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EDITOR SPEECH

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- Management, Business and Economics
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- Mechatronics, Robotics, Energy and Systems Engineering
- Architecture, Integrated Design, Spatial Planning,
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This conference is the major scientific event of the UBT. It is organizing annually and always in cooperation with the partner universities from the region and Europe.

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This conference is sponsored by EUROSIM - The European Association of Simulation.

We have to thank all Authors, partners, sponsors and also the conference organizing team making this event a real international scientific event.

This year we have more application and publication than last year. Congratulation!

Edmond Hajrizi, Chair
UBT- Higher Education Institution
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Abstract. This paper examines the impact of remittances on labor force participation in Kosovo using propensity score matching. Investigating whether remittances have any impact on labor force participation is of utmost importance for the case of Kosovo since still today the rate of unemployment and dependency on remittances are very high. Using the Household Budget Survey 2011, this paper applies the propensity score matching techniques to identify the matching group. Through nearest neighbor matching method, this study obtains the matching results, showing the difference in labor force participation between the remittance recipient and non-recipient household members. Covariates used in the model contain information about household and household members characteristics including age, gender, marital status, education, area of living, etc. Empirical findings of the study are in line with a growing body of literature and economic that the presence of remittances leads to a reduction in the rate of labor force participation.

Keywords: Remittances, Labor force participation, Propensity score matching, Kosovo

Introduction

This paper aims to examine whether remittances have an impact in altering the labor market participation in Kosovo using the Household Budget Survey 2011. Investigating this effect is of utmost importance for the case of Kosovo since these findings can contribute to the economic development of the country, as still today the rate of unemployment and dependency on remittances remain very high. Remittance inflows have a profound impact on developing countries, presenting the second largest external financial source (Adams and Page, 2005).

Based on the latest annual report of IMF (2016), remittances today in Kosovo have shown an increase of 8.5 percent by reaching an amount of 752.4 million euros (see Figure 1), and are expected to continue growing in the future. Eurostat statistics show that remittances account for 16.7 percent of country’s GDP while constituted 18 percent of the GDP in 2011.
Fig. 1. Remittances in Kosovo during 2005-2015 period. Source: Central Bank of Kosovo, Annual Reports

Nonetheless, the effect of remittances on employment decision of recipient household members has been a controversial topic for a long time now. While remittances can have several positive impacts on economic development of receiving countries, such as alleviating poverty, improving education and smoothing consumption (World Bank, 2006; Petreski et al., 2013), they are sometimes considered as disincentives or discouragements for the labor market. On one hand, it is argued that remittances have a positive impact on labor force participation by allowing recipient household members to get involved in business investments (Kilic et. al., 2009) and accumulate assets or increase self-employment (Adams, 2005). On the other hand, if only used for consumption and leisure spending, remittances can discourage labor market participation by increasing reservation wage. To measure the impact of remittances on labor force participation for Kosovo this study makes use of the rich dataset of Household Budget Survey (HBS) 2011 and concentrates on the effect of remittances on the labor force participation of household members. HBS is a statistical questionnaire that covers families in rural and urban territories of Kosovo assessing information on individuals and household characteristics such as consumption expenditures, household income, self-consumption, key measures of living conditions as well as economic, social and demographic characteristics of household members. The survey sets up the standard demographic characteristics of all family members and the labor status of individuals over 12 years old. This study uses this dataset, as it contains information that is directly relevant to the impact aimed to measure. The data used for this study dates back to 2011 and is not the latest version of household data collected by Kosovo Agency of Statistics but it is the one I was granted the access to. Even though limited to a year, findings of this paper it can serve as an avenue for further research and a base of comparison with other studies.

In order to see whether remittances act as discouragement tool for potential job seekers, this study addresses the following research question: Do remittances alter force participation by acting as disincentives for recipient household members to participate in the labor market?

Data and Descriptive Statistics

The objective of this section is to provide descriptive statistics of the variables utilized. Table 1 is presented below to compare the means of the two groups in terms of relevant variables.
Results and Discussion

The first step of a propensity score modeling begins with a logistic regression model where treatment status (receiving remittances) was regressed on the baseline characteristics shown previously in Table 1. This will allow us to predict the reception of remittances (treatment) based on a set of characteristics listed below.

Table 2. Estimation of the probability of receiving remittances. Source: Household Budget Survey 2011 and author’s calculations.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Remittance Recipient</th>
<th>Non-Recipient</th>
<th>Diff.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Std. Er. [95% Conf. Interval]</td>
<td>Std. Er. [95% Conf. Interval]</td>
<td>T-value</td>
</tr>
<tr>
<td>Employed</td>
<td>.011 .149 .191</td>
<td>.005 .336 .358</td>
<td>12.35***</td>
</tr>
<tr>
<td>Less than primary</td>
<td>.014 .413 .469</td>
<td>.006 .346 .368</td>
<td>-5.67***</td>
</tr>
<tr>
<td>Primary</td>
<td>.012 .211 .258</td>
<td>.005 .221 .240</td>
<td>-0.32</td>
</tr>
<tr>
<td>Secondary</td>
<td>.013 .260 .312</td>
<td>.005 .322 .343</td>
<td>3.26***</td>
</tr>
<tr>
<td>Tertiary</td>
<td>.005 .027 .049</td>
<td>.003 .073 .086</td>
<td>5.13***</td>
</tr>
<tr>
<td>Total Education</td>
<td>.043 4.769 4.937</td>
<td>.017 5.142 5.210</td>
<td>6.94***</td>
</tr>
<tr>
<td>Male</td>
<td>.014 .426 .482</td>
<td>.006 .489 .512</td>
<td>2.99***</td>
</tr>
<tr>
<td>Urban</td>
<td>.014 .335 .389</td>
<td>.006 .526 .549</td>
<td>11.41***</td>
</tr>
<tr>
<td>Age</td>
<td>.429 35.369 37.054</td>
<td>.163 34.631 35.268</td>
<td>2.86**</td>
</tr>
<tr>
<td>Age_square</td>
<td>33.744 1468.004 1600.412</td>
<td>12.419 1396.301 1444.991</td>
<td>23.36***</td>
</tr>
<tr>
<td>HHsize</td>
<td>.093 6.242 6.608</td>
<td>.042 6.994 7.159</td>
<td>5.85***</td>
</tr>
<tr>
<td>Married</td>
<td>.014 .559 .614</td>
<td>.006 .585 .607</td>
<td>0.65</td>
</tr>
<tr>
<td>Max_education</td>
<td>.039 5.844 5.998</td>
<td>.015 6.272 6.333</td>
<td>9.20***</td>
</tr>
<tr>
<td>Nr_workinage</td>
<td>.057 4.296 4.521</td>
<td>.026 4.894 4.996</td>
<td>7.82***</td>
</tr>
<tr>
<td>Income</td>
<td>12.320 442.5 490.9</td>
<td>4.270 487.8 504.5</td>
<td>2.53***</td>
</tr>
<tr>
<td>Region</td>
<td>.058 3.661 3.887</td>
<td>.023 4.065 4.154</td>
<td>5.48***</td>
</tr>
<tr>
<td>Ferizaj</td>
<td>.012 .182 .227</td>
<td>.004 .121 .137</td>
<td>7.02***</td>
</tr>
<tr>
<td>Peje</td>
<td>.009 .105 .142</td>
<td>.004 .156 .172</td>
<td>3.59***</td>
</tr>
<tr>
<td>Prizren</td>
<td>.009 .106 .143</td>
<td>.004 .124 .140</td>
<td>0.70</td>
</tr>
<tr>
<td>Pristine</td>
<td>.004 .0912 .126</td>
<td>.004 .164 .181</td>
<td>5.56***</td>
</tr>
<tr>
<td>Gjilan</td>
<td>.010 .122 .162</td>
<td>.004 .127 .143</td>
<td>-0.65</td>
</tr>
<tr>
<td>Mitrovice</td>
<td>.012 .181 .226</td>
<td>.004 .123 .138</td>
<td>6.70***</td>
</tr>
<tr>
<td>Gjakove</td>
<td>.008 .077 .109</td>
<td>.004 .129 .1446</td>
<td>8.18***</td>
</tr>
</tbody>
</table>

Results and Discussion

The first step of a propensity score modeling begins with a logistic regression model where treatment status (receiving remittances) was regressed on the baseline characteristics shown previously in Table 1. This will allow us to predict the reception of remittances (treatment) based on a set of characteristics listed below.

Table 2. Estimation of the probability of receiving remittances. Source: Household Budget Survey 2011 and author’s calculations.

Logistic regression

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>z-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-3264.7808</td>
<td>0.0659</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Log likelihood = -3264.7808

Number of obs = 8731
LR chi2(19) = 460.33
Prob > chi2 = 0.0000
Based on the logistic estimations, we see that living in a bigger household increases the probability of receiving remittances. This would lead to the intuitive explanation that households with more members have more expenses hence have higher probability of receiving remittances as financial support. However, this result is not shown to be statistically significant. Having less working age household members in a household on the other hand increases the probability of receiving remittances. The probability of receiving remittances in a household with more working is lower. The more working people within a household, the more income for the family and the lower the need for receiving remittances. Living in urban areas decreases the likelihood of receiving remittances, which can be related to the fact that people living in rural areas of Kosovo are poorer and in greater need of financial support, whereas people residing in urban areas have greater job opportunities and potential to earn more. Variables; age and married are not shown to have a statistically significant effect on the probability of receiving remittances. The probability of receiving remittances also decreases when the household member is male, which can be related to the fact that the ratio of men to women employed in Kosovo is much higher, especially in rural parts of Kosovo. As presented, level of education is negatively related to the likelihood of receiving remittances, the higher the level of education the lower the probability of receiving remittances.

Figure 2 visualizes the difference in distributions of propensity score between remittance recipient and non-recipient group, based on selected covariates. It draws the extent to which propensity scores distributions in treatment and matched groups overlap. To test the hypothesis stated in the beginning of this study that remittances have an impact in altering the labor market participation; I examine the difference in the probability of being employed. In order to do so, data was categorized in three groups: treated, non-treated and matched. In total, there are 1,200 remittance-receiving or treated household members. However the common support consists of 7,531 participants.
Fig. 2. Propensity score histogram by treatment. Source: Household Budget Survey 2011 and author’s calculations.

Finally, Table 3 presents the differences in mean labor force participation between remittance receiving household members and non-remittance receiving ones. Since simply comparing the difference in labor market participation between remittance recipients and non-recipients would lead to bias and selectivity issues; a control group is crucial to have relevant insight.


<table>
<thead>
<tr>
<th></th>
<th>Sample</th>
<th>Treated</th>
<th>Not Treated</th>
<th>Difference</th>
<th>S.E</th>
<th>T-stat</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employment</strong></td>
<td>Unmatched</td>
<td>.171</td>
<td>.347</td>
<td>-.176</td>
<td>.014</td>
<td>-12.24</td>
</tr>
<tr>
<td><strong>Sample</strong></td>
<td>Treated Controls</td>
<td>Difference</td>
<td>S.E</td>
<td>T-stat</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ATT</strong></td>
<td>.171</td>
<td>.307</td>
<td>-.136</td>
<td>.019</td>
<td>-7.14</td>
<td></td>
</tr>
</tbody>
</table>

Note: ATT means average treatment effect on the treated
- **Sample Unmatched**: original sample size (comparison of all treated to untreated)
- **Sample ATT**: the average treatment effect on the treated. The sample of individuals that include remittance recipients and matched individuals for each treated unit.
- **Treated**: the average employment of individuals receiving the treatment (remittances).
- **Not Treated**: the average employment of individuals not receiving the treatment (remittances).
- **Controls**: the average employment of matched individuals; group of individuals with similar characteristics to treated group except for reception of remittances
- **Difference**: the mean difference between treated and not treated group in full sample and between the treated and control group (matched group)
Conditional on the observed covariates, when remittance recipients are paired with non-recipients with similar propensity scores, the estimated effect of remittances is shown to be statistically significant at 5 percent level of confidence. The average effect of treatment on treated (ATT) shows that the probability of participating in the labor market is greater for individuals who do not receive remittances and the difference is large enough to conclude that this estimated effect of remittances is statistically significant. Not receiving the treatment (remittances) raises the average participation in the labor market by .136 for individuals in the matched group (controls).

Conclusion

This paper provides evidence on the effect of remittances of labor supply of Kosovo by comparing the labor force participation rate of remittance recipients to non-recipients and controlling for selection bias. It adds to the existing literature by studying a specific survey of Kosovo households in 2011 and using a different methodology compared to previous studies. To conclude, the findings of this study are in line with the theoretical framework used and expectations of a growing body of literature. Certainly this paper is not without limitation but it can serve as avenue for further research, where it would be interesting to expand this study by investigate the working hours in the labor market to see whether remittances alter the hours devoted to work or substitute one activity for another. Expanding the research and investigating the remittance impact on labor force participation in to time series analysis could be another way to grow this study in the future.

References

Challenges to Internal Audit in Public Sector Organizations

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Abstract. The report addresses the problems and challenges of internal audit, particularly in public sector organizations. Attention is drawn to the ten-year experience of its implementation, its weaknesses and suggestions for overcoming it, as well as the reporting problems, stages and levels to preserve the independence of the internal audit. Considerations have already been made in this direction, as well as expected ones, incl. and developing a strategy for the development and improvement of internal auditing in the future, along with the so-called three lines of protection and the expected benefits of this.

Key words: internal audit; public sector; independence; financial management; control

Introduction

Ten functioning of these organizations in accordance with the principles of sound financial management and the requirements of the legislation. An analysis of the internal audit activity shows that few successes have been achieved, despite a number of issues related to its organizational and functional build-up years after the introduction of the internal audit in the public sector organizations of the Republic of Bulgaria we can accept it as an effective activity to ensure the optimal.

The Internal Audit Units (IAUs) in the Public sector (PS) organizations are already working in line with the requirements of international standards and have adopted the ideas of continually improving the quality of their operations. Internal auditors in their work implement a systematic and disciplinary approach to a uniform and unified methodology and professional standards to determine audit objectives and audit risks. In the internal audit, familiar levels of the audit process are implemented and respected - planning, checking, reporting and tracking written recommendations. For this purpose, methods of effective control / organoleptic methods, documentary methods, modeling methods, computational and analytical methods, etc., are used for the purposes of collecting audit evidence and expressing an independent audit opinion for assurance through the audit report or for consultation of the head of the organization.

Requirements for Internal Audit

The implementation of the internal audit in the public sector is related to the observance of the main principles of the internal audit, such as:

- Independence and objectivity or internal audit work should be independent and internal auditors must be objective in the performance of their work. Ensuring the independence
of the internal audit implies that the head of the internal audit should report at such a level in the organization that allows the internal audit unit to perform its duties. Internal auditors must have an unbiased and impartial attitude and avoid conflicts of interest;
- Competence and professional care or internal auditors have the necessary knowledge, skills and other abilities to fulfill their individual responsibilities. They must provide only those services for which they have the necessary knowledge, skills and experience and are in compliance with the Internal Audit Act in Public Sector (IAAPP) and the International Standards for Professional Internal Audit Practice (ISPPIA). Internal auditors should take care and skills that are expected from a reasonably prudent and competent internal audit;
- Integrity and confidentiality, or internal auditors, should build trust that creates a basis for the reliability of their judgment. Confidentiality requires internal auditors to respect the value and ownership of the information they receive in the course of their work and not to disclose information without being authorized to do so unless they have a legal or professional duty to do so.

Internal Audit issues

However, there are still some problems in the organization and effective functioning of internal audit in public sector organizations in the country, and one of them is in regulating and carrying the management responsibility of the heads of the PC regarding the management of the internal audit. It is necessary to compare or relate to the possibilities to minimize the impact of the management subjectivism towards the functioning of the internal audit in these organizations in accordance with the requirements of the international standards and good practices in this respect and to what extent the requirements of the international standards for ensuring the independence of the internal audit and limiting its scope.

Currently, in the Republic of Bulgaria, the guidelines of the Internal Auditors Institute (IAI) regarding internal auditing in public sector organizations are legislatively regulated in the Public Sector Internal Audit Act. In practice, this law regulates the nature, principles and scope of internal auditing in public sector organizations, the status and functions of structures and individuals implementing it, or it incorporates into the Bulgarian public sector practice the international framework of the IAI for internal audit. In addition to the law, the International Standards for Professional Practice on Internal Audit and the Internal Audit Manual issued by the Ministry of Finance are adopted and applied in our country.

Both in the Standards and in the Law leading to the organization and implementation of the internal audit is its independence. Standards 1100 and 1110 state that "the internal audit must be independent and internal auditors must be objective in the performance of the work" and that no one can interfere in their work, independence is a lack of circumstances, which threaten the ability of the internal audit or its manager to perform its functions in an unbiased manner.

The IAAPP also regulates the principle of independence as a leader in conducting internal audit work in public sector organizations.

Thus, it is necessary to conclude that the problem of the independence of internal audit is key and directly dependent on the management's understanding of public sector organizations about its role, place and importance for effective governance, and corresponds to the leadership's commitment to their managerial responsibility.

The Financial Management and Control Act in the Public Sector (FMCAPC) defines management responsibility and regulates the responsibilities of the managers of the public sector organizations for its implementation, including the provision of the internal audit function in accordance with the legislation in force. In accordance with the FMCAPC and The methodological instructions of the Minister of Finance, management responsibility can be defined as an obligation of the managers to carry out certain activities aimed at Reaching goals
of the organization by carrying out every action, observing the principles of legality, sound financial management and transparency, including to account for their actions.

In this respect, the line of reporting by the Head of Internal Audit to the Head of the Organization and the Audit Committee, or in other words, must be reported at a level of the organization that allows the Internal Audit to fulfill its responsibilities. International standards for professional practice in internal audit indicate that in order to ensure the organizational and functional independence of the internal audit it is necessary for the Head of Internal Audit to report functionally and administratively at different levels of the organization. Otherwise, focusing the internal audit reporting lines on a single person - the organization's manager may lead to exposure to internal audit risk by impairing independence, objectivity and narrowing the scope. (Maybe this is the case with the CCB - Corporate Commercial Bank, though not from the PC, but as a public interest organization).

There are also issues related to objectivity, scope, quality of audit activity, especially in the internal audit of municipalities. A major challenge is its ability to help increase the efficiency of public spending and help to build a reliable defense of the interests of the state or the municipality concerned.

**Opportunities for internal audit development**

The study of internal audit practices in other EU Member States shows that different ways to develop internal control and internal audit are being implemented: organizing structural reforms in organizations, introducing a double reporting line to audit committees in ministries and municipalities, and before the respective managers to ensure the functional independence of the internal audit, as well as its partial centralization.

**A large part of the problems can be solved with some changes in legislation such as:**

- Changes to the current Internal Audit Act in Public Sector with regard to the introduction of a mandatory internal audit in public sector organizations to oblige managers in second- and third-degree budget spending organizations to set up an internal audit activity, provided that they manage budgets, for example over 5 million leva;

- Changes in the current legislation regarding the mandatory establishment of Audit Committees and their composition, in all public sector organizations and public interest organizations as a guarantor of the independence and objectivity of internal audit, especially for organizations which, at the discretion of the Minister of Finance are risky and internal audit activities will be particularly sensitive to the lack of separation between functional and administrative reporting;

- Changes to the current IAAPP in terms of clearly identifying lines of functional and administrative internal audit reporting within public sector organizations.

The main efforts regarding the improvement and development of internal audit are focused on the following main areas:

- Improving the quality of the audit activity by conducting external evaluations of internal audit quality by adopting in 2017 the Ordinance - 1 Ministry of finance on the conditions, procedure and manner of conducting external evaluations for ensuring the quality of the audit activity of Public Sector Internal Audit Bodies;

- prepared by the Ministry of finance, a draft for discussion of the Ordinance on the conditions, order and way of organizing and conducting of examinations for obtaining the certificate "internal auditor in the public sector".
- updating of the legal framework and the methodology in the field of internal audit: International Standards for Professional Practice on Internal Audit are adopted and applied, amendments are being prepared to the Internal Audit Manual, etc.;
- promoting the legislation and methodology of financial management and control and internal audit by conducting specialized trainings and good practices from EU countries.

In addition, the adoption of the National Strategy for the Development of Financial Management and Control and the Internal Audit in the Public Sector for the period 2017-2020, in which there are provided indicative oriented priorities indicating the respective objectives and measures such as:

1. Strengthening and developing financial management and control in the public sector and increasing the efficiency of the management of public funds;
2. Strengthening the role of internal audit for good financial management in the public sector;
3. Support and assistance from the central harmonization units for the development of the financial management and control and the internal audit in the public sector.

With regard to strengthening the role of the internal audit for good financial management in the PC, it is necessary to:
- Develop and expand the legal framework to increase the effectiveness of internal audit in public sector organizations;
- Adopt a regulation on the procedure for determining the composition and the activity of the audit committees under the Internal Audit Act in Public Sector and the rules for their work;
- Updating the normative acts of the Council of Ministers regulating the internal audit activity in accordance with the amendments made to the Internal Audit Act in the Public Sector and the priority areas for monitoring and control in the country;
- Enhancement of the independence and quality of the internal audit activity through adding value and contributing to the development and improvement of financial management and control;
- Introduction of the internal audit function and structuring of internal audit units in companies with more than 50 percent state or municipal participation in the capital and a certain annual turnover;
- Enable internal quality assessment of internal audit as a way to improve performance;
- Increasing the qualifications and competence of internal auditors and studying and promoting European and international auditing and auditing practices in the public sector through participation in international conferences and workshops.

Regarding the support and support of the central harmonization units (MF) for the development of the financial management and control and the internal audit in the public sector it is necessary:
- Development of guidelines and opinions on the application of new and / or specific requirements of the financial management and control legislation and internal audit in the public sector;
- Issuing / updating instructions from the Minister of Finance for high risk and priority audit areas in relation to the annual planning by the Internal Audit Capabilities;
- Improving the annual reporting process on the status of financial management and control systems and internal audit and coordinating with the central harmonization units the methodological guidelines prepared by the Ministry of finance’s specialized directorates to budget managers related to management and control systems;
- Coordination by the Minister of Finance of the appointment and dismissal of internal audit officers and internal auditors in the bodies designated by law and the composition of the audit committees in the organizations designated by law;
Annual review and summary of the results of internal audit engagements fulfilled, in accordance with Ministry of finance guidelines for planning of priority / key / audit areas; Implement external evaluations of internal audit quality in the public sector, update annual training programs and participate in training and international initiatives, together with representatives of other Member States and the European Commission.

The development and improvement of the financial management and control and the internal audit in the public sector in the Republic of Bulgaria is related to the structuring and implementation of the three lines of protection

The model of the three protection lines provides for an integrated approach to operational management control, the various inspection and control units of the organization and internal audit. In this model, management bodies and senior management are not directly involved, but are the primary users taking into account the process of risk management and control in the organization. The model features can be summarized as follows:

- The first line of protection is related to the direct control of the operational management. It is entrusted with the maintenance of effective internal controls, as part of its duties area related to the day-to-day implementation of control and risk management procedures. The first line of defense includes managerial control, as well as the implementation of internal control measures for which it reports to senior management;
- The second line of protection consists of separate specific structural units with control functions, the main purpose of which is to give assurance of the proper structuring of the first line. Each of these units should be somewhat independent of the operational management (first line), which in their essence is of a managerial nature. In this characteristic, they should have the power to intervene directly in the design and development of internal control systems and risk management. The second line of defense includes units such as financial control, security, risk management, quality, inspection, compliance, again reporting to senior management;
- The third line of protection is expressed and implemented by the internal audit. Internal audit, as an independent and objective entity, reports to the organization’s top management on the effectiveness of risk management, internal control and management, and how to achieve the objectives of risk management and internal control.

Introducing the principle of three lines of protection for public funds management will provide additional confidence to managers, the public and external partners for the adequate and lawful functioning of public sector organizations. What we are about to do is to issue guidelines defining the key role of the elements of financial management and control, including the relevant principles on each of the lines of protection.

The expected benefits of introducing the three lines of protection principle are related to identifying, distinguishing and referencing each control activity and risk from individual participants in the organization.

Conclusion

Regardless of the above mentioned problems, during the ten-year use of the Internal Audit in Bulgaria, it may be concluded that for its further development is necessarily a certain change in the national legislation, in line with that of the EU, is necessary; improving its quality and that of internal control as well as external evaluations of this, including by the Court of Auditors, to improve good financial and other governance in public sector organizations; introducing the three lines of protection, as well as the application of International Standards for Professional Practice. The expected benefits of introducing the three protection lines are related to the identification,
differentiation and referral of each control activity and risk from the individual participants in the organization.

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Abbreviations used:
CCB - Corporate Commercial Bank
EU - European Union
FMCAPC - Financial Management and Control Act in the Public Sector
IA - Internal Audit
IAAPP - Internal Audit Act in Public Sector
IAI - Internal Auditors Institute
ISPIA – International Standards for Professional Practice in Internal Auditing
MF - Ministry of Finance
PC - Public Sector
Abstract. The Enterprise Architecture (EA) describes overarching designs of individual physical and logical components, so that they assembly results in a complete and working product. The designs are developed within any projects. The designs concern computer systems and network implementation, software development and installation, data migration and business processes reengineering. The paper supports the thesis that EA is a complex of information communication technology (ICT) projects and as such should be evaluated by deployment of cost-benefit investment evaluation methods usually applied for project management. The main goal of the paper is to present opportunities of enterprise architecture evaluation by project evaluations. In the paper, different projects, i.e., multiproject, project portfolio, project programme, roll-out projects, large project, are discussed in the aspect of their value creation in the Enterprise Architecture development process.

Keywords: enterprise architecture, project management, architecture evaluation, project portfolio, project programme, multi-project.

Introduction

Generally, the enterprise architecture (EA) is the discipline of designing enterprises guided with principles, frameworks, methodologies, requirements, tools, reference models, and standards. The EA is responsible for designing structures, engineering processes, developing working force, exploiting technology and creating opportunities of learning.

For the purpose of this paper, the enterprise architecture realization model is a big project or a set of ICT applications in the enterprise to achieve strategic business goals. The enterprise architecture model is to explain why organizations do what they do and how they can be changed to achieve a certain demanded purpose. The complete picture of the enterprise architecture should include answers to the following questions: what will be done i.e., what products, services and experiences, who will do the work, how, when and where the work will be done, who will be offered the results, what legal regulations permit it to be done, what costs are necessary, why customers are expected to pay for what they receive, what technologies will be developed and applied. The EA realization model communicates a compelling vision of usage of ICT within a business organization and within its contracts with the business environment and ICT providers to coordinate organizational strengths with environmental opportunities, to guide and coordinate supporting activities, to generate more benefits than costs and to explore new opportunities, and to respond to new user requirements. A project-oriented approach emphasizes the comprehensive and cohesive specification of an enterprise projects in all their details, from a high level development. This approach focuses on essential project investments decisions, as well as on the
core structures of projects. When taking this approach, EA developers typically produce models that describe all the projects' artefacts and their interrelations.

The paper consists of two main parts. The first part covers interpretation of EA in the context of its frameworks, and characterizes different approaches to EA evaluation developed by practitioners and academic environment. The second part includes considerations on EA evaluations as a complex of ICT projects.

**Enterprise Architecture Evaluation Characteristics**

ISO/IEC/IEEE 42010 standard architecture is the fundamental organization of a system embodied in its components, their relationships to each other and to the environment, as well as the principles guiding its design and evolution. The EA as a product serves to guide managers in designing business processes and system developers in building applications in a way that is in line with business objectives and policies [6]. The EA as a process is to translate business vision and strategy into effective ICT components. It should be noticed that enterprise models are applied as a computational representation of the structure, activities, processes, information, people, goals, and constraints of a business. The EA goals are to promote business-IT alignment, standardization, reusability of existing ICT assets and to share a common model for project management and software development across the organization.

The EA is to ensure a holistic view of the business processes, systems, information, and technology of the enterprise. The results of work of enterprise architect cover the derived IT strategies, a new and modified EA, the new and modified set of EA standards, and a roadmap describing the ICT projects for the implementation of the new architecture and achieving the target state, and a development plan [9].

The EA frameworks emphasize the modelling part of EA development and they do not considered any methods which strictly belong to economics [9]. The EA frameworks' developers separate EA evaluation from EA implementation. They perceive the necessity to ensure a coherence among different models, they analyse the convergence of proposed models, their scalability, openness, agility, sustainability and ability to ensure security. However, the real value in the enterprise architecture is revealed in the EA implementation. There are some important questions, which could be answered in the proposed paper. How evaluate the contribution of EA to the project? How estimate the value of the EA before starting of its implementation? For some enterprise architects the economic value problems are out of scope. They considered EA as never ending process, for which it is impossible to specify all detailed projects for a specified periods of time.

