulnerabilities, according to a 2016 annual report by the Financial Stability Oversight Council. Financial institutions continue to be among the sectors that support above average cybersecurity programs. Nearly two-thirds of sector institutions have an overall security strategy. Forward-leaning firms are using innovative cybersecurity tools and emerging technologies to set high standards in security and privacy in the face of often redundant regulatory oversight. Yet despite the best efforts, the sector has been unable to fully counter sophisticated cyber-attacks ranging from distributed denial of service attacks to breaches of personal and financial data. The consequences of cyber-attacks are not limited to losses suffered by the attacked institution.

Financial services were one of the first industries to embrace information and communication technology, to automate inner workings and branch operations and develop innovations like credit cards and ATMs. This did not only help the sector to grow, but it also changed the behavior of retail and commercial banking customers. Consumers today have higher expectations about service, given the rapid increase of technologies available to them. Unlike their predecessors, they are more likely to shop around for products and take an interest in direct and mobile channels. At the same time, new market entrants and established competitors in the retail banking business are responding with new and compelling offerings. New technologies, such as smartphones, realistic authentication and cloud computing are influencing change, particularly in the area of mobile payment applications and instant money movement. However, as more innovations become important for market differentiation and cyber protection, the exploitation of mobile devices and applications for consumer banking has rocketed. Commercial banking, too, is expected to benefit greatly from technology as a new distributed ledger system known as blockchain moves into the mainstream. The application of encryption and algorithms has the potential to automate complex, multi-party transactions and improve the speed and accuracy of settlement systems.<sup>4</sup>

In June 2016, a group of seven financial institutions used blockchain to move money almost instantaneously via a gross settlement system known as Ripple. Since then, securities exchanges and record-keepers have enabled technologies for the formulation, processing, and settlement of highly complex trades that previously took hours or even days. High-frequency trading is now widely used by institutional investors, pension funds, unit trusts and other market participants in an effort to achieve higher returns for investors. Cybersecurity is "perhaps the single most important new risk to market integrity and financial stability," Commodity Futures Trading Commission Chairman Tim Massad told attendees of a 2015 futures industry conference<sup>5</sup>. Indeed, more than half of those surveyed by the International Organization of Securities Commissions and the World Federation of Exchanges in 2013 reported experiencing a cyber-attack during the previous 12 months.<sup>6</sup>

The insurance industry is also subject to the changes in how business is conducted in today's interconnected society. The richness of the insurers' data about credit cards, medical and other information makes them a prime target.

In its annual "Global State of Information Security Survey", PricewaterhouseCoopers noted financial services companies saw a "striking year-over-year increase in incidents attributed to highly skilled adversaries in 2015." Not only is the involvement of nation-states (and their proxies) becoming more common, but organized criminal attacks on the financial services sector jumped 45 percent in 2015. Evidence is beginning to accumulate that nation-states and well-resourced, organized criminal syndicates are partnering to perpetrate cyber-crime, sometimes engaging insiders for assistance.

The impact of cyber-attacks is not confined to losses suffered by the attacked institution. A 2015 study for the Centre for the Study of Financial Innovation highlighted the threats to the financial system itself, noting that "we may at some point see a cyber-attack so powerful on an individual bank that it could bring down the institution necessitating a state bailout." A cyber-attack on key institutions could paralyze key activities such as interbank payments for several days, which could put the entire interconnected, global financial system into chaos.

## Challenges in financial institutions and the three lines of defense

Cyber technology and attack methods are constantly changing and the regulatory process is time consuming. Furthermore, financial institutions are required to respond to duplicative cybersecurity inquiries from different regulators, or from different offices of the same regulator. In the United States, the SEC is becoming ever more insistent in monitoring and testing the cybersecurity controls of broker-dealers and registered investment advisers.

<sup>4</sup> Director Robert Hannigan Disperses Myths about Encryption in MIT Speech." *GCHQ*.

<sup>5</sup> Meyer, Gregory. "NYSE Owner Warns of Cyber Risk to High-frequency Trading." *Financial Times*. Financial Times, 13 Mar. 2015.

