DETERMINING FACTORS OF FOREIGN DIRECT INNVESTMENTS IN ALBANIA

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Abstract

FDI are very important especially for the developing countries like Albania. The worldwide competition in attracting FDI is intensified the efforts concerning the reforms in improving the business climate. The efforts done toward the increase of the political stability, improvement of infrastructure, stimulating policies and the establishment of institutions which promote Albania in investors' community show how much Albania has been trying to attract the foreign investors. The goal of this survey is to study the relation between such indicators as: political stability, GDP per capita, working power, promotion of investments and FDI. The survey contributes modestly in discussing scientifically what is needed for improving the climate of foreign direct investments in Albania.

1. INTRODUCTION

The long isolation during the communist period until 1991 hindered the access of foreign capital in the Albanian economy. Changes during 1991 and 1992 brought the need of passing from centralized planning methods to free market system. The years of centralized governing caused many deficiencies in the economic development of the country, establishing thus a non-productive industry and low levels of productivity. This way, Albania faced the lack of competition in the world markets.

To establish a competitive advantage in the world markets and fulfilling the aspirations for entering EU, there was a need for financing through FDI. As result of these changes, it

was an immediate need for political and economic reforms. As the Albanian economy was on the way to free market, the foreign investments flow began.

In this aspect, the implementation of this survey aimed to accomplish with some objectives related with: 1-Data provision on foreign investors opinions concerning the investment climate in Albania, referring mainly to political stability indicators; 2- Data provision on foreign investors experience in Albania; 3- Impact of promotional efforts in promoting Albania to the investors' community for attracting the foreign investors. For this reason, besides collecting secondary data from national and international institutions, primary data were also used which were provided from personal interviews with foreign investors.

2. OVERVIEW ON FOREIGN DIRECT INVESTMENTS FLOW IN ALBANIA

Western economists and multinational institutions advocate that "successful transition from centrally planned economy to a market–based system could only be achieved with large inflows of foreign direct investment" [Pavlinek, 2004, 3]. Of course, a country's economic and political factors are the main determinants of foreign investments' inflows. The developing countries are seeking more foreign investments. From this aspect, FDI are considered an extremely important resource in Albanian economic growth.   Pavlinek, suggests that FDI typically results in rapid and profound restructuring, technology transfer, worker training, transfer of Western management structures and practices and new production strategies and organization [Pavlinek, 2004, 47]. In other words, FDI flows provide the resources necessary to improve the productivity and efficiency of the home country's primary, secondary and tertiary industries. After 1991 and 1992 as the country opened to the market economy, began the inflow of foreign direct investments. Until 1996 there was a tendency of increasing the number of enterprises with foreign capital. From 1992 to 1999 period, it is 1996 the year when FDI have the highest estimation in 90 million US$. In 1997 the non-stability of political environment after the disorder caused from the pyramidal companies, the foreign investments drastically decreased, reaching the level of 48 million dollars [Bank of Albania, 1999]. Also, in 1999 along with the crisis in Kosovo which affected the entire Region, the foreign investments decreased. Such events prove once more the importance of the economic and political stability in country as a decisive condition for attracting foreign investors. In Albania after 2002 onwards, the number of enterprises with foreign capital displayed growing tendencies.

 Figure no. 1 displays the progress of foreign investments during 1992-2008 in Albania (in million $).
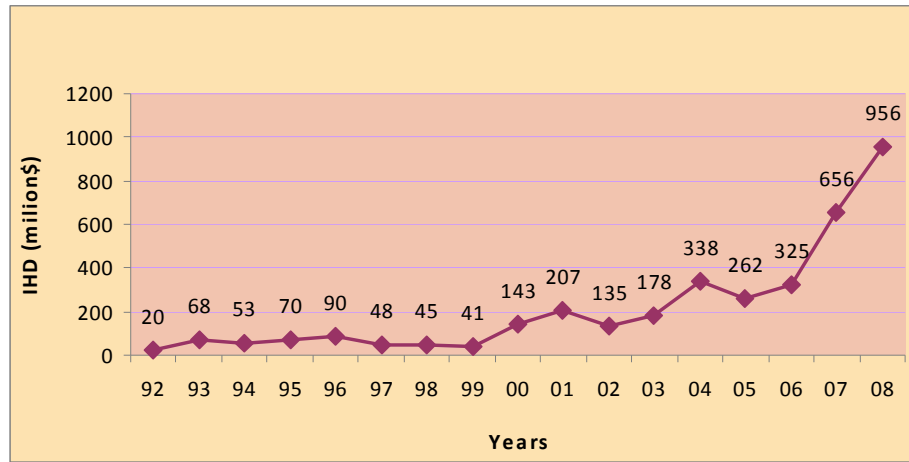
Source: [EBRD Database, 2001, UNCTAD, 2009, Bank of Albania, 2008]
Figure no. 1 Progress of the FDI in Albania, 1992-2008 (million US$)

From the viewpoint of foreign capital participation, there are two types of enterprises: those with total foreign capital and those with joint capital. In most of cases, the enterprises are controlled from the foreign investor as in 86% of them, the foreign capital takes more than 50%. These enterprises are branches or commercial associations where the foreign investor controls directly or indirectly (through another branch) more than 50% of the voting power. [Bank of Albania, 2008, 110].