The EA project-oriented development should be placed in the context of Enterprise Architecture Lifecycle, which includes the following phases: Enterprise Strategy, Enterprise ICT strategy, Enterprise Architecture Process and Approach, Enterprise Architecture Models and Designs, ICT Projects for Designs Implementation, Projects' Evaluations, Maintaining the Enterprise Architecture. The first stage covers description of the value of an EA and the relationships of the EA to enterprise strategic vision and plans. Next, the business strategies are translated into ICT strategy, and EA goals, objectives and strategies. For the third stage, the enterprise employees commitment is necessary for the development, implementation and maintaining the EA. The basic stage in the EA lifecycle includes modelling and designing the business processes, data, software applications and hardware configurations. That activities are divided into ICT projects. For each domain, i.e., business processes, data models, applications development, security systems, and computer networks and hardware configuration and implementation, the separate projects are developed. The projects are mutually interdependent. They are realized simultaneously or one after another. The project portfolio is developed according to the EA models.
**Enterprise Architecture Evaluation Characteristics**

Evaluating refers to systematic activities undertaken to describe and visualize particular phenomena in a structured and formal way. The enterprise architecture evaluation is to describe enterprise objectives, activities, information resources, processes, actors, products, requirements and the relationships between these entities.

The Business - Information Technology Alignment (BITA) models applied for EA evaluation should cover at least two aspects: strategic fit and functional integration. According to Van Grembergen, the strategic fit should recognize that the ICT strategy should be articulated in terms of an external domain - how the firm is positioned in the IT marketplace and an internal area - how the ICT infrastructure should be configured and managed [12]. The functional integration dimension covers the strategic integration and the operational integration. In the Luftman's Strategic Alignment Maturity Model (SAMM), the assessment process considers six factors i.e., communication, measurement, governance, partnership, technology scope and skill to assess the maturity of alignment [4]. The Strategic Alignment Model (SAM) is based on building blocks known as strategic fit and functional integration. It represents a distinction between the internal focus and external perspectives of IT. Each of the division subdivides into different alignment perspectives: the former splits into strategy executer and technology transformer, and the latter splits into competitive potential and service level [8]. The BITA models discussed by Mekawy et al. are as follows: Integrated Architecture Framework (IAF), Luftman's Alignment Model (LAM), Reich and Benbasat Model (RBM), Sabherwal and Chan Alignment Model (SCAM), and Hu Huang Alignment Model (HHAM) [8]. Within all the strategic alignment models, the process of alignment is understood as using a certain pattern to bring into unity the relationships between four areas, i.e., strategic execution, technology potential, competitiveness, efficiency and effectiveness of IT services. The other methods are as follows: Scenario-based Architecture Reengineering (SBAR), Tiny Architectural Review Approach (TARA). Scenario-based architectural evaluation is a structural approach to evaluating, how well the architecture meets stakeholder needs, in terms of attributes or qualities.

The capability maturity model provides insight into the stage of development of maturity of an organization for software development. The Architecture Maturity Model (AMM) is based upon capability maturity models as formal ways to gain control over, evaluate and improve architecture processes as well as to assess organization's development competence [11].

The EA evaluation process can be supported by application of software architecture assessment methods. The review of such methods has been done by Ionita et al. [5]. They considered the following methods: Software Architecture Review and Assessment (SARA), Software Architecture Analysis Method (SAAM), Architecture Trade-off Analysis Method (ATAM)[2], Cost Benefit Analysis Method (CBAM), Architecture Level Modifiability Analysis (ALMA), and Family Architecture Analysis Method (FAAM). Beyond that, for software architecture evaluation there are following methods: Architecture Centered Software Project Planning (ACSPP), Architecture Level Prediction of Software Maintenance (ALPSM), Software Architecture Comparison Analysis Method (SACAM).

The EA evaluation for strategic corporate management is supplemented by application of many supplementary methods such as Balanced Scorecard (BSC), Boston Consulting Group (BCG) matrix, the European Foundation for Quality Management (EFQM) model, strengths-weaknesses-opportunities-threats (SWOT) model, market attractiveness of business activity (MABA) model, Michael Porter five forces model, and good practices included in Cobit and Information Technology Infrastructure Library (ITIL). The BSC uses integral performance measurement to track and adjust business strategy. The method enables the integral performance measurement to track and adjust business strategy.
Project-oriented evaluation approach

The Table 1 covers characteristics of different composition of projects. The content of the Table 1 is the result of practice work and literature studies [1, 3, 7, 10]. In Table 1, the project dimensions including project goals, scope, organization structure, budget, time, resource procurement and accessibility, computer aided project management (CAPM) tools, risk, product and process quality, and contract management are considered. The number of project dimensions can be increased, but at least the characteristics described below ought to be taken into account in the process of evaluation of project composition for enterprise architecture development. Project programme, presented in Table 1, is described as a programme covering different projects as it is in the European Union (UE) funded projects. Roll-out projects are typical for management information systems implementation at commercial organizations. However, it should be noted that for enterprises consisting of a number of fractal organizations, e.g. a franchising network, the roll-out projects approach is also successfully applied.

Table 1. ICTs projects’ compositions.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Multi-project</th>
<th>Project portfolio</th>
<th>Project Programme</th>
<th>Roll-out projects</th>
<th>Large project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goals</td>
<td>hierarchy of projects' goals</td>
<td>competitive goals, defined priorities for particular projects</td>
<td>goals defined by programme sponsors</td>
<td>project goals defined according to pattern</td>
<td>cohesive hierarchy of goals</td>
</tr>
<tr>
<td>Scope of projects</td>
<td>mutually agreed</td>
<td>mutually disagreed</td>
<td>mutually consistent</td>
<td>similar to the pattern</td>
<td>defined for the whole project</td>
</tr>
<tr>
<td>Organization Structure</td>
<td>dispersion or co-location of project members</td>
<td>dispersion or co-location of project members</td>
<td>dispersed or co-location of project members</td>
<td>project members mobility according to requests</td>
<td>dispersion or co-location of project members</td>
</tr>
<tr>
<td>Budget</td>
<td>budget decision &amp; profits evaluation for projects</td>
<td>budget decision &amp; profits evaluation for portfolio</td>
<td>budget decision by sponsors for all the projects</td>
<td>each beneficiary established budget individually</td>
<td>budget decision &amp; profits evaluation for project</td>
</tr>
<tr>
<td>Time</td>
<td>sequential or simultaneous projects</td>
<td>simultaneous projects, lack of task dependence</td>
<td>schedule established by sponsors</td>
<td>sequential or simultaneous projects</td>
<td>general schedule for the project</td>
</tr>
<tr>
<td>Resource Procurement And Accessibility</td>
<td>central acquisition &amp; division of resources</td>
<td>project priorities &amp; rivalry for resources</td>
<td>contest projects compete for resources</td>
<td>possible rivalry for resources for simultaneous projects</td>
<td>resources planned for the whole project</td>
</tr>
<tr>
<td>CAPM</td>
<td>centralized database of projects</td>
<td>autonomous IT system for projects</td>
<td>IT support provided by sponsors</td>
<td>evaluated individually for beneficiaries &amp; providers</td>
<td>centralized system for the project</td>
</tr>
<tr>
<td>Risk</td>
<td>generally evaluated &amp; reduced through task coordination</td>
<td>evaluated on the particular projects level</td>
<td>managed on programme and projects level</td>
<td>evaluated for the whole project &amp; tasks</td>
<td></td>
</tr>
</tbody>
</table>
Examples of evaluation criteria may include general business criteria, financial criteria, risk-related criteria, legal regulations compliance criteria, human resources employment criteria, marketing and technical criteria. Evaluation criteria should be based on the enterprise strategies, goals and objectives.

Conclusion

The project-oriented approach ensures opportunities to include complementary assets and holistically evaluate enterprise architecture. The implementation of a project-oriented approach into the EA development process creates power to increase the EA investment control within a business organization. This may result in increased rigidity and may require the deployment of agile project management methodologies development to ensure organizational flexibility and sustainability. Future research works will focus on applicability of software tools for management and evaluations of the IT projects as well as the systems architecture.

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Fiscal Policy as a tool of Economic Stabilization - the case of Albania

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Abstract. Processes such as globalization and integration, individuals’ increasing reliance upon technology, limited vital resources in order to ensure normal life increase the complexity of our world and make the State’s economic involvement compulsory. The theory of the use of fiscal policy for promoting economic stability is by now about forty years old. It may be time to ask to what extent fiscal policy has been used in practice as a tool for economic stabilization in Albania; how useful fiscal policy has proven to be, and finally what have been the main obstacles to fiscal policy as a means of economic stabilization. Currently Albania is facing enormous financial problems due to extremely low rates of employment, high levels of undeclared work, low financial discipline and a lack of equity and efficiency in tax matters.

In the case of Albania, fiscal policy helps to accelerate the rate of economic growth by raising the rate of investment in public as well as private sectors and the aim of this paper is to analyze various tools of fiscal policy, which should be used to do not affect the consumption, production and distribution of wealth.

Keywords: Fiscal policy, fiscal system, tax policy, economic growth, public sector.

Introduction

Twenty Years’ Crisis, 1919-1939 has had a profound influence on both economic and political thinking. The consequences of this event turned out to be of such a dimension that broad consensus emerged on governments doing their best to prevent such disasters from happening again. But even beyond this extreme case, there is general agreement that a stable and predictable economic environment contributes substantially to social and economic welfare. In the short-run, households prefer to have economic stability with continuous employment and stable incomes, allowing them to maintain stable consumption over time. In the long-run, unnecessary economic fluctuations can reduce growth, for example by increasing the riskiness of investments. A highly volatile economic environment might also have a negative impact on the choice of education profiles and career paths. In short, by maintaining a stable macroeconomic environment, economic policy can thus contribute to economic growth and welfare.

Government economic policy, measures by which a government attempts to influence the economy. The national budget generally reflects the economic policy of a government, and it is partly through the budget that the government exercises its three principal methods of establishing control:

a) the allocative function,
b) the stabilization function, and
c) the distributive function.
Over time, there have been considerable changes in emphasis on these different economic functions of the budget. In the 19th century, government finance was primarily concerned with the allocative function. The job of government was to raise revenue as cheaply and efficiently as possible to perform the limited tasks that it could do better than the private sector. As the 20th century began, the distribution function acquired increased significance. Social welfare benefits became important, and many countries introduced graduated tax systems. In the later interwar period, and more especially in the 1950s and ’60s, stabilization was central, although equity was also a major concern in the design of tax systems. Economic stabilization is one of the main remedies to effectively control or eliminate the periodic trade cycles which plague capitalist economy. Economic stabilization, it should be noted, is not merely confined to a single individual sector of an economy but embraces all its facts. In order to ensure economic stability, a number of economic measures have to be devised and implemented.

In modern times, a program of economic stabilization is usually directed towards the attainment of three objectives: (i) controlling or moderating cyclical fluctuations; (ii) encouraging and sustaining economic growth at full employment level; and (iii) maintaining the value of money through price stabilization. Thus, the goal of economic stability can be easily resolved into the twin objectives of sustained full employment and the achievement of a degree of price stability. The following instruments are used to attain the objectives of economic stabilization, particularly control of trade cycles, relative price stability and attainment of economic growth:

(a) Monetary policy;
(b) Fiscal policy; and
(c) Direct controls

Today, foremost among the techniques of stabilization is fiscal policy. Fiscal policy as a tool of economic stability, however, has received its due importance under the influence of Keynesian economies only since the depression years of the 1930s. Fiscal policy represents the use of government expenditures and taxes to influence the level of economic activity, is also the government counterpart to monetary policy. Like monetary policy, it can be used in an effort to close a recessionary or an inflationary gap. The term “fiscal policy” is used not only for activities recorded on the revenue and expenditure sides of the public budgets, but also for investment expenditures by public enterprises and activities by the social security system. By the term ‘stabilization policy’ will be meant attempts by public authorities to keep the economy moving as smoothly as possible along a path close to ‘full employment’, without an undesired rate of inflation and without balance of payments difficulties.

Broadly speaking, the taxation policy of the government relates to the programme of curbing private spending. The expenditure policy, on the other hand, deals with the channels by which government spending on new goods and services directly add to aggregate demand and indirectly income through the secondary spending which takes place on account of the multiplier effect. Taxation, as a tool of fiscal policy, operates to reduce the level of private spending (on both consumption and investment) by reducing the disposable income and the resulting savings in the community. Hence, under the budgetary phenomenon, public expenditure and revenue can be combined in various ways to achieve the desired stimulating or deflationary effect on aggregate demand.

Thus, fiscal policy has quantitative as well as qualitative aspect changes in tax rates, the structure of taxation and its incidence influence the volume and direction of private spending in economy. Similarly, changes in government’s expenditures and its structure of allocations will also have quantitative and redistributive effects on time, consumption and aggregate demand of the community.
As a matter of fact, all government spending is an inducement to increase the aggregate demand (both volume and components) and has an inflationary prejudice in the sense that it releases funds for the private economy which are then available for use in trade and business.

Similarly, a reduction in government spending has a deflationary bias and it reduces the aggregate demand (its volume and relative components in which the expenditure is curtailed). Thus, the composition of public expenditures and public revenue not only help to mould the economic structure of the country but also exert certain effects on the economy. For maximum effectiveness, fiscal policy should be planned on both long-run and short-run basis. Long-run fiscal policy obviously is concerned with the long-run trends in government income and spending. Within the framework of such a long-range plan of fiscal operations, the budget can be made to vary cyclically in order to moderate the short-run economic fluctuations.

1.1 Importance and role of Fiscal Policy for Economic Stabilisation

Economies rise, economies fall, and governments try to keep them steady. The role of fiscal policy on economic growth has driven several studies both on the theoretical and empirical framework. Modern macroeconomic literature emphasizes both the short-run and the long-run objectives of FP [Romer, (2006)]. In the short run it can be used to counter output cyclicality and/or stabilize volatility in macro variables, which is descriptively same as the effects of the short run monetary policy. Further, for the long-run, FP and the debt financing methods can also affect both demand and supply side of the economy. The various tools of fiscal policy such as budget, taxation, public expenditure, public works and public debt can go a long way for maintaining full employment without inflationary and deflationary forces in underdeveloped economies. Obviously, taxation and public expenditure is a powerful instrument in the hands of public authority which greatly affect the changes in disposal income, consumption and investment. An anti-depression tax policy increases disposable income of the individual, promotes consumption and investment. This will ultimately result in increase in spending activities which in turn, increase effective demand of the people. On the contrary, during inflation, anti-inflationary policy measures help to plug the inflationary gap. During inflation, such measures are adopted which help to wipe off the excessive purchasing power and consumer demand. Tax burden is raised in such a manner as it may not retard new investment. Keeping in view all facts in mind, it is stated that fiscal policy plays very significant role for promoting economic development and stability of under developed countries.

In general, if it can be implemented quickly and efficiently, fiscal policy (meaning changes in either spending or taxes) is a more effective means of dealing with such fluctuations, and with higher frequency fluctuations in GDP and employment more generally. To use fiscal policy to stabilize the economy however, a government has to spend more or tax less in the bad times (increase the deficit) and then do the hard thing which is to raise taxes or cut spending in the good times (decrease the deficit). To keep the budget in balance the good has to be matched somewhere by the bad.

If the government cut taxes for this disaster, or this recession, and don’t raise them later, what will do next time? Cut again? It won’t work forever. This is stabilization policy, not growth policy, and the goal is to keep the economy anchored as closely as possible to the target rate of output. If in each successive business cycle the tax rate is lowered, but it is never raised again, there will eventually come a time when the tax rate cannot be lowered any further. If a severe recession then hits, and monetary policy isn’t providing the needed stimulus or interest rates are already so low that further decreases will be ineffective, then fiscal policy will be unavailable as
a backup stimulus device, much to our detriment. The priming of the economy during the bad
times must be matched by a slowdown during the good. Borrow when income is low; pay it back
when income is high.
Furthermore, in stabilization policy, it’s also not possible in the long-run to use both government
spending and taxation at opposite points in the business cycle. That is, suppose you cut taxes
during the bad times, then cut spending during the good times to pay it back. That will work for
a recession or two, a hurricane or two, but it won’t work forever because eventually there will be
nothing left to cut out of government. The opposite will not work forever either. If you increase
spending during the bad times then increase taxes during the good, the size of government will
grow indefinitely over the long-run.

In more graphic form:

\[ G(\text{rec}) \rightarrow T(\text{boom}) \rightarrow G(\text{rec}) \rightarrow T(\text{boom}) \rightarrow \text{bloated} \]

\[ G(\text{rec}) \rightarrow T(\text{boom}) \rightarrow G(\text{rec}) \rightarrow T(\text{boom}) \rightarrow \text{no} \]

government

These two policies or some combination of them (increase G and cut T in recessions,
do the opposite in booms) are sustainable:

\[ G(\text{rec}) \rightarrow G(\text{boom}) \rightarrow G(\text{rec}) \rightarrow G(\text{boom}) \rightarrow \text{sustainable size of government} \]

\[ T(\text{rec}) \rightarrow T(\text{boom}) \rightarrow T(\text{rec}) \rightarrow T(\text{boom}) \rightarrow \text{sustainable size of government} \]

There are, of course, lots and lots of variations on these basic chains of events, e.g. to adjust the
size of government the first or second strategies can be adopted temporarily, and hoping
lawmakers would put all their cards on the table as they do so whichever direction government
size is to be adjusted.
The point is that stabilization policy - changes in taxes or changes in government spending - does
not necessarily change the size of government in any particular direction that is a policy choice.
Traditionally stabilization policy maintains a constant budget balance in the long-run and whether
to use tax changes or spending changes is a matter of effectiveness, not a matter of ideology about
the size of government. Unfortunately, disputes over this issue can make it difficult to use fiscal
policy as a stabilization tool. Even when both sides agree something needs to be done, different
ideas about the size and functions of government can cause differences in the choice of tax
changes or changes in spending as the means of stimulating or slowing the economy leading to
policy gridlock.
In the political arena, gridlock can also occur when growth policy and stabilization policy are
confused in order to block certain types of policies. For example, a tax increase during a robust
economic expansion to pay off the tax cut enacted in the previous slowdown may be blocked by
objections that it will slow economic growth. But that is the point of the policy in the short-run -
the increase in the tax rate is supposed to stop the economy from overheating - just as the cut in
taxes was intended to stimulate the economy on the other side. It’s the average tax rate over the
long-run that matters for for growth (the stability of taxes also matters which is one of the reasons
to prefer changes in government spending over changes in taxes as the stabilization tool).
Politically, in the current environment, it is difficult to do anything to pay off the debt when the
economy is expanding, increases in taxes or cuts in spending, because one of the primary
objections is that it will slow growth. But if we are serious about stabilization policy we have to
somehow realize that the good times are the best choice for paying off the debts we accumulated when things weren’t going so well.

It would perhaps be too simplistic to conclude that fiscal policy is the most important tool of financial correction and consolidation, especially that undertaken by the government. However, there is no reason to neglect this very powerful tool that is in the hands of governments and central banks the world over. Used properly, fiscal policy can determine the broad direction the economy of a given country is going to take.

**Impact of Fiscal policy on economic stabilization - The case of Albania**

During the last decade public finance was subject to major reformation aiming at government expenditure cuts and boosting revenues. The main objective of the economic policies during the medium term horizon is to preserve macroeconomic stability and continuing the structural reforms in order to create the necessary conditions for the Albanian economy to operate at its potential growth.

Besides, tax revenues witnessed major reductions in custom duties rate due to Free Trade Agreements under the Stabilization and Association agreement with the European Union, the CEFTA and World Trade Organization membership. This was followed by considerable raise in national, local and excise tax level, cuts in social contributions and small business tax and the changes in the threshold for Value Added Tax (VAT) registration. The government also aimed at achieving fiscal consolidation through budget deficit and public debt reduction through continuous fiscal consolidation. The philosophy of these fiscal reforms was based on the idea of reducing current expenditures (mainly personnel expenditure, subsidies and privatizing public owned companies), expanding the tax base, simplifying and implementing new tax system, promoting tax incentive through reducing tax burden on business, and reducing informality and tax evasion.

The fiscal systems represent a key factor to influence the efficiency of the economy. The subject on the effects of FP on economic growth is quite relevant, since the development of appropriate fiscal instruments could lead to a persistent and sustainable boost on economic stabilization.

Thus, the aim of this paper is to examine the fiscal policy-economic stabilization relationship in the case of a small open developing country, Albania, as it is crucial to know how public activities through taxation and expenditure policies have served as tools of economic stabilization.

In this case the questions coming up relate to the analysis of which are the effects of fiscal policies on economic stabilization, in the case of Albania?

According to IMF estimates, the role of fiscal policy in Albania over the last decade has played an important role in macroeconomic stabilization, resulting in a low inflation rate and a stable public debt level. But in recent years and the IMF’s optimistic estimates are falling, because in terms of public debt we are in a critical position.

Based on this fact, the Albanian government has taken some measures through programs studied by experts of the economy and approved by the IMF. One of the actual government's current programs to achieve macroeconomic parameters that provide economic sustainability is the Economic and Fiscal Program 2014, which was based on the Budget Law for 2014, on the Macroeconomic and Fiscal Framework 2015 – 2017. This program was oriented in a trajectory of fiscal consolidation path. It aims firstly placing public finances on a sustainable trajectory, as one of the main pillars of economic growth and sustainable development of the country. For compilation of the fiscal policy in the medium term it has been consulted closely with the International Monetary Fund (IMF) and World Bank (WB). It is also fully in line with European Commission findings and recommendations.
The main objective of the fiscal policy framework for the medium term ahead, was the level of structural deficit which ensures the sustainability of public debt over the medium and long term in one hand and minimizes the negative short-term effects on growth on the other hand. The main operational quantitative target of fiscal policy within the actual macro-fiscal framework is the overall fiscal deficit, respectively as following for each year:

- Overall fiscal deficit of 6.7% of GDP in 2014
- Overall fiscal deficit of 4.8% of GDP in 2015
- Overall fiscal deficit of 3.4% of GDP in 2016.

The public investments were projected to be kept at a level of at least 5 percent of GDP, which is an optimal level to support a sustainable economy for the coming years.

The set of measures in the Fiscal Package 2014 brought significant changes to the tax system, applied both on indirect and direct taxation. The net impact of these changes is estimated to be around 21 billion ALL revenues surplus in the Budget of 2014.

**Value Added Tax:** Pharmaceuticals and health services will be exempted from VAT, with effect from April 1st 2014, from the current reduced rate of 10%. In a broader framework of policies supporting the health sector, this change aims to reduce the cost to users of the health service system and pharmaceuticals.

**Hydrocarbons:** All exemptions from VAT on imports of goods for the stages of development, as well as domestic supplies to contractors and subcontractors related to the development stage of Hydrocarbons sites have been repealed. This has served as a fiscal incentive in favor of the research and development in the sector, until now. However, the exemption does not comply with the EU directive for hydrocarbons and has created over time abusive situations aiming to fiscal evasion and tax base erosion.

**VAT Refund:** Changes were made to the current procedures of re-payment of outstanding credit refundable VAT to taxpayers, from tax administration to the treasury, as well as the deadlines for control and approval of credit, to 60 days. This changes aim at: - Elimination of tax administration discretion in granting VAT refunds; - Ensuring the implementation of the main principle of re-payment of VAT refundable “first in, first out”; - Reducing corruption cases to meet the requirements for reimbursement.

The consolidating nature of fiscal policy in 2015, expressed in the contraction of the budget deficit, has brought a low-impact public demand to economic growth. However, the reduction of public borrowing in the domestic financial markets has helped to improve the financing conditions and created space for a rapidly growing private sector. Fiscal policy has displayed a consolidating profile during 2015, in fulfillment of the government's commitment to reduce public debt in the medium term. Although fiscal consolidation implies a low impulse in economic activity in the short run, in the medium and long term it helps private sector development and strengthening of macroeconomic stability.

Despite the measures taken by government the current position of the public finances is an obstacle to achieve potential and stable economic growth in time. On one hand, the high level of public debt undermine the trust of economic agents for economic stability, and in the other hand the immediate need to engage in fiscal consolidation exerts pressure on short-term growth of the economy which is already extremely weak.

The need to consolidate public finances and at the same time fast payment of the accumulated arrears of the government to the private sector will be one of the priorities of the Albanian government during the second government mandate. The materialization of this priority will be assisted by a stabilization program with the International Monetary Fund.
Conclusion and Recommendations

After the theoretical and analytical treatment of fiscal policy in relation to the economic stability in our country we can conclude that Albania has made significant progress in recent years making the macroeconomic and economic stability in general not to be a difficult achievement despite the barriers that have occurred especially after 2008 but to provide its contribution to a steady and high economic growth.

From a longer-term perspective, the Albanian economy has shown signs of restructuring, shifting its manufacturing resources from the construction to the industrial sector. Likewise, within the service sector, we have shifted resources from low added value sectors, such as wholesale and retail, to higher value ones such as education and health. These structural movements hamper somehow economic growth in the short term. However, in the long term, they are necessary and should be strengthened further.

Albania FP has been under continuous scrutiny of major reformation on expenditure and tax collection system. The philosophy of these fiscal reforms was based on the idea of reducing current expenditures and boosting government revenues. The Albanian economy took advantages of macroeconomic stimulus in the form of fiscal expansion ahead of monetary adjustments, during the financial and global crisis. Raising budget deficit and public debt reflected both the action of automatic stabilizers in the form of reduced income and the countercyclical FP through wages and capital expenditure increases and also the cost of fiscal burden as a result of government decision to stimulate the economy, while fiscal incentives were narrowing.

The current data signal further slowdown in lending to the private sector, lower rates of income tax on economic activity and the decline of confidence in all sectors of the economy. Currently, the savings balance stands at a higher level compared to its historical average. Increased consumer savings could be interpreted as a sign of added care in the context of economic slowdown, increasing uncertainty about the future, and tight credit conditions.

Private investments are estimated to be affected by the financial and global economic crisis. Uncertainties about the economic situation in the country and abroad, the subdued level of domestic demand and external conditions and tight credit have resulted in the contraction of investments.

The message is loud and clear: Albanian government can use fiscal policy to smooth fluctuations in economic activity, and this can lead to higher medium-term growth. This essentially means that government needs to save in good times so that, can use the budget to stabilize output in bad times.

Of course, using the budget to stabilize output requires healthy public accounts that can take hard hits during severe storms. And when the sunshine returns, policymakers must be wise enough to repair public accounts in preparation for future storms. That’s how stability, growth, and sustainability should go hand in hand.

The Albanian economy has been growing this past five years. The pace of economic growth accelerated, while the main indicators of economic and financial health generally had the improvement trend. Although growing, economic activity remains below its potential level. Aggregate demand is not sufficient to generate full utilization of production capacity, which is reflected in the still low inflation.

The acceleration in implementation of key structural reforms will also be a key lever to exploit the potential of the economy. In this regard, the aim is to improve the legal and regulatory framework of business operation and improve the overall business climate, to increase the competitiveness of domestic products and services, to further improve the financial sector, to reduce the informal economy, to complete the reforms of the public administration, starting the reforms on the pension system and going on with the reforms toward the labor market.
As a conclusion, the cyclical weakness of the Albanian economy requires pursuit of prudent incentive policies. Likewise, long-term problems require the continuation of structural reforms, to further accelerate economic growth and increase its sustainability.

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The Economic Explanation of Customer Behavior

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Abstract. The economic explanation of customer behavior in the purchasing process starts from the assumption that buying represents a process of choosing products between different alternatives, even under the influence of rational motives. Economic theory, which has given the consumer economic explanation, assumes that homogeneous buyers are present on the market and they behave in a foreseeable manner. The consumer person is seen as a rational buyer who has general information about the market and tries to maximize the expected value of money, time and spent effort. The customer is determined to purchase those products and services that will bring greater satisfaction by taking the price as one of the most important factors in the decision making process for purchasing. Thus, the customer, based on the information they possess, distinguishes between homogeneous products and decides on the lowest price. In addition to the price in consumer behavior, other factors such as income and factors as quality, service, promotion etc. However, the explanation of economic theory is mostly oriented towards the product, rather than to the consumer, paying particular attention to price and income.

Keywords: consumer behavior, products, factors, revenue, quality, price.

Introduction

An important feature of economic theory is that it deals with multiple assumptions about consumer behavior. Among the most important assumptions in consumer behavior is: the rational behavior, preferences, information, budget constraints and unmet needs.¹ The question arises as how many of these assumptions are realistic, whether the consumers behave rationally, are they equally informed, do they have approximately the same financial resources, and so on. Although the assumptions that the data represent a solid foundation in which the contemporary economic theories for consumer behavior are developed. In our analysis of the economic explanations regarding consumer behavior, will be taken into consideration, first of all, the effects of price and income on the behavior of pre-consumer customers, while purchasing and after making the purchase decision, customer choice theory, elasticity of price and of income demand and its impact on consumer decision making.

The theoretical explanation of the economic dimensions of consumer behavior will have a practical application in our research where the price and income will be the subject of analysis as factors influencing consumer decisions in the process of purchasing a products.

The impact of the price and income in the process of customer decision making before purchase, during purchase and after purchase decision

Due to the clarification and understanding of the economic explanation of consumer behavior in the market for personal consumption, it is necessary to include more economic aspects and factors associated with that problem. The process begins with the act of purchase itself (decisions before purchasing the customer), it continues during the buying time when it is resolved between different brands of products (purchase decisions) and ends with the costumers’ behavior after the completion of the purchase process. After the end of the process, consumers are experiencing a degree of satisfaction or dissatisfaction with the purchased product, whether it will buy the same product again or not (after-purchase decisions). In the upcoming parts of this paper work will be given a detailed look at the impact of price and revenue in the decision-making process prior to purchase, during purchase and after the purchase. Price and income as the most important factors represent the basis for the quantitative dimensioning of consumption, or the total purchasing power by which the consumer structure is also determined.