<sup>6</sup> Tendulkar, Rohini, and Gregoire Naacke. "Cyber-crime, Securities Markets and Systemic Risk." Working paper no. SWP2/2013. IOSCO Research Department and World Federation of Exchanges, 16 July 2013.

Mobile banking is very helpful for consumers, but opens up a window of opportunity for attackers to exploit. Cyber thieves code malicious applications targeting banking data, but it's not just banking applications that challenge cybersecurity.

Business units can integrate information technology (IT) to manage cyber risks in day-to-day decision making and operations. This makes up an organization's first line of defense. The second line includes IT risk managers who provide governance and oversight, monitor security operations, and step in as needed when instructed by the chief information security officer (CISO). Increasingly, many companies are realizing they may need a third line of cyber defense, independent review of security measures and performance by an internal audit. Internal audit of an enterprise should play a key role in identifying opportunities to strengthen security. At the same time, they have a duty to inform the audit committee and board of directors that the controls under their responsibility are in place and functioning correctly, to avoid potential legal and financial liabilities.

**The why and how of cyber-risk assessment and defense**—To explore an organization's cyber risks an answer is required to following questions:

**Who might attack?** Are they criminals, competitors, third-party vendors, disappointed insiders, hackers with an agenda of their own, or someone else?

**What business risks need to be taken into account?** Are they asking for money or intellectual property? Do they intend to disrupt the business or ruin our reputation? Could health and safety risks be created?

**What tactics might they use?** Will they test for specific system vulnerabilities, go phishing, use stolen credentials, or attack through a compromised third party?

Deloitte Advisory has identified a three-point approach to help clients address the threats identified through examining these questions:

**Secure:** Most organizations have established controls such as perimeter defenses, identity management, and data protection to guard against known and emerging threats.

Risk-focused programs prioritize controls in areas that align with top business risks.

**Vigilant:** Threat intelligence, security monitoring and behavioral and risk analyses are used to detect malicious or unauthorized activity such as application configuration changes or unusual data movement, and help the organization respond to the shifting threat landscape.

**Resilient:** Incident response protocols, forensics, and business continuity and disaster recovery plans are put into action to recover as quickly as possible and reduce impact.

Exploring who, what, and how the questions posed above in the context of a secure, vigilant, and resilient organization provides the foundation for a broad internal audit cyber-security assessment framework that will be an integral component of the organization's cyber defense initiatives.

## Audit as a mean to address cybersecurity

According to IIA, cyber-security refers to the measures taken to protect company data in computer-based systems from loss, destruction, unauthorized access, or misuse by unintended parties. As explained in The IIA's 2016 Global Perspectives and Insights: Internal Audit as Trusted Cyber Adviser, "Cyber -security must be considered holistically and systemically, as the effects of failure can range from an inability to conduct basic transactions, to loss of intellectual property, to potentially significant reputational damage. It is not solely a technology risk; it is a business risk and, as such, internal auditors have a critical role to play."<sup>7</sup>

Fortunately, the vast majority (93 percent) of them report that the risks associated with cyber-security are understood by their internal audit department. In contrast, in its 2016 report, "Creating trust in the digital world," Ernst and Young warned that cybersecurity risks had been underestimated and that too many organizations aggravated their vulnerabilities by taking an ad hoc approach to risk. Global Pulse also confirms that a little more than half (55 percent) of internal audit assert their organization uses a framework that is meant to address cybersecurity. A similar percentage of respondents (58 percent) say they provide cybersecurity-related internal audit services to their organization, either exclusively (16 percent) or through co-sourcing (42 percent). We should consider cybersecurity holistically and systemically, as the effects of failure can lead to an inability to conduct basic transactions, to loss of intellectual property, and to potentially significant reputational damage. Even though most internal audit departments may claim to know cybersecurity risks, only a few fully translate that knowledge into action by providing all of their needed organizations' cyber-security internal audit services. Yet one in four (25 percent) internal audit leaders indicate that no cybersecurity-related internal audit services have been provided to their organization because of lack of skills or knowledge and tools to audit cybersecurity, others 16 percent, report that all cybersecurity-related internal audit services are fully outsourced.