As far as the origin country of foreign enterprises is concerned, the investors coming from EU countries are the main investors in Albania, possessing about 77% of the foreign enterprises. Italy takes the main place with about 40% and then Greece about 26%. [Bank of Albania, 2008, 114]. The geographical vicinity with Albania is only one factor that explains the investors' domination that come from these two countries. Another important factor is the main role of Italy and Greece being the main Albania's commercial partners, but there must be considered the fact that the majority of exports is intended for them.

The countries of the Region have invested in about 13% of the foreign and joint enterprises in Albania and are represented from Turkey as the main investor taking 8% of the enterprises. Also, the number of Macedonian enterprises has been increased lately. The number of the American enterprises has been increased also taking 4% of them. [Bank of Albania, 2008, 114]. Thus, the enterprises with foreign capital that do business in Albania have a wide geographical extension. Table no. 1 displays the direct foreign investments according the origin country.

*Table no.1 - Direct Foreign Investments according the origin country (year 2007)*

Origin country	Number of enterprises	Percentage
EU	727	77
of which:		
Italy	382	40
Greece	242	26
Germany	28	3

Origin country	Number of enterprises	Percentage
Austria	17	2
Great Britain	16	2
France	10	1
Countries of the Region	**127**	**13**
of which:		
Turkey	73	8
Macedonia	25	3
Kosovo	13	1
Croatia	6	1
Others	**90**	**10**
of which:		
China	30	3
USA	24	3
Egypt	9	1
Others	27	3
Total	**944**	**100**

Source: [Bank of Albania, 2008, 110]

Concerning the geographical distribution of foreign enterprises, it is noticed that investments are concentrated in the main areas of Albania, where Tirana and Durres take about 65% of the total foreign and joint enterprises. The Albanian areas where foreign capital access is smaller are the northern and east-northern. Korca and Gjirokastra are an exception, as there are 33% of foreign enterprises doing business mainly Greek ones. 9% of Italian enterprises have invested in Shkodra. [Endrita Xhaferaj, 2005, 6-7]. Figure no. 2 displays distribution of FDI according the areas in Albania. \
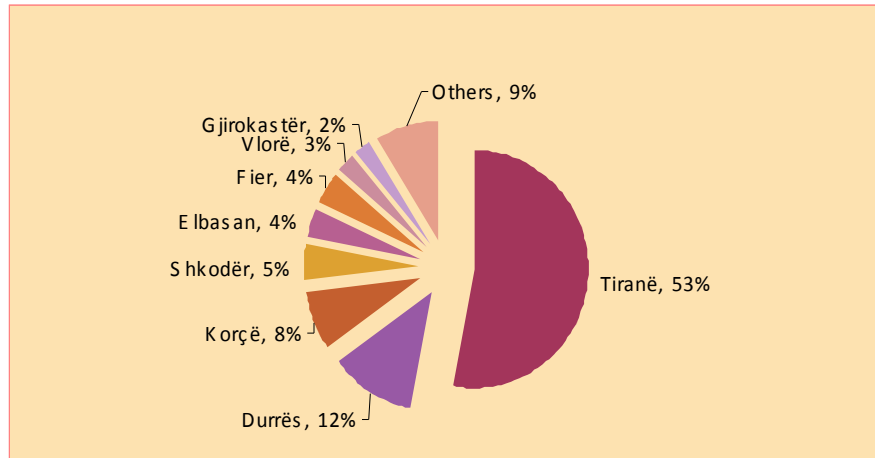
Source:[Bank of Albania, 2005, 6-7]
Figure no. 2 Geographical distribution of FDI (%)

As far as the enterprises by economic sectors are concerned, the industry that represents the higher number of foreign enterprises is the processing industry, with about 47% of them. Within the processing industry, the textile and clothing industry takes an important place (about 18%), where a good part of the Italian capital is concentrated in the form of textile enterprises with fason. The processing industry employs about 74% of the total of the employees. Thus, the processing enterprises from EU neighbouring countries, mainly Italy and Greece, are addressed to Albania in order to obtain the cost advantages of labor force which are comparatively cheaper. [Bank of Albania, 2008, 110].

2.1. THE ALBANIAN EXPERIENCE IN ATTRACTING THE FDI

The Albanian experience in attracting the FDI has been related mainly with the privatization process in the strategic sectors. Almost 60% of foreign investments in Albania case as result of privatization process. [Ministry of Economy, Trade and Energy, 2005]. In 2001, foreign investments reached 207 million dollars. This was the result of the successful sale of Albanina Mobile Communication (AMC) in Cosmote, the Greek mobile operator, and later the investment done from Vodafone in the mobile telephony. In 2003, the Savings Bank was sold for 126 million $, to the Austrian Bank, Raiffeisen.

The privatization process was mainly realized in such sectors like: energy, insurances, oil and gas, telecommunications. During 2008, some privatization processes were intended in sectors like power supply system (System Operator Distribution), public enterprise (Coorporation Electroenergy Albanian), 76% of the shares possessed from the Government in the oil company ARMO, 61% of the market share in the company INSIG and 15% of the shares possessed from the government in AMC mobile company. Privatization was realized even to ARMO Company. These privatization processes were completed during 2009.

Foreign investments in Albania have been more focused in oil and gas production, mines, telecommunication, metallurgic, bank, production, insurances, cement production sectors, etc. The privatization strategy required to attract foreign qualified forms as strategic investors in these sectors.

The insurances sector was one of the sectors where positive changes happen. During January –November 2007, this sector had an increase about 37% compared to the same period of the last year. Well known companies in the insurances market such as Uniqa Group Austria, bought a market share of Sigal, Vienna Insurance Group bought a part of Sigma Company and Aspis Group a part of Inter Albanian.

