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# THE REFORMING PROCESS OF ALBANIAN PENSION SYSTEM

BERNARD DOSTI

## Abstract

*Reforming pensions is a central policy issue in developed and developing countries alike. However, it is challenging and controversial because it involves long-term planning by governments faced with numerous short-term pressures. Pension reform usually provokes heated ideological debates and, often, street protests.*

*The pension system is the largest element of the social insurance system, both in terms of revenues and in terms of expenditures. As such, this paper is focuses on the pension system.*

*The pension system in Albania faces many problems, not the last of which is an extremely high contribution rate, among the highest in the Europe. The benefits of this system were to be financed through payroll contributions, assessed on both employer and employee, but in differing degrees in different benefits.*

*Albania, as many of the other transition countries, has seen an increased in-formalization of the labor force, which has led to limited revenue from the payroll contributions while it faces the burden of supporting several generations of elderly, most of whom have full pension rights. The government has tried to raise the benefit level for the recipients of the lowest pensions, the rural pensioners, to equalize their pension levels with those of their urban counterparts. As a result, a number of inequities have arisen in the pension system with urban workers expected to pay large contribution in return for limited pensions, while rural workers pay little and receive smaller pensions, but still huge relative to what they paid.*

*As a result of shown problems, some reforms must carry out, for the improvement of pension system and welfare of pensioners.*

## 1. Social Insurance System – Albanian history

### 1.1. Social Insurance System until 1990

The first legal act in the area of social insurance is the Act no. 129 “Civil Pensions”, date 28.10.1927. The content of this legal act presupposes that even prior to that, there had existed regulatory provisions on the pensions. Some overseas associations operating in Albania had voluntarily developed a work protection system, where a special place was occupied by social insurance against employment injuries. In addition, under some special acts the state had determined pensions for the civil and military personnel.

However the beginnings of the authentic social insurance system in Albania date in 1947. During that time, social insurance system was determined according to two schemes:

- First scheme: including employees in the state sector
- Second scheme: including members of agricultural cooperatives

Based on the Soviet model, the system was characterized by a high generosity but on the other side by inability to provide full social protection. The respective scheme during the communism regime has been featured by four main characteristics:

1. During the communism regime, private institutions were unacceptable. The government was the only one institution authorized to decide for the contributions and benefits of the social insurance scheme.
2. The incomes collected by employees' contributions did not constitute the main and unique source for paying the pensions. But, both employees and pensioners were not aware of this question.

3. The contributions were not directly paid by the employees. They were competence of the institutions, enterprises and agricultural cooperatives depositing them in the state budget.
4. The employees in the state and cooperative sector were insured in order to gain pension only by the government.

### 1.2. Social Insurance System after 1990

After the 1990-ies, was established a new social insurance scheme , as part of other important changes that took place in Albania.

The reform process in Albania is characterized by two major interventions: structural (1993) and parametric (2002) reform .

#### *Structural reform in 1993*

The 1993 reform is described as a structural intervention because it produced comprehensive reorganization of the social insurance system within the conceptual framework of a modern market economy. The Social Insurance Institute was created as autonomous body to administer all aspects of the public system.

The new scheme is characterized by the following aspects:

1. Every employee contributes individually in the social insurance scheme.
2. Parallel to these, the national entrepreneurs and private ones, contribute for their own employees.
3. There are other categories such as self-employed and private farmers that contribute in the social insurance scheme and in the respective budget. These individuals pay a certain amount, despite the incomes attained and gain also a certain amount. The contribution has been assessed smaller for the zones facing economic difficulties and scarce incomes.
4. Parallel to the compulsory insurance, the law allows the application of voluntary insurance scheme, creating in this way a new opportunity for the persons who can not be part of

compulsory scheme, by contributing voluntary and benefiting in a later period.

5. The maximal measure of the old age is not allowed to be more than twice as big of the basic pension or 75% of the average net salary of the 3 last consecutive years of the last 10 years of the person insured.

#### Parametric reform in 2002

The second reform of the pension system occurred in 2002 and it was a parametric one. The major changes introduced consisted of: reduction by four percentage points in the urban contribution rate paid by the employer (The total contribution rate was thus reduced from 42.5 percent to 38.5 percent), a gradual increase (6 months per year) in the retirement age, from 55 to 60 for women and from 60 to 65 for men. Furthermore, an important change was introduced regarding early retirement provisions: eligibility for early retirement was maintained (at age 57 for women and 62 for men, provided 35 years of service had been completed) but the pension level was subject to actuarial correction.

On the administrative side, the collection of contributions for the urban plan was transferred from the Social Insurance Institute to the Tax Department of the Ministry of Finance.

The new social insurance scheme is organized according to the principle "Pay as you go", which means that for old-age pensions, the person who retires does not take his individual contribution. The actual contributors contribute creating a fund which is used to pay the pensions. In other words Pay-as-you-go is a system in which the payroll taxes of the actual workers go to finance the pensions of the actual aged. When these contributors retire and pass on the beneficiaries' side than there are other contingents of contributors that contribute on providing new funds and so on.

### 1.3. The social insurance system framework

The social insurance system framework is consisted of :

The obligatory social insurance scheme which is a nonprofit making scheme, based on the principle "pay as you go". It is financed out of contributions

paid by employees, employers, self-employed and central budget.

The obligatory scheme protects employed persons regarding:

- The temporary incapability, maternity, old-aged pensions, invalidity, the lost of head of the household, accidents at work and professional illnesses, unemployment.
- Other persons economically active (employers and employees) related to: maternity, old-aged pensions, invalidity.

The volunteer scheme: The volunteer scheme in Albania has its beginning in 1994. Individuals that for a time and reasonable causes can not longer benefit from the compulsory scheme or wished to insure themselves independently have the right to be insured based on the voluntary scheme. For instance: students during their study period, persons employed abroad.

Supplementary social insurance scheme: offering supplementary benefits apart those of compulsory scheme. The supplementary scheme guarantees pensions for persons that have constitutional functions and state officers as well as for military officers.

Special state pensions awarded for particular reasons or under special conditions to individuals

or social groups. For instance, to those who have participated in the national renaissance movement, war, have achieved remarkable results in the field of science, culture, economy, politics etc

This system is directed and managed by the Social Insurance Institute with structures in central and local level.

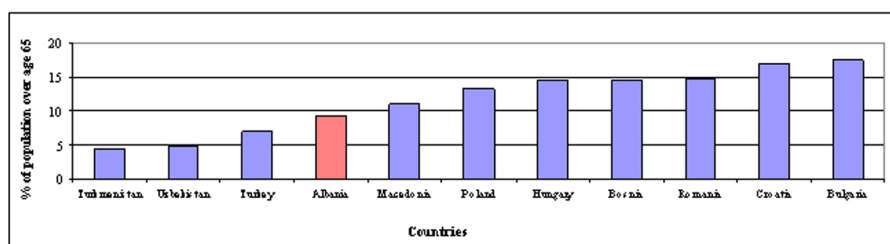
## 2. Some characteristics of Albanian Pension System

### 2.1. Demographics conditions

As elsewhere in Eastern Europe, the historical 100 percent of labor force participation rate result in large percentages of the elderly receiving pensions, while the post-transition rise in informality results in few contributors among the working age population. This imbalance between contributors and beneficiaries typically leads to fiscal problems.

Based on demographics, Albania is one of the younger countries in Europe and Central Asia region. The figure 1, compares the percentage of the population over the age of 65 for the number of transition countries. Albania has only 9.3 percent of its population over the age of 65. Bulgaria and Croatia have about 17 percent of their population over the age of 65 .

**Figure 1: Percentage of Population over the Age of 65 among ECA counties (2007)**



Source: World Bank

Table 1, provides many of the typical summary statistics for the Albania pension system. The table shows an almost even division in contributors between the urban and the rural sector. On the beneficiary side, there is a marked disparity between the two sectors, with urban beneficiaries outnumbering rural beneficiaries almost 2 to 1. The rural sector in Albania was not covered under any

form of social insurance until 1972. With 35 years contributions required to collect a full pension, few rural workers qualify yet for a full pension. The difference between the sectors is reflected in the system dependency rates, which are much higher for the urban sector with more pensioners than contributors than in the rural sector.



**Table 1: Demographics Indicators of Albanian Pension System, 2008**

<i>Indicators</i>	<i>Urban</i>	<i>Rural</i>	<b>Total</b>
Number of Contributors	398,763	297.036	695,799
Number of Beneficiaries	374.838	159.433	534.271
<b>System dependency ratio</b>	94%	53%	76%

Source: Social Insurance Institute

Typically, system dependency rates shadow population dependency rates, which are the ratio of the elderly population in the country divided by the working age population. Albania has a relatively small elderly population, with a population dependency rate of only 19.3 percent. However, the system dependency rate is high, at more than 76 beneficiaries per 100 contributors in 2008.

transition, public enterprises downsized and privatized. The new private economy chose to rely on the informal labor market rather than the more expensive and regulated formal labor market. As a result, the number of contributors to the pension system fell drastically. The Government's aim is to increase the number of contributors to the pension system. To fulfill this goal, the Government has continually reduced the contribution rates.

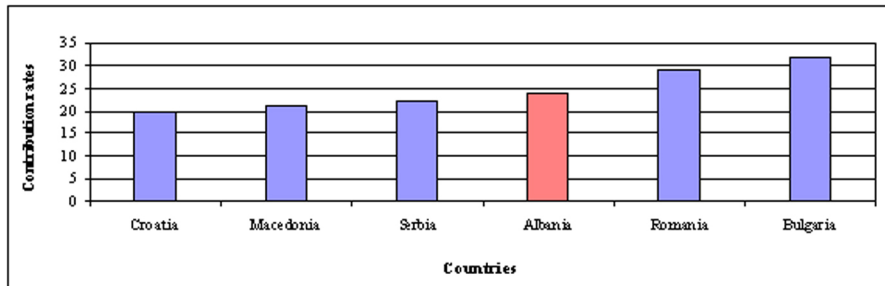
## 2.2. Contribution rates

On the contributory side, the story in Albania is the same with other transition countries. Post-

**Table 2: Social insurance contribution rate (%)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Social insurance contribution rate</b>	42.5	42.5	38.5	38.5	38.5	38.5	29.5	29.5	29.5
<b>Pensions (old-age, invalidity, survivors)</b>	31.7	31.7	29.9	29.9	29.9	29.9	23.9	23.9	23.9
<b>Sickness</b>	1.5	1.5	0.8	0.8	0.8	0.8	0.8	0.8	0.8
<b>Maternity</b>	2.8	2.8	2.3	2.3	2.3	2.3	2.3	2.3	2.3
<b>Employment injuries</b>	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
<b>Unemployment</b>	6.0	6.0	5.0	5.0	5.0	5.0	2.0	2.0	2.0

Source: Social Insurance Institute

**Figure 2: Albanian contribution rates relative to other Balkan's countries (2008)**

Source: OECD

Figure 2 shows Albanian contribution rates relative to other Balkan's countries. Albanian rates are still high, but not completely out of line with other Balkan's rates as each of these countries faced the same drop in contributors as Albania did.

Contributions in Albania used to be collected by the Social Insurance Institute. In 2006, collection responsibility for all urban workers was transferred to the tax authorities, who then transfer the revenue to the Social Insurance Institute. The Social Insurance Institute continues to collect contribution revenue from rural workers.

### 2.3. Retirement ages

Retirement ages in Albania are still low. Initially, retirement ages for the majority of population were 60 for men and 55 for women, with earlier ages for special categories, as early as 50 for men and 45 for women. The special categories are gradually being abolished with retirement age set to increase to 65 for men and 60 for women, but these ages will be reached by the majority of workers only in 2011. The ages are rising 6 months per year with the age in 2008 as shown in table 3 and 4, at 63.6 years for men and 58.6 years for women. In all causes, a full pension was granted with 34 years service in early 2004, but with 35 years of service now. Prorated pensions are available with only 15 years of service.

### 2.4. Differences between rural and urban system

A crucial design element is the separate systems applicable to the urban and the rural sectors. Contribution rates are very different between the urban and rural sectors. Rural workers are assessed flat contributions determined by the Council of Ministers, one amount for lowland workers and an even lower amount for highland workers. The Government then calculates the full contribution that would have been required based on the minimum urban salary and pays the difference between that and the flat contribution paid by the rural workers to the Social Insurance Institute. The Government contribution has amounted to around 85 percent of the total in the recent years, making this system contributory largely in name rather than substance.

The pension paid in rural system is currently lower than in the urban system. Because, the rural system only began in 1972, few workers are retiring with full pensions, which require 35 years of service. The prorated pensions for fewer years of service are partially responsible for the low level of pensions. The Government has been raising rural pensions each year more than urban pensions. In 2008, rural pensions were raised 15 percent while urban pensions were raised only 10 percent. The Government's goal is to equalize the rural and the urban pensions around 2012.