## Auditing Culture

History shows that culture can directly and negatively affect an organization's reputation, operations and finances. Board members, executives and other corporate stakeholders should be able to look to internal audit to provide assurance and

<sup>7</sup> The IIA, "Global Perspectives and Insights: Internal Audit as Trusted Cyber Adviser," 2016

advisory services that help an organization to monitor and strength its culture and generate an alert when things may go wrong. Internal audit has been assessing soft controls and an organization's general ethical climate for quite some time. However, while some are taking the steps to formally audit organizational culture, a number of factors are impeding the majority's ability to progress. Culture is established at the top, embodies the organization's believes and values, and dictates acceptable and unacceptable behavior. Unacceptable or unethical behavior puts an organization at risk and may contribute to toxic organizational cultures associated with fraud, corruption, and other types of malfeasance.

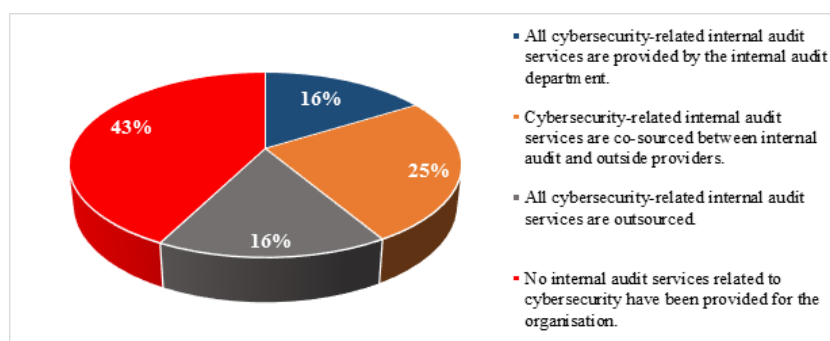
Some extreme events have even led to economic crises and eroded public trust. In 2015, a series of high-profile incidents were potentially indicative of major culture missteps, including an accounting scandal at Toshiba, allegations of bribery and corruption at FIFA, evidence of modified emissions tests at Volkswagen, and questionable reports on the impact of climate change from ExxonMobil. These examples should be a wake-up call for internal audit to guarantee on whether an organization's culture is consistent with the core values it advocates and whether it complies with laws and regulations. However, less than 28 percent of internal audit leaders state that they do audit culture.

### Cybersecurity related internal audit services

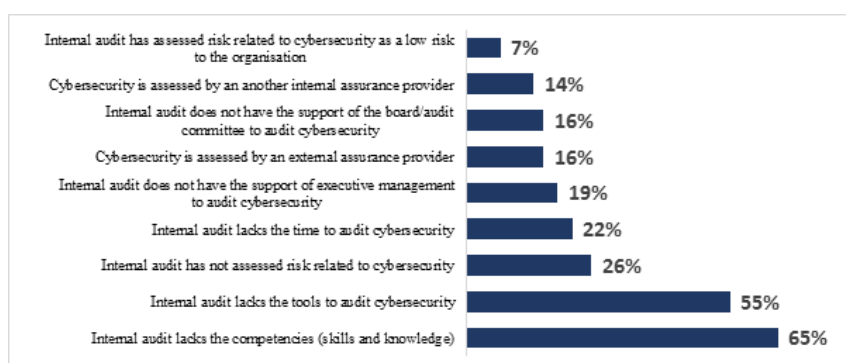
All cybersecurity-related internal audit services that the internal audit department provides are co-sourced between internal audit and outside providers.

According to a 2016 IIAF CBOK report IT and analytics are two of the seven skills that chief audit executives (CAEs) are building within their internal audit departments. CAEs also compensate for the lack of competencies and tools through co-sourcing and outsourcing arrangements.

**FIGURE 1:** Organizations cyber-security-related internal audit services providers Source: Issue 5, Global Perspectives and insights



**FIGURE 2:** Reasons why internal audit departments do not audit cybersecurity Source: Issue 5, Global Perspectives and insights



### The Audit Committee's Role in Cyber-security

Cyber risks are becoming more frequent and varied, and the potential harm they can cause to companies, their trading partners, and customers continues to grow. While most businesses take these risks seriously, more can be done both to combat the dangers and to inform company leaders about cybersecurity readiness. Internal audit has a critical role in helping organizations in managing cyber threats. They play it by providing an independent assessment of existing and needed controls, and helping the audit committee and board understand and address the diverse risks of the digital world.

