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Foreword

Dear readers,

We have the honor to present to you the new issue of the scientific journal *SEEU Review*, Vol. 7. no. 1 which is also available on the following link <http://www.seeu.edu.mk/en/research/seeu-review>.

In this issue of *SEEU Review*, researchers from the University and region, present their work in the following fields: Law, Business and Economics, Contemporary Sciences and Technologies and natural sciences.

The Editorial Board has made the selection based on work, that has scientific significance and that address current issues.

SEEU remain an open institution, developing and having strong links with other institutions, both in the region and further fields, and we continue to encourage researchers outside SEEU as well.

In future issues, we invite academics in addition to their scientific work, to submit the reviews of published books, which contribute to the advancement of science in the region and beyond.

Finally, we wish to thank our staff for their commitment, dedication and professional work in publishing this issue. The Editorial Board thanks the authors and reviewers for their patience, good will and cooperation at every stage of the review process of the *SEEU Review*.

Prof. Dr. Blerim Reka

Editor-in-Chief

Comparison of the achievements of open investment funds in Macedonia

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Abstract

This paper evaluates the performance of open-end investment funds in Macedonia by comparing their returns with appropriate benchmarks. Several composite measures suggested by Jensen (1968), Treynor (1965) and Sharpe (1966) were used in the analysis. The results are showing that some Macedonian investment funds are able to achieve better risk-adjusted returns. According to the decomposition measures from Treynor (1966) and Fama (1972), the above average returns are due to superior stock selection and better market timing. However, the overall effect from the active portfolio management is zero as a result of fees and expenses. Finally, the funds with below average returns have worse market timing and security selection, while at the same time they have higher level of diversification.

Keywords: *open-end investment funds; performance evaluation; portfolio management.*

JEL Classification: G12, G20, G23

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Abstrakt

Ky punim bën vlerësimin e fondeve të hapura të investime në Maqedoni duke e krahasuar kthimin e tyre me standardet e duhura. Disa masa të sugjeruara nga *Jensen* (1968), *Treynor* (1965) dhe *Sharpe* (1966) janë përdorur në këtë analizë. Rezultatet kanë treguar se disa fonde investimi në Maqedoni janë në gjendje për të arritur më të mirë për kthimin e mjeteve. Sipas masave nga *Treynor* (1966) dhe *Fama* (1972), kthimi mbi mesataren është për shkak të zgjedhjes së lartë të aksioneve dhe kohën më të mirë të tregut. Megjithatë, efekti i përgjithshëm nga menaxhimi i portofolit aktive është zero, si rezultat i taksave dhe shpenzimeve. Së fundi, fondet e kthimit nën mesataren kanë kohë të keqe në treg dhe zgjedhjen e sigurisë, ndërsa në të njëjtën kohë ata kanë nivel më të lartë të diversifikimit.

Fjalët kyçe: fondeve të hapura të investime, vlerësimi i performancës, menaxhimi i portfolit

Апстракт

Во овој труд се евалуирани перформансите на отворените инвестициски фондови во Македонија со споредување на нивните профити со соодветни стандарди. Во текот на анализата се користеа неколку композитни мерки предложени од страна на Јенсен (1968), Трејнор (1965) и Шарп (1966). Резултатите покажуваат дека некои македонски инвестициски фондови можат да постигнат профити подобро прилагодени на ризикот. Според мерките на декомпозиција на Трејнор (1966) и Фама (1972), профитите над просекот се должат на извонредната селекција и подобар пазарен тајминг. Сепак, вкупниот ефект од активниот портфолио менаџмент е нула како резултат на таксите и трошоците. Конечно, средствата со профити под просекот имаат полош тајминг на пазарот и безбедност при избор, додека во исто време тие имаат повисоко ниво на диверзификација.

Клучни зборови: отворените инвестициски фондови, оценување на перформансата, портфолио менаџмент

I. Introduction

Measuring the performance of open-end investment funds is one of the most common research topics in the field of finance. This is mainly due to the importance of this collective investment vehicle for both individual and institutional clients, easy access to information, and great transparency in their investment strategy and portfolio structure.

Open-end investment funds generally provide three key advantages for their investors. First, through the process of diversification they tend to reduce the risks associated with investing in the capital markets. Second, they provide professionally managed asset portfolios at lower cost, and third, as a collective investment schemes, they provide opportunity to small investors for indirect exposure to the capital markets.¹ The first and the third advantage are generally accepted as a real benefit. However, the benefits arising from having professional management portfolios, and their success, very often have been seriously questioned in the financial literature.

Intuitively, the process of comparing the performance of investment funds seems to be a pretty straight – forward issue. Firstly, the rate of return for each investment fund is calculated and then they are ranked accordingly, with best fund being the one that provides the highest rate of return. By definition, this approach of comparison is incorrect. For example, it doesn't make sense to compare two investment funds only by their returns if they have completely different investment strategies (fixed income vs. equity, small cap vs. large cap, developed vs. emerging markets, etc.). In order to make an appropriate analysis it is also necessary to incorporate the risk. Actively managed portfolios with above-average returns should have higher rate of return compared with passive portfolios (indexes or benchmarks) at the same level of risk, or same rate of return, but with lower risk.

Generally speaking, there are two problems associated with the process of implementation of various methodologies used for comparing the performance of investment funds. The first problem is related with the quantification of risk, while the second is related with the choice of appropriate benchmark that serves as a base for comparison (i.e., defining what represents the approximation of "*normal*" performance).

¹ Additional benefits from the investment funds are lower transaction costs, liquidity, legal protection of the investors, etc.

Worldwide, there is extensive literature in the field of finance related with testing "*the efficiency of capital markets*". Furthermore, using a passive investment strategy (or so called buy-and-hold strategy) is the most common recommendation because the costs paid for professionally managed asset portfolios are often too high, and occasionally they fail to deliver additional value added for their investors. Overall, the results of these empirical studies provide a strong support to the hypothesis of existence of a "strong" form of market efficiency.

During the sixties of the last century, the studies conducted by Sharpe (1966), Treynor (1965) and Jensen (1968) confirmed this statement. US investment funds achieved lower risk-adjusted returns compared with their appropriate passive benchmarks. Henriksson (1984), Chang and Lewellen (1984), and Gruber (1996) are among the authors who came up with similar conclusions. According to the results from those studies, actively managed mutual funds realized under-performance compared with the market proxy by the amount of expenses they charge the investor. On the other hand, Hendricks, Patel and Zeckhauser (1993), Grinblatt and Titman (1989), Goetzmann and Ibbotson (1994), and Wermers (1996) are among the authors who found some evidence of consistency in the investment fund performance over short period (one to three years).

This can be explained by so-called "*hot hands*" effect, or through the existence of "*common investment strategies*". Grinblatt and Titman (1992) also concluded that investment funds performance, except in the short-term, can also be predicted over long-term (five to ten years). This is explained by differences in information that are available to fund managers, or through superior securities selection. Carhart (1997) again reveals in his study that some investment funds are showing consistency in performance in the short-term which can be both, positive and negative.²

Despite the huge importance of these topics, which are frequently the main focus of the academic community, up until now there is no single paper in Macedonia that tries to make appropriate comparison of their results. This study represents first attempt to answer several key questions related to the performance of investment funds in Macedonia, such as:

- Whether investment fund returns are above or below their benchmarks, and whether the individual fund performance is in line with the portfolio risk?
- Whether Macedonian investment funds are able to achieve above-average returns after fees and expenses?, and finally

² This refers to *momentum* and *mean reversion*.

- Whether investment fund portfolios have been properly diversified, and do they truly possess the advantages offered by active portfolio management (such as market timing and superior stock selection).

From the empirical results it can be concluded that Innovo Status – Shares has worst performance during the observed period. This can be explained by poor selection of securities, as well as by having worse market timing. Similar conclusions can be drawn for both investment funds managed by Ilirika, although their results are slightly better compared with Innovo Status – Shares. Additional feature of the portfolios with below-average returns is that they possess a higher level of diversification. All other Macedonian investment funds are able to achieve better risk-adjusted returns compared with their appropriate benchmarks, which are realized through better market timing and/or superior securities selection. However, the net effect of those portfolios is zero due to higher costs associated with managing the fund's assets, as well as the efforts to predict the securities prices.

The remainder of this paper is organized as follows. Section II gives brief overview of the size of Macedonian investment fund industry. Section III explains how the synthetic indexes (or benchmarks) were created, and the calculation of returns. The most important methodological approaches used for comparing the performance of Macedonian investment funds are presented in Section IV, along with the explanation on how to measure the benefits from actively managed portfolios. Results from the analysis are shown in Section V. Finally, the concluding remarks and suggestions regarding the possible direction for future research are in Section VI.

II. The size of the industry in Macedonia

The investment funds (along with the pension funds) are among the most important institutional investors. At the end of 2007, the amount of assets under management exceeded 26 trillion US dollars worldwide. During the same year, approximately 50% of this amount (or 13 trillion US dollars) was in the United States only. However, there was a significant drop in the assets under management due to the recent financial crisis (2008). At the end of 3rd quarter 2009 over 22 trillion US dollars were allocated in different investment funds.

Despite the huge interest in the world, so far in Macedonia they failed to attract enough attention by the domestic investors.

The legal framework that regulates this segment of the capital market was passed in 2000. However, the first fund management companies were established during 2007 (along with changes in the Law on investment funds). Currently, almost three years from their inception, the industry is still at the very early stage of its development. As of 1/3/2010 there were four fund management companies in Macedonia, managing six open-ended investment funds with approximately 3 million US dollars of assets overall. The following table gives broad overview of Macedonian investment fund industry compared with several countries in the region, and the world.

Table 1: Assets under management (in million US\$) ³					Factor	
	2006	2007	2008	2009*	Assets [†]	GDP [‡]
Total	21.823.455	26.199.448	18.917.499	22.376.842		
USA	11.485.012	13.442.653	10.579.430	10.832.363	28.071	10,0
Germany	258.409	252.749	171.004	213.645	1.714	9,5
France	1.343.400	1.351.600	1.143.265	1.264.105	14.315	9,8
Australia	656.230	810.402	604.392	785.745	22.327	10,2
China	N/a	294.860	198.536	209.469	122	0,7
South Africa	78.026	95.221	69.417	99.446	1.153	1,2
Slovenia	2.484	4.219	2.067	2.586	824	5,7
Croatia	3.217	6.029	2.357	2.425	435	3,3
Turkey	11.741	15.358	11.069	13.678	125	2,3
Greece	20.960	20.248	8.758	9.312	635	6,8
Macedonia	N/a	N/a	2,5	2,5	1	1

* As of the end of 3Q 2009

† Assets under management (*per capita*) in respective county compared with Macedonia (2008)

‡ Gross domestic product (*per capita*) in respective country compared with Macedonia (2008)

From the data presented in the table, it can be concluded that in Macedonia there is still a great mistrust and reservations towards this type of collective investment schemes. Furthermore, it is also obvious that the Macedonian level of income compared with some other countries has certain influence, but it is explaining only a small part of the difference in the amount of assets under management (for example: the Croatian GDP per capita is 3.3 times higher than Macedonian GDP, while the amount of assets under management is 435 times higher).

³ Source: *Investment Company Institute, World Bank (World Development Indicators), UN.*

On the other hand, according to the latest figures released by the National Bank of the Republic of Macedonia, at the end of 2009 bank deposits exceeded 3 billion Euros,⁴ or reaching almost 50% of the Macedonian GDP. This is additional evidence that Macedonian citizens are saving, but apart from the bank deposits (and obligatory second pillar) they are not using any alternative forms.

Similar conclusions about the level of development of this market segment can be reached by analyzing the level of financial education of potential investors and their perception concerning the investment funds in general. Additional argument regarding this issue is the availability of different investment funds offered by the asset management companies.

Currently, all investment funds in Macedonia can be divided according to the asset classes that are integral part of fund's portfolio (although certain level of geographical specialization is also present).⁵ Nevertheless, Macedonian market is still short of any cash (or money market) fund, or fund that invests in fixed income securities. Also it is far too early to think about investment funds specializing in certain "*global*" sectors.

Several factors can provide explanation for this current state of affairs. Perhaps the most important issue affecting the slow development of this segment of the Macedonian capital market is related with the selection of worst possible timing for setting up the first asset management companies, and consequently the first investment funds. Namely, they came out immediately after the end of prolonged period of unprecedented bull-run of Macedonian stock exchange. In fact, in August 2007 MBI 10 index reached 10,000 points (multiplying 10 times since January 2005).

Since then, there was a long downward trend that ended in May 2009. MBI 10 lost more than 80% of its value (reaching the level of 1,700 points). At the same time, most of the individual investors have been directly exposed to the capital market.⁶ The lost confidence, poor recommendations from many representatives of the investment community and unrealistic expectations of both institutional and individual investors also played their role.

⁴ Quarterly report, January 2010, the National Bank of the Republic of Macedonia.

⁵ For example: BRIC countries, or Southeast Europe.