Price is one of the most important criteria for evaluation. Consumer choice often depends on price. The price of products and services as well as the relationship between market prices represent one of the most important factors of demand and consumption. During the non-change of other consumer factors, price changes have the effect of changing consumption, primarily depending on the size of the price change and the newly established price relationships in the market. Price formation, regardless of the cost, takes into account the intentions of the companies, such as gaining profit and, above all, meeting customer needs.

When making purchasing decisions, the customer often decides quickly. For this purpose, he uses the trust he has for a particular company on the market, based on his previous experience, his brand, and the experience and loyalty that he has towards certain brands in the market and the price. The price in this direction is used when it is high and thus shows high quality. This finding will also be verified by the results obtained through research where the brand of children's Pampers, as a brand with high prices and high quality, is at the same time the preferred choice of consumers on the basis of responses provided by the respondents.

When it comes to the price it should be mentioned that it represents the value of the general demand. Price is a factor of particular importance to some customers but not to all of them. So if a consumer does not pay the price that he thinks is too high, it does not mean that the price will decrease in his opinion. Simply this means that other customers are willing to pay that price with the opinion that that price is acceptable to them. Some customers would have paid even more in order to buy the brand product with which they had a positive experience.

The main determinant of the real and potential demand in the market is presented through customer incomes. Consumer incomes and their ability to purchase products make the consumer market of particular interest in terms of our research. In this context of particular importance is the analysis of the available income and the income of the consumers. The customer's disposable income represents the sum of all income from all sources, such as salaries, interest from savings, credit etc. These represent the amount of money available for savings or expense. There is a high level of interdependence of disputable income and personal consumer consumption. Discretionary revenues are part of the available income which remains after the consumer's existential needs have been met. Increasing discretionary revenues affects consumption growth.

When deciding on purchases, the question is to decide which brand of products we will buy. It is important to answer the question of which products consumers spend on disposable income. The size of the revenue determines the ability to purchase, as well as the choice of brands for current products in the market. This clearly speaks of the impact of income on consumption and shows the strong link between them. The general economic rule is that with the increase in revenue the purchasing power of the consumer increases and the income is reduced by their
purchasing ability. While for some products the increase or decrease of income does not affect the change of consumption. It can be noted that when making purchasing decisions for products on the market for personal consumption, specifically for children's pampers, consumers spend the available income. From the results obtained from the research, consumers classify these products in the required product group. These products are designed for extensive consumption that meets the needs for life. The main feature of these products is the small elasticity in terms of price change, but also in terms of revenue variation. Occasional changes in consumer incomes do not affect the income available for the purchase of pampers.

To clearly see the impacts of price and revenue in the decision-making process for purchasing customers, three stages will be considered: pre-purchase decisions, purchase decisions and post-acquisition decisions. It is necessary to emphasize that in this paper special attention is paid to the use of children's pampers who represent themselves as a specific category of products. On the basis of the results obtained from the ongoing research, the impacts of price and income will be considered in the above-mentioned phases.

The first stage is characterized by the need when purchasing customers. Presenting the need, also called the problem review, is one of the central topics in the decision-making process for purchasing. In this paper, this phase begins with the emergence of the need for children, who are of an existential character in the process of growth and development of children. At this level of decision-making for the purchase of children's pampers, parents through researching and gathering information on the offers of child-pampers of a special importance to the brand and quality, while at this stage the impact of the prize and the income are as a second plan as a factor for placement.

The second phase involves the act of acquiring it by choosing an alternative. In this case it is about comparative alternatives that have similar characteristics that can be compared. Often, the choice is the alternative that meets the tire criteria in terms of quality, price, available income and characteristics of the personal product. Even at this stage of revenue impact, it remains unchanged, as far as possible changes in purchase decisions during eventual price changes. Thus, the existence of certain types of consumer packaging and the sale of complementary products emphasize the impact of the price on the decision during the purchase act itself.

The last stage or post-acquisition decisions are related to the degree of customer satisfaction after using the products. While the product meets their requirements and expectations, which are often seen by customer feedback, is brought a decision for further purchase of that product. Under the influence of eventual reduction of income, consumers are oriented towards the choice of existing alternatives, so they choose the alternative with the lowest price. Under these conditions, the use of a new brand of children's pimples will not cause consumers the level of satisfaction they expect. In this case, often the consumers decide for the best for their children and return to the higher price alerts and with higher need to meet.

We can conclude that the impact of price and income in the process before, during and after purchasing customers for these types of products almost have no impact. Consumers do not take as important impacts when they make decisions in potential price and revenue changes, but are oriented towards quality that has a dominant influence on the decision-making process of purchasing decisions.

Theory of choosing customers

The different situation in which the consumer is in different ways determines its choice. In addition, concrete choice depends on concrete purchase, and the level of customer engagement in the purchasing process is largely determined by the goals for which the buyer buys a particular product or service. The buyer behaves differently when buying products for personal
consumption because of meeting their personal needs, and buckles when they buy products for someone else. This is confirmed by the research conducted in this paper where we analyze parents as consumers when purchasing pampers for their children.

Today’s consumers are faced with a wide range of products, brands, prices, and so on. It is important to note that it is of particular importance for this paper to answer the question: To what extent do consumers give their solution? The choice belongs to those products from which consumers receive maximum value. The theory of consumer choice insists on revealing and explaining factors influencing consumer behavior, why some converters are oriented to a certain brand of a product type, while others prefer the other brand. The contemporary economy believes that the theory of consumer choice comes out of four controversies, which at the same time are shown as the basic elements that explain the behavior of consumers.

First, among the goods and services available, the consumer who has a limited income always chooses the best services that maximize their personal satisfaction.

Second, the taste of consumers enables them to classify and combine different goods again depending on the pleasure they offer.

Third, the customer has a limited income they can spend.

Fourthly, the prices of goods that they can buy are given and well-known.

The first two assumptions are related to the theory of usefulness or satisfaction, while the other two are in the sphere of real economic factors affecting consumer behavior.

The third and fourth element of customer choice theory together defines the budget constraint of consumers. This term describes the different product groups that consumers can use. The budget limitation indicates the limitation that customers decide to give to the income and market prices of the given products.

Conclusion

Consumers during decision making face unlimited choices while their income is limited. In order to make the right choice, consumers must combine budget constraints and preferences (what they want to consume) It can be said that with the limited income of the respondents with given prices of children’s pampers, the one that plays an important role in brand selection is taste and preference. Their orientation for the degree of satisfaction and benefit is manifested through the reactions of the children as the primary user who will gain after using this type of product. Satisfaction and usefulness will be at the maximum level only when quality as a key feature of this product will comply with budget constraints as a choice that represents the optimal or ideal combination for the chosen childrens pampers. For the theory of consumer choice we can conclude that it explains how consumers choose what they want to do, as described by their taste and preferences, and what the market will allow them to do, as described in income and product prices. The choice theory enables us to predict how consumers will react to changes in market conditions. It helps us understand the price and revenue elasticities that will be the subject of our analysis in the coming part.

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Challenges and prospects of hydropower options in Albiana. Can Albania lead the region.

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Abstract. With world electricity demand increasing, exploitation of the considerable potential for hydropower generation in many developing countries is an attractive prospect. Even Albania looks to have a high potential in this sector. In general, electricity generation in Albania mainly depends on hydropower, as about 90% of electricity is generated by it. For this reason, we aim to identify and explore challenges and prospects of hydropower sector in our country regarding the economic and social aspects. Also, it is important to see if Albania can be the leader of the Western Balkans. To get the results we used secondary data, collected from different reports and publications. This study shows us that Albania, despite of non-favorable political and technology developments, has done a big step to create a stable source of energy. This thing impacts economic growth in the long-run.

Keywords: Hydropower, Albania, Western Balkans, Prosperity, Development

Introduction

Albania is in south-western part of Balkans peninsula, Southeast Europe. The country is linked with the rest of the world via land, sea and air routes. The highest peaks are those in the Alps and the Eastern Mountains (Korabi 2751 m) and the lowest peaks are in the western coast area. The landscape is intersected by the valleys of Vjosa, Devoll, Osum, Shkumbin, Erzen, Mat and Drin rivers, eastward and westward, which enable the connection of Adriatic Sea with the internal part of the country and the Balkans. After Albania emerged from 50 years of communist rule, the transition from a centrally planned to a market-oriented economy, together with abundant international aid and other strategic assistance helped the country make progress. Thanks to strong growth performance, Albania grew from the poorest nation in Europe in the early 1990s to middle-income status in 2008, with poverty declining by half during that period. Albania’s economic transformation continues to build upon its huge potential. However, 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. Albania has a population of 2.9 million. GDP per capita is 4,129 USD in 2016 and the economic growth for this year is 3.4%. The annual variation of investment is 7.7%. Through years, water has played an important role in human history, since it is a vital resource. Water has been used for different purposes, this starting from the use of water as a source of human life furthermore water is used as a source of energy. Hydropower is renewable, reliable, nonpolluting source of energy that comes from natural flow of water.
**Hydropower in Albania**

Albanian hydrographical territory is 44,000 m² or 57% larger than its geographical territory. The average altitude of the hydrographical territory is about 700 m above the sea level. The total average flow of the rivers is about 1245 m³/sec. Due to the morphological features, Albania is quite rich in rivers, with more than 152 rivers and torrents forming eight big rivers. They have a southeast-northwest flow, mainly oriented towards the Adriatic coast. The most important rivers are: Drin with 340 m³/sec, Vjosa with 210 m³/sec, Seman with 101 m³/sec, Mat with 74 m³/sec, Shkumbin with 60 m³/sec, etc. Although with small flows, their considerable cascade makes these rivers substantially important for the hydropower potential offered to the country. Consequently, Albania is a country rich in water reserves and a hydropower potential that bears an important developmental role for the country. The Drin river, located in northern Albania, is the largest river in the country and hosts three hydropower stations: Fierzë (500 MW), Komani (600 MW) and Vau i Dejës (250 MW). This 1,350 MW cascade represents more than three-quarters of the country’s total electricity capacity and 90 per cent of domestic electricity production. The remaining 430 MW of installed capacity is distributed over some 90 stations (Association, 2015). While efforts to develop new thermal, wind and solar capacity are ongoing, hydropower remains the nation’s largest energy resource. Estimates show that only 30 to 35 per cent of Albania’s hydropower potential has been developed so far (Association, 2015). Delays due to social and environmental concerns have been a deterrent to major projects. Instead, the government has focused on constructing smaller hydropower plants (less than 100 MW capacity) and passing fiscal incentives. For example, investments in renewable energy sources are exempt from customs duties on imported machinery and equipment. Due to these favourable legal and regulatory frameworks, Albania’s hydropower sector remains attractive to foreign and private investors.

Albania’s mid-term goal is to once again become a net importer of electricity by developing its significant hydropower potential. In this way, Albania could increase its influence in the regional energy market while simultaneously bolstering its own energy security. For example, in 2014, Albania and Kosovo signed an agreement to build a 400 KV transmission line linking their energy grids to maximise Albania’s hydropower and Kosovo’s coal-fired electricity. In July 2015, the EU announced funding for another 400 KV interconnection line between Albania and Macedonia. Albania is also exploring options for an undersea electricity interconnection to export excess power to Italy. (Association, 2015)

Building HEC-es in Albania can make it a “super power” regional energy provider, as it is pretended, but with no doubt this thing will cause high costs for it in the long run. According to a study made from Ulrih Zhvare, the deformation of the rivers’ flow with the building of many hydropowers in one cascade will bring big consequences for Albania. Albanian Riviere risks to have changes, which are not in favour of tourism. These hydropowers also attack the ecology. This will cause damages in the ecosystem.

Albania has a huge hydropower potential and only 35% of this potential is used. There is still place for further development. The total hydropower reserves allow the installation of 4500MW. Since 1997 to 2015, 171 concession agreements have been signed for the construction of 502 HPP across the country, with an installed capacity of 2113 MWh, expected annual output of 9121 GWh and with contracted investment value 314059 (Lek million).
Table 1. Hydropower potential

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total installed capacity</td>
<td>1878 MW</td>
</tr>
<tr>
<td>Potential installed capacity</td>
<td>4500 MW</td>
</tr>
<tr>
<td>Average power production</td>
<td>4.2 TWh</td>
</tr>
<tr>
<td>Potential annual power production</td>
<td>16-18 TWh</td>
</tr>
<tr>
<td>Hydroelectric energy potential utilized</td>
<td>35%</td>
</tr>
</tbody>
</table>

Source: Ministry of Energy, ERE

The companies which operate 101 HEC that have had a contract with KESH/FPSH have a total installed power of 342.2 MW. The total net output in 2015 from concessions was 1,413,709 MWh (24.1% of total net output in 2015). According to the declarations from the participants of the market, based on historik data, considering also the potential growth and non technical loss reduction, has been accepted that the excepted growth that will be transmited from OST will be 1.5-2%. The table below has data for electric energy purchased and sold in 2015 and 2016 according to financial statements of OSSHE. As we see it, in 2016 Albania has decreased the purhasing and increased the sellings of energy. Also the loss is less in 2016 than in 2015.

Table 2: Statement of Revenues and Spendings 9-months

<table>
<thead>
<tr>
<th>Description</th>
<th>Realisation September 2015</th>
<th>Realisation September 2016</th>
<th>Differences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy purchased</td>
<td>4,390,577</td>
<td>4,239,544</td>
<td>(151,034)</td>
</tr>
<tr>
<td>Energy sold</td>
<td>2,997,979</td>
<td>3,046,748</td>
<td>48,770</td>
</tr>
<tr>
<td>Loss %</td>
<td>31.72%</td>
<td>28.13%</td>
<td>3.58%</td>
</tr>
</tbody>
</table>

Source: OSSHE

According OST’s data and the realisation of 2014 and 2015, is made a prediction of electricity energy’s demand, its coverage from domestic production and import in five future years.

Table 3: The prediction of the demand for electric energy, domestic production and import in five years

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>The demand of electric energy (GWh)</td>
<td>6905</td>
<td>7010</td>
<td>7094</td>
<td>7238</td>
<td>7348</td>
</tr>
<tr>
<td>Domestic Production (GWh)</td>
<td>4620</td>
<td>4740</td>
<td>4826</td>
<td>4973</td>
<td>5103</td>
</tr>
<tr>
<td>Importi (GWh)</td>
<td>2285</td>
<td>2270</td>
<td>2268</td>
<td>2265</td>
<td>2245</td>
</tr>
</tbody>
</table>

Source: Ministry of Economy and Energy, 2016
According to the prediction, Albania will have an increase of energy demand but it will be covered more from domestic production. Imports will be less. This is because of new capacities of production, new hydropowers and new technology, also a better management of losses. The large financial imbalances of energy SOEs threaten Albania’s fiscal stability and absorb an increasing share of its resources. Since 2014, the government has pursued a program to invest in new small-scale generating plants, reduce distribution losses, raise tariffs to cost-recovery levels and open the Albanian electricity market to regional competition.

Literature review

Over the last two decades, global electricity production has more than doubled, and electricity demand is rising rapidly around the world as economic development spreads to emerging economies. Therefore, technical, economic and environmental benefits of hydroelectric power make it an important contributor to the future world energy mix, particularly in the developing countries. In addition, small hydropower (SHP) represents an alternative to fossil fuel generation and does not contribute to either greenhouse gas emissions or other atmospheric pollutants. However, developing the remaining hydropower potential offers many challenges, and pressures from some environmental action groups over its impact has tended to increase over time. Hydropower throughout the world provides 17% of our electricity from an installed capacity of some 730 GW is currently under construction, making hydropower by far the most important renewable energy for electrical power production. The contribution of SHP to the worldwide electrical capacity is more of a similar scale to the other renewable energy sources (1–2% of total capacity), amounting to about 47 GW (53%) of this capacity in developing countries (Yuksel).

A study held in United States assumes that real output and employment are long run forcing variables for nearly all measures of disaggregate energy consumption. To have the results they have used the autoregressive distributed lag (ARDL) approach developed by Pesaran and Pesaran [Pesaran, M.H., Pesaran, B., 1997. Working with Microfit 4.0. Camfit Data Ltd, Cambridge] and Pesaran, Shin and Smith [Pesaran, M.H., Shin, Y., Smith, R.J., 2001. They focused their attention on the following energy consumption variables: coal, fossil fuels, conventional hydroelectric power, solar energy, wind energy, natural gas, wood, and waste. The sample period covers 2001:1–2005:6 (Sari & Bradley). “The conversion of energy is directly related to the pollution in terms of greenhouse gas emission caused by the power plants” says a study about the role of renewable energy in sustainable development. The major greenhouse gases like carbon dioxide and carbon monoxide are causing global warming to the environment and hence there is a need to find out alternatives to produce energy in an environmentally benign way. (Joshi, Dincer, & Reddy).

A paper made from researchers in Bhutan highlights the role and importance of hydropower for social and economic development of Bhutan and covers aspects related to planning and policy initiatives being pursued by the Hydropower sector to fulfill the national objectives. (Tshering & Tamang). An interesting study is held in UK from Arthur Williams and Stephen Porter. This study gives the conclusion that investment is recouped 25% more quickly where many very small hydro schemes are used instead of one large scheme, but the level of investment required for the single scheme is far greater. Based upon these results, the applicability of hydro projects utilizing schemes of different sizes is discussed. (Williams & Porter). Another study is made in Brazil which investigates the causal relationship between clean and non-clean energy consumption and economic growth over the period of 1980–2009. The results from error correction model reveal the interdependencies between new renewables, nuclear, fossil fuel, and total non-renewable energy consumption and economic growth, the unidirectional causality from hydroelectric/total renewable consumption to economic growth, the substitutability between new renewables and fossil fuel consumption, and the substitutability between new renewables and nuclear energy consumption. Overall, aggregated analysis may
obscure the relationship between different types of clean energy consumption and economic growth (TienPao & ChiaFu).

Albania and the Western Balkan countries.

The six countries of South East Europe, Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, and Serbia, must operate within a complicated global environment. Political, institutional, and policy uncertainty in advanced economies, still low commodity prices, and exceptionally low interest rates dampen global growth expectations. Growth is slow everywhere, and the European Union (EU), a major destination for SEE6 exports, this year is estimated to grow 1.9 percent, even less than last year’s 2 percent.

Within the six countries of the Western Balkans energy efficiency (EE) is increasingly seen as a key pillar in national energy strategies, helping to enhance energy security, contribute to economic growth, and ensure environmental sustainability. This is for several reasons. EE can reduce the region’s heavy reliance on expensive imports, enhance competitiveness and job creation, and reduce the impact of widespread fossil fuel use. EE can also bring important social benefits, helping to improve local air quality (mitigating related adverse health impacts), improve indoor comfort levels through improved heating, and make energy more affordable for low-income families. To realize these benefits, the Western Balkans countries will have to shift from broad policies and small-scale pilots to scaled-up financing and implementation.

The Western Balkan region has the largest remaining unexploited hydropower potential in Europe as its river catchments have remained largely undeveloped. Up to 30 per cent of rivers remain in near-natural or pristine states and have a very high conservation value. The region has an estimated 80,000 GWh technical potential, which is concentrated in the mountainous regions of Montenegro and Albania. The main domestic sources of electricity generation in the region are coal and hydropower. Albania derives 98 per cent of its domestically produced electricity from hydropower, Bosnia and Herzegovina 41 per cent, Serbia 30 per cent and Montenegro 31 per cent.

Serbia has the highest installed hydropower capacity in the region, with some 2,835 MW currently operational. Over two-thirds of this capacity is concentrated near to the border with Romania, which hosts the Iron Gate 1 and 2 stations (2,116 MW and 540 MW respectively), which are shared equally with Romania. The country boasts an undeveloped potential of 7,000 GWh, focused on the Drina and Danube rivers. With financial assistance from the European Bank for Reconstruction and Development (EBRD), Serbia announced plans to install new hydropower plants and two existing dams, and to rehabilitate a further 15 existing power plants totaling around 30 MW. With increased projected solar PV and wind penetration, Serbia has identified the essential need for a further pumped storage station, potentially the 680 MW Bistrica or 1200 MW Iron Gate 3 (IHA, 2016).

Bosnia and Herzegovina has a hydropower potential of more than 6,000 MW, of which only 2,504 MW is currently exploited. In 2015, the country commissioned a 5.2 MW hydropower plant in Rogatica in the Republika Srpska region. The Republika Srpska also signed a memorandum of understanding (MOU) with the China International Water & Electric Corporation (CWE) for the development of the 160 MW Dabar project in the south. This project is expected to improve generation at downstream stations, and provide flood protection and irrigation services. However, the project has met strong opposition due to the water transfer away from the Neretva catchment and associated ecosystem damages. The country, in its intended nationally determined contribution (INDC), also announced plans to commission a further 120 MW of small-hydro plants (<10 MW) by 2030.

Macedonia has a technical hydropower potential of 5,500 GWh, of which only about 1,500 GWh is currently utilized, representing a total installed capacity of 674 MW. Most of its currently operational stations are in the mountainous north-west, near to the Albanian border. The country
officially opened five small hydro plants in 2015 located in Kavadarci in the Tikveš region. The project includes an irrigation system on the Bosava River. The five power plants of the Kolektor Cascade Range in capacity from 1.4–2.8 MW and total 10.9 MW. Kosovo currently relies almost exclusively on two coal power plants for over 97 per cent of its power generation, and the system is marred by high technical and commercial losses. With the planned closure of one of the coal power plants in 2017, the country faces peak capacity gaps, which are required to be met through expensive imports. There are plans, however, to augment power supply through the construction of an aggregated 63 MW of small-scale, run-of-river projects across the country, while the Energy Regulatory Office of Kosovo plans some 140 MW by 2020. Kosovo’s long-term energy strategy also includes the 305 MW Zhur station which will provide peaking support to accommodate variability in the grid.

Montenegro has abundant water resources, despite its relatively small size. Two large hydropower plants, Perućica (307 MW) and Piva (363 MW) provide for approximately three-quarters of domestic power supply, but account for only 18 per cent of total hydropower potential. There are currently 27 projects being implemented on some 25 water courses, totalling 83 MW. The country also signed an MOU with Norinco International Corporation Ltd, a Chinese Company, to explore the possibility of developing four hydropower plants on the river Morača with a combined installed capacity of 238 MW.

In the generation structure Albania is almost totally depended in hydro energy. Other countries have more dependence in thermal hydro (accepting Montenegro which has more hydro energy in its generation structure, but it is less than for Albania) (Pesut). This high percentage is bad for the country itself but is good for the development in the region. For the country it may bring problems for not diversifying. If a problem happens in this sector will cause high consequences for the state. But, if we see it compared to other countries in the region, we can see it as an opportunity also. The fact that Albania has a higher percentage of hydro energy usage shows that Albania has highest opportunities to lead the region in this sector. All the investments for energy in Albania are made in hydro power, so this sector will be more developed than in the other countries which invest in different sectors in a while.

In the Southern Europe region, where Albania is part of, the overall installed capacity of hydropower is 6286 MW while the estimated potential is 16310 MW. This indicates that approximately 39% must be developed. The region has a significant amount of untapped small hydropower potential, estimated to be at least 16 GW, as well as other renewable energy sources. To promote the development of renewable energy, all countries of the region have implemented economic incentives. Southern Europe still faces a few barriers when it comes to developing the small hydropower sector, mainly due to the long and complicated authorization and licensing process. Other institutional and regulatory barriers include corruption, disagreement between local and national regulations, and even frequent changes in small hydropower regulations (UNIDO, 2016).
To speed up the process, governments will have to adopt decisions that will remove the remaining blocking points, as well as to step up regional cooperation of both Western Balkan 6 parties and EU Member States towards an efficient integration of their day-ahead and balancing markets (ECS).

![Small hydropower capacity in Western Balkans (UNIDO 2016)](image)

As we see from the graphic above, we notice that Albania has the highest potential capacity in small hydropower compared to the regional states. Albania has used 3.3% of its capacity, Bosnia and Herzegovina 3.6%, Macedonia 23%, Macedonia 19% and Serbia 11%. This is a good indicator for the future of Albania, if the politics and investments go in the right way and are supporters of this development.

**Conclusions**

Hydropower is renewable, reliable, nonpolluting source of energy that comes from natural flow of water. Albania has a high potential of developing in this sector. Its mid-term goal is to once again become a net importer of electricity by developing its significant hydropower potential. In this way, Albania could increase its influence in the regional energy market while simultaneously bolstering its own energy security. And the future seems good to Albania. According to reports, studies and data compared to the other countries of the region, it has a potential to be one of the leaders of this sector in Western Balkans. Albania has the biggest potential capacity from all other countries of the region. And only a few of this potential is used. It also has used all its investment in energy for hydro power. One of the stronger points, which make Albania a potential to lead the regional market, is its hydrographical territory, aboundand in rivers. In the last years many investment are made in this sector which bring hydro power in Albania in another level. The state is also a supporter. With this good opportunities and good developments, Albania can some day be a leader in hydropower sector in Western Balkans.
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Challenges of ICT Approval in Small And Medium Enterprises in the Republic of Albania

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Abstract. The process of globalization and digitalization have fundamentally changed the way of doing business and competition in the market. Information and Communication Technology is the cornerstone of this drastic change, bringing revolutionary changes to social and economic life. The purpose of this paper is to analyze the benefits, challenges and strategies for minimizing the barriers of the adoption of information and communication technology, and to provide an overview of ICT in Albania by studying SME beliefs and attitudes regarding this issue. In addition to information on the current situation, the needs and difficulties of SMEs in identifying and using ICT will be identified and analyzed.

In this paper we will use quantitative research, online questionnaire for gathering data, and through comparative analysis we will draw a conclusion for ICT impact on the growth and competitiveness of SMEs.

Keywords: Information and Communication Technologies (ICT), business process, small and medium enterprises (SMEs)

Introduction

The recent increase in technological advancement has had strong impact on SMEs in other parts of the world including Albania. In this paper we show the impact and importance of information and communication technologies (ICT) in small and medium-sized enterprises (SMEs) in developing countries as Albania. ICT is a broad term for a “wide range of software, hardware, telecommunications and information management techniques, applications, and devices that are used to create, produce, analyze, process, package, distribute, receive, store and transform information (Barba-Sanchez, 2007).”

SMEs play a key role in the economy of developing countries and level of employment. In Albania, SMEs are often seen as the sources for a vital entrepreneurial economy, the majority of the workforce are employed by these SMEs. Research has shown that firms that have been able to effectively utilize Information and Communication Technology (ICT) can provide a strategic advantage which can positively influence their competitiveness, increase knowledge, improved performance, improve relationships with customers and suppliers, increase efficiency etc…

A considerable number of SMEs in Albania, have effective computer systems to efficiently conduct business and have spent huge amounts of money on installing computer systems to support their business processes, while on the other hand some SMEs have limited financial and human resources to adopt ICT.
Objectives of the study

The objective of this study is dual; firstly, it tries to investigate the impact of ICT on SMEs in the Republic of Albania, with particular attention to how ICT enhances competitiveness and business performance. Second, this research seeks to put SMEs in R. Albania in a wider context of world business in order to compare their innovation, competitiveness and performance contrast. It is hoped that the results of this research will contribute to existing studies, particularly with regard to the ICT impact of small and medium enterprises in R. Albania, as well as the obstacles and challenges faced during their transition to ICT adoption.

Importance of SMEs

There is no official definition of SMEs available, but According to European Commission, small to medium sized enterprises (SMEs) are those companies which have the number of employees up to 250 people and a maximum annual turnover of 50 million euro. Those companies, not only play an important role in the economy of a country, but are crucial to the country’s economic stability. In Albania, SMEs make up more than 99% of all businesses and account for about 81.3% of employment. (INSTAT, 2015) Moreover, SMEs are the true back-bone of the South-Eastern European economy, being primarily responsible for wealth and economic growth, next to their key role in innovation. The above facts, show that SMEs play a very important role in the growth of economy of a country, hence those companies should be encouraged and supported consistently.

Usage and impact of ICT by small and medium enterprises in Albania

The evolution of technology influences significantly the small and medium businesses by changing the industry infrastructure and business operations and by creating the premises for the emergence of competitive advantages for those organizations that are adopting ICT in their business processes. The adoption of ICT by SMEs provides the ability of rapid access to data, assessment, processing and dissemination of large data volumes. Consequently, those SMEs which use ICT, have the opportunity to enter the international market and remain competitive despite the challenges of globalization, liberalization and scientific and technical progress. Realizing the importance of SMEs for the economy of Albania and the impact of ICT on improving the performance of SMEs, we collect data about using questionnaire which consist from close-ended question with one alternative, more alternatives and mostly using Likert scale to where can choose their answer, and then we organize data in tables, charts and graphs. As we can see from the table below, based on EU definition of SMEs, 94.8% of the respondents can be classified as Micro Enterprises (less than 10 employees), 4.2% as Small Enterprises (between ten and fifty) and 1% Medium sized Enterprises (between fifty and two hundred fifty).
Table 1: Types of SMEs based on number of Employees

<table>
<thead>
<tr>
<th>Types of SMEs</th>
<th>Percentage</th>
<th>%. Of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Enterprises (1-9 employees)</td>
<td>94.8%</td>
<td>41.6%</td>
</tr>
<tr>
<td>Small Enterprises(10-49 employees)</td>
<td>4.2%</td>
<td>20.2%</td>
</tr>
<tr>
<td>Medium Sized Enterprises(50-249 employees)</td>
<td>1%</td>
<td>19.5%</td>
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During our survey, based on collected data, we noticed that a large number of micro enterprises do not use any form of ICT. The reason seems to be the older generation of Owner/Manager who are not used to ICT and/or are low educated foreign labor force, lack of technological knowledge or low budget. Business productivity software, such as Microsoft Office packet (Microsoft Word, Excel, PowerPoint and Access) were used by 87% of the surveyed firms. About 62% of the firms use enterprise software such as E-Commerce, Inventory Management or ERP. Network solutions such as servers, routers and firewall were utilized in 45% of the SMEs. Data storage and security solutions were used by 21% of the surveyed firms, and wireless networking technologies and network security solutions by only 17% of the SMEs surveyed.