Cement production sector had positive developments. In October 2007, the Government approved 2 important agreements in this sector. The first was the creation of a cement establishment estimating 250 million $ from the Greek company "Antea Cement", part of international "Titan" group, and the second one was an investment estimated 155.5 million € (approximately 225 million $) from a Spanish company "Cemento Aguila". Other companies like "Fasto Berberi" applied in 2008 to build a cement establishment with an estimated capital 200 million €, and "Todini Construction" Company plans to build a cement and clay establishment with an investment estimated 250 million €. [Ministry of Economy, Commerce and Energy, 2008]

Oil and gas are another important aspect. In August 2007, two agreements were signed on oil and gas exploitation with "Medoil" Company and "Streamoil Gas Limited". These companies plan to invest 450 million €. Other companies applied to provide the licenses for

exploring the oil-bearing areas in Albania, or build sea interconnection lines between Albania and Italy. [Ministry of Economy, Commerce and Energy, 2008]

The mineral industry is another important aspect, concerning mainly the concessions. Domestic and foreign companies have obtained mines through concessions for exploiting chrome, nickel silicate, copper, bitumen, alabaster, etc. In 2000 the Government signed a 30-year concession with the Italian company "DARFO" to exploit 50% of chrome reserves and 100% of ferrochrome reserves. Three greatest cooper mines are operated through a 30-year concession from a Turkish company. The quality and quantity of mineral reserves provide a suitable situation for foreign investments giving them a chance to stay and develop their businesses in Albania. [Ministry of Economy, Commerce and Energy, 2008].

3. FOREIGN DIRECT INVESTMENTS IN ALBANIA COMPARED TO OTHER SOUTHEAST EUROPEAN COUNTRIES

Foreign Direct Investments are a very important indicator for both developed and developing countries. As the worldwide competition in attracting FDIs has increased, efforts of different countries have intensified also. Thus, Southeast European countries have made a great progress toward the macro-economic stability during the last years in order to reach the economic growth. Investment climate is improved by showing peace and stability in the Region.

In the period during 1980-1990 FDI flows in Southeastern countries where Albania is included, were low because of the high centralization level of the economy and state owned companies. In the end of 2000, FDI flows in SEE were 3614 million dollars, which represented 16.57% of total FDI in 10 new EU member countries (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia). The low progress in reforms and the political instability were considered the main reasons of low levels of FDIs in the Region. [UNCTAD, 2000].

Anyway, the situation concerning the FDIs has greatly improved since 2000 and a greater progress has been done in 2003. FDI flows in SEE have increased from 24 million dollars in 1980 to 10778 billion dollars in 2004.

Albania compared to other SEE countries has made efforts in attracting foreign investments, but their level remains still low compared to them. Table no 2 shows the FDI flows per capita in Albania for the period 1992-2001, in comparison to other SEE countries.

Table no.2 - FDI progress in SEE during 1992-2001 (in million $)

Country	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01
Albania	20	45	65	89	97	42	45	51	141	207
Bos.&Herce.	n/a	n/a	0	0	0	0	100	90	150	164
Bulgaria	41	40	105	82	81	503	537	836	1000	500
Croatia	13	102	110	109	486	347	835	1445	827	470
Macedonia	0	0	24	12	12	18	175	27	169	350
Romania	73	87	341	417	415	1267	2079	1025	1009	900
Ex- Yugo-slavia	n/a	n/a	n/a	n/a	0	740	113	112	25	200

Source: [EBRD Database., 2001] (n/a – not applicable)

During the period 1992-1999, Albania was better ranked compared to Macedonia and Bosnia & Herzegovina. After 1999, the classification compared to Macedonia was lower, while in other countries such as Bulgaria, Rumania, Croatia has a higher flow of FDI. [EBRD, 2001]. Table no. 3 shows the FDI progress in Albania according the UNCTAD 2009, which compared Albania with SEE countries for the period 2005-2008.

Table no.3- FDI progress. Albania and SEE (in million $)

Country	1990 -2000 (Annual average)	2005	2006	2007	2008
Albania					
Inward	53	264	324	658	956
Outward	-	4	11	15	92
Macedonia					
Inward	51	97	424	699	598
Outward	0	3	0	-1	-14
Croatia					
Inward	447	1788	3457	4982	4383
Outward	38	237	263	246	170
Serbia					
Inward	92	1573	4350	3462	2994
Outward	0	22	85	938	277
SEE					
Inward	725	4813	9891	12792	10880
Outward	41	271	396	1380	634

Source: [UNCTAD, 2009]

World Bank Report "Doing Business 2008", introduces an estimating scale from 1 to 7 concerning the foreign ownership. 1 represents the lowest level of foreign companies' presence and 7 the highest level of their encouragement and ownership. Table no. 4 gives the foreign ownership comparing Albania to other Region countries.

Table no. 4 -Foreign ownership .

Alba- nia	Mace- donia	Montene- gro	Bosnia & Herc	Croatia	Bul- garia	Romania	
4,3	4,2	5,2	4,5	4,9	4,4	4,9	

Source: [Global Competitiveness Report, 2008-2009]

4. UNIQUE ALBANIA CHARACTERISTICS AND REFORMS IN IMPROVING BUSINESS CLIMATE

Considering the unique characteristics of a country is an important factor in attracting FDI. Referring to the list of countries/economies by their development stages, provided from the Global Competitiveness Report 2008-2009, countries are classified according the

following stages: 1st stage –transition from 1 to 2; 2nd stage – transition from 2 to 3and the 3rd stage. Albania has been classified in the 2nd stage. Also, according this same source, Albania is classified between countries having a low development level in the development ranking. Table no. 5 gives information on the contribution of economic sectors to GDP.