⁶ It also might be the case that individual investors were forced to get direct exposure to capital markets precisely because asset management companies and investment funds were not available before 2007.

III. Data

The data consist of monthly and weekly returns of 9 open-end investment funds portfolios in Macedonia for the period between November 2007 and February 2010. The list of funds included in the survey, and the type of each fund are presented in Table 2.

Table 2: List of investment funds

No.	Type	Fund	Established ⁷	Active
1	Equity	Inново Status – Shares	21/11/2007	Yes
2	Equity	Iirika – Global growth	21/11/2007	Yes
3	Equity	Iirika – Southeast Europe	21/11/2007	Yes
4	Equity	Sava – Growth	29/10/2008	No
5	Equity	KD – BRIC	28/10/2008	No
6	Equity	KD – South Balkans ⁸	28/10/2008	Yes
7	Equity	My Fund	3/11/2008	No
8	Balanced	Sava – Balanced	29/10/2008	No
9	Balanced	KB Publikum – Balanced	22/6/2009	Yes

The portfolio returns for each investment fund were calculated by using the following formula:

$$R_p = \frac{NAV_t - NAV_{t-1}}{NAV_{t-1}} \times 100 \quad (1)$$

Where R_p is fund portfolio return, NAV represents fund net asset value per share, and t is the time period used in the calculation (in this case week or month). The market returns (or benchmark returns) were calculated by using the following formula:

⁷ The date shows when the process of valuation (and calculating the value of single share) for each investment fund started.

⁸ The investment fund KD – South Balkans was renamed into KD – New Europe with the changes in Prospectus from 01.02.2010.

$$R_m = \frac{R_{m,t} - R_{m,t-1}}{R_{m,t-1}} \quad (2)$$

Where R_m is market return (it can be a return of single or group of indexes). Furthermore, for each investment fund included in the survey a unique synthetic benchmark was created in order to obtain the most appropriate approximation of their investment strategy, portfolio structure, as well as country selection (or the current investment restrictions imposed by the fund's Prospectus).⁹ All indexes used into the calculation are presented in the following table (but their inclusion and specific weight in each synthetic benchmark depends on the investment strategy of each fund).

Table 3: List of indexes

Index	Country
MBI 10, OMB	Macedonia
BELEX 15	Serbia
CROBEX	Croatia
SBI 20	Slovenia
S&P 500	USA
DAX	Germany
CAC 40	France
BRIC ¹⁰	Basil, Russia, India, China

In the process of calculation appropriate adjustment was carried out in order to ensure adequate comparison of fund's returns and their appropriate benchmarks (given that the date of valuation of fund's net asset value and the price of single share is always performed with one day delay).¹¹

Finally, treasury bills issued by the National Bank of the Republic of Macedonia were used as approximation for the risk-free interest rate. Furthermore,

⁹ Additional assumption in the calculation was that each fund was immediately *fully invested* (i.e. when the process of valuation of funds assets begins for the first time); despite the fact that in reality the process of portfolio construction usually requires more time.

¹⁰ According with the list of countries presented in the table, Bovespa, RTS, BSE Sensex, and Hang Seng respectively were included in the construction of the BRIC index.

¹¹ Comparing the benchmark returns with the fund's returns at the date of valuation (not "calculation" date of fund's net asset value and price of single share).

appropriate adjustments were also carried out in order the interest rate to correspond to the period (t) for which returns are calculated.

IV. Methodology

This section describes the measures used to evaluate the portfolio performance of all Macedonian investment funds. Intuitively, the process of comparison appears to be quite simple. First, the rate of return for each investment fund is calculated and then they are ranked accordingly, with best fund being the one that provides the highest rate of return. However, this approach of comparison is incorrect. For example, it doesn't make sense to compare two investment funds only by their returns if they have completely different investment strategies (fixed income vs. equity, small cap vs. large cap, developed vs. emerging markets, etc.).

Few things that are clear from the preceding analysis: first, the analysis should be done over longer period in order to have significance (data set covering several years), and second, the risk also has to be incorporated. However, the first problem immediately arises when someone tries to include the risk into the calculation. Namely, this is because there is no universally acceptable definition or way how it should be measured. Most commonly used methods in the financial literature are standard deviation and Beta.¹² Standard deviation measures the volatility of returns, while Beta goes a step further, measuring the volatility of returns in relation with the market portfolio.

One of the key aspects in the process of asset management is diversification. The proper diversification tends to reduce the portfolio risk. Namely, as we increase the number of securities in a portfolio the variability of portfolio returns (or the standard deviation) declines. This decline occurs as a result of the covariance between different securities. However, as the number of securities is being increased further, the decline in the standard deviation of the portfolio's return due to diversification gradually narrows down, and after a while adding more securities to the portfolio leads to no further reduction in risk. In this context, Beta refers to certain component of risk which cannot be diversified away (this is also known as systematic or the market risk).

On the other hand, there is a slightly different definition of Beta which is based on portfolio theory developed by Markowitz (1952). His theoretical

¹² Both measures of risk are incorporated in this analysis.

framework was later extended by Sharpe (1964) into (CAPM) generalized theory of capital asset pricing under conditions of uncertainty. CAPM represents one of the most significant advances in the field of finance.

Under this model, the Beta can be defined as risk of certain security in the large diversified portfolio. According to statistical terminology, Beta represents a coefficient, or "slope" of regression equation which links the return on investment with the return on market portfolio. It also worth pointing out CAPM is generally attributed to Sharpe, but Linter (1965) and Mossin (1966) also derived similar theories independently.¹³ According to CAPM, Beta is the only relevant measure of risk.

When it comes to evaluating the performance of open-ended investment funds there is no clear distinction whether to use standard deviation or Beta as a relevant measure of risk. If the investors invest only in open-ended investment fund then the relevant measure of risk is the standard deviation of fund returns. However, if the investment in open-ended fund is part of a well-diversified portfolio then the relevant measure of risk should be Beta.

As previously mentioned, this study uses composite measures for evaluating the performance of investment funds that are incorporating both definitions of risk. The most commonly used methods for evaluating the portfolio performance of investment funds are: Sharpe ratio (Sharpe, 1966), Trynor's performance index (Treyner, 1965), and Jensen alpha (Jensen, 1968). When it comes to portfolio performance evaluation, these measures are the ones that every investment textbook carries in its chapters. They provide greater flexibility by combining the realized returns and the risk into a single indicator. Each measure evaluates the fund performance in comparison with appropriate benchmark portfolio (index), or group of portfolios (group of indexes).

¹³ For more details please see William F. Sharpe (1964), "Capital Asset Prices: A Theory of Market Equilibrium under Conditions of Risk", *Journal of Finance* 19, no. 3; John Linter (1965), "Security Prices, Risk and Maximal Gains from Diversification", *Journal of Finance* 20, no. 4. J. Mossin (1966), "Equilibrium in a Capital Asset Market", *Econometrica* 34, no. 4.

IV.1. Sharpe ratio¹⁴

Sharpe (1996) was one of the pioneers who created a composite measure (or coefficient) which can be used for comparing and evaluating the portfolio performance of different investment funds.

According to this methodology the risk is being measured by the standard deviation. Sharpe ratio is stated by the following equation:

$$S = \frac{(R_p - R_f)}{\sigma_p} \quad (3)$$

Where S is Sharpe ratio, R_p is rate of return for portfolio p during a specified time period, R_f is risk-free interest rate during the same time period, while σ_p is the standard deviation of the rate of return for portfolio p . In case of the market portfolio, the methodology for calculating the Sharpe ratio is identical as in equation (3), except that R_p is being replaced with R_m (market return), while σ_p is being replaced with σ_m (or the standard deviation of market returns).

From the equation (3) it can be concluded that Sharpe (1966) prefers to compare the fund portfolio performance through “*capital market line (CML)*” instead of “*security market line (SML)*”. Therefore, the Sharpe ratio evaluates the portfolio manager on the basis of both, rate of return and diversification (Sharpe 1967).

IV.2. Treynor’s performance index¹⁵

Treynor (1965) also created composite index for evaluating the portfolio performance, which is very similar to the Sharpe ratio. The only difference is that he uses Beta as a measure of portfolio risk (instead of the standard deviation). In other words, Treynor is using only the systematic risk (summarized by Beta), while the Sharpe ratio uses total risk. Treynor’s performance index is stated by the following equation:

¹⁴ Sharpe, William (1966), “Mutual Fund Performance”, *Journal of Business*, January, pp 119-138. For more recent interpretation of this measure, also see Sharpe, William (1994), “The Sharpe ratio”, *Journal of portfolio management* 21, no. 1, pp 49-59. This coefficient is also known as *reward to variability ratio*.

¹⁵ This coefficient is also known as *reward to volatility ratio*.

$$T = \frac{(R_p - R_f)}{\beta_p} \quad (4)$$

Where T is the index, R_p is the return of the portfolio for certain period of time, R_f is risk-free interest rate during the same time period, and β_p is portfolio Beta.

In case when $R_p > R_f$ and $\beta_p > 0$, higher value for T indicates better portfolio for all investors, regardless of their individual risk preferences. From equation (4) also can be noticed that there are two possible scenarios when T can have negative value. This might happen if $R_p < R_f$ or when $\beta_p < 0$. If we obtain a negative value for T due to $R_p < R_f$ then the portfolio returns are lower compared with the risk-free interest rate (or in other words, this is a case of significant underperformance on risk-adjusted basis). However, if we obtain a negative value for T but due to $\beta_p < 0$ then the fund portfolio achieved superior (risk-adjusted) returns. Furthermore, in order to make appropriate evaluation of fund performance in case when both values for $R_p < R_f$ and β_p are negative (while at the same time T has positive value), than it is necessary to see whether R_p is below or above the „*security market line (SML)*” during the specified time period (Reilly 1992).

At this stage it is worth mentioning that Treynor’s performance index and Sharpe ratio are also having certain weaknesses. The underlying assumption incorporated in both measures for evaluating the fund performance (on risk-adjusted basis) is that the risk is being approximated by the short-term volatility. Consequently, they are not the most convenient way of evaluating the benefits arising from long-term investments. Additionally, both measures are producing relative but not absolute rankings of portfolio performance (lack of quantification regarding the statistical significance in the differences of the risk-adjusted returns).

IV.3. Alpha

Jensen (1968) introduces the Alpha as a measure for evaluating the performance of mutual funds. The basic assumption of the model states that if CAPM is empirically correct than Alpha can be expressed by the following equation:

$$J = \alpha = R_p - (R_f + \beta_p (R_m - R_f)) \quad (5)$$

Where J is Jensen alpha, R_p is rate of return for portfolio p during a specified time period, R_m is market return during the same time period, and β_p is portfolio Beta.

By rearranging and subtracting the risk-free interest rate from both sides of the equation (5) one can obtain an alternative regression equation in the following form:

$$(R_{p,t} - R_{f,t}) = \alpha_p + \beta_p (R_{m,t} - R_{f,t}) + \varepsilon_{p,t} \quad (6)$$

According to equation (6), the risk premium earned by a certain portfolio p is equal to the sum of Alpha (which is constant), market risk premium adjusted for portfolio Beta, and random error term. According to Jensen (1968) α_p is the measure used for evaluating the portfolio performance. In equilibrium, the value of α_p should be equal to 0.

This would imply that the portfolio returns are in line with the expectations (or the portfolio return corresponds with the level of risk). Furthermore, this can be considered as additional argument regarding the existence of market efficiency. If fund managers are achieving “*superior results*” than α_p estimated by using equation (6) should be positive (and statistically significant as a result of the consistent positive differences in returns).

In other words, if α_p is positive than portfolio managers are consistently able to “*beat*” the market with their superior market timing strategy (correctly forecasting the market trends) and/or stock selection or “*stock picking skills*” (selecting undervalued securities). In other words, they are able to achieve higher risk premiums than those implied by this model. Alternatively, in case of below average risk-adjusted returns α_p is negative (fund managers have inferior returns). Jensen alpha also has additional advantage over the Treynor’s performance index and Sharpe ratio.

Alpha is more precise indicator because its ability to incorporate any changes in the risk-free interest rate that might occur over time. However, as any other method, Jensen alpha also has certain drawbacks. As a single factor model it doesn’t have a capacity to explain whether the differences are arising because of

variation in the investment styles followed by the fund managers (small cap vs. large cap, value vs. growth, etc.).

IV.4. Diversification, market timing and superior securities selection

A. Diversification

Once all composite measures are calculated, and consequently used for evaluating the performance of investment funds, the next question that naturally arises is the level of diversification of those portfolios. Namely, the same measures can also provide some indications regarding this issue. As previously stated, Sharpe ratio uses the standard deviation as a measure of portfolio risk (which represents the total risk), while the Treynor's performance index uses Beta (or the systematic risk). If the investment fund portfolios are well diversified than the portfolio rankings will tend to be very similar (if not identical) regardless which measure for evaluation is being used. Therefore, by comparing the rankings we can clearly see whether certain investment funds are holding completely diversified portfolios or not.