Figure 1: ICT infrastructure

Figure 2 shows that 75% of the SMEs assign less than 10% of their annual budget to ICT investment, 4% of the firms invest between 10% and 20%, 18% of the firms invest between 20% and 40% and only 6% of the surveyed firms assign greater than 40% of their budgets to ICT.
Barriers to ICT investment in SEE

Although some of the SMEs in SEE are clearly aware of ICT benefits, there exist certain restrictions and barriers to ICT investment. We argue that this can be explained by the presence of barriers to ICT investment such as the low level of human capital and the lack of reorganization of the firm. Based on investigations, 78% of the firms feel that a lack of necessary internal skills is a major barrier, because SMEs do not have enough human resources. 66% feel that the monetary costs of ICT solutions and implementation are too high. Almost 63% feel that there is not enough information available at their disposal about ICT. Of the respondents, about 49% of the firms are uncertain about retaining their ICT investment and 18% of the managers feel there is not enough support from the top-management in the firms. Figure 3 shows some of the main barriers to ICT adoption of SMEs in SEE.

Figure 3: The main barriers to ICT adoption of SMEs in SEE.
Direct and indirect effects of ICT in small and medium enterprises

ICT impacts on SME performance can be structured and analyzed through such indicators as efficiency, effectiveness and competitiveness, business innovations and intangible benefits. ICT is certainly a powerful influence on economic performance and can be characterized with a high degree of technological progress and productivity. ICT also has a significant social impact. There are two types of company performance:

- Financial performance
  - Benefit
  - Market value
  - Growth

- Strategic performance
  - Consumer satisfaction
  - Employee satisfaction
  - Environmental performance
  - Social performance

The role of government in ICT

Respondents were asked to describe what kind of government support they need in terms of using ICT effectively. A total of 30% have argued that it is very useful for the government to invest more in ICT infrastructure. This is because ICT infrastructure has not yet reached the appropriate level. Most SMEs think that investment in ICT infrastructure will enable them to benefit from the various technologies available on the market. Moreover, a total of 71% have been expressed that it is very useful for the government to build the right legal framework to ensure security, confidence, privacy and consumer protection. In addition, almost 56% of respondents think that government should provide tax incentives and awareness on the benefits of using ICT (67%), as well as provide training on advisory services (71%). This indicates that there is a need for advice and relevant information from the government regarding the ICT benefits for SMEs.

Conclusion

In the presented paper we show the importance, impact and usage of ICT on SMEs in Albania. Conducted analysis and researches, indicate a strong positive correlation between ICT and economic efficiency and competitiveness of SMEs. This paper provides theoretical evidence of the direct and indirect effects of ICT on SME performance. From the study, we conclude that ICT can improve the overall performance, financial and operational performance of SMEs if used appropriately. The areas where ICT impact is greatest are: marketing, communication, networks and resources. ICT has an impact on improving external and internal communication plays a major role in the innovation performance of SMEs.

The ICT concept in general is still quite young in the Republic of Albania and as such continues to face a number of challenges, including poor telecommunications infrastructure, lack of qualified staff and trust, psychological barriers, digital divide and strategies and poor planning in ICT adoption etc. It seems that despite all these challenges, SMEs clearly understand the true potential of ICT.
Regarding the government's role, the study has revealed that there is a need for the government to address more on the aspects of ICT infrastructure investment and be more aware of the benefits and adoption of ICT.

In conclusion, ICT is no longer a concept in the second plan, but a real reason and driving force that offers enterprises the roads to compete on a global scale efficiently and creates closer relationships between customers and suppliers. Adoption of ICT should often be seen as a normal way of doing business.

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The Evolution of CRM from the Perspective of an Emerging Country: Past, Present and Future

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Abstract. In the marketing literature, it’s been accepted that, from production to relationship orientations, marketing has passed through different ages in history based on societal changes. However, it’s obvious that the principles of relationship marketing have been practiced since the pre-Industrial period, especially by traditional groceries, even if its name had not been spoken yet. Nowadays, with the development of technology, companies are able to implement “mass one-to-one relationships.” This short paper summarizes the development of CRM from point of view of an emerging country, Turkey, and suggests different stages of CRM in this country.

Keywords: Customer Relationship Management (CRM), Emerging Market

Introduction

The industrial revolution in the 1880s, with its mass production, especially Henry Ford’s production line in the 1920s, has been considered to be the first historical era of marketing. The main focus was to produce as much as possible, since the demand exceeded the supply. Later, the effects of the Great Depression as a global economic crisis caused people’s purchase power to decrease, and companies focused their products by creating sales teams; thus, this period was called sales-orientation. In these two eras until the 1950s, companies applied an “inside-out” perspective. In other words, companies considered first their own resources and products and then they considered their consumers. After the Second World War, a period when most factories were dedicated to the production of war equipment, companies again transferred their efforts to bring new supplies to the markets. The variety of the products increased, and there were new types of consumers who desired to buy products offering higher value. The prevailing attitude in this era was “the consumer rules! Find a need and fill it.” This consumer-orientation was called a marketing concept, in which companies devoted their efforts at satisfying its consumers for a profit. The fourth era in the history of marketing, which continues today, is relationship marketing; this emerged in the last decades of 20th century. In this era, companies have worked to create long-term relationships with their customers and other partners in their value chain [1]. CRM has evolved from advances in information technology [2]. On the other hand, it should be noted that CRM is not only a technology but is rather a business process management strategy intended to maximize relationships [3]. Although relationship marketing has been considered to be an emerging phenomenon, its practices date back to the pre-Industrial era, during which time producers and consumers interacted directly with each other and developed emotional and structural bonds in their economic market behaviors [4]. So, the principles behind Customer Relationship Management (CRM) are not unfamiliar; companies have already been practicing these principles for a long time, even if they haven’t called it by this name. What is new is that while companies
implemented one-to-one relationships with few customers in the past, today they can do so with many more customers [5]. In other words, nowadays, companies are able to implement a “mass one-to-one relationships” strategy by using CRM.

**Brief Overview of CRM**

Although the roots of CRM are derived from relationship marketing, most of the IT firms have defined it as the software applications that automate the marketing, selling, and service functions of businesses [6]. On the other hand, some authors view and define it from a business strategy perspective, such as the following [7]:

> **CRM is the strategic process of selecting customers that a firm can most profitably serve and shaping interactions between a company and these customers. The ultimate goal is to optimize the current and future value of customers for the company.**

In other words, with CRM strategy, companies are able to identify, attract, and retain the most profitable customers [8]. Customer retention is crucial and is the central point in CRM strategies, since it helps companies increase profitability via cross-selling (selling other products or services), upselling (selling more expensive products or services), or customer referrals [9]. So, CRM as a business strategy characterized with customer retention may date back to pre-industrial periods and has evolved over time with technological advancements.

**Different CRM Stages in Turkey**

Relationship marketing strategies are built on trust [10]. In Turkey’s collective culture in the 1980s, traditional grocery stores existed with a strong relationship built on trust between the seller and the store. The owner was called “uncle grocery” and usually came from the same quarter as the customers. In this era, which can be called as “CRM 1.0,” sellers knew their customers well. They knew their needs and their domestic troubles, and they even knew about their family lives. They addressed them by name. Some customers had difficulty paying their bills at the end of the month, and borrowing was prevalent. For this reason, the “uncle grocery” owner used a notebook to note his customer’s debts. In this way, the seller’s and customer’s relationship was strong. Customers often shopped at the same store; they didn’t change it, and groceries didn’t have that many customers. For this reason, the basic information system used by the sellers was a simple “notebook” to check customer debts.

Over time, the small, family-owned, traditional stores, which had weak traditional retail systems, were replaced by supermarkets [11]. A few years after their introduction in Turkey at the beginning of the 1990s, shopping malls emerged into the market. It’s possible to call this era as “CRM 2.0.” These large stores offered products cheap, as they bought them from their suppliers in huge quantities. This meant that people left their own quarters to go shopping and preferred these markets instead of the grocery stores of old, due to their cheap offerings. The number of customers at these markets started to increase, and the owners employed cashiers to process the transactions. As a result, the owners no longer recognized their customers, and they had to analyze customer bills in order to offer better applications—for example, personalized promotions, coupons, in-store activities, and so on. For this reason, the concept of CRM was introduced as a popular marketing phenomenon to collect and analyze customer data and to develop adequate marketing strategies. Most of the competitive tools were based on statistics to analyze numerical data collected from customer purchases. Companies developed loyalty cards,
and different market segments were called “platinum, gold, business, silver, economy, etc.” Different strategies were applied to different customer segments.

In today’s competitive environment, companies are forced to use latest technological developments to be differentiated from their competitors. There are several sources that have developed to collect customer data nowadays. For instance, data takes the form of text from comments on web sites, messages sent via email, images posted on social media, readings from sensors, GPS signals from mobile devices, etc. [12]. As a result of the development of technology, it’s now possible to discuss “CRM 3.0,” an era in which the Internet has become the focus of customers’ digitalized shopping lives. This era began in Turkey in the 1990s, and online commerce has soared in the last decade, paralleling the development of mobile commerce. Nowadays, the nature of data has changed, and numerical data were replaced by aural, visual, photographic, and textual data derived, for example, from daily social media use. Today, all kinds of data should be analyzed, particularly “big data” provided by consumers. It is important to note that the size of today’s customer data is huge (referring to the volume), that data are produced quickly (velocity), and that data take different forms from various sources (variety). Therefore, most of the time, statistics are insufficient to analyze customer data. This is why “data-mining techniques” are implemented to explore the hidden information stored in data. Using these techniques in CRM (for the purposes of association, classification, clustering, forecasting, regression, sequence discovery, and visualization) in order to analyze and understand customer behaviors and characteristics complements the use of statistics in this era. Instead of the databases that were used for numerical data in the previous stage, “data warehouses” are being created to deal with the variety of data in this era. For instance, textual data on third-party websites should be analyzed to develop a competitive advantage in the tourism sector based on travelers’ experiences. For this case, a text- or Web-mining tool would be the best approach.

What would CRM 4.0 be?

The evolution of technology continues at a great pace, and the next step is said to be the Internet of Things. This approach has been discussed in terms of its ability to change the way we manage customer relationships, as stated by Ric Merrifield [13]. As an example of the type of change in this period, refrigerators will be able to detect what is missing and order the items via the Internet. Until now, the ever-evolving role of the seller has been from “uncle grocery” to “mobile commerce.” Maybe in the future, an evolving customer will emerge, evolving from “humans” to “objects,” which will create important risk considerations [14].

References


Importance of adequate monetary policy in time dynamic of being a new member of European Union - case of Republic of Serbia

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Abstract. In order to became a new European Union (EU) member, many countries have subordinated own monetary policy and accepted main objectives of EU monetary policy. Although, it is quite clear that the defined goals and instruments of EU monetary policy can not equally match the national objectives of the member countries, there is a common view that unique monetary policy has more advantages than disadvantages. For those countries that are in the negotiation process, the time period of harmonisation of monetary policy and realisation of the set goals is very important. That dynamic is more important than formal time of accession to the EU. This paper explore monetary policy in Serbia, with reference to the main macroeconomic indicators, in order to determine the optimal moment of Serbia’s accession to the EU from the economic aspect, i.e. reaching the numerical values of key macroeconomic data singled out as the most important indicators in this process.

Keywords: European Union, monetary policy, macroeconomic indicators, Republic of Serbia

Introduction

Monetary policy is an effective way for the monetary authorities of a country to solve problems as well as internal and external imbalances. The success in realising the set monetary policy objectives depends on a large number of factors, which have their foothold in both monetary and real factors. The time period in which the effects of the implemented policy are manifested is from 20 to 24 months. Within this period, depending on the activities of all economic entities, this process may be slowed down or accelerated. Thus, the monetary authorities have great responsibility in terms of anticipating the expectations and reactions of economic entities in terms of the measures taken by the monetary policy. It is an extremely complex and complicated process, bearing in mind that one can not only observe the achievement of the set internal target to the detriment of undermining the external imbalance, and vice versa. There is no single monetary policy that would give the same effects in all countries that apply it. It is therefore not surprising that in the previous period, the monetary authority in Serbia applied several different monetary policy regimes, which carried with them different primary goals and instruments for their realisation. The implementation of different regimes is due to the changing circumstances and factors in the domestic economy, as well as the situation in the world economy. Problems are particularly evident in underdeveloped, transit economies, although further use of this term is debatable. The transition implies moving from one state of the economy to another that is time-limited. Considering the length of this transition period in undeveloped countries, even in Serbia, it takes form of permanence more than a transient phase. Nevertheless, in such economies, the inconsistency in defining the primary goals and the use of monetary policy instruments for their
realisation may be a major problem in achieving the positive effects of using it. But given the fact that the application of monetary policy is conditioned by the state of the economy, which is constantly changing in the transition period, then its constant change is not surprising, as a result of the devaluation of the effects that should have been achieved. The paper will discuss the theoretical considerations of the basic monetary policy regimes defined by the International Monetary Fund (IMF), the monetary policy of the European Union (EU), monetary policy in Serbia, achieving numerical values of macroeconomic indicators as a prerequisite for successful EU membership.

**Monetary policy regimes**

According to the IMF classification (IMF, De Facto Classification of Exchange Rate Regimes and Monetary Policy Frameworks, 2008), monetary policy regimes are:

- exchange rate anchor,
- monetary aggregate target,
- inflation targeting framework and
- other (monetary policy with implicit but not explicit anchor).

Considering the importance of certain monetary policy regimes and the frequency of their application in different countries, the theoretical bases of the first three regimes will be explained in more details below.

**. Exchange rate anchor**

The exchange rate anchor regime is one of the most frequently used strategies in the transition period, with the exchange rate being used as a nominal anchor. Targeting the exchange rate implies the fixed value of the local currency in relation to the currency of an anchor country, i.e. low inflation countries such as the US or EMU. This monetary policy regime can not be applied in all countries, because for some of them there is no country whose currency could serve as a nominal anchor (US, Japan or the European Monetary Union). Mishkin (Mishkin, 2000, p. 9) points out that the use of the exchange rate as a nominal anchor contributes to inflation control, linking the domestic prices of internationally tradable goods with the prices of these goods in the nominal anchor country, alleviating and completely eliminating inert components of inflation spreading into wages and prices of goods that are not the subject of international exchange, and directs inflationary expectations towards those in the country of the nominal anchor. Another advantage is that it contributes to the reduction and final elimination of the currency risk component of the domestic interest rate, reducing the costs of the government and the private sector, and improving the prospects for investment, financial deepening and economic growth.

As an additional advantage of the implementation of this monetary policy regimen is that it is clear, simple and understandable to the public. On the other hand, as the main disadvantages of this regime, Mishkin points out the loss of independence in the implementation of monetary policy, the restriction of the money supply level in the country by the growth of the money supply in a country whose currency serves as a nominal anchor, and its application gives space for various types of speculative activities.
Monetary aggregate target

Monetary aggregate target involves the use of monetary aggregates as an intermediate goal, through which it influences the achievement of the highly defined monetary policy goal. The basis for the transition to this regime was in the need to reorient the monetary policy following the breakdown of the Bretton Woods system. Moving from fixed to flexible exchange rate gave the central bank the ability to control the amount of money and credit expansion, rather than maintaining the stability of the exchange rate against the US dollar. Friedman (Friedman, 1953, p. 200) argued in the 1950s that a constant monetary growth rate (as an intermediate target) of 3-5% per annum is required for price stability. Monetary targeting is questioned when it is established that there is no stable relationship between the amount of money and inflation and that the function of money demand is not stable, as confirmed by changes in monetary aggregates. This has caused problems in developed countries to maintain monetary stability through interest rates, and in countries with non-convertible currencies through a fixed exchange rate policy. Nevertheless, according to the 2012 IMF data, 29 countries use this monetary policy regime.

Inflation targeting framework

Targeting inflation is the "youngest" monetary policy regime, first applied in 1990 in New Zealand. However, as early as next year, Canada begins to apply this regime, in 1992, the United Kingdom, and in 1993 Sweden and Finland. Then, Australia and Spain (1994) went through the same regime, followed by Israel, Brazil and Chile, and today, according to the 2012 IMF, it is applied to 32 countries. The main elements of this regime are: the need to publicise a medium-term inflation target; the obligation to define price stability as a primary goal of monetary policy; full information about all the variables used in making decisions, and not only monetary aggregates; transparency of the monetary policy strategy and growth of the central bank's responsibility for achieving the primary goal. Misconceptions related to this monetary policy regime could be reduced to the following. First, as Mishkin (Mishkin, 2001) points out, inflation targeting is a framework for monetary policy, not a rule. Every monetary policy, if it seeks to be coherent and purposeful, is placed in some conceptual frameworks, and it is just the question of how much that concept is clearly defined. According to Bernanke (Bernanke, 2003) inflationary targeting provides a single, coherent framework for thinking about monetary policy choices, with the involvement of the public. If, in this context, monetary policy succeeds in achieving the goals of directing inflationary expectations, the achievement of the ultimate goals is significantly facilitated. Another misconception concerns the assumption that inflationary targeting is exclusively based on inflation control, ignoring the goals of growth and employment. And as the last misconception that Bernanke points out, it refers to the assumption that inflation targeting is not consistent with the central bank's commitment to maintaining financial stability (the US example).

The single monetary policy of European Union

The primary objective of the European System of Central Banks shall be to maintain price stability (Article 127 of the Treaty on the Functioning of the European Union) within 18 countries as a members of European Monetary Union. The European Central Bank found the solution in the following: the ultimate goal, defined as price stability, i.e. the annual growth of the
Harmonised Consumer Price Index to 2% to be achieved over two bases. The first is monetary - on the assumption that GDP growth will be around 2% per annum, a 0.5% decrease in the money circulation, that the growth in prices will follow inflation growth of 2%, the growth of monetary aggregate M3 of 4.5% is planned (at the basis of the quantitative money equation). If the observed monetary aggregate M3 at some point exceeded the given amount, it would be a sign for the ECB that through instruments, that is, the level of short-term interest rate, it would reduce the amount of money and bring it into the planned growth frames. Another basis for influencing the achievement of the ultimate goal is the large number of indicators of future price movements, which are the level of wages, the price of bonds, the exchange rate, the fiscal policy i.e. its indicators. Of all these variables, the monetary aggregate M3 has the greatest impact on the level of inflation in the future. The ECB was formed following the model of German central bank, and some recent studies show that the Bundesbank's strategy was closer to inflationary targeting, as it "targeted" through a cash-set that was established on the basis of reliable inflation data i.e. it carried out inflation targeting until the cash stock was out of the target band. In fact, this meant that the goal was defined through a monetary outcome, rather than an instrument or an intermediate variable, and that it did not acquire its reputation because it targeted money, rather than keeping its inflation level at a very low level. (Un)Success in achieving the set goal is shown in the following graphic.

Monetary policy in Republic of Serbia

In the search for an optimal monetary strategy, after the negative experiences on the level of the inflation rate with the exchange rate as a nominal anchor, the National Bank of Serbia used different monetary policy regimes from 2000 to 2006, which are given in the following table.
## Table 1: Monetary Policy Regimes in Serbia (Customised according to NBS data)

<table>
<thead>
<tr>
<th>Monetary policy regime</th>
<th>Operational target</th>
<th>Exchange rate regime</th>
<th>Monetary policy instruments</th>
<th>Capital control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monetary aggregate target (2000-2006)</td>
<td>Net domestic assets (ceiling) Net assets (under)</td>
<td>Managed floating</td>
<td>Interventions in the foreign exchange market, the reserve requirement rate, open market operations</td>
<td>In a short time</td>
</tr>
<tr>
<td>Inflation targeting (from 2009) (period from 2007-2009 was preparation for direct inflation targeting framework)</td>
<td>Short-term interest rates</td>
<td>Managed floating, with a tendency to free fluctuation</td>
<td>Basic instrument - two-week repo rate; auxiliary-intervention in the foreign exchange market, prudential measures, the reserve requirement rate</td>
<td>In a short time</td>
</tr>
</tbody>
</table>

The implementation of the new monetary policy regime has yielded good results in terms of reducing inflation to the target level. From inflationary targets in the range of 8-12% in 2009, the target for 2017 is 3 + -1.5p.p. Key Policy Rate Cut to 3.5 % in October 2017, from 17.75% in 2008. Bearing in mind the achieved results, it can be said that the new monetary policy regime has contributed to the stabilisation of internal economic flows in Serbia. GDP per capita shows a growth trend in the observed period (5206.25 $ in 2006, to 5852.08$ in 2016). Based on the analysis of the data for 40 countries, which were used to identify the key economic indicators, whose numerical value can serve as the indicator of the optimal moment of accession, the values of the GDP per capita (measured in purchasing power parity) of 17950 US dollar has been obtained. Although the value of the GDP per capita in Serbia is still far from this level, the obtained values should indicate the importance of continuing the necessary structural reforms to achieve higher growth rates of GDP. By applying the regression analysis, it is estimated that Serbia, if the current upward trend of development continues, will reach this value in 2026. (Šabotić, Marinković, Banković, 2016, p.199).

### Conclusion

Although it is not possible to isolate only the impact of the application of different monetary policy policies on macroeconomic indicators and the achieved results in Serbia, the experience so far has shown that consistency in implementation of selected regime is very important. Since inflation targeting as a regime has been in the practice for 8 years in Serbia, it has given good results in terms of stabilising inflation and reducing it to selected framework. If it continues with the implementation of monetary policy in the same direction (without major external shocks), best time for accession to the EU for Serbia is 2026. with the entry to the EU, the transition toward the target zone ERM II will be more smooth, with less shocks concerning internal and
external balance. Current monetary and exchange rate regimes offer monetary authorities in Serbia more discretionary space having in mind the decision whether to influence the exchange rate fluctuations and in what way – indirectly via interest rate or directly through foreign exchange interventions.

References

Determinants of trade in value added: the case of the Central and Eastern European Countries

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Abstract The aim of the paper is to investigate determinants of trade in value added of the CEECs (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia) in the period 2000–2014. For this purpose, it uses a generalised gravity model based on panel data. The main independent variables (GDP of trading countries and the distance between them) have the same direction of impact on both value added exports/imports and gross exports/imports. Only the values of coefficients differ. The greatest difference concerns the geographical distance. It results from indirect value added trade.

Keywords: trade in value added, gross trade, Central and Eastern European countries, WIOD

Introduction

The making available in the early 2010s of complex databases containing world input-output tables (e.g. the World Input-Output Database – WIOD) was a significant advancement in research on international trade. It allowed to compile statistics of value added (VA) flows between countries. Trade statistics in VA terms take account of the contributions of particular countries to the creation of VA and eliminate the multiple calculation in trade of components, first separately (as intermediate goods) and then as parts of final goods (OECD, 2013). Thus, trade statistics in VA terms enable us to better estimate trade changes resulting from internationalisation and globalisation as well as benefits derived by countries from international trade.

The concept of ‘trade in value added’ or ‘value added trade’ allows to determine how much of the VA created in a country is directly and indirectly embodied in the final consumption of another country (Stehrer, 2013). VA may flow to the destination country directly in the form of the final product or indirectly in the form of a semi-finished product through other countries. It means that the country concerned exports an intermediate product to a country in which it is used for the manufacture of the final product, subsequently exported to the country of destination where it is consumed or absorbed (Johnson and Noguera, 2012).

In order to demonstrate the difference between VA and gross trade balances, Figure 1 presents an example of trade between three countries. The differences between net trade in gross and VA terms result from the possibility that a country may trade with another country only indirectly via a third partner. In the example below, country A exports an intermediate worth 2 to country B, which then – after adding some value of its own – ships the final product worth 3 to C, where it is consumed. Thus, no physical shipment of the good between A and C is observed, although there is value added created in country A which is finally absorbed in country C.
The aim of the paper is to investigate determinants of the trade in value added of the CEECs (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia) in the period 2000–2014. For this purpose, it uses a generalised gravity model based on panel data.

Material and methods

In order to calculate trade flows in value added terms, the World Input-Output Database (WIOD Release 2016) was used. It contains world input-output tables for the years 2000–2014 (Timmer et al., 2016). On the basis of the above-mentioned tables, using the input-output (IO) model, appropriate calculations were made.

The value added exports between country 1 and country 2 \((VAX_{12})\) are defined as the value added of country 1 which is ultimately absorbed in final demand by country 2. \(VAX_{12}\) are computed in the following way:

\[
VAX_{12} = \begin{pmatrix} v^1 & 0 \\ 0 & 0 \end{pmatrix} \begin{pmatrix} l^{11} & l^{12} & l^{13} \\ l^{21} & l^{22} & l^{23} \\ l^{31} & l^{32} & l^{33} \end{pmatrix} \begin{pmatrix} f^{12} \\ f^{22} \\ f^{32} \end{pmatrix} = v^1 f^{12} + v^1 l^{12} f^{22} + v^1 l^{13} f^{32}
\] (1)

where:

- \(v_i\) is the value added coefficient of country \(i\) of the 1x2464 value added vector \(v\),
- \(l_{ij}\) refers to the \(i\)th row, \(j\)th column element of the 2464x2464 Leontief inverse \(L\),
- \(f_{ij}\) denotes flows of final goods from country \(i\) to country \(j\).

The calculation of the VA imports of country 1 from country 2 is based on the equation allowing to estimate the VA exports of country 2 to country 1:

\[
VAM_{12} = VAX_{21} = \begin{pmatrix} v^2 & 0 \\ 0 & 0 \end{pmatrix} \begin{pmatrix} l^{11} & l^{12} & l^{13} \\ l^{21} & l^{22} & l^{23} \\ l^{31} & l^{32} & l^{33} \end{pmatrix} \begin{pmatrix} f^{11} \\ f^{21} \\ f^{31} \end{pmatrix} = v^2 l^{11} f^{11} + v^2 l^{12} f^{21} + v^2 l^{13} f^{31}
\] (2)

In order to investigate the determinants of trade flows of the Central and Eastern European countries, a gravity model was used. Gravity models were developed as a result of employing Newton’s law of universal gravitation in the examination of socio-economic phenomena. The
The first researcher to use a gravity model to analyse international trade flows was J. Tinbergen in the 1960s (1962). It followed from that model that the value of trade between two countries was in direct proportion to the product of the countries’ gross domestic products and in inverse proportion to the distance between them. Since the 1960s, gravity models have been widely used to analyse trade flows.

The gravity model employed in this study was estimated with the use of the Poisson pseudo-maximum-likelihood (PPML) estimator, with a clustering variable – distance. Based on the gravity model proposed by Proença et al. (2015), the gravity equation takes the following form:

\[
T_{ijt} = \exp\left[ \beta_1 \ln Y_i + \beta_2 \ln Y_j + \delta' \ln X_{ij} + \phi' \ln Z_{ij} + \varphi' \ln V_{ij} + \gamma' \ln D_{ij} + \alpha_t + \eta_{ijt} \right] \varepsilon_{ijt} \quad (3)
\]

where:
- \( T_{ijt} \) – bilateral trade between country \( i \) and \( j \) at time \( t \) (here: bilateral exports/imports in gross terms and exports/imports in VA terms),
- \( Y_i \) – GDP of reporter country \( i \),
- \( Y_j \) – GDP of partner country \( j \),
- \( X_{ij} \) – column vector of non-binary variables (here: \( \text{diffGDP}_{ij}, \text{diffGDPpc}_{ij} \)),
- \( Z_{ij} \) – column vector of non-binary time-invariant variable (here: \( \text{dist}_{ij} \)),
- \( V_{ij} \) – column vector of binary variables (here: \( \text{FTApre}_{ij}, \text{EUmem}_{ij}, \text{FTApost}_{ij}, \text{euro}_{ij} \)),
- \( D_{ij} \) – column vector of binary time-invariant variables (here: \( \text{border}_{ij} \)),
- \( \delta, \phi, \varphi, \gamma \) – column vectors of unknown coefficients,
- \( \beta_1, \beta_2 \) – unknown scalar coefficients,
- \( \alpha_t \) – time effects,
- \( \eta_{ijt} \) – unobserved heterogeneous effects,
- \( \varepsilon_{ijt} \) – error term.

Apart from traditional variables included in gravity models (GDP of trading countries and the distance between them), the model also took account of a number of other variables which might influence the value of bilateral trade. Table 1 presents the list of those variables together with their effects on the explained variable as anticipated on the basis of theory and empirical investigations.

