

GDP and Productivity Indicators of Albanian Governance, Through Innovations and Knowledge Transfer strategies

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Abstract Albania's economy has improved substantially over recent years and has outperformed many other countries in the region. However, it is still considered one of the poorest countries in Europe. According to the Bank of Albania, per capita income was \$4,070 in 2009, and was expected to reach \$4,200 in 2010. According to preliminary data by the World Bank's Poverty Assessment Program, 12.4% of the population lived below the poverty line in 2008, marking a considerable improvement from 25.4% in 2002; this decline in poverty levels was due mainly to higher per capita GDP. The official unemployment rate is 13.52%, with almost 60% of the workforce employed in the agricultural sector, although the construction and service industries have been expanding recently. Albania is open to foreign investment and increasing FDI is a top priority for the Albanian government. Albania has put in place a liberal foreign investment regime, including a 10 percent flat corporate and income tax and has taken measures to improve the business climate by streamlining business procedures through e-government reforms. These improvements along with NATO membership and progress toward EU integration have contributed to the increase in investor interest during the last couple of years. Promising sectors for foreign investors and include: energy (including alternative energies), mining, transportation, telecommunications, and tourism. Tourism has been boosted significantly by ethnic Albanian tourists from throughout the Balkans. GDP is comprised of services, including trade, hotels and restaurants (21%), transport (5.5%), and communication (4.5%) agriculture (19%); construction (14%); industry (10%) and remittances (9%). The Albanian economy has been partially sheltered from the global financial crisis and the economic downturn. The International Monetary Fund (IMF) projects growth at 3.4% and 3.6% for 2011 and 2012 respectively. A reduction in remittances from Albanian workers abroad has constrained economic activity, although exports grew in 2010. The country's geographic position places it at the crossroads of Western and Eastern Europe. A stable U.S. ally, Albania is a member of NATO, the WTO and is in the process of applying for candidate status in the European Union. During the global financial crisis, bank deposits shrank considerably and lower liquidity pushed commercial banks to tighten lending. While current bank deposits have reportedly surpassed pre-crisis levels and bank liquidity has improved, the demand for credit is still low. In December 2009, the growth rate of loans dropped to 10% from 35% in 2008. The low demand for credit continued into 2010, with the growth rate of loans slowing to 9.1% for the first 6 months of 2010. In general, the banking sector remains viable, well capitalized, and able to further finance the economy, as the ratio of loans to deposits, approximately 65%, is still low compared to Western standards.

1. Albanian Business and Social effects (An overview and data analyze)

In addition, as of May 2009- 2010, the social insurance contribution payable by employers will be reduced again from 20% to 15%, down from 29% in 2006. Businesses can file their tax returns and social insurance declarations electronically in 12 cities including Tirana and electronic payment of taxes is also possible through certain banks.

1.2 Trade and Stabilization Association Agreement

Albania continues to be an import-oriented economy and, despite reforms, its export base remains small, narrow, and undiversified. In 2010 imports averaged 39% of GDP and exports 13%, while export volume was approximately one-third the size of imports. Trade volume in 2010 increased by 20%, with imports increasing by 11.4% and exports by 56%.

Exports and imports have continued to pick up 2011. As of June 2011, exports rose by 20.3% year-on-year while imports rose by 15.5%.

The Stabilization and Association Agreement (SAA) signed with the EU in June 2006 was the first step in Albania's EU accession process, and a related Interim Trade Agreement entered into force the following December. On December 19, 2006, Albania joined other countries in the region and signed the Central European Free Trade Agreement (CEFTA.) Albania also has free trade agreements with Turkey (signed in 2006 and entered into force on May 2008) and the European Free Trade Association (EFTA member states are Iceland, Liechtenstein, Norway, and Switzerland).

Overall, the improvements in the public procurement legislation are advancing while the proper enforcement of the law is still a work in progress. In order to promote investments in priority sectors the GOA may offer concessions to local or international investors for the symbolic price of one euro. The GOA, with the approval of the Minister of Economy, authorizes concessions in other sectors besides the ones listed above. The law does not apply to concessions that require a separate operating license unless that is included in the framework of the concession agreement.