B. Timing

Market timing represents an integral part in the process of active portfolio management. If fund managers prefer to use "*tactical asset allocation*" in managing the fund's assets, then they are structuring the portfolio in a way to have relatively high Beta during the "*bull run*" and relatively low Beta during market decline. The investors are benefiting from this strategy because they are rewarded in both cases, regardless whether the market is in upward or downward trend. In order to obtain more information about the market timing, it is necessary to investigate whether the fund returns and market returns are linear or not. For this purpose equation (6) can be extended into the following form (Treynor 1966):

$$(R_{p,t} - R_{f,t}) = \alpha_p + \beta_p (R_{m,t} - R_{f,t}) + \gamma_p (R_{m,t} - R_{f,t})^2 + \varepsilon_{p,t} \quad (7)$$

Where R_p is rate of return for portfolio p during a specified time period, R_m is market return during the same time period, and R_f is the risk-free interest rate. If the estimated value for γ_p is positive (and statistically significant) than the fund managers have successful market timing.

C. Selection

“*Selection*” refers to the ability of the fund managers to select securities which are undervalued due to the current unfavorable price movements. However, they are expected in future to provide above average returns.¹⁶ The following expression suggested by Fama (1972) can be used in order to investigate the fund manager’s ability for stock selection.

$$\Delta = (\bar{R}_p - \bar{R}_f) - \frac{\sigma_p}{\sigma_m} \times (\bar{R}_m - \bar{R}_f) \tag{8}$$

Where σ_p is portfolio standard deviation, σ_m is the standard deviation of market returns, and the terms in the brackets are portfolio risk premium and market risk premium respectively. For portfolios with above average returns the estimated value for Δ (delta) is positive. In other words, the investors are benefiting from the superior stock selection by the fund managers.

V. Analysis

The first part of the analysis is focused on comparing the portfolio performance of Macedonian open-end investment funds by using the Sharpe ratio and Treynor’s performance index. The results of the estimated coefficients are presented in Table 4. More specifically, Panel A refers to the coefficients for each investment fund, Panel B shows the value of the same coefficient but for the benchmark returns, while the rankings are shown in the Panel C.

Table 4: Results – Composite measures

	<i>A</i>		<i>B</i>		<i>C</i>	
	<i>Sharpe</i>	<i>Treynor</i>	<i>Sharpe</i>	<i>Treynor</i>	<i>Sharpe</i>	<i>Treynor</i>
Inново Status – Shares	-0.6869	-0.2009	0.0757	0.0288	IX	IX
Ilirika – Global growth	-0.0019	-0.0869	0.1287	0.0317	VII	VIII
Ilirika – Southeast Europe	-0.2735	-0.0032	0.1219	0.0395	VIII	VII
Sava – Growth	0.8274	0.2041	0.2194	0.0377	II	I

¹⁶ Market price of certain security can be above or below its “true” value.

KD – BRIC	0.4035	0.1982	0.2374	0.0582	V	II
KD – South Balkans	0.3708	0.1530	0.6193	0.1432	VI	III
My Fund	0.4779	0.1476	0.0498	0.0193	IV	IV
Sava – Balanced	0.9076	0.1268	0.1499	0.0227	I	V
KB Publikum – Balanced	0.6953	0.0747	- 0.4187	-0.0353	III	VI

From the presented results it can be concluded that in most cases investment funds were able to achieve better risk-adjusted returns compared with their appropriate benchmarks. More specifically, 5 out of 9 investment funds have better results measured by using the Sharpe ratio, while 6 out of 9 investment funds managed to achieve better results measured by Treynor's performance index. The differences in rankings were also used for evaluating the level of portfolio diversification.

According to the results, only Innovo Status – Shares, both investment funds managed by Ilirika, and Sava – Growth have higher level of portfolio diversification. However, the results are somehow inconclusive for KB Publikum – Balanced and Sava – Balanced. From one side, there are some indications that the portfolios of those two investment funds are less diversified (due to the significant differences in rankings), while from the other side, this statement cannot be confirmed because the Sharpe ratio for both funds produces better rankings compared to Treynor's performance index. Finally, the lowest level of portfolio diversification has My Fund and KD – BRIC.

The summary statistics of the frequency distribution of the regression estimates of the parameters of equation (6) for all 9 open-ended investment funds (along with their extreme values) were calculated by using monthly returns, and the entire sample of data that was available for each fund in the period 2007 – 2010. The empirical results are presented in Table 5. At this stage, it is also worth pointing out that the monthly returns produced far better models than the weekly returns (although not shown in the analysis).¹⁷ In general, this outcome was expected to certain extent, especially for those investment funds which are providing exposure to foreign markets or regions indirectly (mainly through GDR – global depositary receipts; H – Shares).¹⁸

¹⁷ Additionally, the results obtained for My Fund and KB Publikum – Balanced should be taken with caution simply because the data set is significantly reduced when monthly returns are being used in the calculation.

¹⁸ GDR – financial instruments issued by the depositary bank in one country representing a specific number of shares of stock traded on an exchange of another country. GDR's makes it easier for

Regularly, the liquidity of these instruments is significantly lower compared with the volume of trading of the same security on the domestic market. Despite the low liquidity, occasionally some GDR's are without any transaction over longer periods (1-2 weeks). Surprisingly, the “weekly” models also were unable to explain the variation in returns even when 100% of the fund assets are invested in companies listed on Macedonian Stock Exchange. There are two possible explanations regarding this issue. Firstly, certain portion of the fund's assets was invested in securities that are not included in the index (MBI 10), or alternatively, the securities are characterized by low liquidity, but over longer period they tend to follow the general market trend.

Table 5: Summary of estimated regression statistics

$(R_{p,t} - R_{f,t}) = \alpha_p + \beta_p (R_{m,t} - R_{f,t}) + \varepsilon_{p,t}$				
	Mean	Maximum	Minimum	Deviation ¹⁹
α	-0.001	0.011	-0.020	0.009
β	0.484	0.802	0.278	0.129
R^2	0.532	0.914	0.189	0.216

Since the average value of Beta is approximately 0.5 (while at same time there is no single case with Beta above 1) it can be concluded that on average opened investment funds tended to hold portfolios which were less risky than the appropriate benchmarks. This is only a confirmation of the previous conclusion. Namely, any attempt to compare the average portfolio returns of the investment funds with benchmark returns without explicit adjustments for differences in the level of risk would be biased in favor of the benchmarks (or against the results of the investment funds). The average squared correlation coefficient was 0.532 and in general indicates that equation (6) for most of the funds fits the data quite well.

individuals to invest in foreign companies due to the widespread availability of price information, greater transparency, lower transaction costs, and timely dividend distribution. If they are denominated in US dollars then they are ADR's (*American Depositary Receipts*), while EDR's (*European Depositary Receipts*) are denominated in euros. H – Shares: Security of a company incorporated in mainland China (issued in China and regulated by Chinese law) but listed and traded on the Hong Kong Stock Exchange.

¹⁹ Deviation is defined as $\frac{\sum_{i=1}^9 |\bar{x} - x_i|}{9}$

However, the primary concern in the analysis is the interpretation of the estimated Alpha coefficient (which is presented in Table 6, along with the t-statistic and the number of observations).

Table 6: Jensen alpha

	α	t	N^*
Inново Status – Shares	-0.020	-2.769 [‡]	26
Iilirika – Global growth	-0.016	-2.042 [†]	26
Iilirika – Southeast Europe	-0.010	-1.910 [†]	26
Sava – Growth	0.005	0.754	15
KD – BRIC	0.009	0.897	11
KD – South Balkans	0.007	0.911	16
My Fund	0.011	0.790	16
Sava – Balanced	0.005	1.566	15
KB Publikum – Balanced	-0.001	-0.165	8

* Number of observations (with monthly returns)

‡ Statistically significant at the 2.5% (in a 2-sided test)

† Statistically significant at the 5% (in a 2-sided test)

From the presented results it can be noticed that the average value for Alpha was negative ($\alpha=-0.1\%$). On the other hand, the estimated value of Alpha for each investment fund separately was positive in 5 out of 9 cases. This is only an indication that some investment funds are able to achieve better risk-adjusted returns compared with their appropriate benchmarks. However, from the statistical significance of the estimated coefficients it can be concluded that the probability of α being 0 is very high for most investment funds.

Only Inново Status – Shares and both investment funds managed by Iilirika have negative values for Alpha which is statistically significant. It is worth pointing out that fund returns used in the calculation were net of all fees and commissions.²⁰ This result represents a confirmation that it is possible for the fund managers to achieve lower risk-adjusted returns compared with passive benchmarks due to the higher costs associated with managing the fund's assets, as well as the efforts to predict the securities prices. On the other hand, some funds

²⁰ If add back the management fees than the estimated value of Alpha is positive for almost all investment funds (except for Inново Status Shares). However, the statistical significance of the estimated coefficients also needs to be analyzed.

are able to achieve higher risk-adjusted returns, but again due to the fees and expenses the overall effect from the active portfolio management is zero.

The next step in the analysis was evaluating the market timing, and the superior stock selection. This was done by estimating the coefficients from equation (7) for all investment funds. The empirical results are presented in Table 7.

Table 7: Market timing

$(R_{p,t} - R_{f,t}) = \alpha_p + \beta_p (R_{m,t} - R_{f,t}) + \gamma_p (R_{m,t} - R_{f,t})^2 + \varepsilon_{p,t}$					
	α	t	γ	t	R^2
Inново Status – Shares	-0.009	-1.192	-0.470	-2.484 [‡]	0.929
Iilirika – Global growth	-0.005	-0.727	-1.187	-3.189 [‡]	0.814
Iilirika – Southeast Europe	-0.003	-0.615	-0.431	-2.620 [‡]	0.897
Sava – Growth	-0.001	-0.125	4.085	1.004	0.190
KD – BRIC	-0.001	-0.124	2.311	1.486	0.543
KD – South Balkans	0.007	0.784	0.062	0.061	0.436
My Fund	0.009	0.538	0.092	0.179	0.539
Sava – Balanced	0.002	0.414	3.439	1.006	0.276
KB Publikum – Balanced	0.003	0.862	-14.137	1.700	0.443

[‡] Statistically significant at the 2.5% (in a 2-sided test)

[†] Statistically significant at the 5% (in a 2-sided test)

At this stage it is important to note that when making an assessment of the market timing the Gamma coefficient has crucial importance (the values of Alpha are shown only for illustration, while the estimated Beta coefficients are not presented in the Table). The estimated value for Gamma for each investment fund was positive in 5 out of 9 cases. This is an indication that most fund managers were successful in predicting the market movements. However, by observing the statistical significance of the estimated coefficients, it can be concluded that Gamma is 0 for most investment funds. Once more Inново Status – Shares and both investment funds managed by Iilirika have negative values for Gamma, which is statistically significant. However, by adding additional coefficient into the equation (7), none of the investment funds have statistically significant negative Alpha. In other words, differences in the portfolio returns of the investment funds compared with the appropriate benchmarks can be mainly explained by superior/inferior market timing and/or stock selection (for comparison see Table 6 and 8).

The final part of the analysis was evaluating how successful the fund managers are in the process of selecting undervalued securities (stock picking skills). This was done by using the equation (8).

Table 8: Securities selection

	Δ	Rank
Inново Status – Shares	-0.184	IX
Iirika – Global growth	-0.077	VII
Iirika – Southeast Europe	-0.091	VIII
Sava – Growth	0.048	III
KD – BRIC	0.037	V
KD – South Balkans	-0.021	VI
My Fund	0.056	I
Sava – Balanced	0.039	IV
KB Publikum – Balanced	0.050	II

From the results presented in Table 8, it can be concluded that the investors are benefiting from superior stock selection in 5 out of 9 investment funds.

Finally, we can summarize the results of each fund individually. However, it is important to note that all calculations conducted in this study are based on historical data, and the past performance of any investment fund should not be taken as an indication, or as guarantee for potential future returns. From our sample of investment funds, Inново Status – Shares had worst performance during the observed period. This can be explained by poor selection of securities, as well as by having worse market timing. Similar conclusions can be drawn for both investment funds managed by Iirika, although their results are slightly better compared with Inново Status – Shares. All other Macedonian investment funds are able to achieve better risk-adjusted returns compared with their appropriate benchmarks, which are realized through better market timing and/or superior securities selection.

VI. Concluding remarks

The purpose of this paper is to evaluate the performance of all open-end investment funds in Macedonia in the period between November 2007 and February 2010. From the obtained results, it can be concluded that some investment funds are able to achieve better risk-adjusted returns compared with their appropriate benchmarks measured by Sharpe ratio and Treynor's performance index. Similar conclusion can also be reached by using the Jensen alpha.

This represents a confirmation that it is possible for the fund managers to achieve better results compared with passive benchmarks. Furthermore, they are truly possessing the advantages offered by active portfolio management (differences in returns are largely due to good market timing and superior stock selection).

However, the net effect from active portfolio management is zero because of fees and expenses. Regarding the level of diversification, we cannot make any decisive judgments. Nevertheless, there are some indications that better performing portfolios have lower degree of diversification. Finally, the funds with below average returns have worse market timing and security selection, while at the same time they have higher level of diversification.