**Table 3: Age and years of service needed for each category / MEN**

Years	Category I *		Category II **		Category III ***	
	Age (years)	Years of service	Age (years)	Years of service	Age (years)	Years of service
1993	50	20	55	25	60	25
1994	50	20	55	25	60	25
1995	51	21	56	26	60	26
1996	51	21	56	27	60	27
1997	52	22	57	28	60	28
1998	52	22	57	29	60	29
1999	53	23	58	30	60	30
2000	53	23	58	31	60	31
2001	54	24	59	32	60	32
01.07.2002 - 30.06.2003	54	24	59	33	60y 6m	33
01.07.2003 - 30.06.2004	55	25	60	34	61	34
01.07.2004 - 30.06.2005	55	25	60y 6m	35	61y 6m	35
01.07.2005 - 30.06.2006	56	26	61	35	62	35
01.07.2006 - 30.06.2007	56	27	61y 6m	35	62y 6m	35
01.07.2007 - 30.06.2008	57	28	62	35	63	35
01.07.2008 - 30.06.2009	57	29	62y 6m	35	63y 6m	35
01.07.2009 - 30.06.2010	58	30	63	35	64	35
01.07.2010 - 30.06.2011	58	31	63y 6m	35	64y 6m	35
01.07.2011 - 30.06.2012	59	32	64	35	65	35
01.07.2012 - 30.06.2013	59	33	64y 6m	35		
01.07.2013 - 30.06.2014	60	34	65	35		
01.07.2014 - 30.06.2015	60y 6m	35				
01.07.2015 - 30.06.2016	61	35				
01.07.2016 - 30.06.2017	61y 6m	35				
01.07.2017 - 30.06.2018	62	35				
01.07.2018 - 30.06.2019	62y 6m	35				
01.07.2019 - 30.06.2020	63	35				
01.07.2020 - 30.06.2021	63y 6m	35				
01.07.2021 - 30.06.2022	64	35				
01.07.2022 - 30.06.2023	64y 6m	35				
2023 and on going	65	35				

Source: Social Insurance Institute

**Table 4: Age and years of service needed for each category / WOMEN**

Years	Category I *		Category II **		Category III ***	
	Age (years)	Years of service	Age (years)	Years of service	Age (years)	Years of service
1993	45	15	50	20	55	20
1994	45	15	50	21	55	21
1995	46	16	51	22	55	22
1996	46	17	51	23	55	23
1997	47	18	52	24	55	24
1998	47	19	52	25	55	25
1999	48	20	53	26	55	26
2000	48	21	53	28	55	28
2001	49	22	54	30	55	30
01.07.2002 - 30.06.2003	49	23	54	32	55y 6m	32
01.07.2003 - 30.06.2004	50	24	55	34	56	34
01.07.2004 - 30.06.2005	50	25	55y 6m	35	56y 6m	35
01.07.2005 - 30.06.2006	51	26	56	35	57	35
01.07.2006 - 30.06.2007	51	27	56y 6m	35	57y 6m	35
01.07.2007 - 30.06.2008	52	28	57	35	58	35
01.07.2008 - 30.06.2009	52	29	57y 6m	35	58y 6m	35
01.07.2009 - 30.06.2010	53	30	58	35	59	35
01.07.2010 - 30.06.2011	53	31	58y 6m	35	59y 6m	35
01.07.2011 - 30.06.2012	54	32	59	35	60	35
01.07.2012 - 30.06.2013	54	33	59y 6m	35		
01.07.2013 - 30.06.2014	55	34	60	35		
01.07.2014 - 30.06.2015	55y 6m	35				
01.07.2015 - 30.06.2016	56	35				
01.07.2016 - 30.06.2017	56y 6m	35				
01.07.2017 - 30.06.2018	57	35				
01.07.2018 - 30.06.2019	57y 6m	35				
01.07.2019 - 30.06.2020	58	35				
01.07.2020 - 30.06.2021	58y 6m	35				
01.07.2021 - 30.06.2022	59	35				
01.07.2022 - 30.06.2023	59y6m	35				
2023 and on going	60	35				

Source: Social Insurance Institute

**Table 5: Pensions increase (%)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Urban</b>	117	108	110	110	108	108	105	105	110
<b>Rural</b>	115	130	125	120	115	115	120	110	115

Source: Social Insurance Institute

### 3. Conclusions

The social insurance in Albania while covering the risks of short-term illness, maternity benefits, unemployment, and health costs, is largely focused on pensions. The pension system is the largest element of the social insurance system.

The Albanian pension system is organized according to the principle "Pay as you go", which means that for old-age pensions, the person who retires does not take his individual contribution. The actual contributors contribute creating a fund which is used to pay the pensions. In other words "Pay-as-you-go" is a system in which the payroll taxes of the actual workers go to finance the pensions of the actual aged. When these contributors retire and pass on the beneficiaries' side than there are other contingents of contributors that contribute on providing new funds and so on.

Albania, as many of the other transition countries, has seen an increased in in-formalization of the labor force, which has led to limited revenue from the payroll contributions while it faces the burden of supporting several generations of elderly, most of whom have full pension rights. The government has tried to raise the benefit level for the recipients of the lowest pensions, the rural pensioners, to equalize their pension levels with those of their urban counterparts.

The actual pension system requires significant reforms to improve its performance:

- Decreasing the contribution rates
- Unification of the rural and urban pension system
- Increasing the voluntary contributions
- Encouragement of foreign and domestic direct investments
- Encouragement of private pensions

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# LEGAL ENVIRONMENT OF BUSINESS TAXATION IN ALBANIA

KRISTAQ GJYLI

## Introduction

The question “what is a tax?” is surprisingly difficult to answer. It is tempting to rely on the well-known reply of the child who was asked to define an elephant. “An elephant is large and grey, and lives in a herd of elephants.” some payments are not clearly one of the herd. This is so, for example, of the profits made on postage stamps or the fees paid to government for the right to operate independent television channels. Clarity is not helped because some politicians find it convenient to say that things are not tax when they certainly seem to look like taxes. An example is national insurance contributions.

## Defining taxes

So, as the elephant definition does not seem to work, we must try to define a tax. A tax has three characteristics. It is a compulsory levy imposed by an organ of government for public purposes? The legal essence of this definition lies in the compulsion. Law requires that the payment be made. The political essence lies in the public purposes for which the payments are made. Even the definition reflects the disagreements that often take place about tax.

Another way to define taxes is by listing of levies that are, beyond doubt, taxes. Listing all the payments that might be regarded “currently” as taxes in force in the European Union would be both contentious and tedious. But here is a list of the 10 principal taxes, in order of importance to government at the time of writing income tax, value added tax, corporation tax, fuel duties, council tax, business rates, stamp duties, tobacco, alcoholic drinks, vehicle excise duties. Inheritance tax.

And capital gains tax (2) does not make this top 10, but they do make the top 10 in terms of complexity. Customs duties and levies (2) is also left out, but this is because they are not united kingdom taxes but rather sums collected for the European union

and are European taxes. Then we could add others, including the once mighty petroleum revenue tax, insurance premium tax, climate change levy, landfill tax, and air passenger duty.

## Why do we tax?

It is valuable to spend a little time thinking about tax policy. Why do we tax the way we do? What are the political, economic, social and administrative pressures that have contributed to the shape of our tax system?

The primary purpose of taxation is to raise revenue for government expenditure. The government can raise revenue by borrowing, by “printing” money, and by selling things, but in practice it is unavoidable that taxation should raise most of the government’s fiscal requirements. The government spends part of the money on services which private enterprise cannot provide, such as defense and law and order. It also pays for services that it is thought are better provided on a universal basis, such as social security benefits, and education. Attitudes to taxation depend to some extent on the views of taxpayers as to the merits of these items of government expenditure. Do you, for example, think it the job of government to provide a health service, or consumer protection laws, or pensions? If raising money to pay for these things was the only reason for taxes, however, we could have a much simpler system. If we raised the rate of income tax by 2 per cent, we could abolish inheritance tax and capital gains tax and still make money. Or we could raise the rate of value added tax and abolish most of income tax. Would that be fair? Would it be efficient?

Another purpose behind taxation is the redistribution of wealth and income. Certain aspects of this idea are generally agreed. It is generally—but not universally—agreed that income tax should be “progressive”, and that some government revenue should be spent on welfare services. This was a major reason why the poll tax was so unpopular. People thought it unfair

that everyone should pay the same tax, whether they were rich or poor, just because they lived in the same town. An unpopular tax is a failure—it loses politicians votes, and it proves too expensive to collect. Of course, for any tax the questions of rate and amount are of immense importance. How progressive should income tax be? How much should be spent on social services? Once upon a time it was considered right that income tax had a top rate of 98 per cent. Does anyone think that right now? Few do, but “once upon a time” was only 30 years ago. Fashions change in tax as in all else.

Another purpose behind imposing taxes is control of the economy. Changes in taxation can and do affect the economy, but control is also exercised by adjusting the money supply and credit. A good example of using tax to control behavior is the use of customs duties. There used to be a very high customs duty on imported leather. The aim was to protect the Scottish leather industry. This tax was successful because it collected no money! This also shows that taxes are not used only to raise money. That is an important point. One main way in which taxes are used to influence people is by what is not taxed. For instance, we put value added tax on most things that people buy, but we do not tax medicines.

Taxes may also be used as a kind of social control. We see this idea concerning the taxing of oil, alcohol and tobacco. More recently, politicians have decided that cars are less of a good thing, so they have been increasing the cost of taxes on them.

We can also use taxes to make sure people pay the full price for something. This is the idea of a pollution tax. When I buy goods, I pay the price the seller asks. That makes the seller a profit and meets the costs. What if the seller has polluted the local area while making the goods? Perhaps the seller has made something that I am going to dump untidily when I have finished with it (like car tires or plastic bags)? Taxes can be used to impose the cost of destroying the tire and collecting up the bags. This is a matter of debate at present.

Choosing taxes, and the reasons for taxes, is a fascinating topic of academic analysis and discussion. It leads on to an easy question that it is almost impossible to answer: what is the best form of tax? That debate was started by a former Customs official, Adam Smith in *The Wealth of Nations* (first published in 1776). Smith set out four

“canons” that, in his view, lead to better taxes. In modified form, they still influence official thinking today. The four axioms are:

- People should contribute taxes in proportion to their incomes and wealth;
- Taxes should be certain, not arbitrary;
- Taxes should be levied in the most convenient way;
- The costs of imposing and collecting taxes should be kept minimal.

To this we must add a modern canon: taxes should be both convenient and competitive internationally. We are a trading nation, and we trade in a global economy.

Taxation, then, can be used for several purposes other than collecting money. If a tax operates in a certain way that they can sidestep (such as stamp duty taxing documents, but not oral transactions), people will change the way they do things to pay less tax. That is human nature. A tax that does not alter behavior is said to be neutral. The aim of those designing taxes is to create neutral taxes, unless policy requires a tax to be non-neutral. In practice, taxes often have unintended side effects.

Is taxation fair?

Let us look at the tax system from the point of view of justice. The current thinking on this matter concentrates on equity, which in this context means fairness. Horizontal equity is the idea that people in equal circumstances should pay an equal amount of tax. Vertical equity means that people in different circumstances should pay an appropriately different amount of tax.

Horizontal equity commands strong support. It was the reason that Adam Smith advocated an income tax, and it is a major reason for that form of tax today. Those with similar levels of income should pay similar levels of tax. Why should that be so? There are several ways of justifying the levels of tax paid by individuals. One economic view is the ability-to-pay argument.

On that basis, those with equal ability to pay should pay equally. Another economic view is the benefit argument. Those who pay tax should do so according to the benefits they gain. Leaving aside personal circumstances (for example, that a needs



more help than B because A is older/younger/less fit than B), again those with similar means should be paying similar taxes. The same result is achieved by taking the lawyer's view of I unless that "we are all equal before the law", or the democratic view that we are all members of the same society, and are equal within it.

Vertical equity is much more controversial. It is generally agreed that the richer should pay more tax than the poorer. That was why so many people did not like the poll tax, and found it "unfair". Incidentally, they effectively threw out the benefit argument in so doing, and dismissed the "equal before the law" view as insufficient. But how much more should the richer be paying? Even with a proportional tax the richer do pay more in the poorer. If there were an income tax at a flat rate of 30 per cent, someone with an income of 1100,000€ would pay 10,000€ in tax. This is more than the 300€ that someone with an income of 1,000€ would pay. Should the person with 100,000€ pay more tax than the person with 1,000€ not merely absolutely but also proportionally? This is where a progressive tax comes in. Instead of paying at 30 per cent, those on 100,000€ income should pay rather more (at least, on part of their income), and those with 1,000€ rather less. Again the details become as important as the principle. Precisely what percentage? And on precisely what part of the income? Why? An important aspect of the justice—or otherwise—of the tax system is the tax base. The base of a tax means the thing, transaction, or amount on which the tax is raised. All taxes have bases—whether the base is you (in the case of a poll tax), you're me, your wealth, the number of shoes you buy, or whatever. This means the precise boundary of what is taxed as distinct from what is not taxed. Let us take an example. Hal has 100,000€ in hand. He uses it to buy a house in which he then lives, paying no rent. Cher also has 100,000€ in hand. She spends it on buying company shares. She lives in a rented house. Hal pays no tax on the use he has made of his 100,000€ (the occupation of his house). Cher does pay tax on the use she has made of her 100,000€ (the dividends). Is this fair?

As Adam Smith pointed out, another aspect of justice is certainty. The tax system should be clear, so that a taxpayer can see in advance how much tax must be paid. Secondly, enforcement should be consistent and universal. There is nothing more destructive of taxpayer morality than the suspicion

that others are not paying. If you pay only half your income tax because of a trick, why should I pay more than that? Equally, if you get some form of special allowance, why should I not get one too? But if neither of us understands the law, we do not know if we are paying enough. So, certainty also requires rules that can be understood. This thought leads to another of the paradoxes of tax. The simpler the rules are, the less fair they are (because they ignore justified differences). But the fairer they are, the more complex they are. The more complex they are, the harder they are to understand and put into effect. Therefore they are less certain and, arguably, appear less fair. If both simplicity and complexity lead to unfairness, is there a happy medium?

### Is taxation efficient?

The fourth Smithian canon is cost-effectiveness. The effectiveness of a tax system is partly a matter of success in enforcement, and partly a matter of the total cost of running it and complying with it. Some think that enforcement, in the case of income tax, is not showing a very high success rate. What we call the black economy has grown up, including moonlighting and other forms of tax evasion. Moonlighting is the practice of earning and paying tax on a source of income properly, but then undertaking a second job without declaring the tax. Then there are the ghosts—those who do not appear on any tax department records, and therefore pay no tax. Or do they? In practice, they may pay no direct income tax, but they would be hard put also to avoid all vat.

Currently, the cost of collecting the Inland Revenue taxes is about two per cent of the total net yield, and the cost of collecting the customs and excise duties varies from tax to tax. But, of course, this deals only with the direct government costs. There are also hidden compliance costs, that is, the costs incurred by taxpayers in paying taxes. Two notable examples of these compliance costs are the costs of an employer for staff hours acting as an unpaid collector of income tax for the revenue under the payee system, and the costs to a trader in complying with the vat system. Both may also incur substantial costs for professional assistance and advice concerning tax affairs.

There is also an even more deeply hidden cost, a kind of social cost, which the community as a whole pays as part of the price of taxation. What



we have in mind is the expenditure (one might almost say waste) of brain power. Some of the best brains in the foundry are exclusively devoted to tax matters; some on the revenue side, some against the revenue. This brain power could be better employed in increasing the wealth, health or happiness of the community. In the past, this brain drain was closely linked to the immensity of the rates of tax. If someone is asked to pay 50 per cent income tax, or even 75 per cent tax, there is a high premium on good advice to avoid it. If income tax had a maximum rate of, say, 10 per cent, much less time and effort would be devoted to escaping the tax. But what would the state stop doing in return?