The level of the audit committee's involvement in cyber-security issue differs according to company type and industry category. In some organizations, the audit committee is directly in charge of cyber-security risk, while in other organizations,

there is a separate risk committee. Companies, for which technology is the core tool of their activity, in most of the cases have a cyber-risk committee which is entirely dedicated to cyber-security. Audit committees should be always aware of cyber security trends, policy developments and main threats that affect their company, as the risks related to information and data theft can have an economic and reputational impact that can significantly affect the shareholders of the company. Despite of the formal structure in place, the fast change of technology, data growth and risks demonstrate the growing importance of understanding cyber-security as an independent business risk. In order for audit or risk committee to better understand where they should be focused they have to be always in touch with Technology Department employees. Audit committees members during cyber-security risks monitoring might be focused on two main streams:

1. The kind of data which is leaving the company and the related monitoring activities which are in place.
2. If a response plan exist for cyber-attacks, if it is up to date and the company have practiced it in the past.

### Cyber-security assessment framework

Attack and penetration procedures that evaluate components of the organization's cybersecurity readiness, are valuable, but do not provide assurance across the spectrum of cybersecurity risks. For internal audit to provide a comprehensive view of cybersecurity, and avoid providing a false sense of security by only performing targeted audits, a broad approach should be employed. Table 1 portrays a cybersecurity assessment framework built on the Secure; Vigilant; Resilient. TM concept. As shown, multiple security domains support each of the three themes. In assessing cybersecurity readiness, internal audit can benefit from understanding the capabilities within each of the 12 domains, how they are addressed today, and gaps that may exist within the organization.

**TABLE 1:** Representative cyber-security framework

Secure	Cybersecurity risk and compliance management	Secure development life cycle	Security program and talent management
	· Compliance monitoring	· Secure build and testing	· Security direction and strategy
	· Issue and corrective action planning	· Secure coding guidelines	· Security budget and finance management
	· Regulatory and exam management	· Application role design/access	· Policy and standards management
	· Risk and compliance assessment and management	· Security design/architecture	· Exception management
	· Integrated requirements and control framework	· Security/risk requirements	· Talent strategy
	· Evaluation and selection	· Information and asset classification and inventory	· Account provisioning
	· Contrast and service initiation	· Information records management	· Privileged user management
	· Ongoing monitoring	· Physical and environment security controls	· Access certification
	· Service termination	· Physical media handling	· Access management and governance
Vigilant	Threat and vulnerability management	Data management and protection	Risk analytics
	· Incident response and forensics	· Data classification and inventory	· Information gathering and analysis around:
	· Application security testing	· Breach notification and management	- User, account, entity
	· Threat modeling and intelligence	· Data loss prevention	- Events/Incidents
	· Security event monitoring and logging	· Data security strategy	- Fraud and anti-money laundering
	· Penetration testing	· Data encryption and obfuscation	- Operational loss
	· Vulnerability management	· Records and mobile device management	
Resilient	Crisis management and resiliency	Security operations	Security awareness and training
	· Recover strategy, plans and procedures	· Change management	· Security training
	· Testing and exercising	· Configuration management	· Security awareness
	· Business impact analysis	· Network defense	· Third-party responsibilities
	· Business continuity planning	· Security operations management	
	· Disaster recovery planning	· Security architecture	
SOX (financially relevant systems only)		Penetration and vulnerability testing	BCP/DRP testing

Source: Deloitte, 'Cybersecurity: The changing role of audit committee and internal audit'



The framework in Table 1 aligns with industry standards including National Institute of Standards and Technology (NIST), International Organization for Standardization (ISO), Committee of Sponsoring Organizations (COSO) and Information Technology Infrastructure Library (ITIL).