Table no. 5 - Contribution (in %) of economic sectors to the Albanian GDP

Economic sectors	Agriculture (%)	Non-manufacturing industry (%)	Manufacturing industry (%)	Services (%)
Albania	22.8	9.5	12.0	55.7

Source: [Global Competitiveness Report, 2008-2009]

Anyway, Albania has some competitive advantages in attracting the FDI. Its geographical position is very favorable possessing a long coastline (ports in Adriatic and Jon seas), and the vicinity with Greece and Italy (two EU countries). Construction and reconstruction of new roads such as the big project of Durrës-Kukës road, will facilitate the communication, commerce and attract foreign investors and tourists.

Albania is very rich in natural resources such as mineral and water resources and possesses a virgin tourist coastline. To exploit the mineral resources as mentioned above, are given in concession to foreigners several mines in country. These natural resources need an efficient management in order to avoid their misuse.

Another factor of competitive advantages relates with the low price of the working power. Based on the INSTAT 2007 data, monthly average wage in the public sector is 33750 ALL and official minimal wage 16100 ALL.

As far as legal skeleton is concerned, many improvements have been done in support of FDI. Foreign investments in Albania are regulated after the basic law on Foreign Investments, date 2.11.1993. This law gives unconditional permission to Foreign Investments in Albania.

Another facility to investors is the opportunity that the Albanian legislation offers to machinery and equipment importers providing 100% VAT crediting according the Decision Nr. 3 date 30.01.2006, reduction of corporate tax from 20% in 10% (January 2008), new laws on concessions and public procurement, 30% reduction of power price for businesses, facilities in business procedures about the way of registering and lastly the establishment of the National Licensing Center. Expansion had the banking system which helped the increase of business credits. It is a fact that Albania has introduced a great process of reforms which are irreversible.

5. ANALYSIS OF DETERMINING FACTORS OF FDI IN ALBANIA. QUESTIONNAIRE SURVEY ANALYSIS AND DISCUSSION

To analyze the determining factors of attracting FDI in Albania, besides gathering secondary data, a primary research was performed. The aim was to analyze the relation existing between such factors as the political stability, GDP per capita, population in the working age and the promotion of investments and FDI flow. Study of literature on FDI determinants, lists a series of factors, but for the abovementioned factors, a deeper research followed by the statistical analysis was performed. This analysis consisted in building cross-tabulations

and a multiple regression model to see the effect of these factors on foreign investments, in the case of Albania.

Primary research was performed in two stages. The first stage consisted in personal interviews made to investors of the production sector, and in the second stage service sector businesses were interviewed. For both sectors, two separate questionnaires were compiled. They considered the characteristics of each sector. Formulation of questions was done based on some studies: -a UNCTAD study, Best Practices on Investment Promotion [United Nation, 1997, 22], -Bitzenis study on the effect of financial and non-financial incentives in Bulgaria, [Bitzenis, 2003, 65-84] -a study on measuring the perceptions of foreign investors in some African countries from UNIDO [UNIDO, 2002, 41] and the Eclectic theory of John Dunning [Dunning, 1988, 1-31].

The statistical analysis of questionnaire was performed with SPSS 17 programs, making use of Guide for Doctorate Research [Minimax Consulting, LLC, 2008]. This guide was used not only for calculating the frequency of responses, but also for the creation of cross tabulation, verification of hypothesis by χ^2 test, and creation and analyzing the results of multiple regression models on the effects of investment promotion to foreign investments. In order to have the best display of results graphics, data provided from this program passed in Excel. The presentation of graphics is done based on this program.

In the production sector 122 enterprises were interviewed which were totally foreign and common companies (Albanian and foreign) and 14 companies from the service sector. The sample selection considered some general issues concerning the business sector, size of company according the number of employees as well as the size of existing investment. Divisions in these categories aim to create a whole representative sample in order to have a statistically sufficient coverage for representing the results for all population. The Institute of Statistics in Albania provided data on the number of common and foreign enterprises which operate in our country. The goal was to provide a very representative sample.

According the data of the Institute of Statistics in Albania in the end of 2007, the number of foreign and common enterprises (Albanian and foreign) was 1354. The Center of Business Registration and Chambers of Commerce in different towns were mostly used in providing contacts with selected businesses. Another important source was AlbInvest, in providing information related the important investors, based on investments they had done. The total sample made of 134 businesses, is considered representing for 1354 business in the production sector and 20 businesses of the service sector (mainly banks and mobile companies). In selecting businesses by towns, the Webpage http://www.directory.albic.net/ was used. It contains the Albanian business directory.

Questionnaires belonging to the production sector were tested during the second 6 months of 2008. Parts of this stage were conversations with directors of AlbInvest and Chambers of Commerce and Industry of Korca and Tirana. During the second stage, interviews were conducted to companies of service sector. There were mainly selected the banks and mobile companies. Questionnaires were filled up in the beginning of 2009.

The first section of the questionnaire for the manufacturing sector takes into consideration some specific data about the company which deal with business sectors, size of company by number of employees, size of existing investment and ultimately the form of business organization.