As for the effects of taxation, we are afraid that this is a topic where asking questions is easier than answering them. Does a high rate of income tax encourage people to work harder or does it discourage them? Most people would say that it discourages them, that it is a disincentive. But it is quite possible to argue that, on the contrary, it spurs people on to earn more, so that even when the tax is paid they will have enough left to live on. Does a high rate of tax on business raise prices? Does a high rate of tax on individuals raise wages and salaries? No one wins to know the answers. A high average rate of tax is probably an incentive to work, whereas high marginal rates are disincentives.

Of course, the ideal position for the taxpayer confronted with this dilemma is to ensure that whatever others pay, I pay no more than I must. In considering this, it is very important to emphasise the distinction between tax avoidance and tax evasion. Tax avoidance is so arranging my affairs within the rules that I pay the smallest tax bill that are possible. This is perfectly lawful. Tax evasion is when you escape tax by unlawful means. This usually involves some form of dishonesty, ranging from hitting to state some item of income in a tax return to forging a document to create untrue "facts". It is not easy to see (and keep to) the distinction between evasion and avoidance—if need, evasion involves some crime where avoidance involves none. Two factors blur this distinction in practice. First, some quite honorable people think that a tax crime is not "really" a crime at all. What is "really" wrong with omitting to mention in a tax return some jobbing gardening or book-reviewing done at weekends? We tend to think that what we do ourselves is not really criminal at all. What others do is always bigger and badder. The second factor

is that crime versus no crime is not the last word on the subject. Elaborate schemes of tax avoidance that have no other purpose may not be criminal, but they are distasteful to many taxpayers and to some judges. Some taxes are more easily avoided than others. For example, income tax is more easily avoided than VAT. It is partly for this reason that governments have made a big switch from income tax to VAT. We did not have VAT as a tax in 1970. Just 30 years later it is one of our biggest taxes. Indeed, replacement of income tax by an expenditure tax is advocated in some quarters. The merits of this are said to be that it would be less easily avoided or evaded, it would encourage saving, and it would be cheaper to administer. On the other hand it contradicts the progressive principle. An expenditure tax hits the poor harder than it would hit the rich.

### International aspects

We added a new principle to those of Adam Smith. It is that internal rules have to work in the international arena. There are two aspects to this:

First, countries are now part of the European Union, and must comply with its rules.

Secondly, there is strong tax competition between states. Tax systems are as much part of the global marketplace as any other aspect of a country. Both are extremely important in any overall view of current states tax policy. There is another dilemma here: we must both join them and beat them.

Certain Articles of the EU Treaty prohibit rules of tax that would discriminate against persons in other member states. Another article provides for member states to work towards tax harmonization, at least on indirect taxes—those on goods. This movement has progressed farthest in the field of VAT. It is partly why VAT is now so important as a national tax, but it is not the only reason. For most of states and before its the extraordinary revenues of the crown (as taxes were called) came from customs duties on imports, and from excises. Excises have now been replaced by VAT a European tax. Customs have now been replaced by the community customs regime.

Our direct taxes have not been affected by the rising tide of EU law. Well, even that is not true, as we shall see.

## Introducing the Taxes

We want to finish this introduction, and start our detailed analysis of tax, by introducing the taxes dealt with in this book first then by referring generally to the kinds of taxes that exist and the issues that each tax must tackle. We want to try to state in a few words what it is that each tax is taxing.

First, income tax. Why? Because it is in government terms the largest revenue raiser, and therefore the most important tax. And because, with corporation tax, it is the most complex tax, and the hardest to understand. And because it involves significant efforts by lawyers and accountants to ensure that their clients comply with the law, and avoid its excesses. What does it tax? In a famous aphorism in *London County Council v Attorney-General*, HL, Lord Macnaghten said: "income tax, if I may be pardoned for saying so, is a tax on income." This is largely, but not absolutely, true. There are some items of income that are not taxed—for example, student grants. So income tax is not a tax on all income. On the other hand, there are some items to income tax that are imposed on receipts that are not tax. Mile tax receipts, but rather capital receipts. This is so, for example, of taxing premiums received on leasing kind. Anyway, but is income? Such questions are why we wrote much of this book.

Second, social security contributions (or NI contributions as everyone and everything except the law itself terms them), which are the second source of government finance, and, for most people, a second income tax. The law is a little less complex and comprehensive than income tax law but is very similar to parts of income tax law, so it requires less extended treatment.

Third, VAT (which is what the act imposing value added tax calls it, so we shall too). Why? Because it has become the most litigated of the taxes, and is gaining in complexity and practical importance each year.

Fourthly, corporation tax. This is simply income tax and capital gains tax imposed on companies. Well, not simply—parts are fiendishly complicated, although we avoid the worst of it!

Fifthly, capital gains tax (CGT). Its fiscal significance is trivial compared with the taxes so far listed. Nevertheless, its complexity—and therefore its nuisance value to lawyers—far outweighs its importance in filling a gap in the income tax. What

it taxes is the gain represented by the difference between the price at which an item was acquired and the price at which it is sold. Since 1982 this taxes the real gain (taking account of inflation), not the cash gain.

Sixthly, inheritance tax (IHT) or, as it used to be called before they thought it fun to change its name, capital transfer tax. It is a tax on capital transfers, and has never been a tax on inheritances, but what does that matter? It is a tax on transfers of property by certain gifts, by transfers into trust, and by operation of law on someone's death from that person's estate. Although whether or not it is accurately named does not matter, accurate advice on where it may affect capital transfers is important. Again we must examine it in detail.

## Collecting taxes

All these taxes, can be grouped under three broad heads of taxation in terms of the way they are imposed and collected: withholding taxes, taxation related to particular transactions or their effects (called transactions taxes for short), and taxes based on profits or wealth of any kind (called assessed taxes, but normally now self-assessed). Taxes are of all these kinds, frequently muddled up together.

A withholding tax is a tax imposed on the payer of a sum so that the recipient receives less than would otherwise be received. For example, someone paying patent royalties to another person will be required to deduct from that sum an amount equal to the basic rate of income tax. If this is done, the recipient is treated as having paid tax on those royalties. The tax authorities are always on the lookout for ways of increasing the payment of taxes at source in this way. Most income tax and NI contributions are collected in this way through the PAYE system. Under most forms of withholding tax, the payer is liable to pay the tax the tax authorities even though it was the recipient who is really paying the tax.

Transactions taxes are those based on particular transactions in their results. VAT is usually imposed on any supply of goods in services made by a business. Stamp duty is imposed whenever a document is used to transfer land. However, as electronic transfers take over, the stamp duty reserve tax and stamp duty land tax have been introduced to cover all transactions. Inheritance

tax and capital gains tax can be regarded as being transactions taxes.

Assessed taxes are the most usual kinds of taxes in Britain although most are now self-assessed by taxpayers. Income tax although most of its money from the income of the employed, the self-employed and those with investment income. So does the national insurance fund through NI contributions. Then there are the special assessed taxes like petroleum revenue tax.

### Anatomy of a tax

Whichever form of tax we adopt, and whatever the fiscal or other reasons for its adoption, the lawyer's task is to identify when it is payable and when not. Tax law, or revenue law as many also call it, is there to define when taxes shall be charged. In respect of each tax this definition will contain the same elements:

- the tax base;
- the incidence (including the rate) of the tax; and
- the taxpayer, or person liable to pay.

The rate is often the most important point politically or commercially, but rarely detains the lawyer long. The other issues need further thought.

The tax base, as we have seen already, is the asset, transaction, profit or other thing which is liable to the tax. This may be anything from a

television to the net profits of a year's trading. Each tax will have a limited tax base, the limits being of two kinds: the general limits on that kind of tax, and specific exceptions. Clearly, the wider the tax base of a tax, the more revenue it will collect. The more exceptions that are allowed, the smaller the return from the tax. Over the years, all our main taxes have become subject to important exceptions. This is partly because granting an exception is very easy politically, and votes are not easily won for removing it later. Nonetheless, in the last few years more attention has been turned to both the limits on the tax bases of our taxes and the width of exceptions. It has become common-place to regard exceptions as tax expenditures, that is, subsidies created by the tax not collected. The cost of these tax expenditures has often been worked out. As a result, some longstanding exceptions and reliefs from tax have been removed, such as the life assurance relief that lasted from 1842 to 1984. This trend is continuing.

The second issue is the identity of the taxpayer. Economists talk of this as the incidence of the tax, distinguishing between the formal incidence of the tax (who is required by law to pay it) and the effective incidence (who ends up paying). Lawyers are concerned only with formal incidence. In most cases under modern laws different people can be made to pay in respect of some taxes, especially when withholding taxes are used to collect the tax. For example, if someone makes a gift of shares to someone else on which inheritance tax ought to be paid, the authorities can try to collect the tax from the donor, the recipient and most subsequent owners of the shares.

# THE CONCESSIONS AND FOREIGN DIRECT INVESTMENT IN TRANSITION ECONOMIES - NEW LEGAL AND INSTITUTIONAL ENVIRONMENT. A COMPARABLE WITH THE INTERNATIONAL STANDARDS ANALYSIS OF CONCESSION

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## Introduction

The concession definition depends on the relationships that the legislation of a country has on a juridical relationship. As we'll see later, this legislation can include also the public and private consortiums, or the last one can be regulating by a special law.

The EU Legislation refers to the concession as following:

"The concession concept is defined as a same contract with public contracts excluding the fact that the reward for the job or the service consist only in the right to utilize the construction or the service or in this right with the payment.

The concessions and the Foreign Direct Investments

The concessions must be distinguished from the direct investment, home-brew or foreign. The last one, as shown by the definition is not conditioned by permits of concession type.

They are the realization of projects which were subjected to rules that regulate that particular sphere of activity in which the investment will occur, but not limited to the concession nature. It is understood that such investments can be made only in those sectors of the economy where state institutions do not enjoy exclusive rights.

Bring as an example the case of planting the olive plantations. In order to strengthen this sector, it

is supported by investment in a Euro concession granting land for planting. We must understand that the law on concessions will operate only when the private entity by the state requires the provision of a public surface to realize the project. In contrast with this, if the private entity buys its own land for the same purpose it does not need to obtain a concession permit to achieve its investment, but will follow other procedures for obtaining permits from local and central bodies agriculture as appropriate.

For example bring the case of construction of power plants (TPP) in Albania. Currently building and putting in exploitation of the TEC-s not required the permission of concessional nature.

In general lines, the construction and operation procedures for the use of a TEC includes the following links.

1. Establishment of the Albanian company. For a number of legal conditions and related applications in the following links investors to create a new company based in Albania.
2. Appointment and obtaining ownership of the land where construction is expected to TEC. A work of such power can be built only in approved areas such as power parks.
3. Application for authorization for the construction of TEC-it becomes the law "On Power Sector" and Authorization Regulation. The law defines the word "construction of new

generating resources has not been approved by a concession contract is made with the approval of the Council of Ministers” and the Rules specifically provides for the receipt of the authorization procedure.

### Referring to this Regulation:

Any person who conducts business activities in accordance with Albanian legislation may apply for a permit to build new sources of energy generation. Every application under this regulation is the Ministry responsible for energy. The ministry responsible is the Ministry of Economy, Trade and Energy (METE below); the regulation provides that the authorization by the Council of Ministers should get prior authorization from the METE. This document, I called prior authorization, granted by METE within 3 (three) months of receipt of the application, if the documentation submitted is complete. After the item with prior authorization, the company must submit the application to METE, within the time period specified in the prior authorization, of documents defined in the law and the rules above to obtain permission from the Council of Ministers.

METE review within 30 (thirty) calendar days after submission, completeness and accuracy of all documents submitted. Concludes that if all the documents submitted by the applicant are complete and accurate, send the proposal to the Council of Ministers approval authority, accompanied by all documents and a copy of the previous authorization granted. After this, the Council of Ministers shall review and approve the authority and makes the announcement of this decision in the Official Gazette.

Then society must do

1. TSO application in connection with the transmission system
2. Conducting environmental studies and environmental permit application
3. Application for permission to use water
4. Application to ERE the license energy production
5. Conducting urban research and application for approval of construction and the square of the

construction permit (according to the adoption of urban studies)

6. Application for obtaining license for power trading;
7. Application for registration and sign the agreement for participation in the energy market.

This is a common procedure of a direct investment. Similar examples can be brought by private investments in education, health and others.

However, treatment of construction investment may change depending on the needs of the economy and retention of different balances, especially the economic and environmental ones.

For example I return to TEC's example. In the conditions when it needs to increase energy production and to diversify the sources of this production procedure of investment in such projects has undergone a relatively free regime.

But, if noticed an increase in investment in this area, regulatory bodies may limit the possibility of realizing such projects in various ways, for example, limiting the total amount of energy that can accept a national network of transmission energy produced by the TEC-mails in range country, and consequently opening race procedure field among investors, or stop production of certain energy sources - for example by burning coal.

In this context, the construction of a TEC may pass from the regime of direct investments under the concession regime, depending on the availability of opportunities and resources for conducting such an investment.

Different countries regulate through laws special concessions and public private partnership relations (PPP). If you need to identify a distinction between relations and the PPP concession he has to do with the extent of the state in co-investment and risk sharing. If the private partner provides the state of their own assets or guarantees for the realization of this project is a form of concessionary public private partnership. In Albania both these categories of relationship are regulated by the legal framework for concessions. An example of PPP concessions in Albania are under the scheme a Euro data, and as typical cases mentioned concession concessions for the construction of hydropower plants, in those cases when the



state has claimed that the expropriation of land or flooding has not provided guarantees for project financing.

### International standards of Concession

Recognized international organizations such as UNCITRAL, OECD, EU, EBRD has prepared a list of principles on which laws should be designed for private public partnership. Briefly, the following are mentioned some of these principles and how compatible is to Albanian law.

The OECD in its meeting of 20 March 2007 adopted a recommendation entitled "OECD Principles for private sector participation in infrastructure. The objective of these principles is to assist governments and seek private sector participation in infrastructure development, while attract investment, mobilizing private sector resources to the interests of society and with a view to achieving sustainable development.

However, these are not the only standards that are developed by international bodies in connection with the cooperation of the public with the private sector. UNCITRAL, United Nations Commission on International Trade Law (UNCITRAL) has prepared a list of modern principles in the form of legal recommendations on the basis of which to build local laws regulating concessions. This institution has promoted the principles such as clarity, sustainability, predictability, and flexibility.

It is worth mentioning among these principles elaborated by UNCITRAL, this organization puts emphasis on the constitutional framework, legal and institutional framework stipulating that this should ensure transparency, fairness in the trial, long-term sustainability. Also the legal framework should be clear when identifying sectors and types of infrastructure which may be granted concession.