## Conclusion

Technology risks related to cybersecurity and big data occupy the most attention for many boards. Given the risks, however, the number of internal audit departments that are providing internal audit services to their organizations appears to not be at the level it needs to be. The departments that do provide these services are often helping the organization to direct its attention to the critical risk and control issues associated with cybersecurity and big data. The challenge will be for internal audit to ensure it has access to the skills, knowledge, resources, and tools in a dynamic risk environment. Leveraging co-sourcing arrangements by bringing in the appropriate subject matter expertise may prove to be imperative to many internal audit functions going forward.

Steps that will help internal audit progress toward excellence in this area include: The number of internal audit departments that are providing cyber-security and Big data related internal audit services to their organizations appears to not be at the level it needs to be given the risks.

- Fully understanding technology-related risks and their possible impact on the achievement of operational and strategic objectives.
- Leveraging the organization's technology investments to obtain the necessary tools to audit cyber-security and big data.
- Developing necessary internal audit competencies.
- Helping to foster cooperation between technology and business operations.
- Providing a comprehensive suite of technology-related internal audit services, from participation in project management teams to providing technology-related risk management and internal controls assurance to the board.

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# Analysis of the impact of financial risks on the profitability of commercial banks in Albania: period (2005-2015)

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## Abstract

*The analysis is focused on the factors that affect the profitability degree of the Albanian commercial banks. During this study three important variables in relation with bank profitability (ROE) are analyzed, such as credit risk, interest rate risk and liquidity risk. Through numerical analysis we will study the quantitative effect of each of these variables on the profitability of commercial banks in Albania. Following the study it is expected that two independent variables, the credit risk and interest rate risk will have the largest effect on the degree of profitability of the Albanian banking system compared to liquidity risk. The paper is based on an empirical study with secondary data, qualitative and quantitative data. This study provides a significant contribution within the identification of factors that affect the profitability of the banking system in Albania and important conclusions will be drawn on the way how commercial banks should manage financial risks in a more efficient manner. Recommendations that will derive from this work will serve to young researchers of academic and professional field. Paper also opens up a new way of discussion on instruments and risk management in the Albanian banking system. During the conference will be identified and will be presented to the most important independent variables that affect the profitability of Albanian commercial banks.*

**Keywords:** profitability, ROE, credit risk, interest rate risk, liquidity risk.

## Introduction

Today risk plays an important role in the activity of financial and non-financial institutions. Almost for each decision managers and executives should calculate the expected risk and return. The effective risk management is essential for the success and continuity of business activity. In the banking system, the risk management plays an important role and regulators are responsible for controlling banks risk taking in order to avoiding financial and economic crises. Some of the main impacts that directly affect the profitability of commercial banks are: Interest rate risk, Credit risk, Liquidity risk. Over the past six decades since Markowitz's seminal paper of 1952 on portfolio selection, and most financial theories and models assumed markets were frictionless, thus, in traditional asset pricing models, liquidity plays no role at all because it is assumed away. The moment these conventions are relaxed, the world changes, though not in an expected way. The vast literature on liquidity and asset pricing argues that liquidity is indeed priced and contains both theoretical models and empirical findings detailing how an asset's liquidity affects expected returns. The interest rates are among the most monitored indicators in an economy because of the self importance that they have. Basically, the interest rates represent the cost of borrowing, so the price of credit and as such they affect both the personal, family and business everyday decision making as well as the economic development of the country

## Literature review

### Bank Liquidity on Bank Performance

There are a very bank performance. Surprising most of these few studies were done on manufacturing companies. Some writers found a positive relationship limited number of studies that were specifically carried out to investigate the impact of liquidity on between Bank liquidity and performance; some found a negative relationship while others found both results and a few found no relationship at all. The debate is still rampant. Kosmidou, Tanna, and Pasiouras (2005) realized that the ratio of liquid assets to customer and short term funding is positively related to ROA and statistically significant. Also, they found a significant positive relationship between liquidity and bank profits. Kosmidou (2008) examined the determinants of performance of Greek banks during the period of EU financial integration (1990-2002) using an unbalanced pooled time series data set of 23 banks and found that less liquid banks have lower ROA. This is consistent with their previous findings like Bourke (1989) who found out that there is a positive relationship between liquidity risk and bank profitability. Recently, Olagunju, David and Samuel (2012) found out that there is a positive significant relationship between liquidity and profitability. They concluded that there is a bi-directional relationship between liquidity and profitability where the profitability in commercial banks is significantly influenced by liquidity and vice-versa.