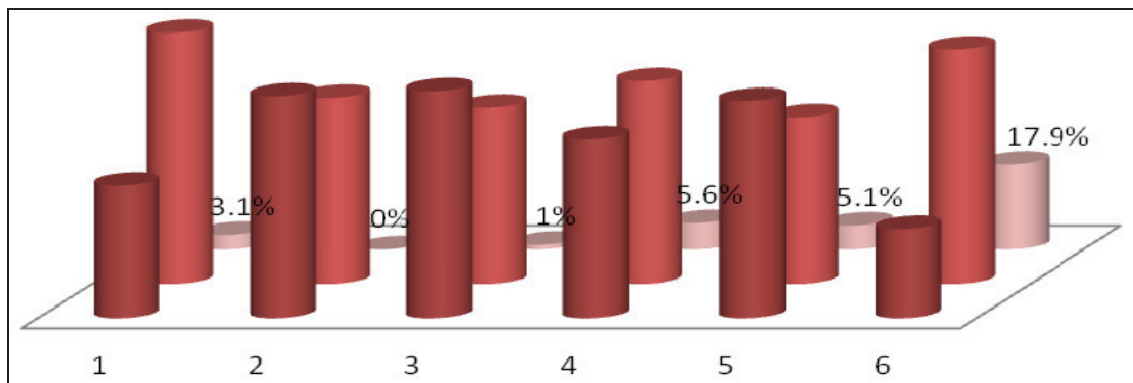


Fig 1 EU accession process, and a related Interim Trade Agreement

Profitable years	2006	2007	2008	2009	2010	2011*
EFTA (million \$)	279	212	259	481	653	580
Import average	6.2%	3.56%	11.3%	11.4%	20%	39%
Exports pick up	56%	20.3%	15.5%	14.3%	21.23%	41.25%

Tab 1 Albanian import-oriented economy

The EU remains Albania's main trading partner, providing 64.1% of Albania's imports and receiving 70.2% of exports as of September 2010. Trade with Italy and Greece, although steadily declining since 2008, continues to represent the largest share of EU trade, with a combined 40.8% of imports and 56.4% of exports as of September 2010. Other major trading partners include Turkey, China, and Germany. The impact of CEFTA in Albania's trade with member countries has been small.

Trade with the United States continues to account for an insignificant part of Albania's trade volume, focusing on a narrow range of goods and products. As of September 2010, total trade volume with the U.S. accounted for 3% of Albania's total trade volume, up from 2.4% in September 2009. Agricultural products, footwear, and textiles are the main exports to the United States, while imports from the U.S. are generally from food (mainly meat), transportation equipment (vehicles), machinery, and computer and electronic equipment.

2.2 Increasing competitiveness of Albanian Economy

Albania is currently pursuing a path of greater Euro-Atlantic integration. Its primary long-term goals are to gain EU membership and to promote closer bilateral ties with its neighbors and with the United States. Albania is a member of a number of international organizations, as well as multiple regional organizations and initiatives, including NATO, the Organization for Security and Cooperation in Europe (OSCE), the UN, the Stability Pact, the Adriatic Charter, and the

World Trade Organization (WTO). In June 2006, Albania and the EU signed a Stabilization and Association Agreement (SAA), the first step to EU membership, which focuses on implementing essential rule of law reforms and curbing corruption and organized crime. Albania filed its application for EU candidacy on April 28, 2009 but has not yet been granted candidate status.

In November 2010, the European Commission issued a negative opinion of Albania's EU accession efforts, listing conditions still to be met by Albania--first of which is a demonstration of political will to enact needed reform.