An important role is played between these principles and principles about the publicity. Searchable information to be published in requests for proposals or requests required for final proposals. As well as principles regarding the evaluation and comparison of technical proposals, commercial and financial bidders, confidentiality of the negotiations conducted between the Contracting Authority and the bidders in connection with price or other important information, the conditions that

must be included in the concession agreement (Project Agreement).

In these recommendations are well defined cases of termination of the agreement for project implementation, if the outcome of the concessionaire, if the outcome of the contracting authority or by both parties, even ways to resolve potential conflicts between parties involved in the project.

### Concessions and Albanian transition

Through the challenges of globalization and world economic crisis, Albania continues its efforts to become one of the most attractive markets in Europe, with emphasis on a series of legal reforms that make possible a favorable tax system for investment, the collapse of barriers that discriminate foreign investment to those domestic legislation and the fulfillment of investment schemes in different sectors of the economy that are seen by business interests of foreign investment such as those in renewable energy, tourism, mining, agriculture and other.

Among the most important reforms, undertaken in the period 2005-2010, to promote private investment may be mentioned the adoption of a one-stop-shop for business registration and obtaining licenses, e-Regulation - which includes the new procurement law online, online tax payment, the law signing electronic customs declaration online -, reduction of corporate tax to 10% and reducing social security obligations, the possibility of repatriation of dividend, the law on concessions, the law for traders and trading companies, and others.

There is no law that will favor domestic investors over foreign ones. When you register a company in Albania, all investors are considered equal in every aspect and differential treatment constitutes a violation of several laws, such as by Math competition, procurement, or protection of foreign investments.

These reforms contributed to the evaluation that Albania got to promote climate the business from various international forums. So for example in the report of the World Bank Doing Business 2009, Albania was proclaimed the second country in the world in terms of quality and depth of reform improvement and the business climate in the country, the 14th in the world for protection,

and improved with investors on 50 positions in classification of this study compared with previous year. In another study of the Economic Freedom Heritage Foundation Report for 2009, I realized the situation of financial freedom for 183 countries of the world, Albania further marked increase in the leading countries of the Balkans.

These reforms contributed to increased interest in foreign investment in Albania and increase the immediate influx of applications for investment in various sectors of the economy.

The flow requirements made necessary revision of legislation was linked to investment. A part of private investment (FDI) can be placed directly in the implementation, after approval of certain permits or licenses, which mostly had to do with the processes of construction and some of them determine the utilize of process of implementation of these investments. Such was for example process of building power plants. However, for most of the investment, and especially for those in the field of energy and mining concession procedures should be adopted.

In 2005, Albania had a law which stipulated for granting concessions and concessions on the basis of suggestions and proposals required unbidden, applying procedures for the type of competition only and not for the proposals before the unbidden. Law recognize and define the various forms such as BOT concession contracts, boo, ROT, BTL and BOOT.

With the addition of private investment demand was noted that lack of competitive procedures for proposals not only unbidden to maximize the concession benefits of history-but to prevent competing bidders in different projects and investments we enter a new market like Albania.

For this reason the change was initiated by a legal framework for concessions through a reform that had the product as a new law for concessions - which was improved after some time - a number of secondary legal acts and create structures for dealing with a series of concessions. Dynamics reform regarding the treatment of concessions was dictated by the pressure of growing demand bidders for projects, which were mostly unbidden, and in response to this request, the need for building institutional capacity able to respond professionalism, such a flux.

In addition to this reform, the legal framework for the treatment of concessions in Albania consists of:

1. The law "On concessions" Nr.9663, date 18.12.2006, and
2. The decision of the Council of Ministers "On approval of the evaluation and award of concessions" Nr27, datë19.01.2007, referred to as Rules for Concessions

Law as well as rules is changed many times by continually adapting to the market needs and investment.

Since the beginning of the implementation of new procedures and improved concession framework, since 2006 the numbers of direct investment and concessional increased several times.

### Example

HEC: There are concessions about 140 plants, a part of which has started work. A part of them are small HPP with a capacity of 15 MW, with average capacity of up to 1000 MW and larger with a capacity of 400 MW.

In financial terms, mentioned for example, concessionary contract for the construction of:

HEC Devoll, 350MW, with investment worth 1 billion Euros, for which proceedings have started;

Kalivac HPP, 90 MW, with 140 million Euro investment value, where the concessionaire has completed now almost half of the works;

Ashta HPP on Drin River Cascades, the BOT concession company Verbund, with a capacity of 48MW, the value of 160 Million Euro investment is expected to begin work at the end of 2012.

300 requests for concessions in HEC are in the process of treatment. (Source: METE)

Ports: port concession is given to The New Container in Vlora, in favor of Zumax AG company that will realize an investment of 1.5 billion Euros. (Source: MTTTP, METE)

Concessions provided under clause 1 Euro:

This scheme is used for the treatment of concessions for industrial parks, mining, agriculture

and tourism. Data assets have been grounds construction of agricultural lands owned by the state.

In the field of investment in the production of cement, six Albanian and foreign companies, ante-Titan, Fassa Barber, Colacem, two genera, SEASIF - General Cement and Aquila, have gained ground with a Euro price at which they have built production plants that value as the amount of investment together 1.6 billion. These investments have been completed or are under construction.

The same scheme is used in agriculture, especially for planting trees and producing olive oil.

Euro-concessions are given a certain mines and public grounds in which investments will be made for tourism development.

Concessions scheme with a Euro has been used successfully in the construction of industrial parks. By decision of the Council of Ministers are designated eight areas as industrial parks and another industrial park and free zone. For both of these parks and free zones have been approved concessionary contracts. (Source METE)

Future projects:

Besides the above-mentioned figures, demand remains high and concession of a series of major works in the field of energy, like hydropower and Skavica, Vjosa River, Drin River. Skavica interest for HEC opening made to tender for the proposed six unbidden and short-listed company.

Due to financial crisis, the continuation of the proceedings was not possible. In connection with HEC Skavica, with installed capacity of 350MW is currently loom construction of this project that can be set by HEC Albanian government itself through credit financing.

While regarding the use of Vjosa river, because of greater interest, but due to lack of preliminary studies of potential exploitation capacity of this river the Government has contracted an expert company to make the above-mentioned study. Based on this study is expected to begin procedures for a proposal to ask. (Source METE)

## Governing structures for concessions handling

Low for "Concessions" and "Rules", with the appropriate changes, have presented new structures for handling concessionaries relationship.

Constitutional dependency. Contractual authority for concessions is determined case by case from Council of Ministers any time it is taken in consideration the proposals for identification of possible concessions. Concession contracts over 20 Million Euro should be approved by Council of Ministers, while they under this value become valid when they are approved by contractor authority. Contractor authority may be either Ministry or Local Government, that according to the Albanian law, it is responsible for the economic activity for which it is given the concession. In the case of concessions contract which duration is over 35 years, the contract should be ratified by Albanian Parliament. For the most part of concessions approved in Albania up to now are under dependence of Ministry of Economy, Trade and Energy (METE) and a few under dependence of Ministry of Public Works, Transportation and Communications (MPPT).

## Handling concessions structures

Contracting authority include a unit which handle with identification, organization, attendance and execute concessions procedures . This unit identify possible concessionary projects taking in consideration suggestions made from a third part, take care of all the pre-qualifying and competing procedures, concession contract negotiation and the supervision of execution of these contracts and the proposal of concessionary contract negotiation without competing procedures. All the activity of this unit related to third parties interested in concessions is completed in account of contracting authority.

The Law consented in 2006, counted in starting up the Unit for Concessions Handle, under METE dependency which collaborate with other contracting authorities to identify and encourage concessions and also assist these authorities through all the concessionaries activities, from evaluation to concessionary contract negotiation. This unit named Agency for Concessionary Handle, (ATRAKO) raised based on Council of



Ministers decision, Nr. 150, date 22.03.2007, has the unique prerogative to advise and to help contractual authorities. Its specialists are part of commissions to draw the documents and offers evaluation. ATRAKO can also be at disposal of subcontractor of the concession authority (lender), but in any case the decision making role is for concession authority .

The pression of concessionar relationships problems flow have changed the instances of appeal against concessions decisions evaluation. According to the Law and Rules for Concessions in 2006-2007, appeals against concessions procedures were fallen back on competent organism for the public tenders in Albania (APP), which was under dependency of Premier.

Due to the incrising cases of concessions and also to the reforms on public tenders system and their appels undetaken in 2009, was found Concessions Agency. This agency is under Primer dependency and supervise the concessionary procedures execution and also handle all the appels from parties which are interested in concessionary process, and also substitute APP in the proces of handeling the appels during a concessionary procedure. Decissiona of the Concessions Agency are executions. At the last instance, parties can appel Concessions Agency decisions, based in Civile Code but this does not cancel the execution of the decision.

### Tender councilor

Is an independent institution which is in charged and discharged from Albanian Parliament and it operates based to the law "For Public Tenders". Despite its the functions related with public tenders, the law "For Concessions" gives Tender Councilor the right to supervise of the legitimacy during a concession process and in particular the protection of the legal interests of the offering party. Tender councilor can make investigation and gives the results in a recommendation fort to Concessions Agency.

### Project for the National Center of Applications in Energy.

Handling concessions structures aim to be reorganized, where this can be possible, in the system one-stop-shop in relation with the

application for concessions of the objects. National Center for Energy Application is almost completed and it will handle all the applications for concessions and other investment licenses in the energetic field. One of the aims of this reform is to facilitate permits and licenses that depend from the local government and from independent authorities, in spite of those which depends on central government. This bring in a more reduced time and number of procedures that investors face today.

### Concessions legal framework operation

General characteristics. Albanian legislation on concessions offer a good base for a tansparent treatement for the colaboration of public and private organisms in the common investments and accomplish the international standarts used in evaluation of such legislation from organisms such as UNCITRAL, OECD, EBRD.

### Concessions legal framework in Albania:

- As mentioned above it is based in a law of Albanian Parliament and in a decision of Council of Ministers, both of them are changed different times but are unified.

Law for Concessions serves as a *lex specialis* for all the concessions, in spite of the field where they are applied or the contracting authority that gives them. Frequently changes are followed by changes in the legal actions related to the acted which were changed, which create a good coherence between this frame work and the trade legislation in general. In case of non concordance with other parts of legislation, law determine that, law for concessions prevaes for the arrangement of all concessionary relationship .

Determine clearly the objective of relationship which it adjust and the procedures to obtain a concession are complete and well defined. There are a lot of economic sectors in which goods and services can be given to concession. Law offer a list that include all the kinds of infrastructure and services in transport, in production and delivery of electric energy and heating, in production, delivery and administration of waters, including sewage, in collection, transportation, and processing of residues, telecommunication, education and sports, health service, tourism, culture, prisons

infrastructure, in recycle projects, land and foresters discharge, industrial parks, maintains services of information technology, gas delivery, administration contracts or public services realization. The Council of Ministers can authorize other concessions in other sectors based on the proposal of the Minister of METE. Law for concessions can't be applied for project which through a special law will be carry out by Council of Ministers, for public tenders, private direct investments and for the permeations and licenses assignation , which are adjudged by special laws. Concessions law can not be applied for project which through a special law are treated by Council of Ministers, or for public tender contracts, private direct investments, and permissions and licences, which are adjusted by special laws.

One of the characteristics of law for concessions is the prediction of concessions scheme worth 1 euro, which are aplyed to incourage investments in different sectors of economy .

According to this scheme, the concession authority, gives the investor public assets with a total value of 1 euro if the investment full fill the criterias for employment stimulation and vitalize sectors of the economy. Such assets may include public land to be used for investments in the fileds mentionet by the law for concessions or object like manufactory, production lines, transportation lines, etc.

- It aims to guaranty concessions security in relation to stability that will be applied to the contract during the time. This is realized by some "grandfathering clauses" that law offer and also by flexibility that it allows for the parties during the negotiation of the concessionary contract. As an example for the first according the Regulation the contracting authority in the case of concession of energy, has the obligation to buy the energy produced from concessioners, if they asked to, and the price will be set according the formula which is part of the Regulation . Despite this, the Law doesn't include contracts or standard previsions of the contract template), but it offers base norms and principles for the previsions of the concession contract. This permit contracting parties to have flexibility in determination of the investment terms, including "grandfathering clauses". This flexibility include also the application of different schemes for the recompense of the concessioner .

- Continuous changes on this frame work aimed to improve transparency standards, fairness on judgment, access to information and participation of the interested parties to the procedures. These are the results of the requests presented by parties that make the offer and due to the problems that the concession practice has generated. We can mentionet the inclusion of competition procedures. Now concessions can be negotiated without competition procedures only in the case indicated according to the law, where specifically (i) have an impact in the national security, (ii) concession contract is canceled due to the serious contract item breaking and the competition procedure can not be realize because there is a urgent needs to continuo with proceedings, or (iii) when financial institutions that support the project needs substitution of the concessioner due to a violation made by concessioner (step in rights)

Law has no limitation or double standarts that restrict private entities to compete for the concessions, despite the fact that they may be navite or foreingners, individuaualy or organized. The process of evaluation of the offers and the reviewing proces is well defined in the law and every decision relating to this phase can be appealed up to the administrative leves and court in accordance exactly the way mentionet above. The Law try to avoid unneccessaries financial difficulties for concessions and also pay attention to share equally the risk between contractor authority and concessioner . Competence sharing between Contracting Authority, Concessions Agency, Tender Councilor, Council of Ministers or Court, are too clear.

Local government competences in realizing of concessionary projects, when it has not the status of contractual authority, are adjusted based on the legislation for regulation and territory planning.

- It is determined by the law that relationship between contractual authorities and concessioners are adjusted based on the Albanian law, while the different entities that get together to present their offer can chose the legislation regime they desire to adjust relations between them. Law gives flexibility to the regime that will be used to resolve conflicts, but this should be decided since at the concessionary contract. From

the experience results that most part of the concessionary contracts signed up to now, refers to the arbitrary as a mean used to solve the problems, both the international arbitrary forums and the Albanian arbitrary.

- Law previese in a balancead manner for financial cover that parties should offer during the concession process. Party that present the offer should present, accoring to the procedural phase, financial cover form, with the amont that is up to 2% of the project value, which is considered as a protective provision for the contractive authority just in case of irresponsible offers or in case the party which preset the offer gives up. Contract cover form it is needed too, by a total amount of 10% of the investment value, and it should be submitted by the party selected and serves a garanty for the contractual authority just in case of violations of the contract conditions . Contracting authority by it's self should respect legal deadlines in handling of the concessions, otherwise it should be responsible according the law . Law offers guarantee for the selected party also for the possible contestation presented from other parties: any party that have contestations should deposite teh amount of 10% of the offer guarantee amount ( tha tis 1 % of the projec value). This guarantee it is not refunded in case contestation can not be proved.