Assuming that banks only hold liquid assets as a requirement is, in itself, perfidious or a deliberate ignorance of knowledge of how banks function. Shen, Chen, Kao, and Yeh (2010) assert that in market-based financial system liquidity risk is positively related to net interest margin an indication that banks with high levels of illiquid assets receive higher interest income. Conflicting to their earlier establishment on the relationship with net interest margin, they realized that liquidity risk is negatively related to return on average assets and also inversely related to return on average equity. They pointed out that banks incurred higher funding cost in the market if they have illiquid assets as they had to raise the money in the market to meet the funding gap. They also discovered that there is no relationship between liquidity risk and performance in a bank based financial system as the banks play a major role in financing; therefore they are not affected by liquidity risk. Ben Naceur and Kandil (2009) in their analysis of cost of intermediation in the post capital regulation period which included; higher capital-to-assets ratios, an increase in management efficiency, an improvement of liquidity and a reduction in inflation found out that Banks' liquidity does not determine returns on assets or equity significantly.

Therefore conclusions about the impact of banks' liquidity on their profitability remain ambiguous and further research is required.

### Definition of credit risk

The main risk faced by the banks today is credit risk, which is defined as: "The potential that a borrower will fail to meet its are required by law to maintain Loan Loss Reserves<sup>1</sup> in order to cover the losses caused by the loans. Credit risk arises from a obligations (principal, interests, commissions), on time or in accordance with the agreed terms "<sup>2</sup>. Banks debtor being unlikely to pay its obligations or its financial capacity deteriorated resulting in an economic loss for the bank. The loss could be equal to the entire amount of the loan or a part of the loan granted to the borrower. The loss results from a reduction of loan portfolio value resulting from the deterioration of actual or perceived loans quality. The real credit risk is the deviation of portfolio performance from the expected value. Credit risk is also the risk of deterioration of the financial position of the issuer of securities (stocks, bonds). Credit risk rise from loan agreements signed between a bank and individuals, corporations, financial institutions or state. For the majority of banks loans are the most important and most visible source of credit risk, however, credit risk derives from other banking activities such as on and off balance sheet activities<sup>3</sup>. Banks are facing credit risk also when they trade various financial instruments including: bank receipts, interbank transactions, exchange rate transactions, future, swaps and options contracts. The credit risk can be categorized according to the reasons of the failure. For example the failure may be due to the country in which the bank has the exposure or as a result of problems in the performance and completion of the transactions. The bank should identify, measure, monitor and control the credit risk related to its activities and determine capital adequacy ratio. The main objective of the Credit Risk Management is to maximize bank return adjusted to the risk and keeping an acceptable level of exposure to credit risk. The risk must be managed on "Related Parties"<sup>4</sup> level. The effective management of credit risk is essential for the long-term success of any banking institution. The exposure to credit risk continues to be the source of problems for banks worldwide and their supervisors should be able to extract valuable lessons from past experiences. Regardless the fact that the practices related to credit risk management may vary among banks, depending on the nature, complexity of activities, of loan etc., the risk management structure will be similar.

<sup>1</sup> Loan Loss Reserve

<sup>2</sup> Orfea Odhuci, Advanced Bank Management 2009

<sup>3</sup> On and off balance sheet items

<sup>4</sup> Related Parties: Two or more individuals or legal entities 1) where one has control over the other, directly or indirectly, or 2) are connected in such a way that the deterioration of the financial situation of one can lead the other to the same situation, because losses, gains or paying capacity can be easily transferred to the other/others.