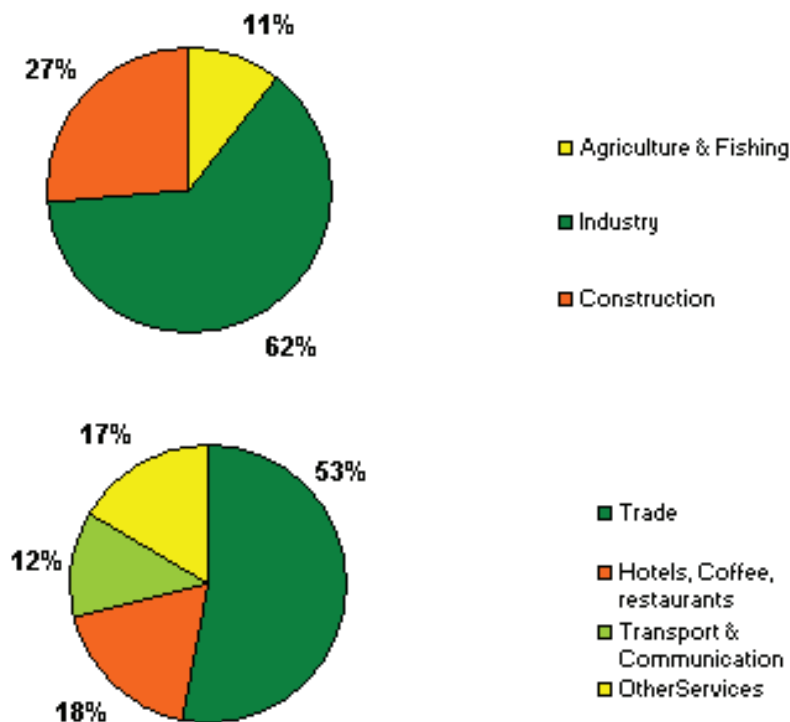


Fig 2. Albanian productivity goods and services.

Decisions on appeals are taken by the same unit of the PPA that is responsible for interpreting the law and giving advice to contracting authorities. Current procedures for handling complaints still do not meet recognized international standards. Despite progress, its application is hampered by technical problems, the insufficient IT capacity of many contracting authorities and corruption in drafting tender documents. Companies continue to experience issues with transparency in specifications and communication in competing for public tenders.

2.3 Knowledge transfer in projects and the financed implementation

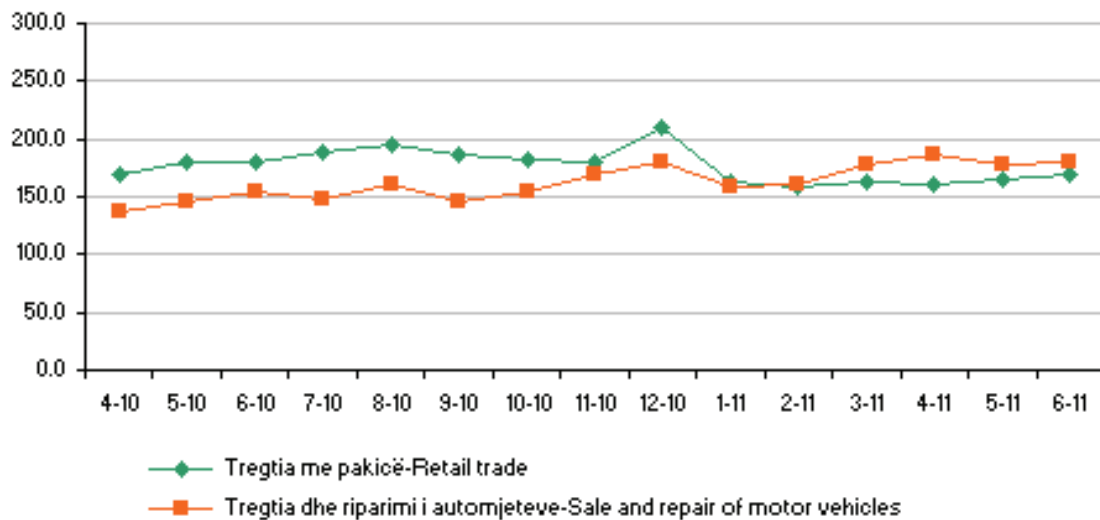
The law "On Concessions," No. 9663, dated December 18, 2006, established the necessary framework for promoting and facilitating the implementation of privately financed concessionary projects enhancing transparency, fairness, efficiency and long-term sustainability in the development of infrastructure and public service projects. One of its major amendments includes a better regulation for unsolicited proposals and of public-private partnerships in general. The law applies to a wide range of sectors, including:

- transport (railway system, rail transport, ports, airports, roads, tunnels, bridges, parking facilities, public transport);
- b) generation and distribution of electricity and heating;
- c) production and distribution of water, treatment, collection distribution and administration of waste water, irrigation, drainage, cleaning of canals, dams;
- d) collection, transfer, processing and administration of solid waste;
- e) telecommunication;
- f) education and sport;
- g) health;

h) tourism and culture;

l) management contracts or provision of public services including those related to sectors specified above.