It is important to note that all calculations in this study are based on historical data, and the past performance of any investment fund should not be taken as an indication, or as guarantee for potential future returns. Another very important aspect for further analysis is the question whether the conventional measures of above-average returns of investment funds are sensitive to the benchmarks that are being used as approximation of "*normal*" performance (Lehmann and Modest (1987)).

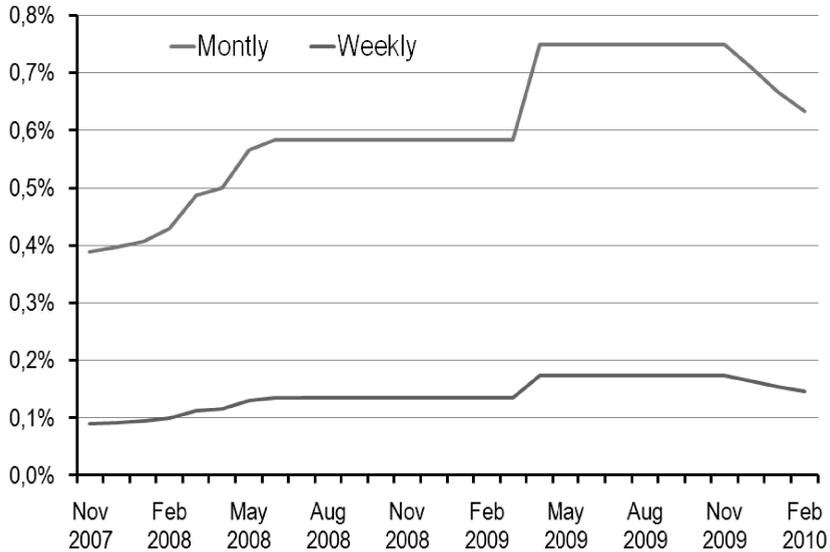
Finally, it should be pointed out that differences in the performance may occur due to various "*styles*" of investing (investing in companies with small/large market capitalization; companies with low/high coefficient of book value/market price, etc.). In order to adequately evaluate the performance of investment funds in this case it is necessary to expand the CAPM into a model with multiple factors (for example: Fama and French (1993) or Carhart (1997)).

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VII. Appendix

Graph 1A: Risk-free interest rate



Source: The National Bank of the Republic of Macedonia

Table 1A: Summary results from regression equation (6) and (7)

Innovo Status – Shares

Regression Statistics Eq.(6)	
Multiple R	0.958
R Square	0.917
Adjusted R Square	0.914
Standard Error	0.036
Observations	26

ANOVA	df	SS	MS	F	Significance F
Regression	1	0.345	0.345	266.289	0.000
Residual	24	0.031	0.001		
Total	25	0.376			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Alpha	-0.020	0.007	-2.769	0.011	-0.035	-0.005
Beta	0.802	0.049	16.318	0.000	0.700	0.903

Regression Statistics Eq.(7)	
Multiple R	0.967
R Square	0.935
Adjusted R Square	0.929
Standard Error	0.033
Observations	26

ANOVA	df	SS	MS	F	Significance
					F
Regression	2	0.352	0.176	164.908	0.000
Residual	23	0.025	0.001		
Total	25	0.376			

	Coefficients	Standard	t Stat	P-value	Lower 95%	Upper
		Error			95%	
Alpha	-0.009	0.008	-1.192	0.245	-0.025	0.007
Beta	0.822	0.045	18.145	0.000	0.728	0.915
Gamma	-0.470	0.189	-2.484	0.021	-0.861	-0.079

Iirika – GRP

Regression Statistics Eq.(6)	
Multiple R	0.868
R Square	0.753
Adjusted R Square	0.743
Standard Error	0.039
Observations	26

ANOVA	df	SS	MS	F	Significance
					F
Regression	1	0.110	0.110	73.359	0.000
Residual	24	0.036	0.002		
Total	25	0.147			

	Coefficients	Standard	t Stat	P-	Lower 95%	Upper
		Error		value	95%	
Alpha	-0.016	0.008	2.042	0.052	-0.032	0.000
Beta	0.685	0.080	8.565	0.000	0.520	0.850

Regression Statistics Eq.(7)	
Multiple R	0.911
R Square	0.829
Adjusted R Square	0.814
Standard Error	0.033
Observations	26

ANOVA	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	2	0.122	0.061	55.780	0.000
Residual	23	0.025	0.001		
Total	25	0.147			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Alpha	-0.005	0.007	0.727	0.474	-0.021	0.010
Beta	0.648	0.069	9.389	0.000	0.505	0.791
Gamma	-1.187	0.372	3.189	0.004	-1.957	-0.417

Iirika – JIE

<i>Regression Statistics Eq.(6)</i>	
Multiple R	0.936
R Square	0.877
Adjusted R Square	0.872
Standard Error	0.026
Observations	26

ANOVA	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.118	0.118	171.076	0.000
Residual	24	0.017	0.001		
Total	25	0.135			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Alpha	-0.010	0.005	-1.910	0.068	-0.021	0.001
Beta	0.549	0.042	13.080	0.000	0.463	0.636

<i>Regression Statistics Eq.(7)</i>	
Multiple R	0.951
R Square	0.905
Adjusted R Square	0.897
Standard Error	0.024
Observations	26

ANOVA	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	2	0.122	0.061	109.874	0.000
Residual	23	0.013	0.001		
Total	25	0.135			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Alpha	-0.003	0.005	-0.615	0.545	-0.014	0.008
Beta	0.548	0.038	14.561	0.000	0.470	0.626
Gamma	-0.431	0.164	-2.620	0.015	-0.771	-0.091

SAVA – Growth

Regression Statistics Eq.(6)	
Multiple R	0.497
R Square	0.247
Adjusted R Square	0.189
Standard Error	0.023
Observations	15

ANOVA	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.002	0.002	4.270	0.059
Residual	13	0.007	0.001		
Total	14	0.009			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Alpha	0.005	0.006	0.754	0.464	-0.008	0.018
Beta	0.339	0.164	2.066	0.059	-0.015	0.693

Regression Statistics Eq.(7)	
Multiple R	0.553
R Square	0.306
Adjusted R Square	0.190
Standard Error	0.023
Observations	15

ANOVA	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	2	0.003	0.001	2.640	0.112
Residual	12	0.007	0.001		
Total	14	0.009			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Alpha	-0.001	0.008	0.125	0.903	-0.019	0.017
Beta	0.356	0.165	2.159	0.052	-0.003	0.715
Gamma	4.085	4.069	1.004	0.335	-4.781	12.950

My Fund

Regression Statistics Eq.(6)	
Multiple R	0.731
R Square	0.534
Adjusted R Square	0.482
Standard Error	0.036
Observations	11

ANOVA	df	SS	MS	F	Significance	
					F	
Regression	1	0.013	0.013	10.298	0.011	
Residual	9	0.011	0.001			
Total	10	0.024				

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Alpha	0.010	0.011	0.897	0.393	-0.015	0.035
Beta	0.465	0.145	3.209	0.011	0.137	0.793

Regression Statistics Eq.(7)	
Multiple R	0.797
R Square	0.635
Adjusted R Square	0.543
Standard Error	0.033
Observations	11

ANOVA	df	SS	MS	F	Significance	
					F	
Regression	2	0.015	0.008	6.944	0.018	
Residual	8	0.009	0.001			
Total	10	0.024				

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Alpha	-0.002	0.013	-0.124	0.904	-0.031	0.028
Beta	0.359	0.154	2.331	0.048	0.004	0.714
Gamma	2.312	1.556	1.486	0.176	-1.276	5.899

KD – BRIC

Regression Statistics Eq.(6)	
Multiple R	0.715
R Square	0.511
Adjusted R Square	0.476
Standard Error	0.029
Observations	16

ANOVA	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.012	0.012	14.620	0.002
Residual	14	0.012	0.001		
Total	15	0.024			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Alpha	0.007	0.008	0.911	0.378	-0.009	0.023
Beta	0.388	0.102	3.824	0.002	0.171	0.606

Regression Statistics Eq.(7)	
Multiple R	0.715
R Square	0.511
Adjusted R Square	0.436
Standard Error	0.030
Observations	16

ANOVA	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	2	0.012	0.006	6.791	0.010
Residual	13	0.012	0.001		
Total	15	0.024			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Alpha	0.007	0.008	0.784	0.447	-0.012	0.025
Beta	0.381	0.165	2.308	0.038	0.024	0.737
Gamma	0.062	1.028	0.061	0.952	-2.158	2.282

KD – South Balkans

Regression Statistics Eq.(6)	
Multiple R	0.774
R Square	0.599
Adjusted R Square	0.571
Standard Error	0.054
Observations	16

ANOVA	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.060	0.060	20.945	0.000
Residual	14	0.040	0.003		
Total	15	0.100			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Alpha	0.011	0.013	0.790	0.443	-0.018	0.039
Beta	0.453	0.099	4.577	0.000	0.241	0.665

Regression Statistics Eq.(7)	
Multiple R	0.775
R Square	0.600
Adjusted R Square	0.539
Standard Error	0.056
Observations	16

ANOVA	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	2	0.060	0.030	9.765	0.003
Residual	13	0.040	0.003		
Total	15	0.100			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Alpha	0.009	0.017	0.538	0.600	-0.027	0.045
Beta	0.442	0.120	3.676	0.003	0.182	0.701
Gamma	0.092	0.512	0.179	0.861	-1.013	1.197

SAVA – Balanced

Regression Statistics Eq.(6)	
Multiple R	0.572
R Square	0.327
Adjusted R Square	0.275
Standard Error	0.014
Observations	15

ANOVA	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.001	0.001	6.311	0.026
Residual	13	0.002	0.000		
Total	14	0.004			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Alpha	0.005	0.004	1.566	0.141	-0.002	0.013
Beta	0.278	0.111	2.512	0.026	0.039	0.517

Regression Statistics Eq.(7)	
Multiple R	0.616
R Square	0.379
Adjusted R Square	0.276
Standard Error	0.014
Observations	15

ANOVA	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
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Regression	2	0.001	0.001	3.665	0.057
Residual	12	0.002	0.000		
Total	14	0.004			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Alpha	0.002	0.005	0.414	0.686	-0.009	0.013
Beta	0.341	0.127	2.683	0.020	0.064	0.618
Gamma	3.439	3.418	1.006	0.334	-4.007	10.886

KB Publikum – Balanced

Regression Statistics Eq.(6)	
Multiple R	0.610
R Square	0.372
Adjusted R Square	0.267
Standard Error	0.010
Observations	8

ANOVA	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.000	0.000	3.553	0.108
Residual	6	0.001	0.000		
Total	7	0.001			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Alpha	-0.001	0.004	0.165	0.875	-0.009	0.008
Beta	0.400	0.212	1.885	0.108	-0.119	0.918

Regression Statistics Eq.(7)	
Multiple R	0.776
R Square	0.602
Adjusted R Square	0.443
Standard Error	0.009
Observations	8

ANOVA	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	2	0.001	0.000	3.782	0.100
Residual	5	0.000	0.000		
Total	7	0.001			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Alpha	0.003	0.004	0.862	0.428	-0.007	0.013
Beta	0.464	0.189	2.457	0.057	-0.021	0.949
Gamma	-14.137	8.315	1.700	0.150	-35.511	7.238

Table 2A: Indexes used in the creation of each fund's synthetic benchmark

Фонд	1	2	3	4	5	6	7	8	9
MBI 10	100%	40%	50%		27%	45%	25%		15%
OMB				30%			15%	40%	50%
BELEX 15			10%			55%			
CROBEX			10%	5%				5%	
SBI 20			10%	5%				5%	10%
S&P 500		20%		10%			25%	10%	10%
DAX				15%			10%	15%	5%
CAC 40				10%			10%	10%	10%
BOVESPA		5%			22%		6%		
RTS		15%	20%	5%	17%			5%	
BSE Sensex		5%			6%				
Hang Seng		10%		10%	27%		5%	10%	

Note: Each number corresponds to certain fund (see Table 2: List of funds)

Do Social Transfers “Crowd-Out” Remittances: Evidence from Bosnia

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Abstract

Bosnia has recently gone through very dramatic period of conflict and emigration, which directly affected large proportion of its population. This increased the need for social transfers to the affected groups and at the same time increased the inflows of remittances.

This paper is the first known attempt to analyse the interaction between social transfers and remittances in Bosnia. Compared to previous studies, this paper estimates non-monotonic ‘crowding out’ effect by an innovative empirical model specification. The model is estimated by the two-stage Heckman’s selection method, where the receipt of remittances is the first stage, and amount of remittances received second stage dependent variable. The dataset from the “Living in BiH” household survey, conducted in 2004, containing data on both social transfers and remittances receipts, was used. The findings suggest that social transfers crowd-in remittances and that the predominant motive for sending remittances to Bosnia-Herzegovina is exchange.