The analysis was carried out for bilateral trade between the ten CEECs and their 43 trading partners for the years 2000–2014. The model’s estimations were made using the STATA 14 econometric package. The sources of data were as follows: the International Monetary Fund database (World Economic Outlook database), the CEPII (French Research Centre in International Economics) database and the database of the World Trade Organisation (Regional Trade Agreements – International System).
Table 1. Variables used in the model and their expected effects on dependent variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Expected impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP(i)</td>
<td>logarithm of reporter country’s GDP, current prices, USD million</td>
<td>+</td>
</tr>
<tr>
<td>GDP(j)</td>
<td>logarithm of partner country’s GDP, current prices, USD million</td>
<td>+</td>
</tr>
<tr>
<td>diffGDP(ij)</td>
<td>logarithm of the absolute value of the difference in GDP between the trading countries</td>
<td>–</td>
</tr>
<tr>
<td>diffGDP(pc)</td>
<td>logarithm of the absolute value of the difference in GDP per capita between the trading countries</td>
<td>–</td>
</tr>
<tr>
<td>dist(ij)</td>
<td>logarithm of the distance between the capital cities of the trading countries, in km</td>
<td>–</td>
</tr>
<tr>
<td>border(ij)</td>
<td>dummy variable taking a value of 1 where the trading countries have a common border</td>
<td>+</td>
</tr>
<tr>
<td>FTAEU(ij)</td>
<td>Dummy variable taking a value of 1 where the trading countries:</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td>- have concluded association agreements with the EU</td>
<td></td>
</tr>
<tr>
<td>FTApre(ij)</td>
<td>- belong to the same preferential trade group prior to the EU enlargement in 2004</td>
<td>+</td>
</tr>
<tr>
<td>EUmem(ij)</td>
<td>- are EU Member States</td>
<td>+</td>
</tr>
<tr>
<td>FTApost(ij)</td>
<td>- belong to the same preferential trade group as a result of the adoption of the common commercial policy of the EU upon EU accession</td>
<td>+</td>
</tr>
<tr>
<td>euro(ij)</td>
<td>- belong to the euro area</td>
<td>+</td>
</tr>
</tbody>
</table>

Source: Own study based on the literature review.

Research results

It followed from the estimations that the parameters for the three main explanatory variables (GDP of trading countries and the distance between them) in all the estimated equations were statistically significant, whereas the effects of those variables on trade flows appeared to be as expected. GDP growth in the reporter and partner countries had an upward impact on gross and VA exports as well as on gross and VA imports. At the same time, a growing distance between countries pushed down trade flows, whether in gross or VA terms. However, it must be pointed out that the absolute value of the coefficient in the model explaining gross exports (imports) is higher than the absolute value of the coefficient illustrating VA exports (imports). It results from the existence of indirect exports (imports) of value added. It means that the shares of geographically remote countries in trade measured by VA statistics tend to be greater than those in trade measured by traditional statistics. Similar conclusions for Poland’s trade in 1995–2011 with the use of data from the Trade in Value Added database were drawn by Folfas (2016).
Table 2. Results of the estimation of the impact of specific determinants on CEEC trade in 2000–2014

<table>
<thead>
<tr>
<th>Variable</th>
<th>Gross exports</th>
<th>VA exports</th>
<th>Gross imports</th>
<th>VA imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>$GDP_i$</td>
<td>0.887***</td>
<td>0.934***</td>
<td>0.801***</td>
<td>0.811***</td>
</tr>
<tr>
<td></td>
<td>(0.032)</td>
<td>(0.022)</td>
<td>(0.039)</td>
<td>(0.032)</td>
</tr>
<tr>
<td>$GDP_j$</td>
<td>0.854***</td>
<td>0.818***</td>
<td>0.941***</td>
<td>0.94***</td>
</tr>
<tr>
<td></td>
<td>(0.052)</td>
<td>(0.037)</td>
<td>(0.052)</td>
<td>(0.038)</td>
</tr>
<tr>
<td>$\text{diff}GDP_{ij}$</td>
<td>-0.009</td>
<td>0.003</td>
<td>-0.094***</td>
<td>-0.09***</td>
</tr>
<tr>
<td></td>
<td>(0.039)</td>
<td>(0.027)</td>
<td>(0.036)</td>
<td>(0.027)</td>
</tr>
<tr>
<td>$\text{diff}GDP_{p,ij}$</td>
<td>-0.109***</td>
<td>-0.058***</td>
<td>-0.178***</td>
<td>-0.132***</td>
</tr>
<tr>
<td></td>
<td>(0.037)</td>
<td>(0.027)</td>
<td>(0.04)</td>
<td>(0.033)</td>
</tr>
<tr>
<td>$\text{dist}_{ij}$</td>
<td>-0.885***</td>
<td>-0.726***</td>
<td>-0.833***</td>
<td>-0.769***</td>
</tr>
<tr>
<td></td>
<td>(0.128)</td>
<td>(0.079)</td>
<td>(0.126)</td>
<td>(0.098)</td>
</tr>
<tr>
<td>$\text{border}_{ij}$</td>
<td>0.633***</td>
<td>0.526***</td>
<td>0.705***</td>
<td>0.55***</td>
</tr>
<tr>
<td></td>
<td>(0.16)</td>
<td>(0.099)</td>
<td>(0.174)</td>
<td>(0.16)</td>
</tr>
<tr>
<td>$\text{FTA}_{EU,j}$</td>
<td>0.897***</td>
<td>0.55***</td>
<td>0.449**</td>
<td>0.372*</td>
</tr>
<tr>
<td></td>
<td>(0.21)</td>
<td>(0.145)</td>
<td>(0.219)</td>
<td>(0.192)</td>
</tr>
<tr>
<td>$\text{FTA}_{pre,j}$</td>
<td>0.711***</td>
<td>0.439***</td>
<td>0.169</td>
<td>0.154</td>
</tr>
<tr>
<td></td>
<td>(0.203)</td>
<td>(0.145)</td>
<td>(0.231)</td>
<td>(0.209)</td>
</tr>
<tr>
<td>$\text{EUMem}_{ij}$</td>
<td>0.961***</td>
<td>0.446***</td>
<td>0.371</td>
<td>0.075</td>
</tr>
<tr>
<td></td>
<td>(0.213)</td>
<td>(0.139)</td>
<td>(0.231)</td>
<td>(0.198)</td>
</tr>
<tr>
<td>$\text{FTA}_{post,j}$</td>
<td>0.400**</td>
<td>0.074</td>
<td>-0.288</td>
<td>-0.375*</td>
</tr>
<tr>
<td></td>
<td>(0.196)</td>
<td>(0.129)</td>
<td>(0.231)</td>
<td>(0.194)</td>
</tr>
<tr>
<td>$\text{euro}_{ij}$</td>
<td>-0.362</td>
<td>-0.311**</td>
<td>-0.414*</td>
<td>-0.449***</td>
</tr>
<tr>
<td></td>
<td>(0.226)</td>
<td>(0.152)</td>
<td>(0.215)</td>
<td>(0.174)</td>
</tr>
<tr>
<td>const.</td>
<td>3.924***</td>
<td>2.173***</td>
<td>5.172***</td>
<td>3.949***</td>
</tr>
<tr>
<td></td>
<td>(0.841)</td>
<td>(0.582)</td>
<td>(0.958)</td>
<td>(0.891)</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.8949</td>
<td>0.9322</td>
<td>0.8513</td>
<td>0.8888</td>
</tr>
</tbody>
</table>

Note: (*), (***) and (*****) mean statistical significance at the level of 10%, 5% and 1%, respectively. Standard errors are in parentheses. Source: Own calculations.

The effect of differences in GDP between trading countries was only negative and statistically significant for gross imports and VA imports. As regards gross exports and VA exports, it was insignificant statistically. Both export and import flows were pushed down by widening differences in GDP per capita between trading countries. Simultaneously, the existence of a common border between trading partners was conducive to increased trade flows between them. As in the case of the distance, the coefficient value for the border variable in the model explaining gross exports (imports) was higher than the absolute value of the coefficient illustrating VA exports (imports). It corroborates the prior finding of the existence of indirect trade in value added between countries.

Interesting conclusions can be drawn from the analysis of parameters for the variables concerning preferential trade agreements. The effects of association agreements with the then European Communities entered into by the CEECs in the mid-1990s, of the CEECs’ EU membership and of other trade agreements concluded by the CEECs before EU accession (the variables $\text{FTA}_{EU}$, $\text{FTA}_{pre}$, $\text{EUMem}$) are statistically significant.
and memEU respectively) on gross exports and VA exports were positive and statistically significant at the level of 1%. Free trade agreements resulting from the adoption of the EU common commercial policy had a positive and statistically significant (at the level of 5%) impact only on gross exports, whereas their effect on VA exports appeared to be statistically insignificant. Contrary to expectations, the influence of two countries’ belonging to the euro area on VA exports proved to be negative and statistically significant. With regard to imports, positive and statistically significant effects (although at a level not greater than 5%) were found in the case of association agreements with the then European Communities on gross imports and value added imports of the CEECs. Simultaneously, free trade agreements resulting from the adoption of the common commercial policy of the EU appeared to have a negative impact on VA imports, whereas the euro-area membership pushed down import flows measured using either method. Therefore, the findings were inconsistent with the theory and expectations as those suggested a favourable effect on trade of reduced barriers to trade.

Conclusions

According to the analysis carried out, for most variables the direction of impact on gross exports/imports and on value added exports/imports was identical. Simultaneously, the parameters for variables estimated in the models explaining gross trade and value added trade showed different values. The greatest differences were found in the case of the distance between countries. The absolute value of the coefficient in the model explaining gross exports (imports) was higher than the absolute value of the coefficient illustrating VA exports (imports). It results from the existence of indirect exports (imports) of value added. In addition, the determination coefficient value in the model explaining VA exports/imports is greater than in the model explaining gross exports/imports. Since GDP is also the sum of value added (rather than gross value) the model containing the explained variable and explanatory variables measured in value added terms is a model of better quality.

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References


Poverty and income inequality in the Republic of Macedonia

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Abstract. Past Governments in the R. Macedonia have failed to substantially boost economic growth and create new jobs. As such, the country remains challenged by an alarmingly high poverty and inequality in income distribution. Using official data from the State Statistical Office, it is the intention of this study to examine trends in poverty and income inequality in the R. Macedonia for the period 2010-2015. The at-risk-of-poverty rate in the R. Macedonia has decreased 5.8 p.p. in the study period reaching 21.5% in 2015. The most vulnerable groups in this context are multi-member households and the unemployed when observing poverty by economic activity. Observing inequality in the income distribution in R. Macedonia, the study shows a positive trend, but still at an alarmingly high level. The Gini coefficient has decreased by 7.1 p.p. in the study period registering a coefficient of 33.7% in 2015.

Key words: poverty, income inequality, Gini coefficient

Introduction

Poverty and income inequality are concepts vastly studied and discussed in both academic and policymaking contexts. Both concepts present a challenge to Governments all around the world, but are more visible and manifest in some societies than others. The R. Macedonia represents one of the societies where poverty and income inequality is highly visible and manifested. Low economic growth and slow job creation is and has been a serious problems for R. of Macedonia since its independence in 1991, and thus constantly struggling with high levels of poverty and income inequality. The Government has over the past decades not been silent towards these challenges and responded with several reforms and interventions to improve the socio-economic environment in the country in hope of eradicating poverty and income inequality to more acceptable levels. However, the reforms and interventions have failed to meet the desired long-term outcomes for increased welfare and well-being. Consequently, the country remains challenged by a high level of poverty and inequality in the distribution of income.

In addition to being signatory to a wide number of international conventions in the area of human rights and elimination of discrimination policies and its dedication to achievement of the EU integration priorities, the R. Macedonia has also expressed commitment to achievement of the UN Millennium Declaration in 2000. The Millennium Declaration, which was translated into a roadmap setting out eight time-bound and measurable goals to be reached by 2015, otherwise known as the Millennium Development Goals (MDGs), explicitly calls for the commitment to reduce the proportion of the population living below the poverty line to 9.5% by 2015. In this context, it is aim of this study to examine developments in poverty and inequalities in distribution of incomes in the R. of Macedonia. This not only in relation to the achievement of the Milinium Development Goal, but also generally to understand the development in this area.
Litterature Review

According to the State Statistical Office of the R. Macedonia, poverty is refers to persons, families, and groups of persons whose resources (material, cultural and social) are so limited that it excludes them from the minimum acceptable way of life in society. As such, the basis for poverty calculations is income, and the poverty threshold used in this case to define the adequate minimum is 60% of the median equivalent income. Whereas income inequality refers to the distribution of income in society. The latter is thus a broader concept than poverty in that it is defined over the entire population, and does not only focus on the poor. Income inequality is measured using Gini Coefficient and the S80/S20 indicator. The latter shows the ratio of total income received by the 20% of the population with the highest income to that received by the 20% of the population with the lowest income. Thus, the larger this relationship is, the greater the inequality is. The Gini coefficient, on the other hand, is a statistical measure that takes into account the overall income distribution in the country, which measures inequality in the distribution of income and wealth. If there were to be perfect equality, meaning that everyone in the society has the same income, then the coefficient would be 0 (0%). If all national income were in the hands of one person, the coefficient would be 1 (100%). Hence, the greater the Gini coefficient is, the greater is the income inequality the country. According to Petrevska and Uzunov (2015), the extreme values 0 and 1 are only theoretical cases and in practice the value of the Gini index ranges from about 0.25 to 0.7.

The reason for observing poverty together with income distribution (income inequality) is that the distribution of income is an important determinant of poverty reduction (Nikolov et al. 2013). In the context of R.Macedonia, Nikolov et al. (2013) emphasizes that the gap between the citizens in the Republic of Macedon is growing, where the proportion of the poorest 20% of the population is receiving decreases (below 5%), while the proportion of the income received by the richest 20% of the population increases (over 50%). According to the same author, this situation appears as a result of the failed long-term budgetary policy and the lack of a clear vision of the structure and distribution of wealth in society. On the other hand, Micajkova (2014) states that the main reason for the inequality in the R. Macedonia is the high level of unemployment. Even though the Government of the R. Macedonia in its policies has included several measures to reduce inequality, Micajkova (2014) believes that the introduction of a progressive personal income tax is an additional measure that should be taken into account in the future. This shows that social policies in the R. Macedonia failed to reduce the negative intensity of the social fragmentation of the country. That negative social fragmentation is evident in the R.Macedonia is supported also by Bexheti (2014), who refers to the continuing "melting" of the middle class more towards impoverishment rather than enrichment. According to the study by Bexheti (2014) 38.44% of the population in R.Macedonia belong to the middle class, 42.82% to the poor class and 18.74% to the rich class.

According Bexheti (2015), one of the factors that influence inequality in a country is the tax system arguing that if the poor in a given tax system continuee to be poor, it implies that total revenues are allocated to only a small part of the population. In this respect Bexheti (2015) concurs with Micajkova (2014) that a progressive tax system would contribute to a more equal distribution of income in the country and reduce poverty.

Methodology

A valuable source for capturing events in poverty and inequalities is the Survey on Income and Living Conditions executed annually by the State Statistical Office of the R. Macedonia. Hence,
for the sake of this study, official data published from this institution for the period 2010-2015 forms the primary basis for our observations and conclusions. The relative short period included in the study rests on the fact that the R. Macedonia started measuring poverty since 1996 using a national framework, and that it only in 2010 adopted the European framework for measuring poverty. Making it thus difficult to compare developments over a longer study period and especially in respect to the achievement of the Millennium Development Goal for poverty reduction.

**Data Analysis**

According to data for the period 2010-2015 presented in Table 1, the poverty level in the R. Macedonia has decreased in the study period with 5.8 p.p. reaching 21.5% in 2015. Seeing this percentage in absolute terms using the current population of approximately two million people in the R. Macedonia, the figures shows that approximately 430,000 people in the country live in poverty. The situation is much more alarming if we observe the at-risk-of-poverty rate before social transfers and before pensions, which indicates that double the amount of people mentioned above live below the poverty threshold.

The at-risk-of-poverty rate clearly states that the R. Macedonia is far from meeting the Millennium Goal for poverty reduction with substantial efforts required by the Governments side to reduce this level to 9.5% as committed.

<table>
<thead>
<tr>
<th>Indicators / Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>At-risk-of-poverty rate, % of population</td>
<td>27.3</td>
<td>26.8</td>
<td>26.2</td>
<td>24.2</td>
<td>22.1</td>
<td>21.5</td>
</tr>
<tr>
<td>At-risk-of-poverty rate before social transfers and before pensions, % of population</td>
<td>42.8</td>
<td>43.9</td>
<td>42.6</td>
<td>41.0</td>
<td>41.7</td>
<td>40.5</td>
</tr>
<tr>
<td>At-risk-of-poverty rate by most frequent activity status-Employed</td>
<td>9.9</td>
<td>10.2</td>
<td>11.1</td>
<td>11.1</td>
<td>9.8</td>
<td>8.9</td>
</tr>
<tr>
<td>At-risk-of-poverty rate by most frequent activity status-Unemployed</td>
<td>50.6</td>
<td>48.7</td>
<td>46.5</td>
<td>43.7</td>
<td>40.4</td>
<td>39.7</td>
</tr>
<tr>
<td>At-risk-of-poverty rate by household type-Households of two adults with two dependent children</td>
<td>22.7</td>
<td>21.4</td>
<td>24.3</td>
<td>24.8</td>
<td>25.0</td>
<td>22.9</td>
</tr>
<tr>
<td>At-risk-of-poverty rate by household type-Households of two adults with three or more dependent children</td>
<td>36.5</td>
<td>49.6</td>
<td>53.9</td>
<td>49.9</td>
<td>51.1</td>
<td>52.2</td>
</tr>
</tbody>
</table>

Source: State Statistical Office (Laeken indicators of poverty, 2010-2015)

Observing data based on employment and unemployment, the study clearly suggests that unemployed people are at much higher risk of poverty with 39.7% of unemployed living in poverty in 2015 in contrast to employed in the same year (8.9%). The trend for the at-risk-of-poverty rate for the unemployed shows a substantial decrease in the study period by 10.9 p.p. but remains at very high level registering 39.7% in 2015. While the at-risk-of-poverty rate for the employed has registered a marginal drop in study period by 1.0 p.p. with a marginal increase registered in both 2011 and 2012.
Observing Table 1, clearly the most vulnerable group towards poverty in the R. Macedonia includes households of two adults with three or more dependent children. However, more alarming is that this category has registered a 15.7 p.p. increase in the study period reaching 52.2% in 2015. Meaning that every second household of two adults with three or more dependent children are living in poverty. As observed, this category is much more vulnerable to poverty in contrast to households of two adults with two dependent children, which registered an at-risk-of-poverty rate of 22.9% in 2015 and a marginal increase of 0.2% over the entire study period. Noteworthy is that for these two category, the Government allocates funds for poverty alleviation. One of these measures is the Social Cash Assistance (SCA). However, this measure perceived as ineffective in contributing to the reduction of poverty due to the low amount provided and to the fact that the amount only increases by a 0.37 coefficient for any additional member of the family and this only up to five members. Consequently, households with more than five members remain at great risk of poverty. According to Nikolov et al. (2013), another concern in the R. Macedonia is the growth of households living in poverty where the head of the family has completed higher education. Thus, suggesting that there is no positive link between education and poverty in the Republic of Macedonia. Nikolov et al. (2013) further concludes that the high level of poverty in the country can also be attributed to increasing participation of citizens in private financing of public services such as education and health. If these costs could be excluded from the private consumption of citizens, the level of poverty in the country would be reduced.

**Table 3. Inequality of income distribution in the Republic of Macedonia, in percentage, 2010-2015**

<table>
<thead>
<tr>
<th>Indicators / Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inequality of income distribution, Gini coefficient</td>
<td>40.8</td>
<td>38.5</td>
<td>38.8</td>
<td>37.0</td>
<td>35.2</td>
<td>33.7</td>
</tr>
<tr>
<td>Inequality of income distribution, S80/S20</td>
<td>11.3</td>
<td>10.6</td>
<td>10.2</td>
<td>8.4</td>
<td>7.2</td>
<td>6.6</td>
</tr>
</tbody>
</table>

Source: State Statistical Office (Laeken indicators of poverty, 2010-2015)

As observed in Table 2, both indicators for inequality of income distribution, Gini coefficient and S80/S20 indicator, show a decreasing trend throughout the study period. The Gini coefficient has decreased by 7.1 p.p. from 40.8% in 2010 to 33.7% in 2015. While the S80/S20 indicator has decreased from 11.3% in 2010 to 6.6% in 2015. However, despite the notable decrease in both the Gini coefficient and the S80/S20 indicator, the data shows that there is still a great income inequality in the R. Macedonia. The highest rate of income inequality was observed in 2010 (40.8%), which corresponds to the highest rate of poverty (27.3%) in the same year; showing that the growth of income inequality affects poverty in the country. The same is confirmed also by the Ministry of Finance (2017), which states that the R. Macedonia has a record-high income inequality in Europe, where the top 1% share of income in the country hold 14% of the total income while one percent have a monthly income of over 1.523 euros, while 50% are below 212 euros per month.

**Concluding Remarks**

The study shows progress in reducing poverty and income inequality in the R. Macedonia. However, the conclusion is that both remain at an alarming level. Poverty and inequality in income distribution are clearly complex challenges that cannot be easily and quickly reduced and/or eradicated. In addition to effective support programs for the poor and for those at risk of becoming poor, the government needs to seriously address socio-economic factors contributing to poverty reduction and undertake educated reforms in both taxation and
social policy to ensure effective and long-lasting impacts on poverty and income inequality. The Government should especially endeavour to reduce unemployment amongst more vulnerable groups such as youth, females, and certain ethnic groups and households comprising of large families.

References

Polish foreign trade in live geese and the goose’s meat in the years 2012-2016

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Abstract. The main aim of the article is to present the Polish goose market in 2012-2016 in the context of changes in foreign trade of selected goose products. During the considered period Poland was a net exporter of goose meat and offal, a net importer of live geese and the world's largest exporter of goose (meat). In 2016, livestock of geese felt by more than 29% as compared to 2012, slaughter and exports increased. Consumption of this kind of meat influenced favorable on development of market, in Poland we can observed the fashion to consumption of goose meat. Although the production of geese in Poland is small, it is one of the largest producers of this species in the world. A significant portion of domestic goose production is exported, primarily to Germany. Both in the export and import of goose products dominated the goose meat and offal.

Keywords: polish market in goose, goose livestock, international trade, goose production

Introduction

In 2012 and 2013, the largest global producer of goose was China, followed by: Egypt, Hungary, Taiwan and Poland. Poland was the fifth largest goose producer in the world and the second in Europe. World production of goose was very concentrated as about 95% of goose was produced in China. Concentration of goose production in Europe was also high – approx. 80% of goose was produced by Hungary and Poland [1]. In 2016, Poland was the world's largest exporter of goose meat and offal. Further positions among the leaders of global export were held by Hungary, China, Germany and South Africa [2]. The main objective of the study is to present the Polish market in goose between 2012 and 2016 against the background of changes in foreign trade in selected goose products, i.e. live geese, meat and offal. The basic method for achieving the objective of the study is a comparative analysis (relative increments, and fixed and chain dynamics indices) of goose stock, total export and import (i.e. of meat, offal and live geese), individual product groups and the analysis of the export and import commodity structure. The research results obtained are important to producers of geese, processors, exporters, importers, wholesale and retail trade and to the economic policy of the state. The annual data from 2012-2016, supplied by the Ministry of Finance, was used in the study, which also made use of data of the Central Statistical Office and the Comtrade and FAO database. Deviations from the accepted time frame resulted mainly from the lack of access to data. Data on foreign trade for 2016 are preliminary data.
Trends in goose stock and production in Poland

The production of geese in Poland is an important part of animal production. It began to develop on a larger scale as early as the nineteenth century. In the 19th century, around 3 million goose were sold in the exchange in Warsaw (Russian Partition). World War I and II as well as the progressive intensification of agriculture have contributed to the reduction in goose stock not only in Poland but also in the countries of Eastern Europe [3].

Goose meat is not very popular among consumers, it is rather a niche product. In addition to meat, geese can also provide eggs, fatty liver as well as down and feathers. Goose meat contains a lot of protein and a relatively high amount of unsaturated fatty acids [4]. In Poland, as opposed to some Asian countries, goose eggs are eaten very rarely [5].

Significant part of domestic production of goose is exported. Therefore, Polish consumer of geese has limited possibilities to choose where to buy it, and it is rarely found in large supermarkets [6].

![Fig. 1. Changes in goose stock (previous year = 100) (in %) and share of goose stock in total poultry stock in Poland (state at the end of the second half of the year) (in %)
Source: own work based on the: [7]

Compared to 2012, the poultry stock increased 18.7% to 148.9 million head, which was mainly caused by the increase in the number of chicken (excluding laying hens) of 27.9% to 87.5 million head, laying hens of 9.6% to 48.4 million head, ducks and others of 42.8% to 3.7 million head (see fig. 1). The stock of other species decreased (i.e. stock of turkeys 7% to 8.5 million head and of geese 29.5% to 0.9 million head). Between 2012 and 2016, chicken (excluding laying hens) had the highest share in poultry stock (with the share between 53.9% and 58.8%), and geese the lowest share (between 0.6% and 1.0%) [7].

Polish specialty is the so-called oats-fed goose. About 95% of the goose population in Poland is the White Kołuda goose [8]. According to J. Marciniec and K. Smędzik-Ambroży, due to the dominant position of one goose breed, this production in Poland is niche. The only supplier of White Kołuda gosling is the National Research Institute of Animal Production in Kołuda Wielka. Another determinant of the niche production, according to J. Marciniec and K. Smędzik-Ambroży, is the classification of producers of live goose to special sections of agricultural production, as well as the strong position of the poultry industry in the field of goose price formation [6].
Foreign trade in goose and goose meat

Between 2012 and 2016, the turnover of Polish foreign trade in goose and goose meat was characterised by an upward trend (see fig. 2). In relative terms, the average annual growth of export of goose products was about 7%. On the basis of the estimated linear function of the trend, in the case of export of goose products and goose meat and offal, it can be stated that period by period, export increased by about 1 thousand tonnes. By using the constructed equation, it was possible to explain almost 55% of the variance of the dependent variable, i.e. export. Total export (of live animals, goose meat and offal) increased over 30% from 17 thousand tonnes in 2012 to 22 thousand tonnes in 2016, with over sixfold increase in import of goose products to 2.1 thousand tonnes. Poland was the net exporter of the total goose products studied throughout the period considered. The increase in export volume was mainly due to an increase in the export of goose meat and offal, which was possible in 2015-2016 due to the significant increase in the production of live goose (see table 1). In spite of the dominant upward trend in the export of individual groups of goose products, there were also decreases in:

- live geese of 61% in 2014, and
- goose meat and offal of 12% in 2014.

From 2012 to 2016, the share of export of selected goose product-types in the total export of individual poultry product-types was diverse, the largest was recorded for goose meat and offal (between 2.1% and 3.6%), and it was close to zero in the case of live geese. The share of import of live geese in total import of live poultry fluctuated from 0.5% to 2.3%, and of goose meat and offal in total poultry meat from 0.6% to 5.5%.
Table 1. Changes in the volume of exports and imports of geese and goose meat and offal (in %)

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<tbody>
<tr>
<td></td>
<td>100%</td>
<td>102%</td>
<td>114%</td>
<td>121%</td>
<td>130%</td>
</tr>
<tr>
<td>Exports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Live geese</td>
<td>39</td>
<td>73</td>
<td>121</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Meat and offal</td>
<td>127</td>
<td>88</td>
<td>114</td>
<td>102</td>
<td>130</td>
</tr>
<tr>
<td>Imports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Live geese</td>
<td>324</td>
<td>210</td>
<td>89</td>
<td>98</td>
<td>601</td>
</tr>
<tr>
<td>Meat and offal</td>
<td>238</td>
<td>157</td>
<td>96</td>
<td>180</td>
<td>590</td>
</tr>
</tbody>
</table>

Source: own work based on data of the Ministry of Finance.

In the analysed period, in quantitative terms, import of goose products in question increased over 6 times and in value terms nearly 4 times to almost PLN 21 million (see table 1). The increase in the volume of import was the result of more than sixfold growth of import of live geese and nearly sixfold growth of import of goose meat and offal. Even though the volume of import of the studied goose products increased in 2016 compared to 2012, import of live geese decreased in 2015 and 2016 (compared to the previous year). The decrease in the import of meat and offal and live goos in the last two years of the analysed period is most likely caused by the rich and constantly widened offer of domestic processors of goose products, hence the reduction in the need to supplement the domestic supply of these products by import. On the basis of the estimated linear function of the trend, it can be stated that import was increasing about 0.4 thousand tonnes period by period (see fig. 2). By using the constructed equation, it was possible to explain almost 69% of the variance of the dependent variable, i.e. import. This import was small, in particular compared to Polish export of goose products.

Table 2. Commodity structure of the exports and imports of goose's products in 2012-2016 years (in %)

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>Meat and offal</td>
<td>100</td>
<td>99.99</td>
<td>100.00</td>
<td>99.98</td>
<td>99.98</td>
</tr>
<tr>
<td></td>
<td>Live geese</td>
<td>0.00</td>
<td>0.01</td>
<td>0.00</td>
<td>0.02</td>
<td>0.02</td>
</tr>
<tr>
<td>Imports</td>
<td>Meat and offal</td>
<td>25.88</td>
<td>17.27</td>
<td>12.88</td>
<td>13.85</td>
<td>25.43</td>
</tr>
<tr>
<td></td>
<td>Live geese</td>
<td>74.12</td>
<td>82.73</td>
<td>87.12</td>
<td>86.15</td>
<td>74.57</td>
</tr>
</tbody>
</table>

Source: own work based on data of the Ministry of Finance.

