

## Impact of Foreign Direct Investment on the Development of Agricultural Economy in the Area of Korça

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### Abstract

Korca district is among the biggest districts in the Republic of Albania. With a total of 365 000 inhabitants, it is recognized as an area with developed agriculture and livestock, but as much as rich in tourist resources full of values. We will identify new unused resources mainly in agricultural products, which with their potential for increasing the income of rural residents, can directly affect the growth and development of Korca district. Real reflection of the situation in: (Drithas, Libonik, Lozhan, Mollas, Cumulus, Pojan, Maliq, Vithkuq, Bulgarec). Knowing the value of Foreign Direct Investment (FDI) as a mean for encouraging investment, stresses the need for accurate measurements and detailed statistics of FDI for assessing their relationship with economic growth and its impact on various economic sectors, mainly in the agricultural sector. The main goal is to identify the impact and the factors of prevention, in terms of increasing the flow of FDI in Albania. An important aspect of the purpose of this paper is to identify and assess the impact and the influence of FDI in Albanian agriculture, trends and issues or major obstacles to FDI in this sector, focusing in the Korca area and municipalities. In korca the inflow of foreign direct investment has played a role and has a significant impact on increasing productivity and efficiency of production, employment and domestic exports. The objectives of this study deal with the analysis of FDI as an important factor for developing countries in terms of globalization of the world economy as well as the direct or indirect impact they have on the Albanian economy with the main focus on agriculture. The specific objective of this paper is to identify and evaluate the competitive advantages of the area in order to attract foreign investment, with a focus on agriculture. In this context, to define how these advantages can be used and what the area needs, so it can attract more foreign investors.

**Keywords:** FDI, Agricultural Products, Business Climate, Willingness to Invest, the area of Korca, Growth Strategies.

### 1. Introduction

The geographical position of the area, the opportunity of trade links with other countries in the region and further promoted with the different cooperations, lead to very good results with positiv impact .In our opinion in order to promote foreign direct investment in Korce, several improvements in the reforms shall be taken.

These reforms should be undertaken in terms of the preservation of macroeconomic stability, the level of prices and the identification of positive and negative factors that influence in the attraction of foreign investments.

The significance of developments in recent years in Korce have positively impacted on the business climate in the country. For years, the business climate in Albania has been improving and growing interest of foreign investors comes and becomes greater, due to macroeconomic stability and implementation of reforms in the country.

Challenges in the future have to do with creating a climate more favorable to attract FDI in the country, including the construction of hydropower plants and new power plants as well as infrastructure and agricultural development, water supply, reduction of the land fragmentation problem.

Korca district is among the biggest districts in the Republic of Albania. It i composed of 6 cities (Korce, Pogradec, Maliq, Erseke, Bilisht, Leskovik), 31 municipalities.

Areas on focus (Maliq, Vithkuq, Bulgarec Drithas, Libonik, Lozhan, Mollas, Cumulus, Pojan,).

In our research we have identified the following main specific objectives: Specific Objective (1): Building a comprehensive overview of FDI flows and their dynamics in Albania over the years, the main sectors where they are concentrated and areas where FDI flows are dispersed.

Specific Objective (2): To evaluate the role of FDI committed in Albania in the context of economic development and employment.

The specific objective (3) Assess the obstacles to growth of FDI flow in Albania and ways on how to eliminate or reduce them, in this context, analysis of the business climate and determining ways / roads / actions or conditions that must be fulfilled in order to increase the flow of FDI in the agricultural sector.

The business climate is negatively affected by high levels of tax, fiscal instability, unfair competition in the market and the relative insecurity of property rights and lower demand for agricultural products as a result of limited income of the population.

In the agricultural sector the business climate is affected negatively by the controversial political stability, perceptions of high level corruption, bad agricultural policies, farm size and its fragmentation, low quality of agricultural inputs, the disapproving trend of collective action and problems with irrigation and drainage infrastructure.

The business climate is affected positively, in the medium term, by relatively low standards of food safety, low environmental regulatory norms and the cost of manufacturing resources, mainly land and labor.