## The interest rates and their impact

The interest rates are among the most monitored indicators in an economy because of the self importance that they have. Basically, the interest rates represent the cost of borrowing, so the price of credit and as such they affect both the personal, family and business everyday decision making as well as the economic development of the country. When the real interest rates are low in an economy are encouraged the investments and borrowings while when the real interest rates are high we have a contraction of the credit's delivery as funds become more costly. The impact arising from changing interest rates called differently interest rate impact represents the impact that the interest rate changes cause additional costs for the banking sector and affect negatively the net incomes from interest and the net value of bank capital. In the balance of commercial banks more than 50% of the total income derived from interest income and this makes banks more exposed to the interest rate impact and therefore the ALM managers pay particular attention that in order this impact does not affect the performance of banking activity. The interest rate impact is increased in recent years as a consequence of the international financial crisis and with the aim of identifying and reducing this impact in a timely manner by banks and branches of foreign banks that operate in Albania, the Bank of Albania in April 2013 has issued an instruction "On the administration of the interest rate impact in the bank's book" in which are determined the basic requirements and regulations for the management of interest rate impact in the bank's book, the method of calculation of the exposure towards the interest rate impact as well as reporting to the Bank of Albania.

### Sources and effects of interest rate impact

The interest rate impact may derive from various factors and among the most important are: reprising impact, yield curve impact, basic impact and options' impact. Reprising impact is one of the impacts that commercial banks face more often. This impact arises from the difference in maturity between assets and liabilities with fixed interest rates and from the reprising of bank assets and liabilities with changeable interest rates and makes that an interest rate change brings unequal changes between the assets and liabilities and net income from interest by exposing the bank to interest rate impact. The discrepancy between the maturities of the portfolio of a bank may refer it to the yield curve impact. This impact arises when unexpected changes to the shape and inclination of the yield curve affect negatively the bank incomes or the market value of banking capital. The basic impact arises when the interest rates imposed on loans and the interest rates placed on deposits for the same maturities are not assigned to such levels that the bank can realize profits and a change of interest rate can bring it a significant spread between incomes and expenses for interest resulting in financial losses. The options' impact arises when the bank owns sensitive options toward the interest rate, these options may be related to securities or not. The change of the interest rates of these options exposes the net income toward the interest rate impact bringing losses to the bank. As also mentioned above, the interest rate fluctuation affects the net income from interest and the economic value of the bank. These two indicators serve to the bank for the assessment of exposure to interest rate impact. The income analysis considers the impact of interest rates change on the realized incomes. This analysis is used by almost all banks because incomes of the bank have a great importance for the bank, the reduction of incomes or the bank losses could threaten the financial stability of the bank and the capital value. The income analysis is divided into two parts, the first part analyzes the relationship of net income from interest to total income and directly sees the connection between the interest rate changes and the income from them and the second part analyzes the relationship between the incomes generated by other activities to the total income as the interest rates change also affects to the latter, although not directly. The analysis of the economic value of the bank serves mostly to the shareholders and managers of the bank to assess the net capital value since the economic value takes into account the potential impact of interest rates change on the present value of cash flow that in future shows a clearer picture of the impact of the interest rate change on a long-term period.

## Methodology and model of the research

The study analyze 41 observations, which include quarterly data from December 2005 to December 2015. The data used are secondary data published by the Bank of Albania:

1. ROE which is a dependent variable and it is expressed in Million Lek (Albanian Currency).
2. Credit risk is an independent variable and it is expressed in Million Lek.
3. Interest rate risk is an independent variable and it is expressed in Million Lek.
4. Liquidity risk is an independent variable and it is expressed in Million Lek.

In order to determine the effect of liquidity risk management on banks profitability the Ordinary least squares (OLS) methode is used through applying the statistical program Eviews on the quantitative data published by the Bank of Albania for the period December 2005 - December 2015.

A regression model is employed in order to analyze the relation between Credit risk, Interest rate risk, Liquidity risk and ROE:

$$Y_i = \beta_0 + \beta_1 X_i + u_i$$

As the study has more than one independent variable a multiple regression model should be employed. The regression equation will be:

$$Y_i = \beta_0 + \beta_1 X_{i1} + \beta_2 X_{i2} + \beta_3 X_{i3} + \dots + \beta_n X_{in} + u_i$$

Based on the above equation and the variables used in this study, the econometric equation for the model is specified as following:

Hypothesis:

$$ROE_t = \beta_0 + \beta_1 \text{CreditRisk}_t + \beta_2 \text{InterestRateRisk}_t + \beta_3 \text{LiquidityRisk}_t + u_i$$

1. Analysis and data interpretation

To test the hypothesis of this research the following variables are analyzed:

a. dependent variables (ROE) ; and

b. independent variables (Credit risk, Interest rate risk, Liquidity risk).