In addition, the results do not support the hypothesis about non-monotonic transfer motives. From a policy perspective, the above results imply that, in a country with large social transfers that are category based and inefficient, inflows of remittances that are not pro-poor additionally decrease efficiency of social transfers and deepen inequality between recipients and non-recipients of either private or public transfers further. Consequently, inflows of remittances cannot be considered as a remedy for inefficient social transfer, but in contrary raise the importance of proper targeting of social transfers.

Abstrakt

Bosnja, kohëve të fundit, ka kaluar një periudhë mjaft dramatike të konfliktit dhe migracionit që në mënyrë të drejtpërdrejtë ka prekur një numër të madh të popullsisë së saj. Kjo ka rritur nevojën për transferet sociale të grupeve të prekura dhe në të njëjtën kohë ka rritur flukset hyrëse të remitancave në Bosnjë. Ky punim është përpjekja e parë e njohur për të analizuar ndërveprimin midis transfertave sociale dhe remitancave në Bosnje.

Krahasuar me studimet e mëparshme, ky punim vlerëson efektin jo monotone të efektit “crowding out” me një model inovativ empirik të specifikuar. Modeli është vlerësuar me metodën e përzgjedhjes të Heckman në dy faza, ku faza e parë është marrja e remitancave, ndërsa sasia e remitancave të grumbulluara si ndryshore e mvarur. Të dhënat nga hulumtimi “Të jetuarit në Bosnjë”, e kryer në 2004, përdor dhe përmban të dhëna nga transferet sociale dhe faturatë nga remitancat. Rezultatet sugjerojnë se transferet sociale grumbullojnë remitancat dhe si motiv kryesor për dergimin e remitancave në Bosnje dhe Hercegovinë është shkëmbimi.

Gjithashtu, rezultatet nuk e përkrahin hipotezën rreth motiveve të transfertave jo monotone. Në bazë të perspektivës së politikave, rezultatet e mësipërme nënkuptojnë se në një vend me transfertat të numërta sociale të cilat janë të bazuara në kategori dhe joefiçencë, flukset hyrëse të remitancave që nuk janë të destinuara për të varfërit rezultojnë në uljen e efikasitetit të transfertave sociale si dhe thellojnë jo barabarësinë ndërmjet të shfrytësuesve apo jo shfrytëzuesve të transfertave private apo publike. Si rrjedhojë, flukset hyrëse të remitancave nuk mund të konsiderohen si një ilaç për transfertat joefikase sociale, por në të kundërtën rritë rëndësinë e identifikimit të duhur të transfertave sociale.

Апстракт

Босна неодамна се соочи со тежок период на конфликти и имиграција што имаше директно влијание врз населението. Со ова се зголеми потребата за социјални трансфери на афектираните групи и во исто време се зголеми приливот на девизните дознаки. Овој труд е првиот обид да се анализира интеракцијата меѓу социјалните трансфери и девизните дознаки во Босна.

Споредено со претходните студии, во овој труд се оценува немонотониот ефект на намалувањето со спецификација на иновативен емпириски модел. Моделот се проценува според методот на избор на Хекман во две фази, каде што приемот на дознаките е првата фаза, а износот на добиени дознаки е зависна варијабла и втората фаза. Исто така се употребија и податоците од анкетата „Живеење во БиХ“ спроведена во 2004 година по домаќинствата, која содржи податоци од социјалните трансфери и од трансферите на сметките од странство.

Наодите укажуваат на тоа дека социјалните трансфери ги истиснуваат дознаките од странство и дека доминантен мотив за праќање пари во Босна и Херцеговина е размена. Покрај тоа, резултатите не ја поддржуваат хипотезата за немонотни мотиви за трансфер. Од политичка перспектива, горенаведените резултати покажуваат дека во земја со големи социјални трансфери кои се категорија базирана на неефикасни приливи на пари кои не се про-сиромашни дополнително ја намалуваат ефикасноста на социјалните трансфери и ја продлабочуваат нееднаквоста меѓу корисниците и некорисниците на приватни или јавни трансфери. Како резултат на тоа, приливот на пари не може да се смета како лек за неефикасен социјален трансфер, но спротивно ја зголемува важноста на правилно насочување на социјалните трансфери.

1. Introduction

Bosnia-Herzegovina has recently gone through very dramatic periods of conflict and displacement. During the period of war in Bosnia-Herzegovina, about 5 per cent of population were killed, and more than a half of its population was displaced. Half of them, or 25 per cent of total population were displaced internally, while another 25 per cent of total population decided to flee from the country (Ibreljic et al., 2006). Even today, it is estimated that every tenth Bosnian lives abroad (Koser and Van Hear, 2002: 2). As a consequence, Bosnia-Herzegovina is the sixth leading country in terms of receiving remittances as a percentage of GDP (around 23 per cent, World Bank, 2006a). About 18 per cent of Bosnian population are below poverty line, while another 30 per cent are just above it (UNDP, 2007). The official unemployment rate is above 40 per cent. Though, more realistic estimated, based on the Labour Force Survey, say that this rate is actually 29 per cent. The difference between the official and survey-based unemployment rates is due to the large informal employment.

During the war, more than 400.000 housing units, which is one third of total housing units in the country, were destroyed (MHRR, 2005: 63). Moreover, the war has created new vulnerable groups in need of social transfers, such as disabled and/or unemployed war veterans and families of killed soldiers. All the above significantly increased the number of individuals in the need of some form of social transfers. This is particularly burdensome for a post-war transition country with relatively limited fiscal revenues. The overall social transfers in Bosnia-Herzegovina amount to about 13 per cent of its GDP (World Bank, 2006b: 83), majority of which goes to pensions and health care services. But also, large proportion of these transfers goes to non-insurance based benefits. They include veterans-related benefits, child care allowance and social assistance.

Veteran-related benefits are non-means tested, implying their limited impact on poverty reduction. A household, regardless of its income status, can be eligible for several transfers, based on different criteria. The main purpose of social transfers should be to reduce inequality and poverty. But, the evidence is mixed. Some social transfers, such as pensions or unemployment insurance, are designed in such a way that increases inequality, as these transfers are linked to the amount of contributory wage, resulting in larger percentage of benefits transferred to high income families (Feldstein, 1974, Browning and Browning, 1994).

Besides that, studies from different countries reveal large ineffectiveness of social transfers in poverty and inequality reduction due to inappropriate eligibility criteria and poor targeting. As reported in World Bank (2009), pre-transfer poverty level in Bosnia-Herzegovina is 19.2, while after transfers it is reduced to 18.6 per cent, meaning that transfers contribute to the reduction of poverty by only 6 percentage points.

According to the World Bank (2006a), Bosnia-Herzegovina is the sixth leading country in terms of receiving remittances as a share of GDP. They amount to around 2 billion EUR, which is 20 per cent of Bosnian GDP. Moreover, remittances represent the most significant inflow to BiH, as they are six times larger than FDI and three times than ODA to this country. The data from the Living in BiH 2004 survey show that approximately 11 per cent of households in Bosnia-Herzegovina receive remittances. The average value of remittances received is about 95 KM per month. The impact of remittances on poverty and inequality has been heavily investigated so far (Milanovic, 1987; Stark et al., 1988; Adams, 1992; Russell, 1992; Taylor and Wyatt, 1996; Taylor 1999; Brown and Jimenez, 2007), but the available empirical evidence does not provide clear-cut answer about its sign.

On one side, there is evidence supporting the idea that remittances are usually sent to richer families, who are more able to bear the costs of migration, thus increasing inequality. On the other side, several studies support the hypothesis that migrants are selected from lower tail of income distribution, thus remittances sent to these families decrease inequality. There were no analyses of the use of remittances in Bosnia-Herzegovina, but the sporadic evidence suggests that vast majority of remittances are being used for consumption.

Before analysis of the overall effects of social transfers and/or remittances on poverty and inequality in a country with widespread receipts of both types of transfers, possible interaction between them should be taken into account. The link between the receipt of the social and private transfers is known as the 'crowding out' effect.

Depending on the motives for sending remittances, the amount received by families may change once they begin receiving the social transfers. The sign of this effect is purely empirical question, as two competing hypotheses are in place. According to the first, remittances are driven by altruistic motives by senders, thus any increase in social transfers received by a household will decrease amount of remittances received. In contrary, remittances are exchange driven, so they will increase as a result of increase of social transfers.

Accordingly, the sign of the ‘crowding out’ effect also reveals predominant motive for sending remittances.

This study is the first known attempt to investigate the presence of the ‘crowding out’ effect in Bosnia-Herzegovina. The definition of social transfers to be analysed in this study is reduced to the non-contribution based social transfers, such as veteran-related benefits and child allowance.

The reason for this is that contribution based benefits, such as unemployment benefits and pensions, cannot be considered as an exogenous source of income as non-contribution based transfers. As the key objective of this study is analysis of the ‘crowding out’ effect, then the contribution based benefits, which are received as an alternative to a wage, should not be considered as an exogenous source of income that increases overall income of recipient.

In contrary, non-contribution based benefits can be considered as exogenous increase of the overall income. Both domestic and international remittances, as well as charity, will be included in the analysis, but the distinction between them will be made in order to reveal possible differences in the extent of the ‘crowding out’ of these transfers by social transfers, as well as for the policy purposes.

In this study, we attempt to analyse different impact of social transfers on remittances assuming that the motives for remittances are non-monotonic, meaning that they may differ between different income groups of recipients. We might expect that remittances to lower income recipients may be more altruistically motivated, so they might decrease after increase of social transfers and their poverty reduction goal may not necessarily be reached. Remittances to higher income recipients may be more exchange motivated and therefore change in the same direction with social transfers. In such relations, social transfers would increase poverty and inequality among households, particularly when the receipt of remittances by non-poor is matched with ineffective social transfers’ policies. There is evidence supporting these ideas, but most studies were based on the analysis of cross-sectional data, which does not assure appropriate capture of the dynamic effect. Therefore, it is necessary to test these ideas by using panel datasets.

The paper is structured as follows. The next section presents review of the literature on the relationship between the social transfer and remittances. The section three briefly informs about the characteristics of social security system and inflows of remittances to Bosnia-Herzegovina. In the section four, the theoretical model of non-monotonic ‘crowding-out’ effect and the new specification of an

empirical model controlling for such an effect are presented. Also, method and data used for its estimation are described. Section five presents results of the model estimation. Finally, section five concludes and explains policy implication of the results of this study.

2. Literature on the 'crowding-out' effect

As the amount of remittances inflows increased significantly in recent years' the cash transfers, public and private, their interactions and the impact on the reduction of poverty and inequality have received appropriate attention in the literature. Social transfers increase a household's income. As they are primarily targeting poorer households, their relationship with both poverty and inequality is expected to be negative, meaning that increase in these transfers should reduce both poverty and inequality in a country. The extent to which these objectives are reached depends on the effectiveness in implementation of the transfers policies, as well as responses of private to public transfers.

In a country such as Bosnia-Herzegovina, which receives a large amount of remittances, the effectiveness of the social transfer programmes in reduction of poverty and inequality in the country does not depend on the design and implementation of these programmes only, but also on the response of the remittances to the receipt of these transfers. This response is usually named *transfers derivative* (Gibson et al., 2006). The direction of this response is determined by the motives for sending remittances. They can be motivated by altruism (Becker, 1974) or exchange (Bernheim *et al.*, 1985).

Becker's altruistic motives for transfers are based on the idea of interdependent preferences. According to this, parents have preferences regarding their children's consumption. With such preferences, their utility does not depend only on their own consumption, but also on the consumption of others. This is in line with the migration theories that explain migration decision motivated by the diversification of risk to the family income. Thus, migrants will increase their remittances to the family members left behind once their income is negatively affected by adverse conditions in a country, for example.

The family income risk sharing strategy results in the same response of remittances to the changes in income as the hypothesis of altruistically motivated remittances would predict. If the motives for these transfers are based on altruism, increase in a recipient's income as a result of public transfers will decrease amount

of private transfers. This is interpreted as crowding-out of private by public transfers (Cox, 1987). In the presence of the crowding-out effect, the positive effects of social transfers can be neutralized by the response of remittances, as the intended outcome of support to vulnerable groups will be at least partially transferred to senders of remittances (Altonji *et al.*, 1997).

The opposite effect is possible when remittances are based on the exchange motive and increase as a result of increase in social transfers, which means that public transfers crowd-in private ones (Cox, 1987, 1990; Altonji *et al.*, 2000; Taylor, 2002). If private transfers are predominantly motivated by exchange, where transfer is made as a payment for provision of certain services by recipient to a donor, then the sign of relationship between these two is not completely clear, but most authors argue that it is positive. Their explanation is that the rise in income of provider of services through the receipt of social transfers increases the 'price' of such services, implying increase in receipt of remittances. Moreover, if remittances are motivated by self-interested intention of sender to increase their inheritance claims, then increase in income of recipients increase potentially inherited wealth and, consequently, transfers of remittances.