## 2. Materials and Methods

Research methodology is based on interviews / questionnaires. The two main questionnaires I've used are: the questionnaire of farmers and questionnaire survey for specialists, trading, processing businesses.) The first questionnaire reflects the current situation of 150 farmeres of the Korca area. Korca district is among the biggest districts in the Republic of Albania. In its composition there are presented the farmers questionnaires of the following areas (Maliq, Vithkuq, Bulgarec Drithas, Libonik, Lozhan, Mollas, Pirg, Pojan,). The second questionnaire reflects the current situation of 150 specialists, traders, processing businesses of the area of Korca.

We realized panel discussions of experts, to assess barriers, factors and policies in favor of the growth of FDI flows.

Method / comparative analysis to analyze the comparative advantages of the country or sector related to FDI, and to assess rates and differences between countries, regions and sectors in this regard.

We use economic methods to analyze competitive or comparative advantages of the country associated with the products, sectors, prioritized areas for FDI.

## 3. Results

### 3.1 Barriers to the sale of agricultural products by zone

**Table 1.** a- Shortage of production\_\_\_\_b-Low quality products\_\_\_\_c-Lack of market information\_\_\_\_d-Long distance from the market\_\_\_\_e-Poor road infrastructure\_\_\_\_f-Poor collection infrastructure\_\_\_\_g-Lack of storage\_\_\_\_h-Limited agro-processing infrastructure\_\_\_\_i-The difficult in transportation\_\_\_\_j-Unfair competition\_\_\_\_

	a)	b)	c)	d)	e)	f)	g)	h)	i)	j)
BULGAREC	2.45	2.52	1.90	2.00	2.34	2.28	2.93	2.52	3.24	4.21
DRITHAS	3.50	4.00	1.50	2.00	1.50	2.50	2.50	1.50	1.50	4.00
LIBONIK	2.17	1.94	2.22	1.53	1.50	2.50	2.56	1.89	2.22	3.08
LOZHAN	1.33	1.00	2.33	2.67	2.00	2.00	2.33	3.33	2.33	3.33
MALIQ	2.50	2.45	2.58	2.10	2.78	2.58	2.33	1.83	2.20	4.15
MOLLAS	1.33	0.83	4.00	2.50	2.50	4.00	4.83	2.83	4.33	4.50
GORE	2.00	1.00	5.00	2.00	4.00	3.00	3.00	4.00	4.00	5.00
PIRG	1.44	1.61	2.33	2.06	1.94	2.83	2.72	2.33	3.00	3.33
POJAN	1.00	1.71	2.57	2.00	1.57	2.00	2.43	1.71	1.57	3.29
VITHKUQ	2.20	2.20	4.20	4.40	4.20	4.80	2.60	4.80	3.00	4.20
<b>Grand Total</b>	<b>2.14</b>	<b>2.11</b>	<b>2.44</b>	<b>2.03</b>	<b>2.23</b>	<b>2.63</b>	<b>2.67</b>	<b>2.22</b>	<b>2.60</b>	<b>3.76</b>

Respondents rank the following factors as obstacles to the sale of products, unfair competition, storage, lack of information collection, difficulty of transport, etc. by percentage.

3.2 How positively affect these factors the business climate (0-3 points)

**Table 2.** Respondents have brought to attention that a greater percentage that positively affects the business climate is (n) the high demand for agricultural products and (p) today's standards of food safety, (f), (h).