The model is based on the analysis of a multiple regression equation and statistical program Eviews is applied on the data. The results of the tests are presented in the following tables.

Hypothesis : Credit risk and liquidity risk have an impact on Albanian commercial bank ROE while interest rate risk does not have an impact on Albanian commercial bank ROE.

$$ROE_t = \beta_0 + \beta_1 \text{CreditRisk}_t + \beta_2 \text{InterestRateRisk}_t + \beta_3 \text{LiquidityRisk}_t + u_i$$

Dependent Variable: ROE				
Method: Least Squares				
Date: 04/24/17 Time: 09:43				
Sample: 2005Q4 2015Q4				
Included observations: 41				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	24.07035	4.646588	5.180221	0.0000
CREDITRISK	-0.021295	0.005581	-3.815409	0.0005
LIQUIDITYRISK	-1.076945	0.293847	-3.664986	0.0008
INTERESTRATERISK	-0.147668	0.175693	-0.840493	0.4060
R-squared	0.487023	Mean dependent var		3.123942
Adjusted R-squared	0.445430	S.D. dependent var		2.852229
S.E. of regression	2.124039	Akaike info criterion		4.436984
Sum squared resid	166.9270	Schwarz criterion		4.604161
Log likelihood	-86.95817	Hannan-Quinn criter.		4.497861
F-statistic	11.70933	Durbin-Watson stat		1.673325
Prob(F-statistic)	0.000015			

Source: Author's computation, 2017

The established multiple linear regression equation becomes:

$$ROE = 24.07035 - 0.021295 \text{CreditRisk} - 1.076945 \text{LiquidityRisk} - 0.147668 \text{InterestRateRisk}$$

F-statistic, which measures the common importance of the explanatory variables, is statistically significant at the 5 % level, according to the corresponding value of probability 0.000015. According to this, the model used is appropriate. Results show that the coefficient Credit Risk is statistically significant at the 5% level with a probability of 0.0005 and implies a negative correlation between the variables. Keeping all other coefficients constant, an increase of 1 unit in the variable Credit Risk will lead to a decrease in the variable ROE by 0.021295 units. The regression analysis shows that the probability of Liquidity Risk coefficient is 0.0008 and it is statistically significant at the 5 % level. Keeping all other coefficients constant, an increase of 1 unit in the variable Liquidity Risk will lead to a decrease in the variable ROE by 1.076945 units. Results show that the coefficient of Interest Rate Risk is not statistically significant at the 5% level because the probability is 0.4060.

Adjusted  $R^2$  0.487023 (48,70%) suggests that 48.70% of the total variation in ROE of commercial banks in Albania is explained by joint variations in the independent variables.

## Conclusion/ recommendations

This paper studies the impact of credit risk, liquidity risk and interest rate risk on the profitability of commercial banks in Albania during the period 2005-2015. To analyze the relationship between credit risk, liquidity risk and interest rate risk with profitability of banks secondary data published by the Bank of Albania were collected for 16 commercial banks operating



in Albania during the period 2005-2015. ROE was used as indicators to measure the profitability of banks and credit risk, liquidity risk and interest rate risk as indicators of financial risk. Statistical program Eviews was applied on the collected data to test the hypothesis of this research.

The results of the regression analysis indicate that the correlation between Credit Risk and ROE is statistically significant at the 5% level with a probability of 0.0005 and implies a negative correlation between the variables. Keeping all other coefficients constant, an increase of 1 unit in the variable Credit Risk will lead to a decrease in the variable ROE by 0.021295 units.

Also the results of the regression analysis show that there exist a negative correlation between Liquidity and ROE and this correlation is statistically significant.

Keeping all other coefficients constant, an increase of 1 unit in the variable Liquidity Risk will lead to a decrease in the variable ROE by 1.076945 units.

Results show that the coefficient of Interest Rate Risk is not statistically significant at the 5% level because the probability is 0.4060.

Based on these results the commercial banks in Albania should be more focused on Credit Risk and Liquidity Risk

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