## Conclusions

Legal and institutional albanian environment for concessions and public tenders is very favorable in encouraging direct investments, albanian or foreigners. It offer an appropriate base for the attenmdion with transparency of the collaboration with the private and public in investments and full fill international standarts used for the evaluation of such legistations from authoritativ institutions such as UNCITRAL, OECD, EBRD.

Continous changes made over this framework aimed to improve transparency standarts, fairness in judgement, acces to the information and participation to the procedure from the parties interested in. These were a result of the complains from the parties who make the offer and from the

problems accompanig the practice of concessions handling.

Reforms undertaken for the busines development atmosphere had a great impact to the evaluation of Albania from different international istitutions as a very acttractive country for investments in the economy. Albanian's concessions practices have been mainly focused in hydroelectric stations, but lately there are indications that investors are taking in consideration airports and ports concessions, but also concessions for road construction, which up to know have been handled by public contracts

One unique part of the law for concessions is the prevision of concessions scheme worth 1 euro, which are applied to encourage investments in different economic sectors.

Reforms undertaken had a great impact on the evaluation that Albanian Government got from different international forums about the encouragement of business clime. We can mentioned World Bank Raport Doing Business 2009, Albania was renked in the second position for the quality and intensity of reforms and also for the business clime improvement, in the 14-th position in the world for the investors protection, and its positon compared with that of the last year is improved by 50 positions in the clasiffication of this study.

In another study of Economic Freedom Report of Heritage Foundation - 2009, done to analyse the financial freedom situation for 183 countries in the world, Albania was renked in the group of countries " with great financial fridom".

These reforms had thair impact in the interes for foreing investments in Albania and an inderctly increase on the flow of applications for investments in different economic sectors.

To understand the dynamic evolution of relations in the following concession in Albania five years can help reading of reform laws and legislation cited above in view of (i) functional structures established by this legislation for the treatment of concessions and (ii) the actual functioning of the legal framework of procedural aspects of granting concessions.

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# WOMEN IN LEADERSHIP AND GENDER EQUITY IN ALBANIA - THE CASE OF VLORA REGION

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## ABSTRACT

*Local government authorities are involved in the processes of drafting local strategies and plans. Building of human resources capacities makes up a very important element with regard to local economy development and the success of these strategies.*

*In the context of this regional development, gender equity and woman role enhancement plays a very important part.*

*This research aims at addressing a series of problems and challenges vis-à-vis the gender inequity and with the women's role in the community in close connection with social, cultural and economic circumstances in Albania.*

*The long-term solution consists in the behavioral changes to occur largely across the society. Gender roles and inequity between them is determined, to a large extent, by the behavior of the society, which improves very slowly.*

*In the present-day concept, gender referees to the social/cultural definition of man and woman and, to the approach, based on which societies distinguish man from women and assign them with various roles.*

*This research plays an important role concerning drafting of regional strategic plans through integrating also the issue of gender equity as one of the success factors of these plans.*

*Key words: Gender equity, participation of women in leadership, unemployment and employment for women, strategic regional plans*

## GENDER EQUITY

According to European Commission, gender has to do with roles and with males and females responsibilities, which have been established in different societies and cultures.

The concept of gender includes also our expectations with regard to attitudes and behaviors of women and men.

Gender equity has been subject to ratification by several ILO (International Labor Office) conventions, which promote equity among males and females in the labor market.

Albania is one out of 130 countries, which have ratified the Convention "On Equal Remuneration" and the convention "On Equal Employment".

Traditionally, the roles between genders have been clearly distinguishable, but the situations have evolved over the years of communist regime.

Enhancement of women's role in the society and the augmentation of its social status was one of the purposes of this regime.

Albanian women turned into an active force in the society, their status improved considerably and they got occupied with positions, which were priorly held solely by men, etc.

During "those years", the concept of "housewife" was virtually and perceptually inexistent in the large cities of the country.

Following the collapse of communist system and transition to the market economy system, several activities were classified as nonprofit making and

were shut down, thus leaving the women formerly employed there jobless.

This increased women's unemployment rate at the beginning of '90.

In the subsequent years, as a consequence of social customs change, society civilization or, as a consequence of family planning, Albania women have become more professionally ambitious by increasing their participation in labor, by becoming entrepreneurs and by enhancing their participation in politics, etc.

## WHAT IS CEILING-GLASS?

"Ceiling Glass" is an imaginary term, which is applied to describe invisible barriers that exist and, which become an obstacle for women in terms of their career achievements and, in terms of getting high-ranking positions in the organizations, to which they belong as staff.

How can this "glass- ceiling" be broken?

This is undoubtedly a strong challenge, with which women face in their career. The long-term solution consists in the behavioral changes to largely occur across the society, which is actually something very difficult to happen. Gender roles and inequity among them is, to a considerable extent, determined by the culture of the society, which evolves at a very slow pace.

When does the "Glass ceiling" start?

There are several existing factors, which affect or, which hinder the progresses of the career of women in the direction of getting hold of the high-rank management of the organization by them. Some of these factors are listed hereunder:

- In the case of organizations, women work essentially in the area of human resources or, they hold administrative functions, which are considered to be either secondary or supporting activities.
- Our perceptions concerning what types of work can women usually carry out could also have an impact on the choices of women about job positions.
- Discrimination, which exists across organizations, confines the women's

opportunities to the secondary activities in organizations.

Labor world, just like the world in general, is stuffed with inequity. It is focused on the masculine values like the personal interest, money and power.

When women reach some powerful positions, they aim at maintaining the status quo, and they do exactly those things that men would do in similar situations, therefore men's example becomes a serious obstacle in the women's route to equity.

## RESEARCH GOALS AND METHODOLOGY

- To make an assessment of women participation in social and economic life;
- To make an assessment of women's interests with regard to professional education;
- To make an assessment of women's participation in leadership and their interests in connection with career enhancement;
- To make an assessment of unemployment and employment trends between women.

## Methodology

The research was based on the information received from several sources, including the following:

- Interviews conducted with employed or unemployed women, with leaders of different state institutions and private businesses;
- INSTAT, Employment Office and the Regional Council constituted a very important alternative source in relation to different arguments, which demonstrate woman presentation in social, cultural and economic life of our region.
- Questionnaires addressed to bank sector employees, a section of which analyzed gender equity;
- Researching of various literature sources;
- Based on these sources, information was collected and processes to draw out the conclusions.

## SITUATION AND THE TREND

Vlora district is located in the South of Albania and it has a surface area consisting of 1069 km<sup>2</sup>.

Vlora district has a population of 228,715 inhabitants, 72,541 or 32% of which live in rural areas. Women make up 49.6% of the population.

This proportion remains unchanged for both, urban and rural areas, in this district.

The geographic location and democratic improvements during the transition period has caused large population movement in the form of emigration towards Western countries, while, on the other hand, Vlora has been the focus of population migration from Northern part of the country or, from the rural areas in its direction.

Vlora city has traditionally been one of the most developed cities of Albania and, in addition to that, after 1990 Vlora transformed into the emigration harbor, which led to further increase of new cultures infiltration where women emancipation and integration augmentation in the society constitutes one of their elements.

Evolution of political, legal, social and economic conditions led the Albanians, in the course of these years, to the emergency of finding their place in the world and to the development of a new system of more appropriate standards and rules vis-à-vis the new living conditions.

With passing of years, emigrants, who used to work and who still work for more than a decade in the neighboring countries like, Greece and Italy have begun to invest and to develop different types of businesses in the city where they were born.

This return, which is maybe rather in investment terms than in physical presence terms, was combined with features of new cultures, with which the Albanian society was not familiarized and, which is, I would say, a hybrid culture that enjoys combined characteristics of authentic and of new cultures.

These characteristics have been learned by them in the course of their life as emigrants in other countries where they have lived an active life and they have become accustomed to the new culture.

This hybridization, I believe, brings about an enhancement of society emancipation, augmentation of women's representation degree and an increasing tender equity.

These movements have changed the urban structure, the number of population, the gender setup of this population, but also the orientation towards civilization of the society and feminist values.

## Gender equity in the focus of Millennium Goals

Encouragement of gender equity and enhancement of women's role in society is one of the Millennium Goals.

The main objectives are:

- To eliminate by 2005 gender equity across elementary school education and, by 2015 gender equity across all levels of education.
- To eliminate gender equity in the general and local elections.

The following are main indicators of this goal accomplishment:

- Increasing of women's percentage across different levels of education;
- Increasing of women's percentage employed in the non-farming sector;
- Increasing of women's presentation percentage in the Parliament and in the decision-making processes.

The analyses, which have been conducted on a national level, indicate that Albania can accomplish this goal by 2015, although the 2004 Human Resources Development Report about Albania maintained that, as long as, poverty will constitute the central focus of policies and strategies, gender equity will not receive the same attention.

Education takes an important role, because it helps in building human resources capacities.

Enhancement of women's education is important because of the following reasons:

- It increases their employment opportunities;



- It increases their incomes rate and reduces poverty;
- It increases the education level of their children;
- Women, who invest in their education, find it easier to break the decision-making barriers inside their families and they may democratize the life of their families, as the fundamental cell of the society.

## POSTGRADUATE STUDIES

“Ismail Qemali” University was established as of 1994 in Vlora. Statistics indicate that there is a permanent increase of the number of females, who continue university studies on a national and local level.

In the course of 2005/2006 academic year, 64% of the students who attended the university were females. This fact supports the accomplishment of the Millennium Goal concerning females’ education level enhancement.

I assume that increasing over years of the number of females who have graduated the university has not been the outcome of any central government policy, rather than an outcome generated by other factors.

So, university professional schools of business management, education, nurse care, English language, Italian language have been opened and established in Vlora University and they make up the preferable schools, especially by young women. Women generally prefer work environments, in which they may feel confident.

On the other hand, males are inclined, following their high school graduation, to emigrate in order to contribute to their families income increase.

Content of school textbooks tends to repeat gender stereotypes

Female images are less present than the male ones in the school textbooks or in the school textbooks content.

In addition to this, when female examples are displayed, they are presented in their traditional roles as mothers, homemakers, spouses, etc.

Examples in the books maintaining that males have been the promoters of our history and that women have played an active role continue to be frequent.

So, books continue to stimulate functioning of gender stereotypes and of traditional ideology, which describe women more deprived than men in the social and political domain.

Introduction of information on gender equity into the education programs, I assume, makes up an important tool to convey the values about gender equity and equal opportunities to the future generations.

## Women’s contribution in the education area

Women have a considerable role in Vlora region education. So, according to statistics, it can be observed that 68% of education staff is composed of women. There are 1394 women teachers in the elementary, primary and high education. (Table 1)

## EMPLOYMENT AND UNEMPLOYMENT RATE

Vlora district has an active workforce consisting of 65, 000 persons.

There are 5883 registered unemployed persons.

There are 3185 registered unemployed women. (Table 2)

As it can be realized, based on the figures, women take up 54% of unemployment rate.

The aforementioned figures comprise the registered unemployed persons, while it is accepted that there is deviation of this versus real unemployment.

This high rate of unemployment among women is an outcome of high structural unemployment, which has its beginning dating back to the changes following 1990, when several branches of economy were shut down as nonprofit ones under the market economy circumstances.

**Table 1: Staff and students number belonging to different levels of education.**

Description	Total	Females	%
High school students	7513	3917	52%
University students	5278	3398	64%
Teachers at all levels	2062	1394	68%
Academic staff	92	57	62%

Source: INSTAT Regional Office

**Table 2: Situation of unemployment**

<i>Active workforce</i>	<i>Unemployed</i>	<i>Unemployed women</i>	<i>Unemployed men</i>	<i>Unemployment rate</i>
65000	5883	3185	2698	9%

Source: Vlora Employment Office

Companies such as those of artisan products and garments had basically employed women; therefore, after these companies shutdown after 1990, these women became subject to unemployment.

I believe that women are suffering the consequences of this type of unemployment longer, because there are several barriers in place for them compared to men in terms of adapting their professional skills to those required by the labor market.

The informal sector provides employment for women, but these results in the lack of their legal defense and lack of social benefits.

The results of survey conducted in relation to behavior in the bank sector, in which one of the sections was dedicated to gender equity, indicated that 78% of employees were women.

Out of 12 bank managers, only 3 were women. The average age of respondents was 32 years, which implies higher interests in connection with job employment.

I believe that employment of young women in these banks, despite prior limited job experience, is a strategy based on the argumentation that these young women do not have too many family commitments and concerns, therefore they can commit themselves to their job and they can have a higher concentration on their job, but when the

issue on promotion to management positions come up, then gender inequity barriers apparently come up, at the same time, too.

Women's wages are lower compared to men's wages.

There exist wage differences between men and women and this happens as a result of the type of profession, which women generally pick out, these professions ensure a sustainable status, but lower income rates (teachers, nurses).

During the academic year of 2005/2006, 249 students attended the Teachers School for Elementary Education in Vlora University and 100% of them were females.

The need that women have for more unoccupied time to manage their households, leads them toward those professions with less business hours or, toward those professions that provide less career promotion for them.

Let us not forget that the traditional model work – leisure time at home with the family, is what still constitutes a burden for the women in our society, which forces them to also carry out “non market duties” (rearing the children, cooking, etc.).

This element adds the barriers vis-à-vis gender equity in Albanian society, which appears to support also the cultural dimension of gender equity.

Women are emotionally linked with their work. This high level of commitment could be an expression of the distress that women stand at work, but also their positive feelings about the positions that they hold.

Women are more linked with household activities, with rearing of kinds, with care about the other members of the family and this increasing pressure of multiple roles may be one of the key reasons of the higher anxiety and distress that women carry in their job.

In United Kingdom, according to a survey conducted by Statistics National Office, 6 out of 10 private sector employees are males, whereas on the public sector women prevail with 65% of employees.

Women tend to get employed in government institutions rather than in private businesses where salaries are higher.

Nevertheless, this salary difference is smaller in the case of women of young age.

This difference demonstrates the trends in terms of choosing the professions by the young generation and increasing investment in human capital.

This new model of behavior encourages young women to keep permanently seeking job opportunities and high salaries, thus ignoring gender differences. Changing of lifestyle, changing of fertility models and society civilization has resulted in increasing the young women's interests in connection with job, career and increasing incomes.

## Women in leadership

Enhancement of women participation in leadership and in decision-making would certainly be a positive indication in terms of gender equity achievement.