Komuna	a	b	c	d	e	f	i	g	h	j	k	l	m	n	p
BULGAREC	1.93	0.38	1.66	0.59	1.79	1.72	1.90	0.45	1.72	1.66	1.66	0.90	1.86	1.93	1.97
DRITHAS	0.00	0.00	1.00	1.00	1.00	2.00	1.00	1.00	2.00	2.00	2.00	1.00	2.00	2.00	2.00
LIBONIK	0.86	0.92	1.14	1.14	1.17	1.58	1.06	0.67	1.58	1.36	1.61	1.14	1.47	1.58	1.47
LOZHAN	1.00	1.00	1.33	1.67	1.00	1.00	1.67	1.67	1.00	1.33	1.33	1.33	1.33	2.00	2.00
MALIQ	0.88	0.75	1.40	1.48	1.33	1.45	0.88	0.83	1.45	1.05	1.40	0.93	1.33	1.40	1.28
MOLLAS	0.00	0.33	0.83	0.67	0.33	1.00	0.33	0.67	1.00	0.50	0.67	0.83	0.67	1.17	0.83
GORE	0.00	0.00	0.00	1.00	1.00	0.00	1.00	0.00	0.00	0.00	2.00	2.00	0.00	1.00	0.00
PIRG	0.83	1.06	1.44	1.39	1.11	1.17	1.17	0.89	1.17	1.22	1.50	1.50	1.89	1.67	1.67
POJAN	1.29	1.71	2.00	2.29	1.71	2.00	1.71	1.29	2.00	2.00	2.29	2.14	1.57	2.00	2.14
VITHKUQ	0.20	0.20	0.80	0.20	0.20	0.40	0.00	0.80	0.40	0.40	0.80	0.60	0.40	1.40	1.00
<b>Grand Total</b>	<b>1.03</b>	<b>0.76</b>	<b>1.36</b>	<b>1.16</b>	<b>1.28</b>	<b>1.46</b>	<b>1.16</b>	<b>0.75</b>	<b>1.46</b>	<b>1.27</b>	<b>1.51</b>	<b>1.10</b>	<b>1.49</b>	<b>1.62</b>	<b>1.53</b>

Factors
a- Environment and political stability
b- Corrupt practices in business
c- The degree of environmental regulation
d- The level of taxes
e- Government agricultural policies
f- Unfair competition in the market
g- Current bank interest rates
h- Today's road infrastructure
i- Farm size and fragmentation
j- The actual cost of production resources
k- Irrigation and drainage infrastructure
l- Little desire to work in group
m- The security of property rights
n- Referral today for agricultural products
p- Today's standards of food safety

3.3 Willingness to invest (0-3 points)

**Table 3.** The willingness to invest in fruits production, than in milk and vegetables.

	Fruits	Grapes	Vegetables	Milk	Agro- processing	Storage	Agro-tourism
BULGAREC	0.79	0.31	1.34	1.10	0.59	0.62	0.41
DRITHAS	1.00	0.00	0.00	3.00	0.00	1.00	1.00
LIBONIK	1.25	0.83	1.19	1.56	0.75	0.67	0.36
LOZHAN	2.00	0.67	1.00	0.33	0.67	0.67	0.67
MALIQ	1.68	1.03	1.65	1.33	0.63	0.93	0.75
MOLLAS	3.00	0.17	0.00	0.17	1.00	1.00	0.33
GORE	3.00	0.00	0.00	0.00	1.00	1.00	0.00
PIRG	2.22	0.72	0.61	1.83	0.61	0.67	0.44
POJAN	1.86	0.86	1.29	2.00	0.86	1.00	1.00
VITHKUQ	1.40	0.20	0.40	1.60	0.60	0.80	1.00
<b>Grand Total</b>	<b>1.53</b>	<b>0.71</b>	<b>1.18</b>	<b>1.38</b>	<b>0.67</b>	<b>0.77</b>	<b>0.55</b>

#### 4. The Economic Situation of the Area Farms

##### 4.1 Analyzes 2

#### 5. The Climate and Investment According to Specialists

##### 5.1 The factors that affects the climate

Hypotheses: The business climate in agriculture depends positively on irrigation infrastructure and competition in the markets, the level of taxes and the environment and political stability, and current farm size.