In 2012-2016, the commodity structure of Polish export of selected goose products was similar (see table 2). The commodity structure was dominated by goose meat (with a share of over 99%). In the structure of goose meat export, the most popular elements were:
- frozen carcases, known as “75% geese,” (i.e. domestic geese, not cut in pieces, plucked and drawn, without heads and feet, with or without hearts and gizzards),
- frozen legs and cuts thereof, with bone in,
- frozen breasts and cuts thereof, with bone in,
- frozen whole wings.

The geographic structure of export of goose meat and offal is very concentrated. Goose meat and offal exported from Poland were purchased mainly by EU countries, and Germany was the largest consumer (its share in export ran from 72.6% to 80.0%). Among third countries, the largest buyer
was Hong Kong (where from 8.3% to 13.1% of the export volume of goose meat and offal was sent). Live geese had a relatively low share in export (close to 0%).

The weight structure of the exported live geese included only goslings.

The commodity structure of Polish import of goose products was diverse and changing (see Table 2). The share of live geese in import ranged from 12.9% to 25.9%, and of poultry meat and offal from 74.1% to 87.1%. During the period considered, geese weighing more than 185 g had the largest share in live goose import and among the meat had the so-called 75% geese, frozen (i.e. domestic geese, not cut in pieces, plucked and drawn, without heads and feet, with or without hearts and gizzards). Goose meat and offal were imported exclusively from EU countries, with the largest quantity imported from Germany and France.

Between 2012 and 2016, Poland was the net exporter of goose meat and offal (see Table 3). The highest balance in this product range occurred in 2016, whereas in the whole analysed period, the balance, both in terms of quantity (weight) and value, of live goose was negative. It had the lowest value in 2014.

### Table 3. Balance of foreign trade in goose products (in thousand tons and in million of PLN)

<table>
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<tbody>
<tr>
<td></td>
<td>thousand tons</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Live geese</td>
<td>-0.3</td>
<td>-0.9</td>
<td>-2.1</td>
<td>-1.8</td>
<td>-1.6</td>
</tr>
<tr>
<td>Meat and offal</td>
<td>16.6</td>
<td>21.0</td>
<td>18.3</td>
<td>21.0</td>
<td>21.2</td>
</tr>
<tr>
<td></td>
<td>PLN million</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Live geese</td>
<td>-2.9</td>
<td>-7.5</td>
<td>-16.0</td>
<td>-13.2</td>
<td>-12.1</td>
</tr>
<tr>
<td>Meat and offal</td>
<td>333.4</td>
<td>271.7</td>
<td>255.5</td>
<td>308.3</td>
<td>361.9</td>
</tr>
</tbody>
</table>

Source: own work based on data of the Ministry of Finance.

An opportunity for some producers may be organic production of this species of livestock. Producers of such geese generally receive higher buying-in prices [8]. They can find buyers of organic products both in the domestic and foreign markets. In addition, native breeds and varieties can be a branded product in developing agri-tourism, they can also be a component proving the tradition and culture of the region [9].

### Conclusion

Currently, Poland is self-sufficient in the production of goose meat. In 2016, compared to 2012, the turnover in foreign trade in goose products improved. The export structure was different from import. Significant quantities of meat and offal of geese were exported, and relatively small numbers of live geese were sold abroad. The import structure was dominated by goose meat and offal, however, their share was smaller than in export.

During the period considered, more live geese were imported than exported, and less goose meat and offal were imported than exported. Geographical diversification of export, price advantage of Polish goose products on the EU and world markets and, at the same time, their right quality may contribute to the increase of Polish export of goose products. Greater consumption in Poland may be achieved by increasing the availability of this species of meat as well as taking care of education on the culinary preparation of this type of meat by potential customers. In Poland, goose meat is eaten on the occasion of various holidays, such as St. Martin's Day, or family holidays, as well as in restaurants. Even though its accessibility has improved in recent years, it is still very limited.
It is estimated that in the next few years export of goose products will remain relatively high and Poland will continue to be one of the main European goose producers, provided that there are no serious market disruptions. A threat to the sector may be avian influenza, which may contribute to the decline in the goose stock in Poland or to the fall of their egg laying. Recently, information on the occurrence of animal disease outbreaks, animal welfare and ethical issues related to meat production (e.g. ritual slaughter) have become increasingly important [10]. China will remain the largest global producer of goose, which will be driven by relatively higher consumption of this species of meat in that country.

References

Diversification of Polish agri-food trade

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Abstract. The embargo introduced in August 2014 by Russia on the food products imported from the European Union caused a strong decline in sales of food from Poland in this country. The aim of the article is to analyse the current trends and prospects of development of Polish agri-food trade with the EU and non-EU countries in 2013-2016. A special attention was paid on changes in geographical structure and the level of diversification of Polish food exports as a result of the export restriction. The analysis shows that the situation on the Russian market influenced the growth of the food exports from Poland both to the EU and non-UE markets. In the recent years, the role of third countries in Polish exports of agri-food products has steadily increased, however the trade with these countries is still relatively low and concentrated on selected products.

Keywords: food industry, foreign trade, diversification, Herfindahl-Hirschman Index

Introduction

Despite many adverse external circumstances which have affected the Polish agri-food sector in recent years, the export of Polish food still shows an upward trend, but its growth rate is becoming weaker. In 2016, the Polish import grew faster than the export. As a result, the surplus of the export over the import has decreased for the first time for many years. The weakened growth rate of the export was determined by, inter alia, administrative restrictions, such as the Russian embargo and restrictions introduced in connection with the detection of African swine fever (ASF) in wild boar [1]. For many years, the major customer and the market for Polish food have been the European Union countries, however, the potential import of these countries is limited. After introducing the restrictions by Russia, which belonged to the largest non-EU import markets of Polish food, it became necessary to reorient the export to other markets, including, Asian and African. The growth of EU trade (including Poland) with third countries is expected to benefit from free trade agreements concluded by the Union with the individual countries [4] as well as numerous government programmes supporting the development of the Polish export to non-EU markets [5].

Materials and Methods

The article analysed the changes in the volume, structure and directions of the Polish agri-food export in the years 2010-2016, with special attention paid to the trends which have taken place in recent years and it also assessed the degree of diversification of the Polish agri-food export. The analysis of trade flows has been carried out based on the data from the WITS-Comtrade database. Agri-food products include the HS sections 01-24. In order to assess the export concentration level, the Herfindahl-Hirschman Index (HHI) has been used [6]. The HHI
concentration index takes values from 0 to 1. The lower is the index, the lower is the concentration of the objective structure of the export. The HHI index has been calculated according to the formula:

$$HHI = \frac{\sum_{i=1}^{n} s_i^2 - \frac{1}{n}}{1 - \frac{1}{n}}$$

where:
HHI – Herfindahl-Hirschman Index
si – share of the value of the ith commodity group in the export of a given country (here: six-digit HS classification)
n – number of commodity groups in the export of a given country

Results and Discussion

Geographical structure of the Polish agri-food export

Poland’s accession to the European Union was followed by the dynamic development of the Polish agri-food export. In recent years, the export growth rate has started slowing down, mainly due to the difficulties associated with the embargo introduced in 2014 by Russia [3]. In 2016 the value of the Polish export amounting to USD 25.5 billion, but, compared to 2013, it decreased by 5% (Fig. 1). The largest importers of food from Poland are EU countries, which share about 80%. In 2016, the sale to the European Union countries slightly decreased (2.3%), reaching the value of USD 20.5 billion. This means that further possibilities of increasing the export to the EU market are limited, therefore there is a need to find new markets for surpluses of domestic production [5].

![Fig. 1. Poland’s agri-food trade in 2004-2016 [billion USD]](image-url)
In 2016, as usual, the largest quantity (1/5) of agri-food products was sold to Germany (22.2%), another largest customer of Polish food was Great Britain with the share of 8.8%, then the Czech Republic (6.5%), Italy (5.6%), the Netherlands (5.5%) and France (5.1%) [3]. In 2016, compared to 2013, the export of agri-food commodities to the non-EU countries decreased by 15% to USD 5.0 billion. It resulted mainly from significant (about 75%) decrease of Polish agri-food export to Russia, but also to Ukraine (41%) and to Belarus (5.0%). As a result of the embargo introduced in 2014, Russia moved down from the third (after Germany and Great Britain) to fifteenth position among the largest importers of Polish food. Despite this, it is still the largest recipient of Polish food among non-EU countries, but its share decreased from 6.2% to 1.6% (table 1). The second largest customers of agri-food products from Poland among non-EU countries were the United States (increase in the export value by 25% when compared to 2013), Saudi Arabia (increase by 90%) and Hong Kong (nearly double increase in the export).

Table 1. Geographical structure of Polish agri-food export in 2013 and 2016

<table>
<thead>
<tr>
<th>Destination</th>
<th>Value of export in mln USD</th>
<th>Share of export in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>17 499</td>
<td>26 869</td>
</tr>
<tr>
<td>UE-28</td>
<td>13 893</td>
<td>21 018</td>
</tr>
<tr>
<td>Germany</td>
<td>3 973</td>
<td>6 204</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1 223</td>
<td>2 030</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>1 087</td>
<td>1 619</td>
</tr>
<tr>
<td>Italy</td>
<td>998</td>
<td>1 404</td>
</tr>
<tr>
<td>Netherlands</td>
<td>992</td>
<td>1 389</td>
</tr>
<tr>
<td>France</td>
<td>1 062</td>
<td>1 572</td>
</tr>
<tr>
<td>Extra UE</td>
<td>3 605</td>
<td>5 851</td>
</tr>
<tr>
<td>Russia</td>
<td>993</td>
<td>1 669</td>
</tr>
<tr>
<td>United States</td>
<td>310</td>
<td>332</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>56</td>
<td>204</td>
</tr>
<tr>
<td>Belarus</td>
<td>209</td>
<td>389</td>
</tr>
<tr>
<td>Ukraine</td>
<td>467</td>
<td>607</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>61</td>
<td>91</td>
</tr>
</tbody>
</table>

Commodity structure of the Polish agri-food export

The commodity structure of the Polish agri-food export differed depending on the country of destination. In 2016, the export both to EU countries (including the largest customers of Polish food, i.e. Germany, Great Britain, the Czech Republic, the Netherlands and Italy), as well as to other significant non-EU importers (the United States, Saudi Arabia or Belarus) increased. On the other hand, the share of Russia and Ukraine decreased.

In 2016, Poland exported mainly poultry meat, cigarettes, chocolate products, cereal products (biscuits, waffles, etc.), beef, sugar syrups, pork, wheat, smoked fish (especially salmon), cheese and curd, processed and canned meat, fruit juices (including in particular apple juice), fish fillets, processed and canned fish and feed for animals (Table 2).

When compared with the 2013, there was a significant increase in the value of cereal products and confectionery (by 41%), alcoholic and non-alcoholic beverages (by 13%), milling product (by 1’%), cocoa products and coffee and tea (by 9%). On the other hand, there was a decrease in
the value of export of oil seeds (by 54%), live animals (by 37%), fruits (by 29%) and milk and dairy products. The factors which largely determined the results of the export (especially in the first half of 2016), were the lower harvests of many crops in 2015 and the decrease in the world prices, in particular, the economic slump in the milk market.

Table 2. Product structure of Polish agri-food export

<table>
<thead>
<tr>
<th>HS code</th>
<th>Value of export in mln USD</th>
<th>Share of export in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>266</td>
<td>239</td>
</tr>
<tr>
<td>02</td>
<td>2 761</td>
<td>4 440</td>
</tr>
<tr>
<td>03</td>
<td>942</td>
<td>1 281</td>
</tr>
<tr>
<td>04</td>
<td>1 712</td>
<td>2 515</td>
</tr>
<tr>
<td>05</td>
<td>173</td>
<td>285</td>
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<td>06</td>
<td>129</td>
<td>174</td>
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<tr>
<td>07</td>
<td>952</td>
<td>1 215</td>
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<tr>
<td>08</td>
<td>897</td>
<td>1 515</td>
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<td>09</td>
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<td>558</td>
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<tr>
<td>10</td>
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<td>11</td>
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<td>227</td>
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<tr>
<td>12</td>
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<tr>
<td>16</td>
<td>872</td>
<td>1 388</td>
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<tr>
<td>17</td>
<td>504</td>
<td>774</td>
</tr>
<tr>
<td>18</td>
<td>937</td>
<td>1 498</td>
</tr>
<tr>
<td>19</td>
<td>1 013</td>
<td>1 520</td>
</tr>
<tr>
<td>20</td>
<td>931</td>
<td>1 461</td>
</tr>
<tr>
<td>21</td>
<td>1 202</td>
<td>1 705</td>
</tr>
<tr>
<td>22</td>
<td>578</td>
<td>733</td>
</tr>
<tr>
<td>23</td>
<td>529</td>
<td>870</td>
</tr>
<tr>
<td>24</td>
<td>1 576</td>
<td>2 041</td>
</tr>
<tr>
<td>Total</td>
<td>17 499</td>
<td>26 869</td>
</tr>
</tbody>
</table>

For many years, the Polish balance of trade in agri-food products has been positive, and in 2016 it reached a level of USD 7.8 billion. When compared to 2013, it was, however, by 3.7% lower. Poland records the positive balance of trade with the EU countries (both the old and the new Member States), but its value when compared to 2013 increased by 5.9% to USD 8.5 billion. On the other hand, there is a constant trade deficit which in 2016 amounted to USD 0.7 billion. The highest positive balance was achieved by Poland in trade with Germany (USD 2.0 billion), Britain (USD 1.7 billion), Czech Republic (USD 1.1 billion), France (USD 0.7 billion) and Italy (USD 0.7 billion) i.e. with the countries being the largest importers of Polish agri-food products. On the other hand, the import higher than the export and thus the negative balance occurred in trade with, inter alia, Norway (USD 0.8 billion), Argentina (USD 0.7 billion), Spain (USD 0.3 billion), Denmark (USD 0.3 billion) and Brazil (USD 0.3 billion). When compared to 2013, the
trade balance improved in case of, *inter alia*, the United States, Belarus, Saudi Arabia and Hong Kong. The deficit higher than the year before was recorded in trade with, *inter alia*, Norway, Ukraine, Denmark and Paraguay. The surplus was generated by Poland mainly in trade in poultry meat, cigarettes, cereal products and confectionery (in total 61% of the positive balance). The positive balance also existed in trade in chocolate products, beef, smoked fish, wheat, meat products. The highest deficit occurred in trade in fish, animal feed, pork, live pigs, citrus fruit, wine, and palm oil.

**Assessment of the diversification level of the Polish agri-food export**

From the analysis of the level of concentration of the Polish agri-food export, measured by the HHI index it results that the export to the EU countries is much more diversified than to the non-EU countries. For the majority of significant importers of agri-food products from Poland among the non-EU countries export is not much diversified and is based on a small product range (e.g. in case of Benin, 94% of the Polish exports is poultry meat, and in case of Morocco, 74% is wheat). The situation is slightly different in the non-EU countries being traditionally significant importers markets for Polish food products. This applies to such European countries as Norway or Switzerland, but also Ukraine, Canada, Russia or the United States. The commodity structure of the Polish export to these countries is much more diversified.

As regards the significant non-EU importers of Polish food, the lowest concentration indices HHI are characteristic of the African countries (*inter alia*, Morocco, Algeria), but also the Asian countries (*inter alia*, Saudi Arabia, Vietnam). In contrast, the lowest indicators, i.e. the high degree of export diversification occurred in case of the countries bordering on Poland (Lithuania, Germany, Czech Republic or Ukraine). Among other non-EU countries, the low concentration index was characteristic of, *inter alia*, Norway, Russia, Canada and the United States.

From the analysis of the commodity structure it results that to the countries with the highest concentration index, Poland exported mainly low processed products. These were mainly cereals, dairy products (including powdered milk), cereal products and confectionery (wafer, biscuits) and meat. In turn, the range of products sold in the markets of the countries with the relatively low concentration index was more diversified and included more processed products, including, *inter alia*, fruit and vegetable products and chocolate products.

The high values of the concentration indices may, on the one hand, evidence the opportunities for the further development of the export of Polish food to the analysed markets, *inter alia*, through the expansion or better adjustment of the product range to the demand and consumer preferences. On the other hand, it is worth stressing both the climate and cultural differences of the partners as well as the distance between them, as these factors may be a significant barrier to the further development of the agri-food export and limit the possibilities of its diversification.

**Conclusion**

The restrictions due to detecting in Poland, at the beginning of 2014, African swine fever (ASF), from suspending the import of pork by the Asian and Customs Union countries and from the embargo imposed by Russia, resulted in the decreased of the agri-food export. In 2016, to compare 2013, the export both to the EU and non-EU countries (especially to Russia) decreased. This means that with the limited opportunities for the growth in the sale of food in the EU, the non-EU outlet markets are and will be increasingly important in managing the production surpluses.

Despite the visible increase in the diversification of the Polish export, the largest importer of Polish food remains Germany, Great Britain, and Czech Republic. It may be expected that the
EU countries will remain the most important trading partner of Poland, however, the excessive concentration in one outlet market, in case of a collapse in the demand (as shown by Russia), may affect adversely the situation of the entire agri-food sector in Poland. It seems that the main driving force of the growth may become the future expansion to the non-EU markets, inter alia, in South-East Asia, Africa. These are prospective markets, characterised by a great potential. The Polish export to these countries is still low and includes several basic groups of commodities. The low level of diversification of the Polish export to the analysed countries attests to the still unused sales opportunities. The export of Polish agri-food products to these regions has a chance to grow rapidly in the coming years, due to the good quality of Polish products, competitive prices and European origin. An important obstacle may be cultural barriers, which make adjusting products and marketing strategies to the needs of these markets difficult. The further development of the Polish export is important for the development of the Polish food industry and, indirectly, also for Polish agriculture, which is a basic source of supply raw materials to the processing industry. In 2016, the export accounted for nearly 40% of the value of the food industry marketed production. This was twice more than ten years ago. This means that with the relatively constant internal demand, the further development of the food export, through the diversification of outlet markets, determines the development of the entire agri-food sector in Poland.

References

Factors affecting Customer Loyalty in Retail Chain in Kosovo

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Abstract. Customer loyalty is at the core of human experience, which enables companies to gain competitive edge in currently tight markets. Customers aren’t always easy to please, and now more than ever, they look for satisfactory services. When customers know that their needs are paramount to company’s employees, returning to the retail is an easy decision. Satisfied customers are more likely to share their praise with others, thereby increasing the number of referrals the company receives. This article takes into account the theoretical review of customer loyalty and its benefits. This article examines the applicability of customer’s loyalty over a supermarket chain in Kosovo, Viva Fresh. This paper applies quantitative research to one hundred Viva’s customers and analyzes were done with SPSS Statistics. The article concludes that customer satisfaction, trust and changing costs are main factors that affect customer loyalty in retail markets.

Keywords: Customer Loyalty, Supermarkets, Customer Satisfaction, Trust.

Introduction

As companies constantly focus on improving relationships with existing consumers, this research is important because its focus is to recognize factors influencing the creation of consumer loyalty in retail markets. This study aims to understand the affect that customer satisfaction, trust and switching costs have on customer loyalty. By reviewing the literature, initially, this study will explain different terms of customer loyalty and the two main concepts. Then, the focus will switch to the factors, which according to the theory have led to the creation of consumer loyalty. Finally, the study will show the results on the effect that factors such as customer satisfaction, trust and switching cost have on customer loyalty.

The key data is collected by surveying a sample of 100 VivaFresh Store customers. Through the results of these questionnaires it is suggested that the main factors that influence the creation of customer loyalty in retail markets are customer satisfaction and trust.

Hypothesis of this study are:
H1: Customer satisfaction has a positive influence on customer loyalty in retail markets.
H2: Trust has a positive influence on customer loyalty in retail markets.
H3: Switching costs have a negative influence on customer loyalty in retail markets.
Literature Review

Customer Loyalty

In the past, traditional marketing was more focused on attracting new consumers than maintaining existing ones and selling products rather than improving relationships. Now, customer loyalty and customer retention are the main goals of the most successful organizations. Loyalty to services is manifested through repetitive purchases, positive words and recommendations [1].

Customer Loyalty Conceptualizations

Customer loyalty is defined as a deep commitment to re-purchase a product or service in the future, regardless of different influences or marketing efforts that may cause changes. Customer loyalty has different dimensions. The two most important dimensions are the components of behavior and attitudes [6]. Initially, loyalty to the brand is defined as the number of purchases of a family to a manufacturer within a certain time period [11]. There are three popular approaches when talking about consumer loyalty:

1) Behavioral approach involves changes in behavior of individuals, expressing strong intentions to re-purchase a product or service from a provider (measured by re-purchase goals, intent to change the brand and purchasing goals) [11]. Loyalty from a behavioral perspective is measured through proportion of purchases, the acquisition sequence and the probability of the acquisition [9]. Behavior model is highly controversial but is mostly supported by data. According to this approach, consumers buy the same brand, not because there is some strong faith or deep devotion to it, but because it is not worth spending time and encountering obstacles to seek another option [15].

2) The attitude based approach considers the emotional and psychological aspects of loyalty. A person may have a favorable attitude towards a hotel, and may recommend that hotel to others, but she/he will not stay at that hotel because it is too expensive for her/him. Commitment plays an important role in loyalty-based attitudes, as commitment reflects consumer appraisal towards consuming and decisions to maintain a long-term relationship [11].

3) Cognitive approaches include what an individual believes in relation to the relationship she/he has with the service provider. It is based on the evaluation of the attributes or the evaluation of the rewards and benefits associated with the service provider. Cognitive meters include first choice, price tolerance, exclusive consideration, identification with the service provider and willingness to pay more [11].

Factors affecting Customer Loyalty

The complexity of customer loyalty can be described by focusing on three important reasons: customer satisfaction, emotional devotion, calculated devotion. Consumer satisfaction is an overall performance appraisal of the company over a certain time. Consumer satisfaction derives from the quality of the product/service and price. Commitment can be emotional or calculated. Emotional commitment is an emotional factor that the customer creates with the retailer through repeated purchasing of the products, thus affecting the level of confidence. Calculated
commitment, on the other hand, has more of a rational view based on economic dependence on a product by lack of choices or high brand replacement costs, creating loyalty [9].

According to studies of [2], [8], [7] and [13] main factors affecting customer loyalty are:

1) Customer Satisfaction;
2) Trust;
3) Switching Costs;

*Customer Satisfaction:*  
Satisfaction is the most important factor which leads towards customer loyalty [4]. High customer satisfaction leads to improved loyalty and will also affect the reduction of customer sensitivity to competitive bids. Impact of consumer satisfaction on customer loyalty is not the same in all industries. Loyal customers are not necessarily satisfied, but satisfied customers tend to be loyal [12]. Satisfaction is achieved by comparing the expectations to reality [8]. Satisfaction is a factor through which the customer understands whether her/his needs and desired have been achieved or exceeded [13].

*Trust:*  
To achieve customer satisfaction and preservation, as well as long-term profit of the company, it is important to fulfill the promises [14]. Trust is needed to create long-term relationships with consumers and also trust is one of the most important factors that affecting customer loyalty [10]. Trust in a brand leads to loyalty and dedication to that brand, since trust creates relationships that are highly valued [7]. Belief is a positive factor of loyalty. It is constantly shown that there is a connection between trust to the seller, trust in the store and repetition of purchases [8]. Trust in products/services has positive effect for now and for the future, while consumer satisfaction does not have that dimension [5]. Perceived belief has a direct and positive effect on customer loyalty [3].

*Switching Cost:*  
The switching cost is the cost involved when switching from one service provider to another [2]. The changing cost factor has direct impact on customer loyalty [5]. When the costs of changing the brand are high, it is more likely that consumer will remain loyal in terms of repeated purchasing [3]. A competitor would be more difficult to attract a loyal customer based on satisfaction than another loyal customer based on switching costs [13].

**Methodology**

This study is based on descriptive method and a quantitative analysis. The results were achieved through correlation, using SPSS Statistics. Questionnaires in a form of Likert Scale “1 – totally disagree” to “5 – totally agree” were delivered to a sample of 100 VivaFresh Store customers. The sample was selected by randomization and the only criteria were being a VivaFresh Store customer. Customer’s trust (independent variable) is analyzed in two different aspects: trust in VivaFresh Store towards fulfilling customer’s obligations and trust in VivaFresh Store products/services. Customer satisfaction is analyzed in two different aspects: satisfaction with products/services of VivaFresh and customer’s expectations. Switching costs are analyzed in two different aspects: switching costs in a matter of time and switching costs in a matter of money. Customer loyalty (dependent variable) is analyzed through positive word-of-mouth, recommendations on VivaFresh Store and first choice options.
Results

On this study the dependent variable is customer loyalty (in retail markets) while independent variables are trust, switching cost and customer satisfaction. The analysis of the impact that independent variables have on dependent variables are done through Pearson correlation.

Firstly, according to table below (table 1) the correlation coefficient between trust and customer loyalty is 0.709 and by considering p-value = 0.000, which is smaller than 0.05, the hypothesis stating that trust positively influences customer loyalty in retail markets is acknowledged.

Secondly, according to the table below, correlation coefficient between switching cost and customer loyalty is 0.530 and by considering p-value = 0.000, which is smaller than 0.05, the hypothesis stating that switching costs negatively affect customer loyalty in retail markets is not accepted. Finally according to table below the correlation coefficient between customer satisfaction and customer loyalty is 0.819 and by considering p-value = 0.000, which is smaller than 0.05, the hypothesis stating that customer satisfaction positively affects customer loyalty in retail markets is acknowledged.

Table 1. Correlation between variables

<table>
<thead>
<tr>
<th></th>
<th>Trust</th>
<th>Switching Cost</th>
<th>Satisfaction</th>
<th>Customer Loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pearson Correlation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust</td>
<td>1</td>
<td>0.438</td>
<td>0.711</td>
<td>0.709</td>
</tr>
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<td>Switching Cost</td>
<td>0.438</td>
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<td>0.530</td>
</tr>
<tr>
<td>Satisfaction</td>
<td>0.711</td>
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<td>0.819</td>
</tr>
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<td>Customer Loyalty</td>
<td>0.709</td>
<td>0.530</td>
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<td><strong>Sig. 1-tailed</strong></td>
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<tr>
<td>Switching Cost</td>
<td>0.000</td>
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<tr>
<td>Satisfaction</td>
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</tr>
<tr>
<td>Customer Loyalty</td>
<td>0.000</td>
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<tr>
<td><strong>N</strong></td>
<td>100</td>
<td>100</td>
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</tr>
</tbody>
</table>

86
Conclusions

This research has shown that factors such as customer satisfaction and trust are crucial for companies since they can help on improving relationships with existing customers. Based on this research conducted with VivaFresh Store customers, it has been realized that the most important factor affecting the creation of loyalty is customer satisfaction. According to this study, customer satisfaction and trust have a strongly positive impact on customer loyalty. In contrast to what is explained in the literature, that switching costs negatively affect customer loyalty, this study has shown that in retail markets (in our case VivaFresh Store), switching costs do not have a strong affect on customer loyalty. It is recommended that retail companies should focus on creating customer satisfaction and having trustworthy attitude towards customer, since this is how they can have loyal customers.

References


The effects of the Global Financial Crisis on Kosovo’s Remittances

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Abstract. Kosovo’s nearly half of the population lives outside of its territory, making its diaspora have an epic impact on Kosovo’s development through remittances. Remittances affect Kosovo’s Gross Domestic Product (GDP) through their impact on GDP’s main factor which is consumption. Since remittances constitute nearly 12% of Kosovo’s GDP, this research is important because its focus is to understand the effect that Western Europe Countries have on Kosovo through remittances – especially through unemployment. This research aims to understand the impact of Global Financial Crisis on remittances of Kosovo. This is a quantitative research based on numerical data. Analyzes of this research are done through statistical methods and SPSS Statistics Software.

Keywords: Kosovo’s Remittances, Financial Crisis, GDP, Western Europe.

Introduction

Remittances have an enormous role to Kosovo’s economy. Kosovo’s economy is mainly affected by personal consumption and the main factor contributing to consumption are remittances. This research aims to understand the effect that Western Europe Countries have on Kosovo through remittances, especially the impact that Global Financial Crisis of 2008 had on remittances of Kosovo.

First, there will be an overview on statistical facts of Kosovo’s remittances. Then, this study focuses on the top three main countries (Germany, Switzerland and Italy) that host Kosovan emigrants and how their unemployment rates through Financial Crisis of 2008-2010 affected Kosovo’s remittances. Finally, a correlation analysis has been conducted in order to analyze any relation between unemployment rates (of Germany, Switzerland and Italy) and remittances sent to Kosovo.

Through results of this study it has been concluded that unemployment rates of Germany and Italy during the Financial Crisis of 2008 had a strongly negative impact on Kosovo’s remittances.