With regard to the business sector, among selected sectors, the processing industry was represented by 44 companies or (36.1%), agriculture 4 companies (3.3%), the textile indus-

try 50 enterprise (41%), construction with 20 companies (16.3 %), and other businesses with 4 enterprises (3.3%). There is a total of 122 businesses.

According the size of the company by number of employees reflect general trends that exist in Albania should be reflected, about the size of enterprises by number of employees. In this research, 7% of the companies selected had 1-5 employees, 5% of the companies selected had 6-10 employees, 21% of companies had 11-30 employees, 34% of companies had 31-70 employees, 7% of companies had 71-100 employees and 26% of companies had over 100 employees.

To have a representing distribution selected investors are targeted who have made significant investments in Albania. For this, it is taken into consideration the size of existing investment. The division of the existing investment in certain investment categories provided this distribution. 32% of businesses interviewed had invested ALL 1-50 million, 28% of them 51-100 million ALL, 12% of businesses 101-150 million ALL, and the same percentage invested over 150 million ALL, while 16% of the respondents did not agree to provide answers to this question.

The last question of the section belonged to the organization form of the firm. Foreign investors have taken into consideration different organization forms. In this research, 26% of companies interviewed belonged to joint-venture form, 53% fully foreign owned, 21% belonged to the form of contracting production. The completely foreign companies take the highest percentage, while two other forms were similar in percentage to each other.

For the service sector, 12 or 86% of the interviewed companies belonged to the banking sector, and 2 companies, or 14%, the mobile sector companies. In this case, the banking sector takes the highest percentage while the number of foreign-owned banks operating in Albania, has increased significantly over the years, while the mobile phone companies are considered as important investors in the country.

To understand the views of investors on the investment climate in Albania, their judgment about issues of political stability in the country was considered, the variability of business policies with the change of governments and public administration attitude toward foreign investors. These opinions were evaluated on a scale from "very high" to "very low".

About the issue of political stability in country, 10 companies, or (8.2%) of respondents, consider the political stability "very low", 38 companies, or (31.1%) consider it "low", 70 company, or (57.4%) consider it on the "average level" and 4 company, or (3.3%) consider it "high". From the responses it appears that the highest percentage is "average" and "low" about the issue of the political stability in Albania.

Concerning the variability of business policies, thus after the judgment of investors if they think that business policies change whenever governments change, respondents answered: 3.3% felt that the policies on the business "do not change" and so were the responses of those who thought that business policies "change a little" depending on the change of governments, 1.6% felt that these policies "differ slightly", 27.9% felt that the business policies "vary somewhat", while 54.1% and 9.8% felt that these policies "vary widely" and are "very excessive." From these results it appears that the prevailing opinion is that the business policies "vary widely" as governments change. Of course, this opinion is not too positive, as stability in policies toward business is a very important factor.

Asked about the administration's attitude to foreign investors, 4.9% of investors considered it "not favorable", 32.8% considered it "very little favorable", 24.6% considered it "somewhat favorable ", 36.1% of them considered it "very favorable" and only 1.6% considered it "extremely favorable." In this case there is a dominant opinion according the "very

favorable" attitude which combined with "somewhat favorable" results in a percentage of 60.7%.

This section continues with the question whether foreign investors think they are treated differently from domestic ones. In this case, 64% of the interviewed investors thought that they were not "treated differently" from domestic investors, while 36% thought that they were "treated differently" from the domestic ones. The above positive result appears as a higher percentage of respondents think there are no differences between them.

The Government, judicial system and legal structure, are the main pillars that support business activities. These elements are highly appreciated by foreign investors. So, asked if they felt that there is bureaucracy in meeting legal obligations, investors from the manufacturing sector answered: 4.9% of investors chose the option "very little", 3.3% chose "little", 45.9% "average", 26.2% "a lot", while 19.7% option "very excessive."

From these results it appears that although efforts were made to eliminate bureaucracies in meeting legal obligations, for example, the reduction of business procedures or the time it takes to meet them, approximately 45% of the respondents think that there is "a lot" and "very excessive" bureaucracy to meet legal obligations.

As far as the service sector investors are concerned, bureaucracy is considered a barrier by 43% of investors who chose to say "no", 22% "very little", 7% and 21% respectively chose to say "little" and "average" and only 21% said "more." From these results, it appears that bureaucracy is not considered the main obstacle to business development, as the largest percentage of respondents, a total of approximately 72% consider this matter at "not", "very little" and "low" levels. This means that businesses in the services sector do not face bureaucratic procedures which is a very positive result.

The question about the existence of corruption is seen related with the administration of government and the judicial system. Asked if the investors of the manufacturing sector felt that there is corruption in government administration, 1.6% of them thought that there is "very little" corruption, 4.9% thought that there is "little", 34.4% felt that there is "average", 31.1 % thought that there is "a lot" and 28% felt that there is "very excessive."

As far as the existence of corruption in the judicial system is concerned, 3.3% of the investors from the manufacturing sector, chose to say "there is no" corruption, 1.6% "very little", 29.5% "little", 41% "average", 8.2% "many", and 16.4% "corruption is too excessive." So as seen by the replies, corruption remains a problem despite the efforts for minimizing it.

As the services sector is concerned, the phenomenon of corruption is considered only from 21% of respondents as "high", while a total of 79% considered it "not at all" and "little." Meanwhile, the high risk of investment, 14% of those asked considered it "very excessive", while a total of 64% considered it "very low" and "low", while 22% consider the level "average".