Therefore, the sign of the relationship between social transfers and remittances is purely empirical question. This study is the first known attempt to estimate this relationship in Bosnia-Herzegovina, which will give additional insight into the possible causes of the reported large ineffectiveness of social transfers (World Bank, 2009), but also reveal the predominant motive for sending remittances to this country.

Most of the empirical studies so far have failed to find strong crowding-out effect. For example, one of the first studies by Cox and Jakubson (1995) found that a one dollar increase in public transfers in the US would reduce private transfers by no more than 12 cents. Altonji *et al.* (1997) estimated that a dollar decrease in a child's will increase parents' transfers to a child by only 13 cents. Still, a possibility of non-monotonic relationship between public and private transfers was recognized recently, which might be one of the explanations of the failures of previous studies (Albarran and Attanasio, 2002). Increase in income may cause the motives of transfers to change, thus causing the sign of the relationship between public and private transfers to be different at different levels of recipient's income (Cox *et al.*, 1997).

Thus linear models would be misspecified and not capable to recognize the true crowding-out effect. Another reason for this failure of previous studies is that the empirical evidence from developed countries, with a long history of public

transfers which might have already replaced private transfers, might be misleading. Therefore, recent studies have focused on collecting evidence from developing countries, allowing for non-monotonic relationship between public and private transfers.

Cox *et al.* (2004) investigated this possibility by a threshold model and estimated the transfer derivatives to be -0.4 for the poorest households and almost zero for richer households in Philippines. In a study of relationship between public pensions for the elderly and private transfers in South Africa, Jensen (2003) estimates that for each rand increase in public pension income, transfers made by children reduce by 0.25-0.30 rand. Gibson *et al.* (2006) estimated transfer derivatives in four countries four developing countries - China, Indonesia, Papua New Guinea, and Vietnam – to be in a range between 0 and 0.08, concluding that non-monotonic crowding-out effect of public on private transfers is not important feature of transfer behaviour in developing countries.

3. Modelling the ‘crowding out’ effect

3.1. Non-monotonic motives for remittances

As presented in the literature review, there are two competing hypotheses about the motives for remittances in place, which determine the direction of the ‘crowding out’ effect. According to the first, remittances are driven by altruistic motives by senders (Becker, 1974), thus any increase in social transfers received by a household will decrease amount of remittances received. This is interpreted as crowding-out of private by public transfers (Cox, 1987).

In contrary to this, other authors argue that the remittances are exchange driven, so they will increase as a result of increase of social transfers (Bernheim *et al.*, 1985). If this effect is predominant, then the public transfers are said to ‘crowd-in’ private ones (Cox, 1987, 1990; Altonji *et al.*, 2000; Taylor, 2002). Accordingly, the sign of the impact of social transfers on remittances also reveals predominant motive for sending remittances.

The main purpose of the empirical analysis in this study is to analyse possible crowding-out effect of social transfers on remittances, both domestic and international, in order to find evidence on the sign of relationship between receipts of social transfers and remittances.

The findings would reveal possible predominant motives for remitting by Bosnians, both in Bosnia-Herzegovina and abroad, as well as possible negative consequences of the crowding-out effect on the effectiveness of social transfers policies, by transfer of benefits from recipients to senders of remittances.

The key difference of this study compared to previous ones is that it uses a new approach to the problems of non-monotonic motives for sending remittances. The need to test for possible shift in transfer motive by a sender once recipient's income reaches certain threshold is based on the hypothesis that motives for remittances can be different at different levels of income. According to this idea, remittances sent to poor are primarily altruistically motivated, while those sent to non-poor are more exchange driven. This relationship can be described by the figure below. In one of the main works on this issue, Cox *et al.* (2004) hypothesized that the relationship between social transfers and remittances should be negative at low levels of income, then starting to increase at some threshold level (K), such as poverty line, as motives for sending remittances switch from altruism to exchange.

But, as the income increases, exchange motive causes remittances first to increase (up to recipient's income level depicted by I' in figure 1) and then to decrease and eventually cease (at income level depicted by I''), making the relationship between social transfer and remittances to be negative in the first part and have an inverse U shape in the second.

The Figure 1 in Cox *et al.* (2004) suggests that appropriate specification of the empirical model that will capture such a relationship needs to be nonlinear, as well as to account for non-monotonic motives by specifying a point where the break occurs (K). Moreover, the break at which remittances receipts cease (I'' in figure 1) needs to be identified. In terms of model specifications with alternative dependent variables, it should be noted that Cox *et al.* (2004) suggest the above relationship for amount of remittances received, but not necessarily for likelihood of remittances receipt, which means that the above presented theoretical discussion of non-monotonic and non-linear effect of social transfers on remittances should be only controlled for in models where dependent variable is amount of transfers.

3.2. Empirical specification and estimation methods

Early empirical studies (Lucas and Stark, 1985) used OLS method. As a large proportion of migrants do not receive remittances, it was found that such a method

produces biased and inconsistent estimates. Therefore, two alternatives were used in subsequent studies. The first is one stage Tobit model, where the receipt of remittances and the amount received is modelled together, and the another one is two stage Heckman's model, where the receipt of remittances is modelled in the first stage and estimated by probit method, while the amount received is modelled in the second stage and estimated by the OLS, which is corrected for potential sample bias (for example, Hoddinott, 1992; Cox *et al.*, 1998, 2004).

The main problem of the second approach is the identification problem: the decision which variables should be included in the first stage and which in the second stage regression (Albarran and Attanasio, 2002; Amuedo-Dorantes and Pozo, 2006a) argue that the main problem with majority of studies of the crowding out effect suffer from an important endogeneity problem, as social transfers are typically targeted towards households that are in particular need of transfers. But, Bosnia-Herzegovina is an interesting case in that respect, as it is an exemption from this rule since, as we saw above, most of the transfers are targeting non-poor.

Also, some studies (for example, Cox *et al.*, 2004) suggest the possibility of reverse causality between the receipt of remittances and pre-transfer income, as remittances may affect individuals' incentives to work. But, studies that controlled for this possibility did not find any significant change in the results.

In this study, the second approach was chosen as more appropriate. In the empirical analysis then, the main research question is to be tested by estimation of two different models. The first model of the relationship between social transfers and remittances would test the direction of the crowding-out effect of the receipt of social transfers on the receipt of remittances. It would be estimated by probit. Second model would use amount of social transfers and amount of remittances received, both per capita, and would be estimated by Heckman's two-stage method, where the results from the first model will be used as the first stage of Heckman's procedure for calculation of the Inverse Mills ratio.

This approach is similar to a number of previous studies on the 'crowding-out' effect (for example, Altonji *et al.*, (2000); Cox *et al.*, 2004; Menezes, 2006). Estimation of two models with different dependent variable, one for receipt and another for amount of remittances received, allows us to gain insight into the effect of social transfers on both the incidence and volume of remittances.

The new in this approach is the new solution for the identification problem, which is also a new approach to controlling for the hypothesized differences in the motives for remittances at different level of income.

Thus, in the second part of the empirical analysis, these previously used models would be augmented by additional variables, in order to test for hypothesized non-monotonic crowding-out effect between households with different income levels.

One of the key problems with the Heckman's procedure is the problem of identification; which variables should be included in the first stage and which in the second stage model.

As suggested by Wooldridge (2003: 562), all variables from the second stage model should be also included in the first stage model, because their exclusion leads to inconsistent estimation if they are incorrectly excluded, while their inclusion is not very costly.

Nevertheless, there should be at least one variable that is included only in the first stage model, basically an instrument, in order to correctly calculate Inverse Mills ratio; otherwise it is difficult to distinguish between sample selection and misspecified functional form.

The choice of such a variable is not straightforward, as anything that affects incidence of remittances is likely to affect the amount as well. We could expect that some of the household's demographic variables that influence incidence of transfers, such as household size, number of children, education or marital status of household's head, do not necessarily affect the amount received.

In order to control for hypothesized non-monotonic relationship between social transfers and remittances, two different solution regarding appropriate empirical specifications will be used in the second stage of Heckman's procedure.

The first one is specification of the model where interaction variable between poverty (a dummy variable for non-poor households) and social transfers, as well as its squared value, controlling for non-linear shape of the relationship, will be used.

It is based on the assumption made in previous studies (for example, Cox, 1987) that the motives for remittances are primarily altruistic if sent to poor households, so we could expect the break point K in the Figure 1 to be at the poverty line. In the second model specification, a set of dummy variables for income deciles and their interactions with variable on social transfers will be introduced.

Dummy variables should control for the likelihood of receipts of remittances for different income deciles, while the interaction variables will reveal possible

direction and magnitude of the ‘crowding out’ effect between different deciles. In this specification, we should expect that we have negative effect of social transfers on amount of remittances received by households at lower income deciles, positive effect at the middle of income distribution, and again negative effect for top deciles. The second specification has advantage over the first one, as it is not necessary to make assumption about the break point.

The model to be estimated in the first part of empirical analysis is presented by following equation:

$$Y = \beta_0 + \beta_1 HINCPC + \beta_2 TST + \beta_3 HH + u_i \quad (1)$$

where:

Y – dependent variable, expressed as a dummy variable taking value of 1 if a household receives remittances, 0 otherwise,

HINCPC – a variable on pre-transfer income, which is average income of household in KM, per capita,

TST – average amount of monthly social transfers received by household in KM, per capita,

HH - set of household’s demographic characteristics which are hypothesized to influence receipt and amount of remittances, including household head’s gender (*fhh*) which takes value of 1 if household’s head is female, age (*age*), education level (*primedu*, *secedu*, *tertedu*) where *primedu* takes value of 1 if household head has primary education and so on, household size (*hhsiz*), number of children in the household (*numkids*), marital status (*marital*) which takes value of 1 if a household head is married, and employment status (*empl*) which takes value of 1 if household head is employed.

In the second stage, two different model specifications will be used to control for non-monotonic and nonlinear effect of social transfers on the amount of remittances received by households. The first model to be estimated is:

$$Y = \beta_0 + \beta_1 HINCPC + \beta_2 TST + \beta_3 HH + \beta_4 NP + \beta_5 TSTNP + \beta_6 TSTNPSQ + u_i \quad (1)$$

where:

Y – dependent variable, expressed as amount of monthly remittances received by household, per capita (amount divided by household size),

HINCPC, TST and HH – as above,

NP – a dummy variable taking value of 1 if a person is not poor, 0 otherwise,

TSTNP – interaction variable between variables TST and NP. This variable tests the hypothesis of non-monotonic motives for sending remittances, based on the poverty status of a household,

TSTNPSQ – squared value of TSTNP, in order to test nonlinear effect of social transfers on remittances among the non-poor, u_i – error term.

In this case, as we have interaction term between poverty status of a household and amount of social transfers received, the coefficient of the original TST variable now measures the effect of amount of transfers received on remittances among poor households.

The second model is:

$$Y = \beta_0 + \beta_1 HINCPC + \beta_2 TST + \beta_3 HH + \beta_4 DEC + \beta_5 TSTDEC + u_i \quad (1)$$

where:

Y, HINCPC, TST, and HH– as above,

DEC – a set of nine dummy variables indicating to which income decile household belongs, first (lowest) decile being the benchmark category,

TSTDEC – interaction variable between variables TST and DEC, which should control for the both nonlinear and non-monotonic effect of social transfers and remittances, based on income distribution.

u_i – error term.

3.3. Data

The dataset used for the purpose of empirical analysis in this study is the ‘Living in BiH’ survey conducted by Statistical Agency of Bosnia-Herzegovina. This survey based on the World Bank’s LSMS survey conducted in 2001. Then, the Statistical Agency of Bosnia-Herzegovina conducted three waves of ‘Living in BiH’ survey in 2002, 2003 and 2004. For this analysis, survey from 2004 was chosen because it contains the most comprehensive set of information necessary for this analysis. Besides that, certain time invariant data, such as ethnicity of individual, were imputed from the 2001 dataset. The original sample of this survey was 3.004 households, but once the observations with the most important

information, such as age, income, receipt of remittances and social transfers were excluded, the final dataset with all the necessary information was 2541 households. The descriptive statistics of the variables included in the model is presented in the table below.