Hypothesis of this study are:
H1: Germany’s unemployment rate has a negative impact on Kosovo’s remittances.
H2: Switzerland’s unemployment rate has a negative impact on Kosovo’s remittances.
H3: Italy’s unemployment rate has a negative impact on Kosovo’s remittances.
Literature Review

Remittances of Kosovo

Migration of Kosovan population has started since the Yugoslavia era '60-'70 [2]. Kosovo has one of the highest emigration rates in Eastern Europe. More than one in every third household has a family member abroad. Remittances are considered to be a crucial source of external finance [14], amounting more than 11% of Kosovo’s GDP in 2010 [1]. Remittances have served as a main factor for many Kosovan households. Since 1960s, migration and remittances have made immense contribution to Kosovan economy. They also help households lacking employment. These remittances have played a crucial role in helping households to meet their basic consumption needs [3], since 45% of total cash remittances received are used for consumption, only 11% are used for business investment and 12% are used for housing investment. Kosovo has high unemployment rate and migration has served as a key factor on reducing the pressure on labor market. Remittances have served as an informal network for vulnerable households. 37% of Kosovan households have family members abroad where 25% receive remittances [12] [13].

The largest share of Kosovan emigrant household heads, 53.6%, emigrated after the 1999 conflict. Germany, Switzerland and Italy remain top three host countries of Kosovan emigrants [12], hosting 37.1%, 22.6% and 5.3% of all emigrants [4].

In Figure 1 it can be seen a notable decline of remittances from €608.7 mln to €585.7 mln due to global financial crisis.

![Remittances (€ mln)](chart.png)

**Fig 1.** Remittances sent to Kosovo 2004 – 2016 (BQK)

Global Financial Crisis of 2008

The Great Financial Crisis which hit the world economy in the aftermath of the bankruptcy of the investment bank Lehman in 2008. This Financial Crisis was the most severe fall of real GDP in 2009 among many high income countries. Although the euro area was considered for a long time as a protective shield against the problems, gradually the credibility of European currency came under pressure [6].

As mentioned before, the three main hosts of Kosovan emigrants are Germany, Switzerland and Italy. Now we are going to analyze the unemployment rates of these countries, in order to see if there is any correlation between unemployment rates (in Germany, Switzerland and Italy) and remittances sent to Kosovo.
**Germany**

In September 2008, a deep impact from New York affected the financial world: companies went bankrupt, unemployment increased society was also affected. The economic system in Germany was deeply hit by financial crisis. In 2008, the annual economic growth rate fell to 1% and in 2009 it even became negative at -4.7% [7].

Figure 2 shows that unemployment rate in Germany during the financial crisis of 2008 increase from 7.53% in 2008 to 7.74% in 2009.

![Unemployment Rate](image)

**Switzerland**

The Financial Crisis of 2008 caused a drop in exports, losses for the tourism business and a rise in unemployment in Switzerland. The Swiss economy slowed down considerably in the third quarter of 2011, when the real gross domestic product only increased by 0.2%, while exports (-1.2%) decreased for the first time [8].

Figure 3 shows that unemployment rate in Switzerland during the financial crisis of 2008 increased from 3.35% in 2008 to 4.12% in 2009 and also continued to increase to 4.54% in 2010.
Fig 3. Unemployment rate in Switzerland 2004-2016 [10].

Italy

2009 was characterized with negative economic performance, where GDP decreased in real terms by five percentage points from its average value in 2008. In 2009, the number of people in employment declined by 380,000, while unemployment rate increased to 7.8% [5].

Figure 4 shows that unemployment rate in Italy, during the financial crisis of 2008, increased from 6.08% in 2008 to 6.72% in 2009 and continued to increase to 8.36% in 2011.

Methodology

Descriptive research has been used in this paper because there was no need to analyze thoroughly. This research is based more on quantitative analysis since it is believed that there will be more accurate analysis of how Global Financial Crisis affected remittances of Kosovo. Also statistical methods as correlation were used to analyze the results through SPSS Statistical Analysis.

Results

The dependent variable of this study is remittances sent to Kosovo, while independent variables are unemployment rates in Germany, Switzerland and Italy. Pearson correlation has been used to analyze the impact of unemployment rates of these countries on remittances sent to Kosovo. According to the table below (table 1) the correlation coefficient between Germany’s unemployment rate and remittances sent to Kosovo is -0.932 and also by considering p-value = 0.000 which is smaller than 0.05, the hypothesis stating that Germany’s unemployment rate negatively influences remittances sent to Kosovo is acknowledged.

Table 1. Correlation between Germany’s Unemployment and the remittances sent to Kosovo.

<table>
<thead>
<tr>
<th></th>
<th>Germany Unemployment</th>
<th>Remittances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>Germany Unemployment 1</td>
<td>-0.932</td>
</tr>
<tr>
<td></td>
<td>Remittances -0.932</td>
<td>1</td>
</tr>
<tr>
<td>Sig. 1-tailed</td>
<td>Germany Unemployment</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Remittances 0.000</td>
<td>1</td>
</tr>
<tr>
<td>N</td>
<td>Germany Unemployment 13</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Remittances 13</td>
<td>13</td>
</tr>
</tbody>
</table>

According to the table below (table 2) the correlation coefficient between Switzerland’s unemployment rate and remittances sent to Kosovo is 0.746 and also by considering p-value = 0.021 which is smaller than 0.05, the hypothesis stating that Germany’s unemployment rate negatively influences remittances sent to Kosovo is not accepted. This means that the increase in unemployment rate of Switzerland during 2008-2010 did not affect Kosovo’s remittances sent from there.
Table 2. Correlation between Switzerland’s Unemployment and the remittances sent to Kosovo.

<table>
<thead>
<tr>
<th>Pearson Correlation</th>
<th>Switzerland Unemployment</th>
<th>Remittances</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>0.746</td>
</tr>
<tr>
<td>Sig. 1-tailed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Switzerland Unemployment</td>
<td>0.746</td>
<td>1</td>
</tr>
<tr>
<td>Remittances</td>
<td></td>
<td>0.021</td>
</tr>
<tr>
<td>N</td>
<td>13</td>
<td>9</td>
</tr>
</tbody>
</table>

According to the table below (table 3) the correlation coefficient between Italy’s unemployment rate and remittances sent to Kosovo is -0.822 and also by considering p-value = 0.003 which is smaller than 0.05, the hypothesis stating that Italy’s unemployment rate negatively influences remittances sent to Kosovo is acknowledged.

Table 3. Correlation between Italy’s Unemployment and the remittances sent to Kosovo.

<table>
<thead>
<tr>
<th>Pearson Correlation</th>
<th>Italy Unemployment</th>
<th>Remittances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sig. 1-tailed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy Unemployment</td>
<td>1</td>
<td>-0.822</td>
</tr>
<tr>
<td>Remittances</td>
<td>-0.822</td>
<td>1</td>
</tr>
<tr>
<td>N</td>
<td>13</td>
<td>9</td>
</tr>
</tbody>
</table>

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Conclusions

This study has explained that Financial Crisis of 2008 affected Kosovan remittances through unemployment rates of two main host countries of Kosovan emigrants, Germany and Italy. This research has shown that factors such as unemployment rates of Germany and Italy have a strongly negative impact on Kosovo’s remittances. This means that with an increase of unemployment rates of those countries, Kosovo’s remittances decrease. On the other hand, even though literature explains that during 2008-2010 Switzerland had an increase of unemployment rates, this did not affect decreasing Kosovo’s remittances sent from Switzerland.

Finally this study concludes that Financial Crisis of 2008 affected Kosovo’s remittances through unemployment rates of Germany and Italy.

References

Problems and Challenges in Application Cost-Benefit Analysis Case Study of Resen Municipality

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Abstract. In the framework of the public sector, the government has an obligation to take care of the rational use of the funds intended for investment. In order to determine the degree of rationality of individual programs and projects, or to make choice between potential programs and projects, the government should apply a methodology for their mutual comparison. Cost-benefit analysis is such a methodological approach for social optimization of policies, programs and projects. The project for improvement of energy efficiency and environmental protection in the case of secondary school in Resen municipality, Republic of Macedonia, is a relevant example for applying this kind of tools for economic analysis.

Key words: cost-benefit analysis, project, Republic of Macedonia, Resen municipality.

Introduction

Socio-economic development in the long run can only be achieved by investing. The expectations of the investments are to enable the achievement of the objectives set in the project through which the available funds can be more efficiently used.

Starting from the fact that any public project after its implementation can cause not only immediate effects for the investor, but also indirect effects (positive or negative) and felt in the wider community, the question arises how to measure these effects and how to incorporate the impact they have on the economic environment. In fact, it comes to the basic criterion for evaluating investments which is their socio-economic efficiency. In this sense, making investment decisions should be based on methods and techniques that will provide reliable bases for assessing the acceptability of certain solutions and the project as a whole. This approach for valuation of investments in economic science and literature is known as economic cost-benefit analysis.

The objective of the economic analysis of the projects is to guide the design of the project in direction of maximizing its social benefits in relation to social costs, that is, to assist in the design and selection of projects that contribute to increasing the welfare in the country. Accordingly, the implementation of the economic analysis is most useful at the very beginning of the development of a project.

The project for increasing the energy efficiency in the Central Municipal School “Tsar Samoil” in Resen Municipality, Republic of Macedonia is a part of the wider project for improvement of the environmental protection in the Resen Municipality. This project is adequate from the point of view of the research in this paper. On the basis of this example, an attempt will be made to calculate the costs needed for its realization, and then projections of the potential benefits using
existing information from the municipal database, as well as certain assumptions. The aim is to make an inventory of all costs and benefits relevant from a social point of view, and then to switch to the calculation of the eligibility criteria of the project.

**Theoretical Basics of Cost-Benefit Analysis**

Cost-benefit analysis is a methodological approach for assessing economic efficiency of projects. It is actually a practical application of Pareto criterion. The first beginnings in the direction of creating a unified and sustained methodology for assessing the socio-economic efficiency of projects dated since 1969 when the first methodology was promoted within the Organization for Economic Cooperation and Development (OECD). This was followed by the methodologies of UNIDO in 1972 and the one of the World Bank in 1975. The reasons that contributed to the creation of economic cost-benefit analysis and its further improvement for evaluating the effectiveness of investment projects in a wider social context are the following: increased volume of public investments especially in developing countries (infrastructure); high degree of development of techniques for assessing financial efficiency (at the same time there is a lack of methodology for assessing projects from a social aspect); the impact of international financial institutions (in order to grant funds for financial support to certain projects particularly in developing countries); development of information and communication technologies (especially the software support of the methodology), etc.

There is a difference between financial cost-benefit analysis and economic cost-benefit analysis. The financial analysis examines the project from the aspect of the investor: it identifies the net yield and estimates the project’s ability for cash flow to offset its financial liabilities. The economic cost benefit analysis, in turn, considers a project from the perspective of the whole country, i.e. from the aspect of society, and measures the effects of the project on the economy as a whole (Belli and all, p. 39). Consequently, financial cost-benefit analysis is too narrow to successfully address the needs of evaluating public projects and to obtain sufficiently reliable indicators for justification for investing in a public project.

**Relevant Procedures**

According to the World Bank’s approach, the cost-benefit analysis is implemented in the three stages: Cost Analysis, Benefit Analysis, and Project Valuation. Each of the above stages is implemented through several steps (Nestorovski, 2005). The cost analysis can be performed through a systematic procedure in several steps: 1) Identification of all costs “with” and “without” the project; 2) Calculation of incremental costs that are direct result of the project (as a difference between the costs “with” and “without project”); 3) Non-economic items i.e. transfer payments, should be excluded from the overview of costs (interest, depreciation, customs and taxes); 4) Correct valuation of economic items (the financial costs stated in the list of costs need to be corrected so that they can express true economic value of the resources used; the economic costs are different from them because they represent the value the society would have if those goods were used for another purpose); 5) Assessment of external costs (for instance, all costs caused by the elimination of negative external effects of the project); and 6) Formation of the economic flow for the total life of the project (at this stage all costs are expressed at constant prices, which means that stated costs for each projected year should be corrected with a relevant price index).
The benefit analysis includes the following steps: 1) Identification of all benefits - “with project” and “without project”; 2) Calculation of incremental benefits of the project (as a difference between the benefits “with project” and “without project”; 3) Exclusion of non-economic items (firstly, identification of total revenues is to be carried out, and then non-economic revenues are excluded; from a social point of view, non-economic revenues are: interest on deposited savings in a bank generated by the project, government subsidies and similar transfer revenues); 4) Correct valuation of economic benefits (real value of benefits from social aspect); 5) Measurement of external benefits (for instance, maintenance of clean environment, providing healthy drinking water, etc.); 6) Establishing economic flow for the project’s overall course (to express all benefits at constant prices).

Projects valuation is done in seven steps: 1) First step, net-benefits calculation, i.e. calculation of a difference between benefits and costs for each year of the project; 2) Second step, the discount rate (the opportunity cost of capital) is estimated and net-benefit discounting is made to the initial year of the project; 3) Third step, the universal criteria for evaluating the project are calculated (Net present value of the project - NPV; Internal rate of return - IRR; Benefit-cost coefficient - BCR; and Net benefit-cost coefficient - BCRN); 4) Fourth step, according to the obtained values of all criteria, the selection of the projects is carried out; 5) Fifth step, an assessment of the sensitivity of costs and benefits from changes is carried out; 6) Sixth step, the costs and benefits that can not be expressed in money, are considered; 7) Seventh step, a definitive decision is made to accept or reject the project.

Application – Case Study of Resen Municipality

The problem that is being treated with this project is the replacement of the old wooden construction of windows and doors with new aluminum construction in “Tsar Samuil” high school in the Municipality of Resen, Republic of Macedonia. Namely, it is about the fact that the wooden parts were so ruined that when closing the window sills, there is an empty space through which a part of the heat in the heating season was lost. This situation required purchasing of larger amounts of fuel for heating (oil) and this affects the increased costs for the warming of school building in which the teaching process is conducted.

This example is an appropriate case for applying cost-benefit analysis in order to research contemporary problems and challenges it faces. The analysis can be carried out through a systematic procedure in several steps. Firstly, cost identification, i.e. costs “without project” and costs “with project”. In our case, the costs “without” project are following items: Annual maintenance costs; Salary and other costs for housekeeper; and Supply of fuel for heating - 30 tons of oil annually. The costs “with” project are consisted of: Compensation for the coordinators of the project activities (two persons); Preparation of technical documentation; Expert supervision; Dismantling of existing entrance doors and windows and installation of new ones; Purchase of fuel for heating - oil (20 tons per year); Salary and other costs for housekeeper; and Annual maintenance costs.

In the second phase, the incremental costs will be calculated. They represent the net effect of spending the resources involved in the project.
Table 1. Calculation of incremental costs in the project (in euro)

<table>
<thead>
<tr>
<th>Cost Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coordinators of the project activities - four persons</td>
<td>1440</td>
</tr>
<tr>
<td>Preparation of technical documentation and expert supervision</td>
<td>1440</td>
</tr>
<tr>
<td>Dismantling of the existing and installation of new ones: 4 entrance doors, 1 skylight and 134 windows of different dimensions</td>
<td>49,000</td>
</tr>
<tr>
<td>Total</td>
<td>51,880</td>
</tr>
</tbody>
</table>

Source: Resen Municipality.

The incremental costs do not take into account the costs of purchasing fuel, 30 tonnes of oil annually “with” and “without” the project, which means that the incremental costs for fuel supply in our calculation will be zero. The difference of -10 tonnes of oil (costs “with” minus costs “without” the project) will be taken into account when analyzing the benefits as a result of lower fuel consumption.

There are not any non-economic items in the list of costs. It means that in order to obtain the total cost of the project, it is left to make an assessment of the negative external effects. In this project, a potential negative external effect on the quality of environment would be the emergence of waste as a result of the dismantling old windows and doors. It would be good if the project had predicted whether the wooden window frames could be sold as firewood and the glass should be offered for recycling. In this way, the costs will be converted into benefits and they can be calculated in the benefit analysis. Having in mind all of the previous mentioned, now the economic flow of the entire lifetime of the project can be presented.

Table 2. Total Costs (in euro)

<table>
<thead>
<tr>
<th>Years of the Project</th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
<th>4th</th>
<th>5th</th>
<th>6th</th>
<th>7th</th>
<th>8th</th>
<th>9th</th>
<th>10th</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Costs</td>
<td>51,880</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Resen Municipality.

When identifying the benefits, it is accessed in the same way as for costs. We made a difference between benefits “with” and “without” project. However, in the very analysis of the problem, it was found that there are no benefits “without” the existence of such a project. On the other hand, benefits of the project are multiple: financial benefits as a result of reducing heating costs; improved teaching conditions; and reducing the number of diseases among students and teachers.

With a previously made cost analysis, we determined that annual heating will require 10 tons of oil less. School savings for 10 tons of oil annually represent a benefit worth: 10 tones (10,000 liters) x 0.73 cents per liter = 7,317 euro.

Now, total benefits for each year of the project are given in the following table:

Table 3. Total Benefits (in euro)

<table>
<thead>
<tr>
<th>Years of the Project</th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
<th>4th</th>
<th>5th</th>
<th>6th</th>
<th>7th</th>
<th>8th</th>
<th>9th</th>
<th>10th</th>
</tr>
</thead>
</table>

Source: Resen Municipality.
Other benefits that can not be expressed in money but affect the acceptance or rejection of the project and therefore should be included in this analysis are the following: the internal temperature will reach the optimum of 20-21 degrees Celsius; the conditions for the teaching process will be improved; the effectiveness and efficiency of teaching, which was previously difficult due to inadequate classroom conditions, will increase; the number of diseases (colds) among students will be reduced; the aesthetic appearance of the school building will improve, etc.

Once all the costs and benefits of the project have been determined, it can be transferred to determine the acceptability of the project from a social point of view. Admissibility can be determined on the basis of two criteria: social net-present value of the project and benefit-cost coefficient.

The eligibility criterion for the project is to have a social net-present value to be a positive size. The formula for calculating the social net present value is the following:

$$NPV_e = \sum_{t=1}^{n} \frac{NP_t}{(1 + i)^t}$$

(1)

where “NPV_e” is a social net-present value, “NP” are net benefits, “n” is the length of the project’s exploitation life, and “i” is the social rate of discounting (Nestorovski, 2005). Net benefits (Table 4) represent the difference between the total benefits (Table 3) and total costs (Table 2).

Table 4. Net benefits (in euro)

<table>
<thead>
<tr>
<th>Years of the project</th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
<th>4th</th>
<th>5th</th>
<th>6th</th>
<th>7th</th>
<th>8th</th>
<th>9th</th>
<th>10th</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits (B)</td>
<td>7317</td>
<td>7317</td>
<td>7317</td>
<td>7317</td>
<td>7317</td>
<td>7317</td>
<td>7317</td>
<td>7317</td>
<td>7317</td>
<td>7317</td>
</tr>
<tr>
<td>Costs (C)</td>
<td>51 880</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net Benefits=B-C</td>
<td>-44563</td>
<td>7317</td>
<td>7317</td>
<td>7317</td>
<td>7317</td>
<td>7317</td>
<td>7317</td>
<td>7317</td>
<td>7317</td>
<td>7317</td>
</tr>
</tbody>
</table>

Source: Resen Municipality.

The net benefits obtained are discounted with an appropriate discount factor. Although in practice a discount rate of 10% is usually taken, in this case eight scenarios have been calculated, i.e. four discount rates have been taken: 10%, 5%, 3%, and 1%, for a period of 7 or 10 years. As it can be seen from Table 4, the project is unacceptable in all four scenarios in which the time period is 7 years. In the latter case, when the calculation period is increased from 7 to 10 years, at a discount rate of 10%, the result is again negative, which means that the project is unwarranted. Positive value for NPV is obtained in scenarios where the duration of the project is 10 years, at a discount rate of 5%, 3% and 1%. This result speaks about the difficulties in finding economic justification for the implementation of this project.

Table 5. Sign of Net Present Value

<table>
<thead>
<tr>
<th>Years of the project</th>
<th>Discount rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10%</td>
</tr>
<tr>
<td>7 years</td>
<td>-</td>
</tr>
<tr>
<td>10 years</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: authors’ calculations.

The acceptability of the project is determined by computing another criterion, which is a benefit-cost coefficient. This coefficient represents the ratio between discounted values of benefits (PVb)
and discounted values of costs (PVc). The eligibility criterion for the project is to have the value of the coefficient that is greater than 1. In this case, the discounting of the flows of costs and benefits was done according to the following formulas:

\[ PV_b = \sum_{t=1}^{n} \frac{B_t}{(1+i)^t} \]  

\[ PV_c = \sum_{t=1}^{n} \frac{C_t}{(1+i)^t} \]

In our case, four scenarios are presented. Namely there are taken discount rates of 10% and 5% for periods of 7 and 10 years (Table 6).

Table 6. Benefit-cost coefficient

<table>
<thead>
<tr>
<th>Years of the project</th>
<th>Discount rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10%</td>
</tr>
<tr>
<td>7 years</td>
<td>&lt; 1</td>
</tr>
<tr>
<td>10 years</td>
<td>&lt; 1</td>
</tr>
</tbody>
</table>

Source: authors’ calculations.

As it can be seen from Table 6, in three scenarios, the result obtained is less than 1 (<1), making the project not justified from the economic point of view. Only the scenario with a discount rate of 5% and for a time period of 10 years, gave a result that is greater than 1 (> 1). It means that the project is acceptable in such conditions only. All of the previous, speaks in favor of the difficulties in implementing the project.

Conclusion

Cost benefit analysis is a methodological approach that helps to determine which programs or projects are more rational than others, or how to make a choice between potential programs and projects. Within this paper, only one alternative for achieving certain results through the implementation of the project was considered, i.e. the project that was subject of the analysis was not compared to other projects or other versions of the same project, although a key element of the economic analysis is to consider alternatives to the proposed project, including the alternative not to implement the project at all.

The results obtained are not a sufficient indicator for the implementation of this project, which is aimed at increasing the welfare of the part of the local community. Initially, the project was justified according to the school’s strategy, i.e. to take action to rebuild the school every four years. The costs incurred for changing old wooden windows and doors with the new ones (aluminum), were to be justified by the fact that this activity generates more and multiple benefits. Benefits from this project activity were to be felt by future generations of students and teachers. Unfortunately, the conducted analysis did not give a positive assessment for the realization of the project. More precisely, this project is not eligible for realization according to the criteria of cost-benefit analysis, except when additional arguments are provided to guarantee sustainable development (reducing the discount rate and extending the duration of the project). Moreover, as a risk here one could mention the possible change in the price of oil and the difference in temperature from one heating season to another, which would lead to increased costs in the future.
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FOREIGN DIRECT INVESTMENTS IN KOSOVO OPPORTUNITIES, CHALLENGES AND PROMOTION

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Abstract. Foreign direct investments in Kosovo are the basis for a genuine development, especially in the case of Kosovo that is in the transition phase from a former centralist system to the free market economy system. Investments are the most efficient way for a country's economic and political development, consolidation, economic growth, development and strengthening of the private sector.

The treatment and sensitization of foreign direct investment in Kosovo is a matter related to foreign direct investment (FDI), their importance, factors that influence the rise or fall of the level of foreign direct investment in Kosovo, potentials, opportunities and the challenges facing Kosovo in the transition period of state-building and government attempts for the country's economic development.

In the context of attempts by central institutions, the Kosovo Government is making continuous efforts to create development policies and other important actions to create a better environment for foreign direct investment, creating a climate that is most appropriate for investment, simultaneously for business development.

To encourage developed countries that have interest and motive for FDI in Kosovo, the Republic of Kosovo has built a legal infrastructure and has approved the Law on Foreign Investments No. 04/220.

In addition to the legislative sphere, the institutions of the Republic of Kosovo also pay special attention to the promotion of these opportunities through the establishment of the Investment Promotion Agency (IPA-KIESA), in order to further promote Kosovo's potentials abroad, the climate of which Kosovo owns and the benefits it has if it invests in such a market as Kosovo.

Key words: foreign direct investment, Kosovo, opportunities, challenges, promotion, economic development

Introduction

Kosovo is the new state with its independence declared on 17 February 2008, which emerged after many years of occupation by Serbia, the last war of 1999 and the breakthrough from the former Yugoslavia. Kosovo after this period of war spent the recovery period and assistance from the international factor to a transition period of transformation political, economic, social and property system, etc.

Kosovo's economic development is impossible without the foreign direct investments with which investment is the most effective form of development and economic growth. Republic of Kosovo in continuity is making efforts to create macro-economic development policies, undertaking very important measures to create a favorable climate for development of the bidders, for the exercise
of production and service activities of SMEs, the generation of countries new jobs and creating a suitable environment for foreign direct investment on Kosovo.

The Republic of Kosovo, in order to open foreign direct investment routes has built one legal infrastructure through the adoption of the Law on Foreign Investments No. 04/L-220, Article 2, point 1.4., say: “Foreign investment is any asset owned or legally held by a foreign person in the Republic of Kosovo for the purpose of performing legitimate commercial activities, these included but not limited to”.

For foreign investors, as the main motive for investing in Kosovo are mining potentials, energy, agriculture, telecommunications, construction, wine tourism, tourism, and many other economic branches, but in particular the potential of the new population, about 65% dominates the age of under 35. On the other side, you should look objectively and transparency that these investments are followed by the many challenges that they have identified in other countries that have passed the transition. As the challenges of foreign investors are followed by the rate of corruption, informality, etc, which stem as a result of the non-functioning of the rule of law. Meanwhile, the promotion of investments, the Government of Kosovo did through MTI respectively KIESA, donor conferences, B2B, etc.

Definition of Foreign Investments

Based on scientific and economic literature we encounter different definitions of foreign investments. Investments are the process of engaging, mobilizing money or other production resources at the current moment in hope and in anticipation of some future assumed benefits.

Foreign direct investment is a form of investment that realizes profits in company, which operates outside the territory of the investor side, which require one business relationship between the company at the investor's place and its external affiliate. According to author Pierre Masse, the investments define as: "the essence of investments that make tolerance of sacrifice and denial of current consumption to increase the usefulness respectively increase consumption in the future".

Classification, Function and Efficiency of FDIs

Foreign direct investment policy at different times in different countries is based on different attitudes. We distinguish three types of approaches to foreign direct investment:

- Restrictive attitude (closed market),
- Liberal attitude (open market), and
- Pragmatic national attitude.

Investments can be divided into two large groups:

- Real investment, and
- Financial investment.

Real investments are those that are made for the creation, expansion and modernization of physical assets, such as buildings, machinery, etc., while financial investments are those that are carried out for the purchase of financial instruments of the character of different valuable letters.

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5 Official Newspaper of the Republic of Kosovo No.01/09 January, 2014 Pristina
7 Musa Limani “Applied Macroeconomics”, Pristina 2008, p. 190
8 Halil Kukaj, "International Business", Pristina 2014, p. 48
Economic development is closely related to the rate of reproduction of the main funds, especially those of production, respectively the activation of investments. Therefore, apart from economic factors, natural, human factors, investments represent the main material factor of the economic and social development of a country, so investments represent the function of increasing production, respectively production is the function of investments. Investments have a particular impact on improving the economic structure and raising the living conditions of the population. The value of investment in this direction is that they have an impact on the growth of production capacities for the production of different material goods, which will serve to meet the needs of the population and to improve the standard of living. So, the foreign investment function is heading towards growth, in global economic growth, they are of great importance to developing countries especially for Kosovo.

Investment efficiency in macroeconomic analysis is a very important indicator, which expresses the level of development, respectively the development of a country's productive forces. In the theory of economic development, it has been found that, besides the size and structure of investments, the efficiency of investments is a factor that is in line with the economic development of a country.

From an economic point of view, the efficiency of investments is seen by:

- the increase of production, respectively the social product,
- national income,
- employment,
- labor productivity, etc.

Government policies have an important role in the efficiency of foreign investment in their countries. Prosperous and developed countries governments make considerable efforts to encourage investment from abroad by their enterprises in order to provide opportunities to use natural resources or to increase the exports of machinery and equipment and at the same time generate capital inflows to improve the balance of payments.

The importance of investment relies on the formation of material-technical conditions, which enable the increase of technical labor availability, increase of labor productivity, etc.

**Foreign Direct Investment in Kosovo**

Foreign direct investments in Kosovo playing a decisive role in economic growth by restructure and increase the competitiveness of domestic industries, respectively economic branches, as well as investments can be transformed into employment opportunities i.e. the generation of new jobs, potential competitiveness of local businesses and penetration of these businesses into foreign markets.

The geographic position of our country enables communication, connectivity and a bridge between the countries of South Eastern Europe, i.e. Kosovo creates favorable conditions for foreign direct investment. Kosovo also provides the right environment for doing business, such as new and motivated labor force, free market and free access to customs in the European Union market, the lowest taxes in the region, as well as easy doing business procedures, are among the factors aimed at promoting as much foreign investment in our country.

On the other side, Kosovo's economy is characterized by low levels of industrial production, low level of investment, export deficit of products, high unemployment rate, and Kosovo has not yet stabilized economically and political, GDP growth is largely a result of donations and sending remittances from outside, not as a result of any economic activity.