However, these results can be interpreted as positive as they indicate a legal system which tries to maintain its stability, fight corruption, organized crime and mafia. The last question of this section has to do with the opinion of investors about their guarantee to expropriation and arbitration. When asked about the issue, 73.7% of investors said they were protected against expropriation, thus they answered "yes" and 26.2% answered "no". The results can be interpreted as an expression of stability to provide guarantee for investments.

6. RESULTS OF STATISTICAL ANALYSIS

After a general analysis conducted to foreign companies in the study operating in Albania in the manufacturing and services sector, there will be presented the following the results of the statistical analysis in order to verify or not the authenticity of the hypotheses.

6.1. GENERAL PROBLEMS WITH THE STATISTICAL TEST

A statistical test is a procedure of analyses and calculations, which aims to provide tools to determine objectively whether a given result is reflective of reality or unexpected attribute of "surprises" resulting during the implementation of choice. In this study, a statistical test is used to verify the existence of a relationship between two variables. To do this, the contingency test $\chi2$ is used which aims to verify the existence of matches between two variables.

It shows objectively if an observation is a reflex of the reality or coincidence. Use of this test was possible because the conditions of is use were met. The measurement level of variables used in the study was on the nominal level. As known, this test needs to priory build the contingency table.

6.2. LITERATURE REVIEW AND HYPOTHESIS OF STUDY

Different authors in their researches tried to explain the impact of the economic stability and legal environment on the FDI flows. Authors Andrzej Baniak, Jacek Cukrovwski and Jan Herczynski, studied some of the most important factors determining flows of foreign investments in transitional economies. Their studies devoted particular attention to legal and environmental analysis showed that: - the higher variability of basic macroeconomic fundamentals reduces foreign investment flows - high volatility of fiscal and business regulations makes the inflow of FDI smaller - macroeconomic and legal instability leads to adverse selection of the investors. [Baniak, Cukrowski, Herczynski, 2002, 2]. Given the fact that Albania is going through a transition period from the planned economy to a market economy, based on these studies the following assumptions have been considered about the political environment on the flow of foreign investments in Albania.

Hypothesis 1a
The increase of political stability in the country increases also the probability of foreign investments in the coming years.
Hypothesis 1 b
The increase of the variability of business policies increases the probability that the level of foreign investment in the coming years will be lower.
Hypothesis 1 c
The increasing of the number of procedures in order to meet legal obligations increases the probability that the level of investment in future years will be smaller.

Bearing in mind the increased competition for worldwide FDI, different researchers, along with political economic, social and geographical factors have reassessed their treatments to attract multinational corporations. Thus, the increase in FDI will increase as well the number of publications, especially in determinants related with these investments. Many

countries are involved in marketing efforts to attract foreign investors. In their research scholars have tried to show if investment promotion affects the flow of foreign investment.

In their study, the authors Louis T. Well and Jr., Alvin G. Wint, took into account the promotion variable to measure the impact of the fact, whether or not a country is engaged in marketing activities in order to attract foreign investments [Well, Wint, 1990, 30]. The authors created a multiple regression model which tested about 50 developed and developing countries. Multiple regression model takes into account several other variables, which were tested by a group of authors, plus the promotion variable.

Louis T. Well and Jr., Alvin G. Wint, were concentrated on: -studies of John H. Dunning, who discovered a statistically significant relationship between FDI and market demand (measured by per capita GDP) and market growth (measured by rate of growth of GDP) [Dunning, 1981, 30] -studies of Schneider and Frey, who had proved the greater per capita income, the higher the flow of foreign investments, [Schneider, Frey, 1985, 161-75]   -studies of Bas and Aharoni who had proved that after the market growth and its size, the political instability was the main factor influencing the FDI flow, -Bas, Aharon, and studies of Root and Ahmed, Frost and Sullivan, [Root, Ahmed, Frost, Sullivan Frey, 1983, 161-75] who proved that political stability was one of the most significant variables in the flow of FDI.

Based on these studies, Louis T. Well and Jr., Alvin G. Wint, showed that the variable of promotion contributed highly indicating that this variable had a significant impact on the flow of FDI. Their study was deepened by dividing the developing and industrialized countries, to see if there were differences between these two groups. They showed that if the studies do not address to developing and industrialized countries in differently, they are methodologically insufficient because various factors determine the level of FDI in these two groups of countries.

Although the study of Louis T. Well and Jr., Alvin G. Wint suggested that the variable of the investment promotion had a statistical relation with the flow of FDI, there was a relatively large difference between the impact of promotion in industrialized countries and the impact of this variable in developing countries. In the model of industrialized countries, the promotion was the most significant variable, while the model of developing countries, incomes and variables of the political stability were the most important.

This finding was explained by the fact that the promotion had the greatest impact where other factors may attract the investments, product factors, such as income levels and the degree of political stability. In the developing countries, where there is a greater variety of product factors, the impact of promotion depends on the influence of other factors. [Well, Wint, 1990, 30].

Referring to the Albanian reality, we may notice that during 1998-2006, efforts were made to establish some institutions, where the main goal was to promote the country in attracting the foreign investments. As the studies mentioned above showed that investment promotion had a significant impact in attracting FDI, and as there are made effort to promote the country we can formulate the following hypothesis.

Hypothesis 2

The greater the efforts in promoting the host country to foreign investments, the greater the level of foreign investments in country.