[The trade second quarter, year 2011, INSTAT Analyze report year 2011]



Volume index of turnover in retail trade in the second quarter 2011 has resulted 164.5 percent against (2005=100). Compared with the same quarter of previous year the value of the volume index of turnover in the second quarter is decreased 6.9 percent, while compared with previous quarter is increased 1.9 per cent. In the group "Other retail trade in non-specialized stores" volume index of turnover in second quarter 2011 is increased 25.2 percent, compared with the previous quarter.

Within the "Total sale and repair of motor vehicles" in the group "Retail sale of automotive fuel" volume index of turnover in second quarter 2011 increased 17.2 percent compared, with the same quarter of previous year. "Retail sale of automotive fuel" volume index of turnover is increased 3.2 percent compared with the previous quarter. Employment index on "Retail trade" in the second quarter resulted 170.1 percent against (2005=100). This index is decreased by 1.1 percent compared with the same period of previous year. In "Sale and repair of motor vehicles" the index resulted 189.3 percent against (2005=100) signing of 3.3 percent compared with the same period of previous year. In addition, the GOA will also privatize through an auction the 16 percent of state owned shares of the fixed line monopoly Alb telecom. The GOA does not screen foreign investments and the United States enjoys a popular image in Albania. Both the business community and public generally welcome American firms and their products. Companies interested in entering the Albanian market should contact Albanian Business and Investment Agency Alb-invest. Alb invest provides direct assistance to investors, promotes SMEs, Albanian exports and FDI. "Doing Business 2010," a report of the World Bank and IFC that evaluates the regulations affecting ten areas of everyday business and assesses ease and equal opportunity for businesses in 183 economies. Albania has continuously moved up in their rankings as highlight below.

3. Knowledge transfer strategies and Albanian government practices.

Following some large privatizations which were finalized in 2009, the GOA will most likely start the procedures for the privatization of 100 percent of the state-owned insurer INSIG (following the failure of negotiations with the winner in early 2009 for the sale of 61 percent of the shares, EBRD and IFC exercised the put option for their 39 percent and GOA became the owner of 100 percent of the INSIG shares.) In addition, the GOA has announced its intention to fully privatize Alb petrol, the state-owned company that manages and administers all the existing gas and oil fields in Albania. The company also has the right to sign petroleum agreements with interested parties for the existing gas and oil fields.

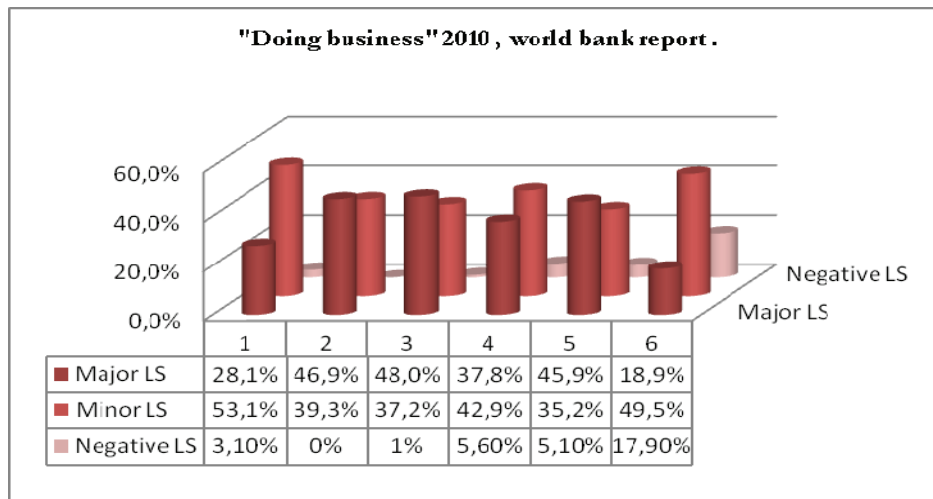


Fig 3 GAO and public investments in Albania during years 2007-2010 [Three levels of indicators of investments]

All partners are unlimitedly and jointly liable for the debts of the entity. Creditors can claim against a partner for the debts of the partnership, only if they have failed in their claims against the partnership as a whole. In unlimited partnerships, the partners are all considered administrators of the partnership, unless the contrary is stipulated in the bylaws. Each partner represents the partnership with third parties. An unlimited partnership should issue annual financial reports. The rights, duties and obligations of partners are governed by written bylaws, which should be filed with the National Registration Center