But, how does the situation look like on a national level?

Analysis of figures belonging to the national level concerning women participation in leading positions in social and economic domains does not present a satisfactory picture. Only 21% of the leading

positions in institutions, in production business or in private companies are held by women.

The Parliaments of Albania has only 10 woman members of parliament out of 140 parliamentary seats. It is obvious, thus that only 7% of Albanian parliamentarians are women. 20.3% of the first democratic parliament in 1991 was women.

By comparing figures, it can be observed that Albanian women's parliamentary representation has kept decreasing.

This is the lowest level of women's parliamentary representation in the region.

The number of women members of parliament in Albania is lower than the number of women members of parliament in Macedonia (8%), Rumania (37%), and Croatia (31%).

Meanwhile, the government cabinet has actually only one minister held by a woman versus 14 minister positions.

Thus, again 7% of ministerial positions are held by women. According to researches, women make a decision to work on their career when they an increasing number of examples of successful women.

No strategy has been yet implemented in Albania to move gender equity from declarations to the law.

In that context, no law is in place yet in terms of setting the minimum quotes for women's representation.

Countries of the region (Kosova, Bosnia, etc.), have set by law a quotation standard consisting of 30% of women participation in political decision-making.

32% of women hold leading positions in local institutions on a local level, although none of them is a mayor, chairperson of the region council or prefect (main leading positions). Vlora region does not have any woman parliament member representing them in the Parliament. (Table 3) .

**Table 3: Public Employment in Vlora Region**

<i>Description</i>	<i>Total</i>	<i>Women</i>	<i>Percentage of women</i>
<i>Employed</i>	6287	3168	50.3%
<i>Leaders</i>	465	150	32%
<i>Professionals with university education</i>	2178	1253	58%

Source: INSTAT Regional Office

So, with regard to the education level, it was exactly women who has increasing interests on a continual education, while, on the other hand, they are discriminated and do not feel represented in leadership. It is evident that there is a paradox coming out of a series of various barriers, which restrict women's career towards senior leading positions and, which consequently leads to gender equity.

In this way, the society demonstrates its masculine and intolerant values by means of discriminating women in terms of leading positions, irrespective of their professional skills and values.

Lack of women in decision-making is an indicator of the interesting fact that women's interests are not represented, which means that there are few opportunities for their interests to become part of strategies, which could lead to their role and status enhancement in the society.

## CONCLUSIONS AND RECOMMENDATIONS

With the present civilization and improvement of the well-being of the Albanian society women constitute an active force of the society.

They provide a significant contribution to the family incomes, they invest seriously in human capital, and they make efforts to achieve equal opportunities with men and try to break off the traditional models of addressing women.

- The traditional models, according to which the husband works, while the wife covers children's bringing up, have been broken off. They are both, husband and wife, active in labor market.

- Local structures must support, encourage and coordinate the gender equity enhancement initiative.
- Enhancement of gender equity could be a success factor with regard to development of local strategies.
- Increasing the employment rate and decreasing of the unemployment rate of women in the region with the purpose of alleviating the poverty rate.
- Functioning of new bank services to facilitate crediting of women's business initiatives.
- Establishment of an information system based on a specific search with the purpose of monitoring, benchmarking and measuring the trend of gender indicators and their benchmarking against the local ones.
- Introduction of information on gender equity into the education programs makes up an important tool to convey the values about gender equity and equal opportunities to the future generations.
- Actual configuration of international standards, of formal meetings, of the society civilization and of democracy encourages women's participation in the economic, social and political life also in our region, thus leading to gender equity enhancement

This new trend would lead, among other things, to the diminishing of masculine characteristics of our culture

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# AN EMPIRIC STUDY ON DIMENSIONS OF ALBANIAN CULTURE IN INTEGRATION SETTING. A COMPARATIVE ANALYSIS BETWEEN ALBANIA AND MACEDONIA

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In the framework of this developing background this paper tries to present theoretical aspects of five cultural dimensions of Geert Hofstede, well known for his researches on cultural variability and its consequences. On the other hand, this paper presents some empirical facts about the cultural dimensions of the Albanian reality as an important step toward explanation of organizational development in specific and those economic in general.

The objectives of my paper are:

1. To present the reason why we must to study the culture.
2. To present some theoretical aspects of models of cultural dimensions of Hoffstede.
3. To present the cultural dimensions of the Albanian reality and to compare these between two or more regions or countries.

The used tool is Values Survey Module 1994-VSM 94), an questionnaire including 26 questions, created to compare the values that determine the culture of people of two or more regions or countries.

The actual Albanian developments are a harmonic integration of lots of economics, politics, social and cultural problems, in the continuous effort for integration, first regional and then European. Now days some depreciate problems are becoming more perceptive and more indispensable to be studied. The social-economic developments incriminate the entrance of new studies and their deepening in the improvement service of these developments. In function of this developmental necessity and under the steps of the well-known

researchers of these fields, this article tends to present theoretic the cultural dimensions from Hosted, "well-known for his work in the cultural variability and its consequences".

Today we no as well that we are a country not only localized in Europe, because of our antic origin, but we also require to be part of this Europe in its developments. This require at first, to know ourself, so are cultural inherit. The developments show that we aren't only geographical part of Europe.

## Why We Must Study The Culture?

The culture is a incessant declinable term from a lot of sciences as: anthropology, sociology, philosophy and the organizational one. Its determination is not seen as impossible but diversified and in continuous evolution. Theoretical frameworks of cultural dimensions have been developed to explain differences, among which Hofstede's framework has taken a dominant position. However, these authors have hypothesized how culture influences management and organization without testing these hypotheses. Thus, confusion still remains, as numerous studies are conducted without sound research methodologies, in which theoretical frameworks for explaining cross-cultural differences are either not applied, or in which differences in attitudes are hypothesized to be related to theoretical frameworks of culture, without testing and confirming that this is so.

## The Hoffsted Cultural Dimensions Model

Geert Hoffsted was the first one that extended the cultural study sphere in organizational frame.



He has identified 5 independent dimensions of national culture. The result of this study was yet another model of universal cultural dimensions, which is still today considered to be the most comprehensive, and its methodology the most sound.

1. Power Distance, which is the extension that the members less stronger of one organization and institutions (as family) accept and wait that the force is extended equally.
2. Individualism/Collectivism, which is the measure of the integrity of persons in groups.
3. Masculine/Feminist, is referred to the disperse of the roles between the genders at a society.
4. The insecurity elude, implicates the society tolerance for insecurity and equivoque.
5. Long-term orientation against the short-term one. The values accompanied with the long-term orientation are the prudence and the insistence; the values accompanied with the short-term orientation are the respect for the tradition, the social obligation performance.

## Methodology Of Study

### The Used Observation Model

Type of used survey: the basic method used to achieve the empiric study is the stratified

The essential method used for the empiric studying realization is the Observation with stratified selection, based on the indispensable standards for being respected in the representative example. The Used Instrument is Values Survey Module, a questionnaire with 26 questions, developed for the comparison of the individual cultural values from two or more countries or regions.

It allows the calculation of results based on the five national or regional cultural dimensions, based on four questions for each dimension. So it contains 20 questions necessary to calculate these dimensions. The other questions in the questionnaire, that are six, principally belong to some of the individual-s datum such as the questions about the gender, the age, education level, kind of job, the actual nationality and the birth nationality.

The answers of the 20 questions can also be influenced from other characteristics of the answerers as the gender, age, education level, the occupation, kind of job and the year when has studied. So the countries or regions comparisons must be as much as possible be based in answerer population that agrees in all other characteristics, expect the nationality or region.

The 5\*4 division of the questions is not made a priori, but because when the geminate populations from diverse countries have been compared, the results of the countries average in the four questions regarding the same dimension usually varied together, so if one were high, the other was high too. In statistic terms the countries averages are in a deeply correlation. While the countries' averages results for the questions regarding the different dimensions usually don't vary together. So the twenty questions form 5 classes with 4 questions each of them. The five classes correspond to five culture dimensions identified by Hofstede and Bond.

When is done the comparison of the populations not any more from different nations, but with different professions and different employers, there aren't found the same dimensions. The questionnaire questions are chosen to compare the countries, so the questionnaire intends its using in comparable levels of countries (and can also be used in local and regional level inside the same country).

Respecting the recommended minimum for the data exactness of the study, the number of the questionnaires dispersed in both countries is 50 (that represent the ideal customer answerers). It is also stored the same representative structure according to the gender, age, profession, kind of job, education and the same questionnaire dispersing time and collecting data.

### The Calculation Indexes Formulas

As we said above the contents of the 20 questionnaire questions allows the results calculation of the indexes in five dimensions o the national values system as national cultural components. All the questions are accompanied with a five scale (1-2-3-4-5) collecting answers. The index results derive from the calculated averages about the chosen regional or national populations of the answerers.

The results are extracted based on below formulas for the five dimensions.

**Table 1. Five dimensions of culture, index and edges**

Dimension	Index	Edges
Power Distance (DF)	$DF6 = -35m(03) + 35m(06) + 25m(14) - 20m(17) - 20$	0 (small DF) and 100 (high DF)
Individualism / Collectivism	$IIC7 = 50m(01) + 30m(02) + 20m(04) - 25m(08) + 130$	0 (very collectivist) and 100 (very individualist)
Masculinity / Femininity	$IMF8 = 60m(05) - 20m(07) + 20m(15) - 70m(20) + 100$	0 (very feminist) and 100 (very masculine)
Insecurity Elude	$IEP9 = +25m(13) + 20m(16) - 50m(18) - 15m(19) + 120$	0 (weak insecurity elude) and 100 (strong insecurity elude)
The Long-term orientation against the Short-term one.	$IOF10 = +45m(09) - 30m(10) - 35m(11) + 15m(12) + 67$	0 (a short-term orientation) and 100 (a long-term orientation)

## The Empiric Studying

The limitations of studied examples have not permit the evidence of the results in concrete numbers of dimensions, but only comments and conclusions about the answers averages of two observed groups. Eliminating the deficiency and respecting the validity use of this questionnaire conditions, now the study involves students university population of Korca (Albania) and Bitola (Macedonia).

Positively has been distributed 100 questionnaire to Albanian students of Korca University, and 100 questionnaires to Macedonian students of University of Bitola. The handover measure is 100% (so have been taken 100 questionnaires from 100 distributed) for the Albanian case, for the Macedonian one and, where from 100 have been handovered 82 completed questionnaires. To

avoid the other factors action except the cultural one, the case studies are in accordance with the age-groups, study field, education level, the time to complete the questionnaires, and the gender representation.

Since one of cultural dimensions take in consideration the dominion or not of masculine features against the feminine one at a certain society, is aimed that the two genders report inside of the same case study don't be very distinctly.

From the data analysis we note that the cultural profiles of the two countries are represented below with the help of the Graphic 1.

So the Albanian society is a society with a little DF, in the borders between the Collectivism and Individualism, much masculine, with a medium

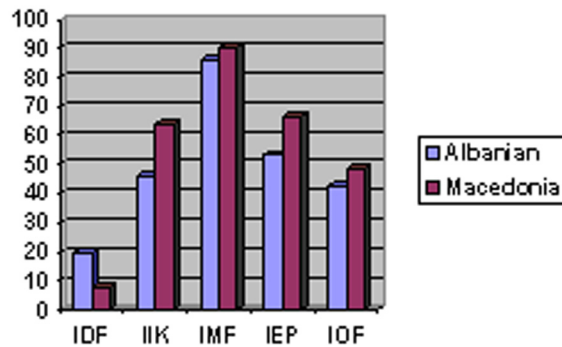


level of the uncertainty elude and between the short-term and long-term orientation.

The Macedonian society doesn't have any cultural view very different from the Albanian one, but again presents a society with a smaller DF than the Albanian one, more individualism, more masculine, that has a uncertainty elude bigger and that is nearer the long-term orientation than the Albanian society.

Referring on the Hoffstede results (1984:214) for 40 countries in the dimension combination of DF and EP, we note that Serbia & Monte Negro is a country with a big DF and a strong EP. So there is a cultural dimensions displacement in time because Monte Negro, now are presented with a stressed difference in DF (this is very small, only 9.7, 9.0 and 9.3) and have not lot of difference at EP (that is 66.3, 60.5, 62.0 ). Also from a category of feminist country, in the actual study is presented a stressed masculine society.

**Graphic 1: The cultural profiles of Albania and Macedonia**



**Table 2. Cultural Dimensions**

Albanian	20	45.8	86.4	53.2	42.5
Macedonia	7.67	64.15	90.1	66.3	48.75

The actual phenomenon in the Albanian society to minimize the disparity, to blame the system when it doesn't functions, for the social system change via the redistribution of the force, the demand for equal rights, that subordinates and superiors are all people like us, that see the hierarchy as the base of the roles disparity, and the solidarity between the powerful and the poor are correspondent with the features of a Society with a small DF profiled by Hofstede (1984: 94).

The low levels presentation of this cultural dimension have the origin in the difficult history of Albanians. The shocking historical events in all of the existence periods, a small number of persons, survival in hard climate and geographical conditions, the necessity to interfere in the nature as

a survival condition, the war for the independence and the desire to be independent, are a clear origin of such a dimension. According to the analysis of this dimension and the religious faith, most than being consequent of each others, both are seen as consequence of the same cause.

By Hofstede refered Crozier (1984:73), "the force in the relationships between groups and organizations is not a really replication of the force between persons inside a group or organization", that signifies that it is possible to have different force distances inside a group and inside groups of the same society. Despite of this, and other differences of this dimension accepted according to the education, profession, gender, etc, in the societies with small DF the relationships superior-

subordinate are centralized in interdependence and consultative decision-making. The social norms influence the personal image of the desired manager, but also the emotional distance between the superior and the subordinate, and the consideration that subordinates find to their superiors. All these differences conduce to a bigger disparity in high DF countries against them with small DF.

It is specific that this force is not only kept from the strongest but is also desired from who is less stronger. These are models accepted by the organization. The fact that we are a society with a low DF, shows also our inadmissibility in authority stiles or duties and competencies centralizations in hand of a runner minority during the communist power and the fail of this model to achieve a high performance in the society developments as whole and specific organizations. So if in the countries where the DF is high, these leading styles conduce at a high performance., in Albania this didn't happen reinforcing the result of the low value presence of this dimension. So working with Albanian people is important to know that:

- Find employees less frightened to disobey their superiors; employees that ask cooperation; employees that require consideration from their managers; informal consultation without a formal presence of the employees;
- The managers are more satisfied with participant superiors; they like to see theirself as systematic and practical; managers with mixed thoughts according to the dispersal of the leadership capacity and initiative.