6.3. RESULTS OF TESTING HYPOTHESES

Results of the contingency test χ^2, were verified for the hypotheses of the conceptual model. Regarding the results of the ***political environment influence*** resulted these findings, ***hypothesis 1a was confirmed***, because $\chi^2_{calc} = 4.796$ ($\alpha = 0.05$, degrees of freedom 3), $\chi^2_{tab} = 7.81$. So, $\chi^2_{cal} < \chi^2_{tab}$. (In this study χ^2_{cal} is the calculated value by Chi Square test and χ^2_{tab} is the critical value found from the distribution of Pearson). Thus, the increased political stability in country increases the probability for increasing the foreign investment. Statistical results are displayed in Table no. 6 and Table no. 7.

*Table no. 6 - How do you see the political stability in Albania? *Are you undertaking new investments during three coming years? Cross tabulation*

| | | Are you undertaking new investments during three coming years? | | Total |
		Yes	No	
How do you see the political stability in Albania?	High	4	0	4
	Average	46	24	70
	Low	34	4	38
	Very low	6	4	10
Total		90	32	122

Table no. 7 - Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.796	3	.187
Likelihood Ratio	5.683	3	.128
Linear-by-Linear Association	.205	1	.651
N of Valid Cases	122		

Hypothesis 1b resulted to be true, as $\chi^2_{cal} < \chi^2_{tab}$ where: ($\chi^2_{cal} = 8.057$ and $\chi^2_{tab} = 11.1$, $\alpha = 0.05$, degrees of freedom 5). These results indicate that larger the variability of business policies, the greater the probability for the level of FDI to be low during the coming years. Results of the statistical hypothesis test are presented in Tables no.8 and no. 9.

These results indicate that the larger the variability of business policies, the greater the probability that the level of foreign investments in coming years is lower during the coming years.

*Table no. 8 - Do you think that business policies change each time governments change? *Are you undertaking new investments during three coming years? Cross tabulation*

		Are you undertaking new investments during three coming years?		Total
		Yes	**No**	
Do you think that business policies change each time governments change?	Do not change	2	2	4
	Very few	2	2	4
	Few	0	2	2
	Somehow	32	2	34
	Much	46	20	66
	Very much	8	4	12
Total		**90**	**32**	**122**

Table no. 9 - Chi-Square Tests

	Value	**df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square	8.057	5	.153
Likelihood Ratio	8.929	5	.112
Linear-by-Linear Association	.066	1	.797
N of Valid Cases	122		

Meanwhile, ***the hypothesis 1c was not verified***, (χ^2_{cal} = 22.563, α = 0.05, degrees of freedom 4, χ^2_{tab} = 9.49), then $\chi^2_{cal} > \chi^2_{tab}$. This showed that there is no important relation than that between the number of procedures to meet legal obligations and expected level of investments. These hypotheses were tested in the production sector companies. Table no. 10 and Table no. 11 display the results of statistical verification of this hypothesis.

*Table no. 10 – Do you think there exist bureaucracies in meeting legal obligations? *Are you under-taking new investments in three coming years? Cross tabulation*

		*Are you undertaking new investments in three coming years		Total
		Yes	No	
Do you think there exist bureaucracies in meeting legal obligations?	Very few	6	0	6
	Few	2	2	2
	Average	56	0	56
	Much	14	18	32
	Very much	12	12	24
Total		90	32	122

Table no. 11 - Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	22.563	4	.000
Likelihood Ratio	28.866	4	.000
Linear-by-Linear Association	11.187	1	.001
N of Valid Cases	122		

Regarding the relation that can exist between ***promotional efforts*** and their impact in attracting the foreign investments we could list some hypotheses. They would try to make a measurement of the impact of each promotion element or the impact of the Promotion Agency in attracting the investors. Such hypotheses were not formulated for both reasons. *The first reason* concerned the difficulty of measuring the impact of each element of promotion in attracting the foreign investors. *The second reason* concerned the fact that not all interviewed businesses began their activity in the time of establishment of the Promotion Agency in Albania and the contacts with it almost were inexistent. The problem became more complicated from the fact that this Agency passed through a restructuring process in the course of year, which caused changes in its structure and the services it offers.

6.3. BUILDING A MULTIPLE REGRESSION MODEL FOR IDENTIFYING THE EFFECT OF THE PROMOTION

To identify the effect of promotion on attracting the foreign investors, a multiple regression model was created. The creation of this model considered the research from literature, examining political, economic and geographical variables along with the promotion effects. The equation is presented as follows:

Equation 1

Foreign Direct Investments = f (political stability, GDP/capita, population in working age, promotion).

The variable depending on the model is FDI in million dollars. Variables of the control are: political stability, GDP/capita, population and promotion. The following regression equation presents the conceptual model.

Equation 2

$Y = \beta_0 + \beta_1 \text{(political stability)} + \beta_2 \text{(GDP/capita)} + \beta_3 \text{(population)} + \beta_4 \text{(promotion)} + \mu_i$

Table no. 12 displays the variables, their representatives and data sources for them.