Dependent Variable: The climate

Method: ML - Binary Logit

Sample: 1 150

Included observations: 150

Convergence achieved after 4 iterations

Covariance matrix computed using second derivatives

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-3.428832	0.556049	-6.166425	0.0000
UJ	1.082884	0.254276	4.258686	0.0000
Competition	0.787056	0.223082	3.528096	0.0004
Mean dependent variable	0.460000	S.D. dependent variable		0.500067
S.E. of regression	0.395419	Akaike info criterion		1.001048
Sum squared resid	22.98440	Schwarz criterion		1.061261
Log likelihood	-72.07860	Hannan-Quinn criteria		1.025511
Restr. log likelihood	-103.4916	Avg. log likelihood		-0.480524
LR statistic (2 df)	62.82592	McFadden R-squared		0.303532
Probability(LR stat)	2.28E-14			
Obs with Dep=0		81 Total obs		150
Obs with Dep=1		69		

$$\text{The climate} = 1 - \text{@LOGIT}(-3.428831608 + 1.082883627 * \text{UJ} + 0.7870560092 * \text{KON})$$

It has been proved that the perception of the business climate is positively related to the perception of the role of irrigation and competition in markets. In other words, if irrigation and improved competitiveness in the markets, it will improve the business climate. By comparison, irrigation is the most important factor.

Dependent Variable: KLIMA

Method: ML - Binary Logit

Sample: 1 150

Included observations: 150

Convergence achieved after 3 iterations

Covariance matrix computed using second derivatives

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-2.925726	0.609631	-4.799174	0.0000
TAT	1.271364	0.280494	4.532587	0.0000
MJ POL	0.799910	0.392370	2.038660	0.0415
Mean dependent var	0.460000	S.D. dependent var		0.500067
S.E. of regression	0.444663	Akaike info criterion		1.200579
Sum squared resid	29.06565	Schwarz criterion		1.260792
Log likelihood	-87.04345	Hannan-Quinn criter.		1.225042
Restr. log likelihood	-103.4916	Avg. log likelihood		-0.580290
LR statistic (2 df)	32.89623	McFadden R-squared		0.158932
Probability(LR stat)	7.19E-08			
Obs with Dep=0		81 Total obs		150
Obs with Dep=1		69		

$$\text{The Climate} = 1 - \text{@LOGIT}(-2.925726305 + 1.271363553 * \text{TAT} + 0.7999101767 * \text{POL})$$

It proved that the perception of the business climate is positively related to the perception of the role of the political environment and the level of taxes. In other words, if these factors improve, it will improve business climate. By comparison, the level of taxes is the most important factor of political environment.

Dependent Variable: The climate  
Method: ML - Binary Logit  
Sample: 1 150  
Included observations: 150  
Convergence achieved after 3 iterations  
Covariance matrix computed using second derivatives

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-0.731259	0.290543	-2.516872	0.0118
FERM	0.582855	0.242308	2.405431	0.0162
Mean dependent var	0.460000	S.D. dependent var		0.500067
S.E. of regression	0.491183	Akaike info criterion		1.365331
Sum squared resid	35.70657	Schwarz criterion		1.405473
Log likelihood	-100.3998	Hannan-Quinn criter.		1.381639
Restr. log likelihood	-103.4916	Avg. log likelihood		-0.669332
LR statistic (1 df)	6.183477	McFadden R-squared		0.029874
Probability(LR stat)	0.012895			
Obs with Dep=0	81	Total obs		150
Obs with Dep=1	69			

**The climate = 1-@LOGIT(-0.7312594734 + 0.5828549015\*FERM))**

It has been proved that the general assessment for the business climate is positively related to agriculture from current farm size.

### 6. The Climate Depending on what Needs to be Improved to Encourage Foreign Investment

Hypotheses: The improvement of cooperation, stability and political environment and the reduction of tax levels and the informal economy as a factor deemed important for the business climate and encouraging foreign investment in agriculture.

Dependent Variable: The climate  
Method: ML - Binary Logit  
Sample: 1 150  
Included observations: 150  
Convergence achieved after 3 iterations  
Covariance matrix computed using second derivatives

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	1.683812	0.535432	3.144772	0.0017
KOOP	-0.633966	0.176338	-3.595178	0.0003
Mean dependent var	0.460000	S.D. dependent var		0.500067
S.E. of regression	0.477500	Akaike info criterion		1.309761
Sum squared resid	33.74496	Schwarz criterion		1.349903
Log likelihood	-96.23208	Hannan-Quinn criter.		1.326069
Restr. log likelihood	-103.4916	Avg. log likelihood		-0.641547
LR statistic (1 df)	14.51897	McFadden R-squared		0.070146
Probability(LR stat)	0.000139			
Obs with Dep=0	81	Total obs		150
Obs with Dep=1	69			

**The climate = 1-@LOGIT-(1.68381239 - 0.6339656993\*KOOP))**

If the business climate is perceived low, the need for improvement in cooperation is great.