We note that the two countries represent masculine society. By Hofstede (1984; 205-207) the most part of social differences feminism/masculine must be determined historically and traditionally as the anthropologist report the differences in the distinctiveness of the gender role that can have only historical origin. The family is very important for the transmission of the gender roles, where the children model their own conception of the gender role according to the used values that they observe at the adults of the two genders, which are in continuous contact. So this feature is related with the differences between the parents in the family or the female /masculine adults, widely in society.

In total accordance with some other factors given by Hofstede, in Albania this dimension has the origin: the uncontrolled measures of the family (historically and generally very big, feature of poor countries); weak position of the mother in family; fathers used as models for boys and mothers for girls; and the tradition that turn back in generations, reinforced by historical events. The consequences are seen in a specific way for the society and in a more specific for the organization.

### Are There Such As Consequences In The Albanian Society And Organizations?

The history, the facts and the daily life shows as better as possible the view of the society. But the communistic government has tried to change this view via the party propaganda, asking between other things "equality" for men and women in all the fields. There have been tendencies to eliminate the jobs only for men or only for women, but this very forced; the material awards or in status form was only based on party achievements and no others; economic developments in directions totally unstudied damaging the environment brought disaster and no growth, etc.

#### **Table3. The consequences for whole society and organization**

##### For the whole society

There are awards in material forms or status for the successful persons;

Education system oriented by the performance;

Some jobs considered only for men and only for women;

The economic growth is considered more important that the environment.

##### For the organization

The men are more inclined on career.

The organizational interests are considered legal to influence the private life of the people.

Less women in more qualified jobs and more paid jobs.

So the interference in this dimension was only superficial because nothing has changed in Albanian families where the roles between the genders were totally the same. Also, the chosen manner tended a dispersion of masculine features to the feminist, when the feminist cultures tend the growth of the feminist features in the society.

According to the three other cultural dimensions, the common thing is that are almost at a medium level, that makes the Albanian society owner of the middle features between the two extremes for every dimension. This may be also sign of the changes of our cultures in years and mostly the entrance of totally new elements after 90' of XX century.

IJK measured 45.8 shows a society in borders between collectivist and individuals, that presents the signs of a tendency from first to second. This based in the social and historical developments of our country where the view is shown below in the phenomenon origin and its consequences in the borders between two poles.

The same situation belongs to IEP with the value 53.2, so in a medium level. This shows also the fact that Albanian society has presented elements of social norms of both poles of the dimension.

### The mix social norms or in optimal levels

The inherited of uncertainty sometimes is accepted but sometimes is treated as a threat that must be fight:

- the stress presence;
- there is a value growth of the time concept;
- a more opened presentation of emotions;
- moderate nationalizations;
- different attitudes towards the younger;
- less conservatory
- the desire for risk undertaking is being substituted by the preoccupation for a safe life;
- every day is present the necessary for written rules and regulators;

- confidence in experts and their know ledges;
- The authorities are serving citizens.

By the origin of this factor, in difference by IDF for which the origins are clear, for it is very unclear. The organization consequences, taking in consideration the medium position of this dimension, according to Albania can be described as below:

- more activity structures;
- more written rules;
- managers more involved in details than only in strategies;
- More oriented managers by the duties and less preoccupied about the interpersonal relationships.
- Managers that desire to take individual and risk decisions;
- Tendency for a decisive bigger move of the labor force.

IOF is the dimension that measures the scale that the people actions are directed by the aims and long-terms results more than the short terms one and the necessity for an immediate satisfaction. The value 42.5 of this dimension in the Albanian culture shows a bigger trendy of the orientation by the aims and short –term or medium-term objectives more than the long-term one. I think this is evident because no rarely we face the presence of the activity and plans composition that don't think more than for 2-3 years. In a lot of cases this because of the hate created from five yare plans practiced during dictator period. This created handicap is reflected in different levels of governance, beginning from the Civic Centre, Commune, etc, for the strategies composition and is expanded widely in different organizations where is clear to have a short specter of their actions. This not a priori but also by their observations and their opinions tests, rarely undertake or aim to action thinking far away. According to a tourism study, essentially for the human capacities level in the hotel and restaurants management "are noted efforts from them to plan the business development but from the conservations, it results that this plan is not based on long-term and is not based on two decisive factors as sesonality and

the trend in years. Taking decisions is based in actual facts unrelated with the development trends of the future.

## Conclusions And Recommendations

The national culture dimension is now a well-known process and proved empirically. The most used model is the model of 5 dimensions of Hofstede, took by the biggest studying realized in this field.

The Albanian culture, not treated yet in this sense, present a culture profile with a small DF, IIK, IEP and IOF of a level near the average and a high IMF, results taken by an empirical study with a student population of economics Albanian, and Macedonia faculties, under observation.

The studying has used the Macedonian results also as a reference point to make possible the comparison with the studies done before, where Macedonia was involved (as parts of ex-Yugoslavia). It is noted that there are displacements of cultural dimensions during years.

The new of the study besides the Albanian culture dimensions is also in the interpretation of these factors widely for the organizations. More concrete the study shows for them who want to work or cooperate with Albanians that:

- A society with masculine features stressed regardless of the effort presence to change this situation during the years and epochs. The women are really in the leadership or businesses. In the well-education population similar gaps are less in organization level, but almost is saved the same view in the social life.
- The involvement of the individual in the organization from a moral relation versus one more calculative where the workers defend their interests more than the organization, managers from traditional to modern, the politics and rules of the organizations are equally applied to all regardless of the relationship between individuals.
- In the IEF analysis, or the scale of the uncertainty planning is noted the need for more activity structures, more written rules,

managers more involved in details than in strategies, managers more oriented from duties and less preoccupied for the interpersonal relationships, managers that desire to take individual and risk decisions. Managers that don't know to be directed in very long-term objectives. So the specter of the outlook and planning of the action is mostly short-term that the medium-term.

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# STRATEGIES FOR DEVELOPING DOMESTIC TOURISM: A SURVEY OF KEY STAKEHOLDERS IN NAMIBIA

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## ABSTRACT

*The tourism industry, which is often referred to as an “invisible export”, is significant in the economic and social development of a country. In Namibia, tourism is ranked the third highest foreign currency earner and constitutes one of the economy’s cornerstones of revenue generation. Traditionally developing countries such as Namibia have relied heavily on international tourist arrivals, often at the expense of promoting domestic tourism. In spite of this, domestic tourism has grown rapidly to become one of the world’s foremost economic phenomena. A significant number of countries in Africa have already realized the potentially positive economic impacts of domestic tourism and have taken steps to develop and implement domestic tourism strategies. Such a strategy has however not yet been formulated in Namibia, in spite of the fact that, according to the available statistics, domestic tourism in Namibia has considerable growth potential.*

*To get more clarity on Namibia’s domestic tourism potential, a study was undertaken to determine domestic tourism expenditure patterns in Namibia; to identify the current constraints; and to ascertain the potential contribution of domestic tourism business. The empirical survey was conducted among 200 key tourism stakeholders involved in and/or impacting on Namibia’s current and potential domestic tourism market. The stakeholders included tourism representative bodies, tour operators, lodges, hotels, attractions facilities, travel agents and other relevant stakeholders.*

*The results show that there is a great potential for domestic tourism in Namibia. However, there is a need to develop a participative and integrated domestic tourism strategy that will enable the industry to tap this market potential in a sustainable and competitive manner. Key recommendations emanating from the study focus on the identification and prioritization of preferred destinations and attractions for the domestic market; the need to ensure accessible and affordable transport to tourism attractions and routes; and the importance of ensuring value for money and affordability of the current offerings to current and prospective domestic tourists. Based on the outcomes of the study, marketing guidelines are proposed that can lead to an increase in domestic tourism business capacity and enhance Namibia’s overall tourism sustainable competitiveness.*

## 1.1 BACKGROUND TO THE STUDY

The tourism industry has become the cornerstone of economic development for the poor countries thus contributing a major input into the socio-economic development process (Lickorish & Jenkins 1997:209). Tourism is viewed as a growth sector offering growth opportunities which other export commodities do not have (Vanhove, 2005:16). The major tourist generating countries are located in the so called developed regions of the world (Lickorish & Jenkins, 1997). These developed countries have the hard currency which is important for and is sought after by most developing countries economies (Dieke, 2000). Tourism has been favored also over some of the export products since it is not faced by tariff



or quota barriers. As a result most developing countries have put tourism on the top of their economic development agenda.

Due to over dependence on international tourism, developing countries have not come up with strategies to encourage and tap into the vast potential in the domestic tourism market. For instance, domestic tourism can contribute more than 30% to a country's Gross Domestic Product (GDP) (Wilson & Fesenmaier, 2001:132). The World Tourism Organization (WTO) and the United Nations Statistical Commission have established a statistical methodological framework, Tourism satellite accounts (TSA) which articulates more precisely the significance of domestic tourism (Domestic Tourism growth strategy, 2006). Like many other developing countries, Namibia needs to develop a strategy that can be used to tap into the existing domestic tourism potential.

Tourism can contribute to approximately 60% of the total tourism economy as a result of domestic tourism consumption (Crockett, Shane and Wood, 1999:276). Studies that have been carried out in developed countries have proved that out of the 60% revenue generated from tourism activities, 70% comes from domestic tourism (Crockett et al, 1999). Therefore, domestic tourism can play a pivotal role too in the economic development of a country such as Namibia.

Domestic tourism can lead to a number of benefits to the destination. An increase in the number of Namibian people traveling for leisure has a ripple effect on the growth of the economy. Domestic tourism tends to lead to an increase in employment, improve standards of living of the host community and development of attractions.

## 1.2 STATEMENT OF THE PROBLEM

Although tourism is historically a growth sector in the global economy, this growth does not apply to all the countries. Africa has received low numbers of international tourist arrivals while Asian countries, India and Thailand have enjoyed high growth rate in international tourists' arrivals. While tourism brings foreign currency into the country some of this currency leaks out to support imports in the tourism sector. Tourism is generally accepted as employment sensitive as it often employs intensive low skilled people. Tourism can lead to tourism infrastructural development. Therefore, to what

extent can Namibia tap into the potential domestic tourism to sustain the most contested international tourist arrivals?

## 1.3 OBJECTIVES OF THE STUDY

The main objectives of the study are:

- To establish the potential of domestic tourism in Namibia
- To identify the marketing strategies that can be employed in order to tap on the existing domestic tourism.
- To bring awareness to tourism players on the important role of domestic tourism in Namibia
- To develop conclusions and recommendations on future prospects of domestic tourism in Namibia.

## 2. LITERATURE REVIEW

Tourism is made up of tourists' activities that are undertaken within the destination (Domestic Tourism Strategy, 2006). Tourists are classified into either domestic or international tourists. International tourists consist of visitors traveling from outside their borders to other countries for the purposes of leisure travel or business (Dieke, 2000).

Domestic tourists comprise of locals traveling within their own country for the purpose of visiting friends and relatives or traveling for leisure. According to Moseley et al, (2007:17) domestic tourists are visitors within the country of residence or persons on a trip within the country of residence not taking into consideration the purpose of traveling or any other factor. It excludes residents traveling to set up their own usual residence in that place or for remunerative work on other parts of the country or a person traveling regularly within the country different destinations within a country (Deng, King & Bauer, 2002:422). The growth of domestic tourism has led to the realization of the important role of domestic tourism. As a result, many countries have taken steps towards the implementation of a variety of tourist attractions that appeal to the local market (Crouch & David, 2005:17). Destination Marketing Organizations (DMOs) across Africa have recently started collecting data on domestic tourism expenditure patterns.



### Trends (travel propensity) of domestic tourists in Namibia

Globally domestic tourism has continued to grow. In developed countries domestic tourism contributes to 60% of the total tourist revenue. According to the WTO (2005) domestic tourism has led to employment creation, high economic growth and the overall development of the tourism industry. Namibia is one of the most productive economies in Sub-Saharan Africa (Country Report, 2006). In 2005, Namibia's per capita gross domestic products (GDP) was US\$3,022 this indicator has shown a sturdy increase within the past several years making it one of the highest in Southern Africa (Tapscott, 1993:36). Official publications (Vision 2030) and National Development plan 3 (NDP-3) have ranked tourism the 3rd foreign currency earner and one of the fastest growing industries (Tapscott, 1993; Country Report, 2006).

Based on the country's unique history, Namibians have been restricted in their ability to enjoy domestic tourism. The majority of the population, who are blacks, are still unemployed, they own very little land and they have no access to the scarce limited resources (Tapscott, 1993). As a result the bottom 55% of the population controls only 3% of the GDP and lives in extreme poverty (Tapscott, 1993). These economic disparities have continued to limit the propensity to travel and participate in domestic tourism by the Namibians. According to the United Nations (2007), the rate of unemployment could be higher if one includes under-employment. Based on its unique history, Namibians have been restricted on their ability to enjoy domestic tourism. However, an opportunity exist for domestic tourism especially the business people, the emerging entrepreneurs and the visit friends and relatives (VFR) segment.

### Market segmentation

Market segmentation can be defined as the sub-division of the total market into discrete and identifiable market segments according to clearly defined characteristics (Fyall & Garrod, 2005; George, 2007:268). There are a number of categories that can be used to segment the market. According to Seaton and Bennett (1996) the most basic segmentation strategy is segmenting the market using trip or tourist descriptors. Trip descriptors divide the market into smaller groups based on the type of trip the consumers would like to engage on.

Descriptors can include VFR, holiday and recreational trips as well business as trips. Market segmentation could also be achieved through the use of specific social characteristics such as cultural background, social class, and family groups. It could also observe the use of geographical, psychological (motivation, perception, beliefs, and values) personal (age, occupation, lifestyle, personality and income) behavioral (number of trips, purchases and expenditures and past travel) and time (seasonality, weekends vs weekdays) (Fyall & Garrod, 2005; Seaton & Bennett, 1996). Effective use of segmentation can help the marketers to reach out to domestic tourist in a more effective way by using different marketing programs for the different groups (George, 2007:268).