Table no. 12 - Variables, proxy and data sources

Variables	Proxy of variables	Source of data
Foreign Direct Investments	**FDI (in million $)**	**Bank of Albania, EBRD Data base**
Political stability	Indicator of political stability (Sullivan and Frost)	
Efficient demand	PBB per capita (in $)	Bank of Albania
Population	Population in working age (000)	INSTAT
Promotion	Indicator of Louis T. Well and Jr, Alvin G. Wint	

Before we created the model of FDI determinants, it was necessary to make an analysis of the above-mentioned variables. Thus, regarding: - *GDP/capita,* it is supposed that the higher this indicator, the higher the FDI flows. So, the expected result of this indicator is positive, - *population in the working age,* the greater the working forces in a country, the greater the desire of firms to invest there. Thus the result of this indicator is expected to be positive*, -* the higher the political stability, the greater the desire of companies to invest. Thus the result of this indicator is expected to be positive*, - promotion,* the greatest the promotional efforts in promoting the country to investors' community, the highest the interest of investors to invest in this country. Thus, the expected sign of this indicator is positive. Table no.13 presents the model of FDI determinants.

Table no. 13 - Model of FDI determinants

Variable	Proxy	Hypothesis sign
Dependent variable *Foreign Direct Investments*	FDI (in million $)	+
Independent variables *Political stability*	Indicator of political stability (Sullivan and Frost)	+
Efficient demand	GDP per capita (in $)	+
Population	Population in working age (000)	+
Promotion	Promotion = 1	+

The model was tested on the data during the period that included 1995-2007, in a total of 12 observations. Since all the variables involved were identified as important by the literature, it was not necessary to use stepwise regression to select potential variables. Results of multiple regression for all data obtained are presented in the following table.

Regression
REGRESSION
 /STATISTICS COEFF OUTS R ANOVA COLLIN TOL
 /CRITERIA=PIN(.05) POUT(.10)
 /NOORIGIN
 /DEPENDENT IHD
 /METHOD=ENTER Promotion PBB Political stability Population.

Table no.14 - Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	Population in working age, political stability, promotion of investment, GDP per capita in USD (a)	.	Enter

   a.   All requested variables entered.
   b.   Dependent Variable: Foreign Direct Investments in million USD.

Table no. 15 - Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.858(a)	.735	.603	73.67738

a. Predictors: (Constant), population in working age, political stability, promotion of investment, GDP per capita in USD

Table no. 16 - ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	120756.224	4	30189.056	5.561	.019(a)
	Residual	43426.852	8	5428.357		
	Total	164183.077	12			

a. Predictors: (Constant), population in working age, political stability, promotion of investment, GDP per capita in USD
b. Dependent Variable: Foreign Direct Investments in million USD.

Table no. 17 – Coefficients (a)

Model		Unstandardized Co-efficients		Stand. Coeffi-cients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta	Toler-ance	VIF	B	Std. Error
1	(Constant)	-1044.878	458.778		-2.278	.052		
	Promotion of invest-ment	82.552	51.952	.309	1.589	.151	.872	1.147
	GDP per capita in USD	.051	.111	.134	.455	.661	.383	2.612
	Political stability	184.465	77.006	.692	2.395	.043	.397	2.521
	Population in working age	534.329	243.002	.417	2.199	.059	.918	1.089

a. Dependent Variable: Foreign Direct Investments in million USD.

6.4. INTERPRETATION OF THE MODEL'S RESULTS

Testing the model for all these data shows that the model has relatively high explanatory power: $R^2 = 0.735$, F = 5.561 (3.84) sig = 0.019. This means that all independent variables of the hypothesis which are equal to zero are rejected. All variables have the expected signs of the hypothesis. To determine which of the independent variables are significant in relation to the dependent variable regression coefficients should be examined further. From these results we find:

Political stability is forecasted as important for the FDI, t (8) = 2.395, p = 0.043. The model predicts that for each unit increase in political stability, FDI has increased by 184,465 units.

The other variables did not resulted significant, however, the contribution of investment promotion and working age population is considerable, the investment promotion, the unstandandartized coefficient B = 82.552, while for the working age population this coefficient is B = 534.329. Variable GDP/capita, not only resulted insignificant (sig = 0.661), but its contribution to the model is weak because B = 0.051. Such a result perhaps is affected by the fact that a higher GDP/capita above can not be as stimulating to foreign firms, as labor force will seek wages or higher rewards.

7. CONCLUSIONS

The realization of this study achieved several important conclusions which can be identified in these directions.

The study concluded that the political stability in Albania is considered one of the most important factors in attracting FDI. On a "very low" to "very high" scale, the political stability in Albania is estimated by 57.4% from the interviewed investors in the "average" level. Judging the opinions of investors on the investment climate in Albania, the Albanian authorities should make more efforts to boost investor confidence, not only the existence of political stability in the country, but also the stability of government policies related to business. This can be achieved not only through strengthening the legal framework, but also through its transparent implementation. A critical problem is the fight against corruption that may be provided by eliminating excessive regulations or unnecessary actions that increase the chances for corruption.

Another conclusion of this study concerned with the fact that foreign investors consider very positive efforts to establish the office of the type "One Stop Shop" that will help them more. In this regard efforts on simplifying business procedures, the establishment of the National Registration Center (NRC), or the final establishment of the National Licensing Center, are not only trying to boost investor confidence to legal structures, but also prevent corruptive actions.

The fact that about 73.7% of responding investors think they are ensured against expropriation, leads to the conclusion that there is a growing confidence of investors towards political stability and governance.

Promotion of investment could be a factor affecting the attraction of FDI however; its role is not the same as in developed and developing countries [Louis T. Well and Jr., Alvin G. Wint 1990, 34]. Multiple regression analysis conducted in this study showed that investment promotion was indeed marked by the expected hypothesis (increased promotional

efforts, increased interest of foreign investors), but it resulted in no significant variables in the case of Albania.

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