Dependent Variable: The climate  
Method: ML - Binary Logit  
Sample: 1 150  
Included observations: 150  
Convergence achieved after 4 iterations  
Covariance matrix computed using second derivatives

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	5.493796	1.315953	4.174765	0.0000
MJPOL	-0.499546	0.229452	-2.177123	0.0295
TAKS	-0.591961	0.233861	-2.531249	0.0114
INFORMAL	-0.509562	0.243042	-2.096595	0.0360
Mean dependent var	0.460000	S.D. dependent var		0.500067
S.E. of regression	0.466061	Akaike info criterion		1.268849
Sum squared resid	31.71302	Schwarz criterion		1.349133
Log likelihood	-91.16368	Hannan-Quinn criter.		1.301466
Restr. log likelihood	-103.4916	Avg. log likelihood		-0.607758
LR statistic (3 df)	24.65577	McFadden R-squared		0.119120
Probability(LR stat)	1.82E-05			
Obs with Dep=0	81	Total obs		150
Obs with Dep=1	69			

The improvement of the political environment, the reduction of informality and taxes of those who want more of quoting lower business climate; or if the business climate is perceived low, the need for improvement in these areas is huge. Negative coefficients indicate how close lower is the business climate, the greater is the need for improvements in these areas. The need to reduce taxes somewhat greater feels the need to improve the informality and political environment, whether to improve the business climate.

## 7. Conclusions and Recommendations

According to the data processing, we could conclude that the inflow of FDI has contributed positively to employment and economic growth in Albania, but Albania has more space for FDI.

- The inflow of FDI in Albania has contributed to increasing productivity, facilitating access to markets and improve the trade balance.
- Small property and other structural problems in agriculture are serious obstacles to FDI. These obstacles are expected to be long, hindering the growth of FDI in the long term.
- The study conducted showed that the business climate, in particular, fair competition, fiscal facilities and facilities at the entrance of capital and repatriation of profits, security of investments and property, are important factors for increasing the flow of FDI also in Albania. The business climate in Albania has been improved.
- Agriculture has the competitive advantage in relation to other branches of FDI, but policies are needed to reduce structural barriers, increasing security of property and fiscal facilities (since these factors are in the study emerged that impact and are important).

## 8. Questionnaires Results

According to the data processing, we could conclude that:

- The business climate in agriculture depends on irrigation positively infrastructure and competition in the markets, the level of taxes and the environment and political stability, as well as the actual size of the farm.
- The improvement of cooperation, stability and political environment, the reduction of taxes and the informal economy is an important factor though the business climate and encouraging foreign investment in the agriculture sector.
- Improving the political environment, the elimination of informality and reducing taxes and require more who

sits quoting business climate; or if the business climate is perceived low, the need for improvement in these areas is huge. (J) Negative coefficients indicate how close lower business climate, the greater is the need for improvements in these areas.

- The need to reduce taxes feels somewhat greater need for improving the informality and political environment to be improved if the business climate.

Based on the responses to the survey, the results show that:

Most of the respondents (69 of them) believe the situation in business fixed after a year, but a significant number of 77 of them thinks that the larger improvement. The obstacles of agricultural products sale are considered unfair competition, poor agro-processing development and storage.

Most experts consider the business climate less favorable to agriculture, or rather between little and very favorable.

The political environment and the size of the farm are more negative factors about the willingness to invest. In general, all factors play a stronger role in promoting the readiness to invest.

The banks' loans improvement, the reduction of business informality and improvement of the policy environment, the reduction of taxes, improvement of irrigation and drainage, considered as the most important factors to promote foreign investment in the agricultural sector. Willingness to invest in the production of fruit depends on gender and type of farm, the farmer's age, distance from the market and the perception of the current state of the business climate, and the amount of land owned.

The current situation in agriculture in the region of Korca is satisfactory but there is room for improvement.

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