### Marketing strategies that attract domestic tourists

A strategy is a plan of action through which an organization intends to reach its objectives (Stanton, Etzel, Alker, Abratt, Pitt & Staude, 1992). Marketing strategies therefore relate to how marketers seek to meet their objectives and usually points to the destination's main lines of direction (George, 2001) A tactic is an operational means by which a strategy is to be implemented or activated (Stanton et al. 1992). A tactic is more specific, detailed course of action than a strategy. Marketing tactics vary from advertising, promotion, publicity, pricing to product development and other salient means including word of mouth, travel expos and road shows. Marketing mix is one of the fundamental tools in marketing (George, 2007) and the four 'Ps' are the main factors that need to be mixed in order to enable a tourism business to achieve its marketing objectives. Tourism marketing involves finding out what tourists want (marketing research) and developing suitable offerings (product offering development), telling them what is available (promotions) and providing instructions as to where they can buy the offerings (place) so that they in turn receive value (pricing) and the tourism organizations make money (George, 2007:270).

## 3. RESEARCH METHODOLOGY

A quantitative research design is the most popular research method used within the tourism industry (Milman, 1993). It pertains to data and large quantities of information that is analyzed statistically (Decrop, 1999:57). The empirical research was administered through questionnaires

which were distributed through the internet. The questionnaire design was structured in the form of open, rating, scaling and closed questions. In addition the design of the questionnaire was meant to probe the respondents beyond the reach of the researcher (Boone, 2004). The survey population comprised travel agents; tour operators; attractions; representative bodies of tourism organizations; hotels; and bed and breakfast facilities.

A total of 200 questionnaires were distributed through the internet which yielded a response rate of 15%. Due to the disadvantages associated with the Internet, the response rate achieved was thought to be significant and the findings valid (Jonker, 2004). The sample population was chosen from the directory of all the tourism operators in Namibia. The sampling was purposive which gave the researcher a chance to select those reputable organizations that could give unbiased inputs.

Whilst the probability sampling is widely used method, in this study the researchers could not employ this method due to the data collection method that was employed (Berg, 2007). The data collected was then analyzed, discussed and tabulated through the use of simple tables for clarity and findings were then summarized and reported.

#### 4. RESULTS OF THE EMPIRICAL SURVEY

The empirical results of the study are analyzed and discussed based on the outcomes of the study. The aim of the study was to carry out an investigation on the strategies that are employed to market domestic tourism in Namibia. The survey which was conducted through the use of the internet where questionnaires were distributed to stakeholders in various tourism entities is now discussed and analyzed.

##### 4.1 General information

As indicated before 200 questionnaires distributed through the internet, a 15% response rate was achieved. The percentage was considered satisfactory considering the disadvantages associated with the method. The sample population was a mixture of both industry professionals and practitioners which made the findings valid and reliable. 30% of the respondents were the tourism representative bodies, 30% were the private sector stakeholders, 10% were the destination marketing organization and 3% were the airlines focusing on Namibia. The statistics on the type of organizations was analyzed and categorized on the table below.

The private sector stakeholders chosen for the study included Tourist attractions (13%), accommodation facilities (30%), conference facilities (10%) game lodges (20%) distribution channel (30%), airlines 6.6% and ground transport (16.6%).

The distribution of the respondents made the results of the study valid.

Most of the respondents had an estimated domestic tourism profile that ranged from 0-10 (26.6) to 20-30 (26.6%) while those with international tourism arrivals ranged from 90-100 (26.6) and 70-80 (26.6%). The results show that most operators concentrated on international tourism arrivals at the expense of domestic tourism. The results of the estimated business distribution between the domestic and international tourism are shown below.

The respondents were not new comers in the tourism industry. 46% of the responses came from organizations that have been in the tourism industry for more than 10 years. 36.6% had 6-10 years in the industry while only 16.6% had 1-5 years in the industry.

**Table: 1 Type of organizations**

Type of organization	% Responses
Tourism representative body	30
Destination marketing organization	10
Private sector stakeholder with an international tourism product	30
Airline focusing on Namibia	3
Other	26.6

**Table: 2 Private Sector Stakeholders.**

Type of stakeholder	% Responses
Tourist attraction	13
Accommodation facility	30
Conference facility	10
Game lodge/nature reserve	20
Distribution channel (e.g. tour operator/travel agent)	30
Airline	6.6
Ground transport (rail, coach, car rental, etc.)	16.6

**Table:3 Estimated percentage shares of domestic and international business**

Business	Percentage share of domestic and international tourists	Response
Domestic	0-10	26.6
	10-20	33.3
	20-30	26.6
	30-40	13.3
International	90-100	26.6
	70-80	33.3
	70-80	26.6
	60-70	13.3

**Table:4 Length of time the organizations have been in operation**

Number of years	Percentage
1 - 5 years	16.6
6 – 10 years	36.6
Longer than 10 years	46.6

## 4.2 Awareness of domestic tourism in Namibia

The study targeted the tourism and hospitality operators in Namibia. Most respondents' demonstrated a meaningful understanding of domestic tourism. The responses varied. The Respondents' understanding of domestic tourism ranged from visitors from 'Namibia itself', to some respondents indicating that domestic tourism is when Namibians travel and stay in places inside Namibia but outside their usual environment for not more than one consecutive year for leisure, business or other purposes. As shown by the respondents, domestic tourism as a concept is well understood by most tourism operators including its accumulative benefits. It was interesting to note that some respondents even included the traveling of residents within the country to visit their family friends and relatives and also taking part in a vacation.

A number of respondents agreed that there were domestic seasons in Namibia. They highlighted the Christmas period, Easter holidays and School holidays. It emerged from the study that a lot of Namibians prefer to go to the village than visiting areas of interest.

It was encouraging to note that a number of respondents recognized that a lot of Namibians want to travel but the hindrances include inaccessibility high prices and lack of promotion. In order to mitigate the lack of promotion, respondents recommended aggressive marketing strategies to be employed in order to appeal to the domestic tourism market. Most respondents acknowledged that domestic tourism has a big potential for the small businesses but noted that only 20% of the small businesses' total occupancy is from domestic tourists.

Regarding prices Respondents said the prices were steep and beyond the income bracket of the majority of Namibians. Tourism places were considered extremely expensive for Namibians even though tourism enterprises have introduced a tier pricing system that provides a marked difference between the price paid by the locals and the international tourists.

A number of respondents indicated that the most important incentive that can be used to lure the domestic market is the offer of discounts. Some also argued that more emphasis should be

placed on local advertisements promoting special Namibian rates. Respondents indicated that domestic tourism is hardly promoted in Namibia in and this is compounded by high prices which inhibits and restricts domestic tourists. Therefore, the emphasis was place on making Namibians feel more comfortable and developing a more holistic approach to domestic tourism. The approach would encourage locals to travel in their own country and appreciate the value of tourism.

## 4.3 Methods used to market domestic tourism in Namibia

### 4.3.1 Most commonly used methods to market domestic tourism

The aim was to determine the most commonly used strategy for domestic tourism promotion. The views of the respondents were varied on the methods used for domestic tourism in Namibia. 40% of the respondents indicated that the most commonly used strategy for promoting domestic tourism were the price discounts.

In respect of advertising, print media was acknowledged as being used most often which was followed by direct sales. Respondents indicated that the internet is used to a lesser degree in marketing domestic tourism. The internet is a strategic tool for marketing tourism opportunities, but it seems Namibian operators have not tapped into the optimum potential use of this tool.

26.6% of the respondents felt that promotion was not done at all, while 23% felt that promotion of domestic tourism is done satisfactorily. Group discounts of domestic tourists are not in place nor are the use of special packages, incentives and competitions widespread. These methods need to be pursued vigorously by tourism operators in order to win domestic tourists.

Publicity is one of the most commonly used marketing tool because it is cheap and does not require expertise, respondents felt that tourism operators rarely used this approach. Operators need to use periodicals, news letters, special events and public relations exercises to market domestic tourism. 26% of the respondents felt that a product designed specifically for the domestic market has not been developed yet nor existing

ones customized to suit the local tastes. Yet another 26% felt that it was rarely used.

Based on the outcomes of this factor, the operators need to make some improvements on the product, its quality and service in order to suit the local tastes (Dieke, 2000). This implies that the product needs to be customized by extending the product range, availability and accessibility.

Other strategies that were mentioned included the use of word of mouth, travel expos and road shows of which 30% respondents felt that these tools were rarely used, the operators only capitalized on the opportunities created by the Namibia Tourism Board which is not enough if domestic tourism has to be taped into as a potential market. The table shown below shows the responses regarding the methods commonly used to promote domestic tourism.

#### 4.3.2 Current strategies being used to market domestic tourism in Namibia

Respondents were asked to rate the current strategies that are used to promote domestic tourism in Namibia. 34% of the respondents felt that domestic tourism promotion was rarely used but 30% were of the opinion that domestic tourism was mostly promoted in Namibia. It will seem a number of respondents relied on the domestic tourism strategies employed by Namibia Tourism Board (NTB). 29.6% of the respondents felt that there is no promotion of product specific experiences to Namibians. 34.6 of the respondents thought that the operators need to develop product specific packages in order to attract domestic tourists. This should be complemented by the distribution of information to specific places (30.6%). Some respondents (40%) felt that there is need to encourage repeat visit by the domestic tourists. The table below shows the views of the respondents regarding domestic tourism strategies employed in Namibia.

#### 4.4 Future strategies for marketing domestic tourism in Namibia

In order to encourage domestic tourism in Namibia, respondents felt that there is need to increase value

for money for the locals on products on offer (30%). There is need to matching product and services to consumers' needs i.e. longer stays, experience and activities (56.6%). 43.3% of the respondents indicated that operators need to provide group travel which is affordable and alternatively use travel vouchers as an option. 36.6% were of the opinion that in order to encourage more group travel, there is need to promote the use special rates during low seasons. Some respondents were of the view that in order to boost inter-provincial travel there is need to promote touring and to publicize hidden secrets in different regions and experiences. The future growth strategies were analyzed and summarized in the table below.

As shown on the table above, the respondents were of the opinion that there is need to make use of special events to target domestic tourists in order to reduce seasonality problems by providing customized services.

### 5. CONCLUSIONS

The study has concluded that there is an in-depth understanding of the role that can be played by domestic tourism. It emerged from the study that there is indeed a significant potential for Namibians to be involved in traveling locally. However, the number of domestic tourists can be increased by capitalizing on the marketing strategies available to tourism and hospitality operators. Based on the outcomes of the study, the results show that there are seasons for domestic tourism especially the Easter, Christmas and School holidays. The study has revealed the need for tourism operators to accommodate domestic tourists and appeal to them using certain marketing strategies. The tools that can be used to appeal to local tourists could include the use of advertising, direct sales, the print and electronic media as well as the Internet. Promotion could include the use of group discounts, special packages, incentives and competition involving domestic tourists. It emerged from the study that tourism and hospitality operators need to fully utilize publicity to effectively position their offerings to domestic tourists.



**Table: 5 Most commonly used methods to promote domestic tourism**

Information source		Namibia's rating of tools % Ratings			
		1	2	3	4
1	Advertising	26.6	30	40	16.6
2	Promotion	26.6	23.3	23.3	6.6
3	Publicity	30	36.6	23.3	10
4	Pricing	13.3	36.6	20	40
5	Product	26.6	26.6	20	20
6	Other	23.3	30	23.3	16.6

**Table: 6 Current strategies being used to market domestic tourism in Namibia**

	Current strategies used to promote domestic tourism	% Responses			
		1	2	3	4
1	Promotion of domestic tourism	14.3	34.7	21	30
2	Promotion of product specific experiences to Namibians	29.6	26.3	25.3	4.6
3	Development of product specific packages for domestic tourism	33	34.6	25.3	10
4	Distribution of information in specific places	30.6	22.6	16	24
5	Increase of marketing and distribution channels	23.3	32	21.3	10.6
6	Encouragement of repeat visit	32.6	30	40	16.6

**Table:7 Future growth domestic tourism strategies in Namibia**

	Market segmentation growth strategies for domestic tourism	% Responses			
		1	2	3	4
1	Increasing value for money on product offer.	-	30	13	26.6
2	Matching product and services to consumers. i.e. longer stays, experience and activities etc	6.6	23.3	56.6	13.3
3	Providing group travel, affordable and travel voucher options	16.6	26.6	43.3	13.3
4	Encouraging more travel to group domestic tourists through the use of special rates on low peak seasons	3.3	26.6	36.6	33.3
5	Promoting inter-provincial travel by encouraging touring and publicizing hidden secrets in different regions and experiences.	3.3	23.3	46.6	26.6
6	Making use of special events to target domestic tourists to reduce seasonality and provide customized services	3.3	30	33.3	33.3



Publicity can be achieved through the use of periodicals, news letters, special events and Public Relations exercise. While pricing structures are in place for domestic tourists, the study concluded that there is need for operators to lower their prices for the locals especially during off seasons and give special prices to different categories of the local market. The study revealed that operators need to develop and customize the tourism and hospitality products to suit the local market. This can be achieved by extending the product range and improving their availability and accessibility. Other strategies include the use of word of mouth making the locals ambassadors of the tourism industry. Even though the NTB has taken measures in marketing domestic tourism; the study revealed that there is need for a collaborative approach to domestic tourism marketing.

## 6. RECOMMENDATIONS

Based on the outcomes of the study, the following recommendations have been made. While there is a wide agreement on the role of domestic tourism in Namibia, there is need to employ aggressive marketing strategies regarding domestic tourism. The recommendations are made as follows:

- Develop a collaborative approach to domestic tourism marketing

There is need for a collaborative and participatory approach to domestic tourism marketing. Tourism and Hospitality operators need to come together and formulate marketing strategies that can appeal to the local populace. The marketing strategies can only be achieved if the operators develop customized products that can appeal to Namibians.

- Focus on domestic tourists during off seasons

There is need to target domestic tourists during the low seasons. While respondents indicated that the strategies being employed by NTB are not holistic, there is need to increase marketing and the distribution channels for domestic tourism. The service provided by the accommodation sector in the accommodation sector should encourage repeat visit there by making the locals ambassadors of tourism.

- Provide value for money for the domestic tourists

The study has revealed an immediate need for increasing value for money for the domestic tourists by matching the products and services offered to domestic tourists so that they may stay longer in these facilities.

- Increase accessibility to attractions for domestic tourists

From the observations made it can be concluded that in order to encourage accessibility, the tourism operators need to provide group travel, making travel affordable through the use of a voucher option system. The operators could promote inter-provincial travel by encouraging touring and publicizing the hidden secrets of the different attractions in different regions and the experiences there of.

- Educate the tourism operator on the value/role of domestic tourism

The study revealed the need to educate and re-orient the tourism operators on the value of domestic tourism in tourism and economic development of a place and the need to involve the local. As locals become more aware of the potential benefits of tourism, a positive response would result, thereby culminating into a boom in tourism within the local area.

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