Table 1. Descriptive statistics of the variables

<i>Variable description</i>	<i>Variable name</i>	<i>Obs</i>	<i>Mean</i>	<i>Std. Dev.</i>
Household characteristics				
<i>Number of children in a household</i>	<i>hnoc</i>	2479	2.448	1.382
<i>Ethnicity of the household's head (1 if ethnic Serb)</i>	<i>serb</i>	2808	0.436	0.496
<i>Ethnicity of the household's head (1 if ethnic Croat)</i>	<i>croat</i>	2808	0.087	0.282
<i>Urbanity of place of living of the household's head (1 if rural)</i>	<i>rural</i>	2719	0.344	0.475
<i>Urbanity of place of living of the household's head (1 if urban area other than capital city)</i>	<i>otherurb</i>	2719	0.424	0.494
<i>Education level of the household's head (1 if completed primary school)</i>	<i>primedu</i>	2541	0.225	0.418
<i>Education level of the household's head (1 if completed secondary school)</i>	<i>secedu</i>	2541	0.465	0.499
<i>Education level of the household's head (1 if has university degree)</i>	<i>tertedu</i>	2541	0.104	0.306
<i>Age of the household's head</i>	<i>age</i>	2842	52.574	17.812
<i>Entity in which individual lives (1 if Republika Srpska)</i>	<i>rs</i>	2842	0.464	0.499
<i>Gender of the household's head (1 if female)</i>	<i>fhh</i>	2842	0.261	0.439
<i>Marital status of the household's head (1 if married)</i>	<i>marital_s</i>	2839	0.051	0.220
<i>Household's size</i>	<i>hhsiz</i>	2840	3.063	1.590
<i>Household's consumption per capita</i>	<i>gall</i>	2842	3,256.534	1,978.847
<i>1 if a household did not migrate during the war</i>	<i>stayer</i>	2826	0.562	0.496
Income variables				
<i>Household's average monthly pre-transfer income</i>	<i>hmsal</i>	2842	339.278	517.442
<i>Poverty status of a household (1 if poor)</i>	<i>pooreu</i>	2840	0.122	0.327
<i>Poverty status of a household (1 if not poor)</i>	<i>nopoor</i>	2842	0.878	0.328
Transfer variables				
<i>Amount of monthly domestic remittances received by a household</i>	<i>hbhrema</i>	2842	12.160	39.922
<i>Amount of monthly international remittances received by a household</i>	<i>harema</i>	2842	21.589	81.013

<i>Variable description</i>	<i>Variable name</i>	<i>Obs</i>	<i>Mean</i>	<i>Std. Dev.</i>
<i>I if household received domestic remittances</i>	<i>hbhremr</i>	2842	0.214	0.410
<i>Variable description</i>	<i>Variable name</i>	<i>Obs</i>	<i>Mean</i>	<i>Std. Dev.</i>
<i>I if household received international remittances</i>	<i>haremr</i>	2842	0.190	0.392
<i>I if household received pension</i>	<i>hpensionr</i>	2842	0.396	0.489
<i>Hoousehold's average monthly pension received</i>	<i>hpensiona</i>	2842	87.977	148.912
<i>I if household received any social transfers other than pensions</i>	<i>hostr</i>	2842	0.073	0.260
<i>Amount of monthly social transfers other than pensions</i>	<i>hosta</i>	2842	2.866	15.330
<i>I if household received any social transfers, inclusion than pensions</i>	<i>htstr</i>	2842	0.449	0.497
<i>Amount of monthly social transfers, including pensions</i>	<i>htsta</i>	2842	90.843	148.960
<i>I if household received remittances (domestic + international)</i>	<i>hremr</i>	2842	0.336	0.472
<i>Amount of monthly remittances (domestic + international) received by a household</i>	<i>hrema</i>	2842	33.749	90.120

The cross-tabulation of receivers of remittances and social transfers is presented in the table below.

Table 2. Proportions of household according to receipt of social and remittances

	<i>Does not receive remittances</i>	<i>Receives remittances</i>	<i>Total</i>
<i>Does not receive social transfers</i>	38.49	16.64	55.14
<i>Receives social transfers</i>	27.93	16.92	48.85
<i>Total</i>	66.43	33.56	100.0

Source: Own calculations

As we can see from the table above, the data from the Living in BiH 2004 survey show that the percentage of households receiving both social transfers and remittances is quite large, as almost 17 per cent of individuals receive both social transfers and remittances. This means that a possibility for large crowding out effect of social transfers on remittances exists.

4. Results

The results of the two models are presented in the Table 6 below. The column 'Model 1' presents the results of the probit estimation of the model of the determinants of receipt of remittances, which is the first stage of the Heckman's approach, whereas the columns 'Model 2' and 'Model 3' present the results of the Heckman's second stage estimation of the two specifications of the model of determinants of amount of remittances, as described above.

Table 3. Estimated coefficients of the alternative models

<i>Variable description</i>	<i>Variable name</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>
Household characteristics				
<i>Age of household's head</i>	<i>hhage</i>	-0.022* (0.012)	10.389 (13.576)	8.604 (12.827)
<i>Hhage squared</i>	<i>hhagesq</i>	0.000** (0.000)	-0.112 (0.122)	-0.059 (0.116)
<i>Number of children in a household</i>	<i>numkids</i>	0.207*** (0.050)	3.173 (42.833)	60.154 (41.525)
<i>Urbanity of place of living of the household's head (1 if rural)</i>	<i>rural</i>	0.105* (0.058)		
<i>Employment status of household's head (1 if employee)</i>	<i>employee</i>	-0.414*** (0.085)		
<i>Employment status of household's head (1 if self-employed)</i>	<i>selfemp</i>	-0.389*** (0.095)		
<i>Gender of the household's head (1 if female)</i>	<i>fhh</i>	0.178*** (0.067)	-70.749 (84.179)	-130.089* (80.117)
<i>Household's size</i>	<i>hhsiz</i>	-0.258*** (0.035)		
<i>Decile 2 (1 if households belongs to income decile 2), benchmark category is decile 1</i>	<i>d2</i>			44.782 (156.114)
<i>Decile 3 (1 if households belongs to income decile 3)</i>	<i>d3</i>			161.474 (159.970)
<i>Decile 4 (1 if households belongs to income decile 4)</i>	<i>d4</i>			246.924 (165.780)
<i>Decile 5 (1 if households belongs to income decile 5)</i>	<i>d5</i>			377.087* *
<i>Decile 6 (1 if households belongs to income decile 6)</i>	<i>d6</i>			220.375 (150.496)
<i>Decile 7 (1 if households belongs to income decile 7)</i>	<i>d7</i>			396.896*** (154.127)

<i>Decile 8 (1 if households belongs to income decile 8)</i>	<i>d8</i>			465.254* ** (146.823)
<i>Decile 9 (1 if households belongs to income decile 9)</i>	<i>d9</i>			785.135* ** (146.535)
<i>Decile 10 (1 if households belongs to income decile 10)</i>	<i>d10</i>			950.386* ** (154.033)
<i>Variable description</i>	<i>Variable name</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>
<i>Income variables</i>				
<i>Household's average monthly pre-transfer income per capita</i>	<i>hincpc</i>	-0.001*** (0.000)	-0.588* (0.310)	-0.977*** (0.300)
<i>Income squared</i>	<i>incsq</i>	0.000* (0.000)	0.001*** (0.000)	0.000** (0.000)
<i>Poverty status of a household (1 if not poor)</i>	<i>np</i>		370.983* ** (116.805)	
<i>Transfer variables</i>				
<i>Amount of monthly social transfers per capita</i>	<i>htsta</i>	0.001*** (0.000)	-0.324 (0.527)	-0.123 (0.561)
<i>Interaction variable between htsta and nopoor</i>	<i>tstnp</i>		-0.175 (410.258)	
<i>Squared interaction variable between htsta and nopoor</i>	<i>tstnpsq</i>			
<i>Interaction term between tst and d2</i>	<i>tstd2</i>			-0.232 (0.879)
<i>Interaction term between tst and d3</i>	<i>tstd3</i>			0.315 (1.665)
<i>Interaction term between tst and d4</i>	<i>tstd4</i>			-0.299 (1.062)
<i>Interaction term between tst and d5</i>	<i>tstd5</i>			0.238 (1.193)
<i>Interaction term between tst and d6</i>	<i>tstd6</i>			-0.231 (2.672)
<i>Interaction term between tst and d7</i>	<i>tstd7</i>			-0.747 (1.348)
<i>Interaction term between tst and d8</i>	<i>tstd8</i>			-0.257 (0.656)

<i>Interaction term between tst and d9</i>	<i>tstd9</i>			-0.443 (0.858)
<i>Interaction term between tst and d10</i>	<i>tstd10</i>			-0.340 (0.775)
<i>Inverse Mills ratio</i>	<i>invmills</i>		-354.885* (191.452)	-182.984 (183.555)
<i>Variable description</i>	<i>Variable name</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>
<i>Variable description</i>	<i>Variable name</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>
<i>No. of observations</i>		2790	2790	2790
<i>No. of uncensored observations</i>			777	777
<i>Wald chi²</i>			25.76	107.94

*** significant at 1 per cent level, ** significant at 5 per cent level, * significant at 10 per cent level

Source: Own calculations

The coefficient of the Inverse Mills ratio is statistically significant at only 10 per cent level of significance, and only in the Model 2. This provides weak support to the need for estimating the model by controlling for possible selection of remittance recipients by using Heckman's procedure. The coefficient of the income variable, the main factor influencing both receipt and amount received, is negative and statistically significant in all models. Moreover, squared term of the income variable is positive and statistically significant in all three models. This confirms the hypothesis of negative, but nonlinear, impact of income of recipients on both the incidence and amount of remittances received.

The key demographic characteristics influencing receipt of remittances, according to the results of the models estimated, are household's size, number of children in a household, place of living, as well as age, gender and employment status of a household's head. Also, other variables that were used in previous studies, such as age of household's head, marital status and other level of urbanity and education, were included in the initial specification of the model, but were statistically largely insignificant. These results are in line with the previous studies. More children in a household increase both the probability of receipt of remittances and the amount received. Negative sign of the coefficient for household size variable need to be interpreted taking into account that the variable on number of

children in also included, thus this variable probably captures number of adult members in a household, for which we can expect to reduce incidence of receipt and amount of remittances received, holding other factors constant. Employment status of household's head reduces amount of remittances received, which is what we could have expected. Female headed households are more likely to receive remittances, which is also in line with most of previous studies (for example, Menezes, 2007).

The coefficient of the key variable of interest in this study, the one on social transfers, is statistically significant and positive in the model 1. This suggests that the receipt of social transfers increase likelihood of receipt of remittances, that is, that remittances are primarily driven by exchange motive. The same coefficient in models 2 and 3, once interaction terms are included in the model, needs to be interpreted carefully. Inclusion of interaction variables changes the meaning of original variables in a way that it represents the omitted category from the interaction term. Therefore, the interpretation of coefficients cannot be done separately, as they indicate differences between different categories, but they need to be summed up if we want to calculate the effect of variable for particular category on the dependent variable. In that sense, we present the table with calculated coefficients for each category, one by summing up coefficients for original variable and original coefficient for each new category representing difference between original variable (omitted category) and that particular category.

Table 4. Estimated linear combinations of coefficients

<i>No</i>	<i>Category</i>	<i>Coefficient</i>	<i>Standard error</i>
<i>Model 2</i>			
1	<i>Social transfers – non-poor</i>	-0.149	1.075
<i>Model 3</i>			
2	<i>Social transfers – decile 2</i>	0.108	1.305
3	<i>Social transfers – decile 3</i>	-0.439	1.927
4	<i>Social transfers – decile 4</i>	0.176	1.434
5	<i>Social transfers – decile 5</i>	-0.361	1.538
6	<i>Social transfers – decile 6</i>	0.107	2.843
7	<i>Social transfers – decile 7</i>	0.624	1.662
8	<i>Social transfers – decile 8</i>	0.133	1.170
9	<i>Social transfers – decile 9</i>	0.319	1.293
10	<i>Social transfers – decile 10</i>	0.217	1.240

Source: Own calculations

In model 2, the benchmark category is poor household. Consequently, original coefficient for social transfers measures their effect on receipt of remittances by poor households. Coefficient for interaction term between social transfers and dummy variable for non-poor households measures the difference in the effect of social transfers on remittance receipts between poor and non-poor. The coefficient in the table 2 measures the effect of social transfers on receipt of remittances by non-poor households. The coefficients for both poor and non-poor households are statistically insignificant, which suggests that the receipt of social transfers does not affect amount of remittances received. In model 3, although controlling for differences in income status between households in more detail, we do not observe significant effect of social transfers on the amount of remittances for any income deciles, as all coefficients are statistically insignificant.

The regression diagnostics tests do not reveal any significant problem that might affect validity of the estimated results.

5. Conclusions

The above empirical analysis of the existence of the ‘crowding out’ effect is the first known study on this issue for Bosnia-Herzegovina. Therefore, although there is much room for improvement, the results presented above should provide useful insight into the existence of relationship between these two types of transfers, and consequently on the extent of contribution of these transfers to reduction of poverty and inequality in the country.

The results of the econometric estimation of the models of the relationship between remittances and social transfers suggest that the predominant motive for sending remittances to Bosnia-Herzegovina is exchange. Remittance receipts increases as social transfers increase. This means that social transfers increase likelihood of receiving remittances, but not necessarily that they ‘crowd-in’ remittances, as the effect of social transfers on the amount of remittances is not significant.

This only means that there is significant degree of ‘matching’ between social transfers and remittances receipts, or that the same individuals receive both types of transfers. As previous studies have shown, social transfers are category based and have relatively poor targeting and negligible impact on poverty in the country. This may be result of higher ‘social capital’ by receivers of remittances which eases their access to social transfers. So, we might possible speak about the

‘crowding-in’ effect of remittances on social transfers here. The results of the test for possible non-monotonic pattern in the motives for remittances do not support the hypothesis that remittances to poor people are primarily altruistically motivated, while those sent to non-poor are driven by the exchange motive.