3.1 Limited Partnership and contributions of partners

A limited partnership, which is seldom used in practice, consists of one or more general partners (unlimited) with unlimited liability and one or more limited partners whose liability is limited to the amount of their agreed contributions of the initial capital. A limited partner may not take part in the management of the partnership even if he is given a proxy, otherwise he incurs unlimited liability. The Articles of Incorporation of the limited partnership should contain:

- 1.The total amount or value of the contributions of all partners;
- 2.The amount or value of the contribution made by each general or unlimited partner;
- 3.The percentage of the participation of all general partners and of each limited partner in the partnership's profits and in the remaining value after its dissolution.

This is the most common legal form of conducting business in Albania. Its members enjoy limited liability and, unless the articles of the bylaws provide otherwise, members have the right to transfer their shares to other persons, upon decision of three fourths of the shareholders. It can be established by one or more partners, legal or natural persons, who are responsible for losses only to the extent of their contribution to the capital of the company.

Conclusions

In strong local government leadership and active community participation were keys to implementing an integrated plan involving urban planning, infrastructure, and economic development. Despite its location in an industrialized province Jerez's economy relies on wine production which, in recent years has been declining. Weak community participation, inadequate infrastructure, poor accessibility to regional resources and an unskilled labor force compounded the effects of massive job cuts in the wine industry. To address these problems, Jerez launched a new strategy for economic recovery in 1993, shifting the emphasis from seeking to attract investments from sources outside the municipality to fostering local integrated development.

There are seven key factors:

- A dynamic local government leadership
- A coherent strategy acted upon with determination

- A healthy climate of cooperation with business
- Local government's investment initiatives to jumpstart the stagnant economy
- Creative use EU funds to implement local policy
- Efficient municipal administration
- Coherent links among urban planning, infrastructure and economic development.

Finally, the engagement of senior government officials in the dissemination of project information secured commitment among communities and farmers.

a) To work closely with Community- Based organizations so as to enhance their capacity to participate in development programs and strengthen the City Council's capacity to respond to requests from communities

b) To adopt a new approach to Environmental Planning and Management based on capacity building. {1} Albania -Rural Water Supply and Sanitation Strategy 2009.

The CIP upgraded infrastructure, enhanced participation and built the capacity of CBOs and stakeholders. CIP strengthened institutional capacity by establishing program offices in each community, forming steering committees made up of representatives from all stakeholder groups and formalizing institutional links between the relevant partners and information for decision-making and monitoring of performance among the stakeholders altered attitudes and understanding of roles and responsibilities. c) Initial assessments suggested that decentralization did improve the quality of service delivery and foster a new, user oriented attitude, facilitating the transition from a centrally planned to a market economy.

We suggest these conclusions:

1. Introducing participatory planning and community-based development processes through neighborhood development committees and street representatives working in partnership with the city
2. Creating an enabling environment for private investment
3. Empowering citizens to pursue their own self improvement
4. promoting privatization of the housing a stock and fostering the development of micro- enterprises
5. Ensuring the sustainability of activities initiated
6. Promoting the reliability of successful initiatives.

Expected Results

The expected results of this research consist on realizing the following conclusions.

The importance of innovation as such for the future of the sector was strongly emphasised by policy makers responsible for forestry in all Central European countries. Current innovation support is piecemeal, fractioned and often not co-ordinated. This issue-by-issue approach foregoes the benefits of a more coherent and comprehensive approach; there is support for new approaches and ideas. It would considerably strengthen the development of an innovation and entrepreneurial oriented climate. For the purpose of strengthening innovation and entrepreneurship in the different sectors it is therefore recommended to develop an explicit innovation policy, strategy or programme. When developing innovation policies, strategies or programmes, it is important to consider each of the three main functions of an innovation system separately and as a comprehensive whole.

The key measures will be the following:

- 1) Credit policy: The strict limits on credit expansion. The domestic budget deficit will be covered by non-inflationary financing through the issuing of treasury bills.
- 2) Fiscal management: A strong fiscal policy stance will be maintained aimed at reducing the budget deficit to sustainable levels. This involves measures to broaden the tax system, improvements in tax administration, elimination of the remaining price subsidies, rationalization of social services, public administration reform and utilization of external support.

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