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10 Muhamet Mustafa, "Investment Management", Prishtina 2005, p.28
11 Muhamet Mustafa, "Investment Management", Prishtina 2005, ibidem
Kosovo faces a number of social and economic problems, including:

- The unstable political situation, which has made it difficult for Kosovo to absorb FDI;
- External donations for capital investments have slowed down;
- The ability of the banking system to derive long-term debt to support investments serious;
- Lack of financial market and securities market;
- Remittances from emigrants in their families which are decreasing as a consequence of emigration family members outside of Kosovo;
- High level corruption;
- High unemployment rate, etc.\(^\text{12}\)

Direct Foreign Investments in Kosovo at the same time bring about increased resources such as:
- Additional capital,
- Technology,
- Management,
- Access to global markets,
- Access to regional markets,
- Increasing the percentage of exports, and
- Increase the level of production of products to meet their consumption needs.\(^\text{13}\)

Foreign Direct Investment (FDI) received in Kosovo amounted to 215.9 million euros, which is lower compared to the 308.8 million euro recorded in 2015. The share capital and investment fund, which accounts for about 85.3 percent of total FDI, recorded the value of 179.0 million euro which is for 21.5 percent lower compared to the previous year. Also, FDIs in the form of debt instruments marked the value of 36.9 million Euros, a decrease compared to the previous year of 54.3 percent.

The decline in FDI was evident in almost all sectors. The most significant decline was in the real estate sector and the financial services sector, which was characterized by an annual decline of 11.6 and 70.5 percent.\(^\text{14}\)

Referring to these trends of Foreign Investments in Kosovo, we will present it the FDI comparison for the period 2007-2016.

| Table 1. Foreign Direct Investment in Kosovo 2007-2016.\(^\text{15}\) mil.euro |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 440.7           | 369.9           | 287.4           | 368.5           | 384.4           | 229.1           | 280.2           | 151.2           | 308.8           | 215.9           |

\(^\text{12}\) Authorial overview

\(^\text{13}\) http://www.slideshare.net/fitorezeqiri/tema-29856979

\(^\text{14}\) CBK, “Annual Report 2016” Prishtina 2016, p. 31-32

\(^\text{15}\) CBK, “Annual Report 2016” Prishtina 2016, p. 31-32(ibidem)
Table 2. FDI in Kosovo as after the states, during the period 01.01-30.06.2017\textsuperscript{16} mil. euro

<table>
<thead>
<tr>
<th>State</th>
<th>D</th>
<th>CH</th>
<th>AT</th>
<th>USA</th>
<th>UAE</th>
<th>GB</th>
<th>AL</th>
<th>TR</th>
<th>I</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>29.7</td>
<td>22.8</td>
<td>20.4</td>
<td>11.9</td>
<td>11.2</td>
<td>10.8</td>
<td>8.8</td>
<td>8.3</td>
<td>2.5</td>
<td>12.8</td>
<td>139.2</td>
</tr>
</tbody>
</table>

\textsuperscript{16} CBK, “Annual Report 2016” Prishtina 2016, p. 31-32 (ibidem)
Table 3. FDI by economic activity during January-June 2017.

<table>
<thead>
<tr>
<th>RERB</th>
<th>FS</th>
<th>IND.</th>
<th>OS</th>
<th>OS1</th>
<th>M</th>
<th>TC</th>
<th>EN</th>
<th>OA</th>
<th>MCC</th>
<th>CONS</th>
<th>ROT.R.</th>
<th>EA</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>75.4</td>
<td>37.6</td>
<td>-4.1</td>
<td>6.7</td>
<td>2.7</td>
<td>6.6</td>
<td>-0.9</td>
<td>0.8</td>
<td>0.7</td>
<td>-0.1</td>
<td>14.4</td>
<td>0.3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fig. 3. FDI in Kosovo as a result of the economic activity during the period 01.01-30.06.2017

Opportunities and Challenges of FDI in Kosovo

Kosovo since the war has approached a free market system of the reformed economic system which equally provides opportunities to all foreign actors and investors. These good opportunities are referred to in:

- legal infrastructure regulated and harmonized according to EU standards,
- Human resources with a new structure of 35 years old over 65% of the structure general population,
- good road infrastructure,
- access to all markets and investments in economic branches (energy, agriculture and tourism);
- Balanced macroeconomic policies,
- Fiscal policy reforms with the application of fiscal packages 1.0 and 2.0 with 22 measures which will be an incentive and additional incentive for FDI in Kosovo.

While on the other hand, Kosovo also faces challenges that constantly become a burden on consolidation and further economic development.

The most specific FDI challenges in Kosovo are:

- No political stability,
- The failure of the state and of the law,
- Poor combat of corruption and organized crime,
- Poor combating of economic informality.

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17 https://kiesa.rks.gov.net/page.aspx?id=1,17
18 Source: Ministry of Finance of the Republic of Kosovo, Pristina 2017
Promotion of FDI in Kosovo

Promotion is one of the most essential elements of a positive and attractive image building strategy for investors. Now Kosovo is a strategic place and is located in the center of the Balkans, which offers easy access through: transport road, rail and air transport, through the three ports located in:

- Selanik, Greece: 329.0 km,
- Durrës, Albania: 262 km,
- Tivar (Bar), Montenegro: 299 km.

The pre-investment phase means the services offered to a foreign investor before the investment process in Kosovo by providing the following services:

- Help and advice on how to start a new business in Kosovo;
- Assistance in business registration procedures;
- Assistance in applying for licenses and permits required for business;
- Organization of meetings with local and central institutions and meetings with local and foreign businesses;
- Help to identify the ideal place to allocate business.

The investment phase means the investment process within which foreign companies are offered the following services:

- Help to find real estate to accommodate business;
- Assistance in applying and deploying through industrial zones and business incubators;
- Provide information on specific sectors, various projects and potential partners, with whom it can be collaborated;

The after-care investment, means the process within which the company that invested in Kosovo needs additional services, while the KIESA in this regard provides the aftercare project. In this process the current foreign company that has invested has the right to utilize the following services:

After-care service (afterwards care to investors).

- Assistance in organizing meetings and participating in conferences and B2B meetings;
- Notification of new changes in laws, taxes and other additional information.

The investor initially refers to the link: https://kiesa.rks-gov.net/Page.aspx?id=1,1 can be informed about the structure, economic stability, macroeconomic policies, potentials and foreign investment opportunities in Kosovo.

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19 https://kiesa.rks-gov.net/page.aspx?id=1,42
Conclusions and recommendations

Conclusions

Based on the free market economy system, technical-technological achievements, powerful global competitiveness, liberalization of markets and foreign direct investment play a key role in the process of Kosovo's economic integration. FDI in Kosovo is considered as a determining factor of economic growth, especially after independence and the transition process. FDI is the main source of external financing in Kosovo. Foreign direct investment can increase the formation of fixed capital and assist in the balance of payments. FDI has the potential to generate employment, productivity growth, transfer capability and new technology, increase exports and contribute to the development long-term economic development of Kosovo. It means that we present impact of FDI’s economic development and growth in Kosovo, and the factors that have affected the changes that occurred in the periods presented. FDI impact on economic growth and functions of economic growth based the data used belong to the period from 2007-2016, the main factors influencing the adaptation of FDI in Kosovo, analysis of the perspectives mentioned. This scientific work leave us understand the approach theoretical in terms of foreign direct investment, the primary goal to understand the motives of foreign investors, the advantages of foreign direct investment, FDI disadvantages, policies and objectives of FDI, which encourage foreign investors to invest in Kosovo, and to present the causes or factors that affect it in making investment decisions enterprises of particular importance for understanding the right way the role of FDI in Kosovo as the host country.

Recommendations

FDI started after the Declaration of Kosovo's Independence from 2008 onwards, which were focused on activities that have the cycle quick turnaround of capital that bring profit. Consider, by implementing the policy favorable for foreign investors will affect positively the seduction and motivation theirs. Based on the data and analysis of this paper, we consider it an urgent need of improvement and effort of conditions to lure investors based on the trends developmental growth, namely the reduction of FDI, most specifically in 2016. As a result of the ascertainment of the data, analyzes and conclusions mentioned above, The Government of the Republic of Kosovo, we recommend:

- Make the best economic and fiscal policies for favoring FDI,
- Develop free economic and customs zones,
- To create more space for business parks,
- Any foreign investor who creates a new job, to subsidize from 5,000-10,000 Eur.,
- Increase budget for promotional activities, and participation in fairs, and forums,
- To hold a donors’ conference to unfolding agricultural resources, tourist and mining,
- Formalization of the informal economy, in works,
- Uncompromising war against corruption and negative phenomena in Kosovo.
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Unions and Professional Organizations

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Abstract: This paper discusses the role of unions, professional organizations and the place business should take in society. In addition, this paper also is about how the company policy should be with regard to the environment, or on dealing with evil regimes. For this paper academic journals have been used and in a last part is provided conclusion.

Keywords: unions, professional organizations, social responsibility, employee rights

Role of Unions

Within last century two social systems had existed in the world, Communism and Capitalism, however, competitive business environment didn’t exist within countries that has have socialist social system since market was controlled by state. In addition, founder of Communism, Karl Marx, objected to capitalism, as he thought, especially on the ground that it involved alienated labor, while according to Narveson (1988) “One important reply to Marx’s criticism has been that he has the wrong target: what spawns these conditions isn't capitalism, it's industrialism” (p. 96). However, within both social system employees had organized themselves in Union organizations with the goal to protect their rights and to have better working conditions (Godard & Frege, 2013). In addition according to Hagedorn, Paras, Greenwich, & Hagopian, (2016) “Unions help members gain control over their scheduling and job security, and union membership is associated with increased democratic participation” (p. 989).

However, role of unions should be about enforcing democracy within workplace and it should be used as a voice of all employees regarding wages, health and safety issues and pensions. Furthermore, employees should have the right to join or not to join to unions, however all employees rights should be regulated by law and by constitution, but at current environment when World is facing with risk from terrorism, dictatorial governments and risk of cyber-crime, employee rights and human rights might be seen as utopic request. For those reasons unions should continue to exist and employees should be active participants within labor unions since Godard & Frege, (2013) concludes that “unions continue to serve a democratization function in workplaces”(p. 164).

Professional Organizations

As a result of innovations and because of requirement for highly skilled employees, new professions had evolved within couple of last decades (Project Specialist, System Administrator, Programmer, Database Administrator, and Nanotechnology Expert). Professionals are taking advantage compared with other people and according to Narveson (1988) “many (not all) are
effectively self-employed, making their incomes through fees for their specialized services" (p. 104). In addition, professionals are connected with each other and they are establishing their professional organizations and many professional organizations had created their code of conduct. However, the dilemma could exist with professional’s code of conduct since when companies are operating within third world countries or within region that is controlled by authoritarian regime, professional code of conduct will provide guidelines for behavior. For example, Lufthansa had designed airplanes for Nazis in Germany and Dr. Joseph Mandela had conducted genetic researches in concentration camp in Auschwitz, however they had used captured civilians and soldiers and many people had died while they were used as ‘resources’. Despite the fact that professional organizations could trigger innovation and exchange professional knowledge, those organizations and their code of conduct should be substitute for or alternative to normal morality (Narveson, 1988).

**Company Policy and Environment**

Companies are operating within legal framework where are also defined requirements regarding environmental protection. In addition, companies have also their internal policies regarding environment that could have more requirements than local legal system where company is operating. According to Kong, Liu, & Dai (2014), literature review for environment has been divided in to three threads, “the first thread investigates how corporate environmental performances or regulations affect financial performance” (p. 102) while in second category are relationships between corporate environmental protection and capital market and last one is “focusing on investor reactions to the corporate environmental protection effort” (p. 103). Companies should develop policies regarding their social responsibility about environment protection, despite the fact that sometimes environment policies will oppose business objectives. However, if companies are investing on environment protection their value on stock market will be higher since they will have better reputation. Moreover, Sethi (1979) states that “Business institutions in the United States and other industrially advanced countries have suffered a marked loss in social credibility” (p.63).

**Doing Business With Authoritarian Regime**

While conducting business activities at international scale, companies will be dealing with different governments that could represent authoritarian or ‘evil’ regime. However, at this case two perspectives should be considered, from shareholders perspective the goal of company is to create profit, while sometimes morale dilemma could be raised. From author’s experience, during the war in Kosovo in 1999, people had suffered for medicines and for food, while Coke, Cigarettes and Diesel was always present in black market. According to Narveson (1988) “When we speak of “evil regimes”, what we mean is that the government is evil, not that the people in that country are evil” (p.117). In addition, many companies are investing in to pseudo-democracies, such as the Philippines or Turkey (O'Shaughnessy, 2017), and many democratic governments are strategic allies of those states. In addition, corruption as phenomenon is present in every country, however this phenomenon is more expressed within authoritarian regimes and according to Alon, Shaomin, & Jun (2016) “Corruption affects a society politically, economically, and culturally” (p. 334). Furthermore, world greatest economies where established based on authoritarian regimes, from African Slaves that had worked in cotton fields in USA to prisoners in concentration camps in Germany that had
built aircrafts and rockets, evil regimes in the name of civilization had used natural and human resources and often this was conducted with blessing from spiritual leaders.

**Conclusion**

Labor Unions should negotiate with shareholders representatives regarding their wages and working conditions, however they should not have influence on product development since those kind of tentative had failed in the countries where Communism was adopted as social system. As a result of globalization and completion, many companies are entering in markets that are under authoritarian regime and there are cases where companies are outsourcing their operations in pseudo democratic countries. However, in practice what is legal many times is not moral and this matter should be decision that each company should bring based on their vision, mission and based on their values.

**References**

CORPORATE SOCIAL RESPONSIBILITY

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Abstract: This paper is about appropriate ethical relations with “stakeholders”, considering customers, consumers, owners and employees. In addition, this assignment discusses question do “stakeholders” and “stockholders” have the same moral rights on the corporation and if yes should they have same moral rights. In addition, author had discussed also the proper relationship with employees and conclusion is made based on literature review

Keywords: Shareholders, Stakeholders, Social Responsibility

Corporate Social Responsibility

Corporations are essentially and primarily engine of economic production and distribution (Freeman & Liedtka, 1991), however as a result of legal changes and consumer increased awareness term corporate social responsibility had appeared as a notion in last century (Frederick, 1994). In addition, according to Kennedy (2006), corporate social responsibility was triggered by the rise of socialism and insufficient attention from spiritual institutions, since “for most of the nineteenth century the hierarchy of the Church paid little attention to economic matters and the idea of corporate social responsibility” (p. 3). Furthermore, corporate social responsibility is considered as a value and it is discussed topic within corporations and within academic literature (Wood, 1991; Carrol, 1979; Davis, 1973). However the challenge remains with corporate social responsibility implementation since leads managers to make decisions about issues beyond their expertise (Freeman & Liedtka, 1991, p. 94) and the idea of corporate social responsibility has failed to help create the good society.

Reasons for this failure can be attributed to business managers since, according to Carroll, (1991) “social responsibility can only become reality if more managers become moral instead of amoral or immoral” (p. 39), and business moral insight according to Royce, (1865) cited in Goodpaster: “The moral insight is the realization of one’s neighbor, in the full sense of the word realization; the resolution to treat him unselfishly” (p. 2). Since corporates are producing products and service for consumers, and those products are produced by employees and entire business operations are conducted in business environment that is regulated by government, corporates have social responsibility and this responsibility should be part of corporate business planning and budgeting.

Stakeholders and Share Holders Moral Rights

In current business environment, stockholders are gaining profit through dividend payment (Glac, 2014), and often they are not directly involved in day to day business activities since
corporations are leaded and managed by hired managers that are protecting stockholders interests (Howton, Howton, & McWilliams, 2008) and they are paid for their job. However business managers are considered as stakeholders since their benefits are affected by business results of corporation. In addition also consumers, customers and government are categorized as stakeholders since they have their own interest on corporate performance, for example consumers and customers are interested on their right for not to be misinformed (Narveson, 1988), while government is interested to collect taxes (Barber, 2016; Palil, Malek & Jaguli, 2016). Furthermore, government as stakeholder is interested to enforce corporations to conduct their business activities within legal system that has to do with consumer health and safety and with environmental protection issues as well.

In addition according to Freeman, (2000) “philosophers see "stakeholders" as a way to bring in the fact that business should be accountable to others while social scientists, on the other hand, see "stakeholders" as a useful unit of analysis that easily depicts the social and societal effects of business” (p. 171). Moreover, stakeholders and shareholders should have moral rights within corporation because they are interrelated with each other, however since stakeholder can be considered also competition, corporates are facing also with negative interested stakeholders.

Relationship of Employees with Stakeholders and Shareholders

Employees are internal part of corporations and “human beings spend a majority of their waking hours at work” (Freeman, 2000, p. 174). However, when employees are performing their duties, they may find themselves in situation where their personal goals conflict with the company's requirements; and when their ethical principles conflict with them (Narveson, 1988).

In addition, employees are affected by shareholder primacy norm and according to Smith & Ronnegard (2016) “The shareholder primacy norm is the part of a manager’s legal fiduciary duty that requires managers and company directors to make decisions on behalf of the corporation that further the interests of shareholders” (p. 463). The challenge remains when employees are about to implement corporate social responsibility, since shareholder primacy norm may be obstacle and could jeopardize corporate social responsibility. In addition, it will hinder managers from considering the interests of other corporate stakeholders besides shareholders and, employees often are also customers of corporation and there are cases when corporates are issuing stock actions to their employee and there is strong relationship and mutual interests between employees with stakeholders and shareholders

Conclusion

Corporates and businesses are triggering economic development and social welfare and, corporates are interacting with consumers, customers, employees and with government. In addition, corporates are depending from their customers and as a result of changes in social systems within last century the term corporate social responsibility had appeared. Social corporate responsibility was initiated as a result of social movements around the world, from socialism in the Eastern Europe until civil movements against segregation in USA.

Despite many efforts, the idea of corporate social responsibility has failed to help create the good society because it is depending from moral values of business managers and those values are influenced by shareholder primacy norm. In current business environment, stockholders are business owners and they are controlling business activities through their employees that may be
appointed as managers and directors and they are considered as stakeholders since they are affected from business results of corporation. Furthermore, stakeholders and shareholders should have moral rights on corporation, since shareholders are investing and they are gaining profit, while stockholders are producing goods and services, they use products and they are influenced by business results of corporations.

References

Performance Measurement System Based on Process Approach

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Abstract. This paper addresses issues met when designing, implementing, using and continuously updating performance measurement system based on process approach. Process approach in managing is necessary since it provides a new perspective to the company’s management in terms of identifying problematic, inefficient processes and activities that have negative impact on the overall efficiency and competitive position of the company. Such business management which includes adoption and implementation of the process approach requires consideration of the issues related to performance measurement system based on business process approach as a key control and management instrument. Therefore, the aim of this paper is to shed light on the key moments in the design and implementation of the performance measurement systems in a process-oriented company. In order to look at the above mentioned issues, the attention is given to the important moments and phases in developing a system to measure the performance characteristics of the business processes in a process-oriented company.

Keywords: business processes, measurement system, processes performances

Introduction

In the knowledge economy era, the key resources for gaining a sustainable competitive advantage are of immaterial, intangible, or intellectual. In modern business environment, mission and strategic goals of a company cannot be realized without adequate creation, combination and application of knowledge and other intangible resources. Furthermore, the importance of intellectual capital for the successful performance of the company and the increase of its market value is generally acknowledged. Intellectual capital, in the information age, is the key factor in maintaining and improving competitive advantage (Krstić, 2009). Trends related to creating value for the shareholders and maintaining competitive position are changing. Namely, competitive struggle between market rivals in the knowledge economy differs significantly in several aspects from business operations and market competition between companies in the industrial age.

First, the successful management in the global business environment, among other things, implies networking of an enterprise with its customers, employees, suppliers, strategic partners and the community. Second, one of the vital market factors that distinguish one enterprise from other market participants is the quality of services provided to consumers. Third, the key to business success of each enterprise in the “new economy” is the capability to predict the market discontinuities and respond to new trends and changes in technology in a particular industry. Therefore, the requirements to make changes in the manner in which one company competes with other firms, to constantly innovate, to increase flexibility and improve the skills and competencies within this company are always present. Fourth, the appropriate application of
modern technologies can significantly contribute to improving the competitiveness of enterprises. Fifth, the change in orientation from the vertical orientation and functionally oriented management to the process oriented one, i.e. to the horizontal organization and process-oriented management is also relevant. This orientation determines the management of a series of interrelated business processes, which actually makes the particular business process the key management issue.

**Characteristics of process approach in modern enterprise management**

Dynamic competitive conditions gradually reduce the significance of the classical, functional models of organizational structuring, because they are based on a vertical, hierarchical organization that has shown a number of limitations that reduce the effectiveness of both organizational and business units. Therefore, companies need to eliminate deficiencies of the functional organization and vertically oriented management (Becker, Kugeler, Rosemann, 2003, p. 2)

Due to the numerous benefits regarding the efficiency and competitiveness, the dominant trend in many companies in the last two decades is that of the transformation to the process orientation and process-oriented management. The main characteristic of the process-oriented management is a process as an object of control, and its main goal is the improvement of the business processes performances (Sekulic, Krstic, 2005). Process-oriented company is set up by transforming traditional (functional) structure to the new process structure, i.e. the organizational units responsible for particular functions are based on business processes rather than business functions (departments). This means that jobs are not grouped according to similarities in functional units, as is the case with a functional organizational design, but according to their connection with the specific process. A company with a hierarchical system of functional units, through transformation towards process orientation, becomes "flatter", with fewer levels of management, while autonomous process teams perform particular activities within business processes from their beginning to their end (Krstić, Jovanović, Kahrović, 2012).

Process orientation has introduced innovations to the business performance management system of a modern enterprise. In addition to management at the enterprise, business unit or organizational unit (functional department) level, yet another level of performance management is created – that of process performance management. Processes performance management can be determined as the result, effect or output of a business process or activity, which can be expressed through a quantitative or qualitative value. If we accept that a process represents a complex object of control, which consists of the activities, operations and tasks, then a conceptual framework of business process performance incorporates the following: the performance of the activities of a business process, the performance of operations included in the activities of a business process and performance related to execution of tasks within the operations (activities) of a business process. Therefore, it is necessary to plan, measure, analyze and improve the performance of business processes, as well as the activities that constitute them. Process approach to management makes it possible to better identify the causes and factors of enterprise functioning in relation to the classical concept of enterprise management, i.e. the functional organizational design. The process approach is a tool that allows a more profound, more precise, new look at the essence of the company’s operations and the causes and factors of its business performance.
Determinants and phases in performance measurement system

The key issue of effective business process performance measurement is the development of an adequate performance measurement system in a process-oriented enterprise. Such system should support the implementation of the existing strategies and plans for business processes improvement (Kueng, 1999, p. 154). At the same time, information on the measurements represent the basis for the analysis of the strategy implementation, as well as for taking corrective actions in terms of improving the performance of individual business processes (Sekulić, Krstić, 2005; Andelković-Pešić, Milić-Janković, 2005).

It is proposed here that development of performance measurement system based on process approach can be divided into four main stages: (1) Performance measurement system design, i.e. selection of business process performance indicators; (2) Preparation for the implementation of business process performance measurement system; (3) Implementation of the business process performance measurement system; (4) Finding opportunities for improving the business processes performance measurement system.

Performance measurement system design

A company that chooses to implement process-orientation management must also work on changing the performance measurement system that used to be applied. In the phase of designing performance measurement system, i.e. selection of performance indicators for each business processes, it is necessary to make a decision about what will be measured and how it will be measured. Strategic approach is considered as the most suitable one for the selection of business processes performance measures, since this approach is based on the strategy and programmes for the business process improvement, as well as the identified business process success factors (Neely, Bourne, Kennerley, 2000).

Elaboration of such concept referring to the selection of the process performance measures based on the business process improvement strategy and programmes and identified business process success factors, involves determining the so-called elements of the business process measurement definition. The elements included in the definition of each selected criteria of a business process performance measurement system in a particular company (Kahrović, 2013).

It is necessary to check the appropriateness of the defined business processes indicators, as well as the criteria for their selection. The selection is usually performed from a large number of possible indicators, which the economic science and successful business practice recommend for the tracking and controlling of business processes. When one wants to measure the performance features of the business process, it is necessary to understand and verify the elements included in the definition of the indicator, which are listed in Table 1.
Table 1. Elements of the definition of the business process performance indicators (Krstić, 2012, p. 165)

<table>
<thead>
<tr>
<th>Business process</th>
<th>Name of the performance indicator</th>
<th>Purpose of the measure</th>
<th>Calculation formula</th>
<th>Target level of the measure</th>
<th>Frequency of taking measurements</th>
<th>Reporting frequency</th>
<th>Data source</th>
<th>Person that performs the measurements</th>
<th>Users of the measurement results</th>
<th>Actions carried out by the users</th>
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<td>Business process 1</td>
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<td>Business process 2</td>
<td>Indicator A</td>
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</table>

Namely, for each selected business process performance indicator the following should be defined and checked: 1. The name of the performance indicator (most measures are specially determined for the control and tracking of a process, therefore they do not have a conventional name, which is the case with traditional financial performance indicators that have been used in financial analysis); 2. The purpose of the business process measurement (this should give an answer to the question what is measured by a particular performance indicator and why is it important to measure particular process); 3. A method of calculating the measure (calculation formula, calculation method, the methodology applied in the process of data collection); 4. A target level of particular performance measure (a planned level of a particular performance which is to be achieved in the future); 5. Frequency of taking the measurements based on the certain business process performance measurement (daily, weekly, monthly, etc.); 6. Reporting frequency, concerning the responsible persons and other persons responsible for the implementation of activities within a single process; 7. Information source and the manner of collecting information for calculating the value of a certain process performance measure; 8. The person who performs the measurement; 9. Users of information on completed process performance measurement, as well as actions carried out by these users (process managers and others) based on information obtained by the measurements taken.

Preparation for the implementation of measurement system

Prior to implementation of a determined business process performance measurement system, due to the previously described selection of business process performance indicators, it is necessary to make appropriate preparations. Preparation involves screening for the existence of potentially redundant process performance indicators in a selected set (system) of business process performance indicators. This verification procedure for indicators should be carried out on the basis of the testing validity and reliability of the selected criteria. Validity is related to the extent to which the measure successfully quantifies the selected feature. Reliability is related to the
Implementation of the business process performance measurement system

The actual implementation of the established business process performance measurement system in an enterprise involves daily use of certain indicators used for the control and information purposes on the achieved process performance (Martin, 2008, p. 34). Therefore, it is necessary to initiate appropriate actions to improve the business process performances based on the results of the measurements. If the implementation of actions for business process improvement does not take place, the measurement process as a part of the business process management will not contribute to the quality of the process and will only produce costs and expenses. The obtained information is first analyzed and consolidated in order to formulate and produce conclusions based on the performed analysis. Persons responsible for individual business processes should produce the assessment of the level of achieved performance, as well as determine what needs to be changed (shortened time span for activity realization, elimination of the non-value adding activities, improvement of the process output quality, etc.) based on the identified causes and effects. Before the obtained information is translated into actions, it should be checked for the following: potential errors in data collection, measurement errors, as well as the possible manipulation of certain data (Krstić, Sekulić, 2013, p. 91).

Opportunities for improving the measurement system

On the other hand, the continuous improvement of business processes performance measurement systems is necessary in order to keep the process useful and relevant for management (Krstić, Sekulić, 2013, p. 93). For this reason it is important to keep reviewing the process. Certain measures in the business process performance measurement systems can at one point of time become irrelevant for management, namely become redundant. Some indicators are introduced into the measurement system only as temporary indicators in order to control the problematic activities of a process at that particular time, and it also can happen that due to uncritical assessment of these temporary indicators they remain in a measurement system for some period of time. Redundant measures in the measurement system cause greater utilization of resources (increasing the costs of collecting information necessary for measurement) and loss of productive time of the persons performing the measurements and performance control. In addition, it may happen that one problematic business process or some area of its activity remain ambiguous due to the insufficient information, lack of indicators for monitoring the effectiveness of such activity. This means that any new indicators must be introduced into the measurement system which would identify specific problems in implementation of the activities and operations incorporated in a particular business process. Of course, it is not most appropriate to constantly introduce new indicators in business process performance measurement system, because it increases the complexity of the measurement system, incurs unwanted costs and distracts the attention of the process management by making them focus on too many performance indicators that should be observed and upon which they should make decisions on possible business process performance improvements.
Conclusion

The developed performance measurement system has an important role in achieving a balance between the short-term results and long-term growth and development opportunities. It represents the basis for making good business decisions about the growth and development opportunities, the manner of their realization and strategic guidance, as well as the operational decision-making and implementation of the adopted long-term strategies. Adequate and integrated business process performance measurement system will help in the process of translating strategic plans into short-term actions and operational objectives, where the realistic assessments and decisions are made in terms of the efficient utilization of resources based on the real, comprehensive and accurate measurements and thanks to a quality set up and consistently implemented integrated measurement system, and which provide a realistic assessment on efficient use of resources. In addition, an integrated performance measurement system enables monitoring of the process of implementation strategies. In the process of strategy formulation, measurement has an important role since it provides critical information for the proper definition of initial assumptions. At the end of the strategic process, integrated measurement system and the information that it provides are relevant for the reformulation of the strategy. With this in mind, such measurement system represents an instrument used by the company’s management in deciding about various business initiatives, programmes and projects, by whose implementation the strategy is being realized. Finally, a properly structured and equitable system of compensation has a quality integrated business process performance measurement system as its basis.

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