The above results have important implications from a policy perspective. In a country with large social transfers that are category based and inefficient, inflows of remittances that are not pro-poor additionally decrease efficiency of social transfers and deepen inequality between recipients and non-recipients of either private or public transfers further. Consequently, inflows of remittances cannot be considered as a remedy for inefficient social transfer, but in contrary raise the importance of proper targeting of social transfers.

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The Albanian Aromanians' Awakening: Communication of Identity Politics and Conflicts in Post-Communism

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Abstract

Today, many thousands of Aromanians (also known as „Vlachs“) live quite compactly in Northern Greece, Macedonia (FYROM) and southern Albania; and there are still traces of Vlach-Aromanian and Aromanian populations in Bulgaria, Serbia, Croatia and Romania. In Albania, they were recently estimated at about 200,000 by the English scholar Tom Winniffrith. In Albanian communist times, Aromanians were not recognised as a separate minority group, officially considered to be almost completely assimilated. However, in the early post-communist transition period, a vivid Aromanian ethnic movement emerged in Albania and it became part of a recent global Balkan Aromanian initiative. The Albanian Aromanians' new emphasis of their ethnicity can be seen as a pragmatic strategy of adjustment to successes and failures in the Albanian political transition and to globalisation. It is exactly the re-vitalisation of the conflict between followers of a pro-Greek and a pro-Romanian Aromanian identification that serves to broaden the scope of options for potential exploitation.

Abstrakt

Sot, mijëra e arumunë (të njohur edhe si "vleh") jetojnë në Greqinë Veriore, Maqedoni (IRJM) dhe në jug të Shqipërisë. Gjurmë të vllahëve-arumun dhe popullsisë arumune ka ende edhe në Bullgari, Serbi, Kroaci dhe Rumani. Shkencëtari anglez Tom Winnifriith ka vlerësuar që në Shqipëri akoma ka rreth 200.000 vleh. Në Shqipërinë komuniste, arumunët nuk u njohën si një grup minoritar i veçantë që zyrtarisht konsiderohej të jetë pothuajse krejtësisht i asimiluar. Megjithatë, në periudhën e hershme të tranzicionit post-komunist, një lëvizje e etnike arumune u shfaq në Shqipëri dhe u bë pjesë e një iniciative globale arumune të Ballkanit.

Arumunët shqiptar, theksi i ri i etnicitetit të tyre mund të shihet si një strategji pragmatike e përshtatjes në sukseset dhe dështimet e tranzicionit politik shqiptar dhe të globalizimit në përgjithësi. Është pikërisht rivitalizimi i konfliktit në mes të ndjekësve të grupeve pro-greke dhe pro-rumune të identifikimit që i shërben zgjerimit dhe shtimit të opsioneve për eksploatim potencial.

Апстракт

Денес, илјадници Ароманци (исто така познати како „Власи“) живеат доста компактно во северна Грција, Македонија (ПЈРМ) и јужна Албанија и се уште има траги на влашки и аромански заедници во Бугарија, Србија, Хрватска и Романија. Во Албанија, неодамна англискиот научник Том Винифрит процени дека има околу 200.000. Во албанските комунистички времиња, Ароманците не беа признати како посебна малцинска група, официјално се сметаа за речиси целосно асимилирани. Сепак, во почетокот на периодот на пост-комунистичката транзиција во Албанија се појави интензивно влашко етничко движење кое стана дел од една неодамнешна глобална Балканска ароманска иницијатива. Новиот акцент на етничката припадност на Албанската Ароманци може да се смета како прагматична стратегија на прилагодување кон успеси и неуспеси во албанската политичка транзиција и глобализацијата. Тоа е ревитализација на конфликтот меѓу следбениците на про-грчката и про-романската ароманска идентификација која служи за да се прошири опсегот на опции за потенцијална експлоатација.

Introduction

Over a decade ago Ernest Gellner claimed that „there is a very large number of potential nations on earth. Our planet also contains room for a certain number of independent or autonomous political units. On any reasonable calculation, the former number (of potential nations) is probably much, *much* larger than that of possible viable states.“ (Gellner 1983:2) Aromanians or Vlachs define themselves as a people, basing ideas of ethnic or cultural cohesion on criteria of language, religion, descent, common history and former socioprofessional specialisation. Thus, Aromanians certainly qualify as one of the „sleeping beauty nations“ as coined by Gellner.

A description provided in 1900 by Sir Charles Eliot under the pseudonym „Odysseus“ in his travel account „Turkey in Europe“ (and brought to my attention by Nandris 1987:27), still seems amazingly valid in giving an impression of Aromanian omnipresence in the Balkans: „[The Aromanians] remind us of one of those ingenious pictures in which an animal or human face is concealed so as not to be obvious on first inspection, though when once seen it appears to be the principal feature of the drawing.

In the same way one may live and travel in the Balkan lands without seeing or hearing anything of the Vlachs, until one's eyes are opened. Then one runs the risk of going to the opposite extreme and thinking, like Roumanian patriots, that most of the inhabitants of Macedonia [as well as of Greece and Albania] are Vlachs in disguise.“ (Odysseus 1900: 409 ff) Today, many thousands of Balkan Aromanians still live quite compactly in at least three south-east European state formations: in northern Greece, Macedonia (FYROM) and southern Albania; and there are still traces of Vlach-Aromanians and pockets of Aromanian populations in Bulgaria, Serbia, Croatia and Romania.

Early and more recent documentation of Balkan life suggests total populations between a couple of thousand, ten thousand or up to a few hundred thousand Aromanians in these states. In Albania they were recently estimated at about 200,000 by the English scholar Tom Winnifrith who is widely regarded as a most impartial observer. This figure seems to fill the huge gap between the figures concerning the Greek minority in Albania given by Albanian sources at about 60,000 and the Greek official statistics of „Greeks“ in Albania of 300 - 400,000. In

the national Greek view, Hellenic cultural heritage is seen as passed on through Byzantine culture to the Greek Orthodox religion today.

Religion, as a criterion of classification, automatically places all the Albanian Aromanians, and also those people who call themselves Albanian Orthodox, into the „Greek minority.“ Internationally, they are known as „Vlachs“ or as „Aromanians.“ The latter term is derived from their self-designation as *Aromân* or *Rromâne* (or *Armân* or *Rraman*) which indicates their Romance mother tongue which gives the Romanians reasons to regard them as part of their own culture. 4 Albanians call them either *Vlleh* or *Çoban* (meaning: „pastoralist“) which indicates their original socio-professional specialisation, or *Llaciface* (similar to the Serbian designation *Zinzar* which has an offensive touch and is derived from the sound of their language). In Albanian communist times they were not recognised as a separate minority group, officially considered to be almost completely assimilated and hence absorbed into the population statistics.

One might hypothesise that the Aromanian identity continued to exist, latently, during the communist period. However, among my interviewees, there were people who only learned that they were „Aromanian“ four or five years ago, as well as others who felt that their Aromanian identity was suppressed, endangered or lost during the communist period. In the early post-communist transition period a vivid Aromanian ethnic movement emerged in Albania. The slumber of a "sleeping beauty nation" ended and it became part of a recent global Balkan Aromanian initiative. In 1997, the Freiburg „Union für aromunische Sprache und Kultur“ under the leadership of Vasile Barba, a well-known diaspora activist, succeeded in leading the Parliamentary Assembly of the Council of Europe, without any Greek participation however, to formulate a recommendation for.

The Aromanian Question and Assimilation

In fact, the new ethnic movement in many respects resembles a turn-of-the-century phenomenon. Without having received much attention in South East European history, there had been a short-lived but quite successful Aromanian national movement which culminated in their recognition as an Aromanian *millet* („nation“) in May 1905 in Constantinople with the support of the Great Powers (prominently by Austria-Hungary). The „Aromanian Question“ in the period from the middle of the last century until 1905 was described brilliantly and in great

detail in a doctoral thesis in 1974 by Max Demeter Peyfuss, an Austrian historian of partly Aromanian descent (Peyfuss 1974). From this thesis one can draw an understanding of the typical structure of Balkan national movements; the leading actors of identity politics who imported national ideas from urban centres abroad (in this case mainly from Bucharest); how ethnically based associations were founded; schools and education promoted, attempts to develop a standardised written language and literacy programmes pursued; and popular traditions transformed into „folklore.“ Among the reasons Peyfuss gives in order to explain why, despite all this, the Aromanians still failed to form a separate nation-state, are:

1. They were seeking independence within a framework— that of the Ottoman Empire— which itself was in the process of disintegration.
2. As a tool of Romanian nationalist Balkan politics competing mainly with Greek agendas, they themselves were split in a destructive conflict between either a pro-Romanian or a pro-Greek orientation.
3. Escalating violence imposed on Aromanians by Greek nationalists in the Civil War and Balkan Wars emerged as a reaction to Romanian propaganda activities and Romanian support for ethnic schools and churches on Greek territory, and eventually suppressed any further Aromanian separatist attempts.
4. Pro-Romanian Aromanian nationalists eventually sought emancipation in the newlyformed Albanian nation-state while the others were assimilated into the Greek nation and participated in the Greek nationalist movement. There were, however, very different attitudes among different groups of Aromanians in relation to the national movements they had to cope with.

Those Aromanians who, well into this century, preserved their socio-professional identity and continued to practice transhumant pastoralism until the newly-founded nation-states „colonialised“ their territory and set up impermeable political borders, conceived nationalism as counterproductive. As one old Albanian Aromanian shepherd once explained to me, reflecting on his life: „We did not need or want any nation because borders hindered our mobility between winter and summer pastures“ (1995, interview Vithkuqe). On the other hand, many authors have pointed out how, „by melting into their host nation,“ the Vlachs or Aromanians became „the best Greeks,“ „the best Macedonians,“ and also the „best Albanians“ (though, due to Albanian isolationism during the communist period, there was not much known until recently about the latter). Nicholas Balamaci, a second generation member of the American diaspora, has convincingly explained

how integrating or identifying with the host nation and taking part in its development proved to be an early road to modernisation— besides turning out to be the road to assimilation— for former mountain Vlachs (Balamaci 1991).

In sedentarisation, literacy programmes, and migration and urbanisation processes, many former semi-transhumant mountain pastoralists managed, polyglots as they were, to transform spatial mobility into social mobility. They thus became part of the Balkan bourgeoisie while participating in and promoting their respective host-states' national movements. Thus, many national heroes referred to in today's national historiography are known among Aromanians as actually having been Aromanians, such as, for example, the former Greek conservative party leader Averoff, or— in the Albanian case— the famous Frasherli Brothers, considered to be the most important figures of the Albanian national movement. They originate from the same Albanian village that the Albanian Aromanians also known as „Frasherliote“ (= people from Frasheri) are said to come from. If a failed Aromanian national movement and a more or less forced homogenization process in Albania have led to their assimilation, certain questions arise.

Why and how did Aromanian ethnicity emerge with political transition in Albania? Can the reemergence of Aromanian ethnicity be seen as the result of transition, i.e. of reprivatization, the new freedom of religion, the emergence of party politics, globalisation, or some other innovations in society?

If transition, according to Steven Sampson, means „insecurity in time and space,“ what advantages does a renaissance of identity give?

For example, does it supply new structures and new modes of orientation (as could be assumed by applying ritual theory to political transition, cf. Turner 1969)? Does a newly emphasised ethnicity prove beneficial in coping with the difficult, novel realities, and under what conditions does it really matter? When does it not? Finally, under what circumstances does an emotional attachment develop and the newly discovered ethnicity become „emotionally internalized“ (cf. Verdery 1990)?

I would like to argue that the Albanian Aromanians' new emphasis of their ethnicity can be seen as a pragmatic strategy of adjustment to successes and failures in the Albanian political transition and also to globalisation. In juxtaposition to Peyfuss's historical analysis I would like to stress that, today, it is exactly the revitalisation of the conflict between followers of a pro-Greek and a pro-Romanian identification that serves to broaden the scope of options for potential exploitation. In constructing antagonistic discourses mirroring Romanian

or, respectively, Greek world-views, Albanian Aromanians manage to secure the future of their offspring and to create new social positions for themselves.

Aromanian Identity Renaissance in Albania ("the Awakening")

In 1991, with the liberalisation of the political situation in Albania, the Aromanians started to organise themselves. Two Aromanian men in Selenica (near the harbour city of Vlora, mid-central Albania) and two in Korça (south-east Albania), all involved in cultural work mainly through Albanian and Aromanian folk music, working independently, began constructing a statute for an Aromanian cultural association.

They were then introduced through the then Romanian ambassador in Tirana and worked together to found a common association. The first Association of Aromanian Albanians was recognised by the Albanian Ministry of Culture, Youth and Sports in October 1991 as a „cultural group,“ and as the second largest group after the Albanians, but not as a „minority.“ After this initial success, a first Congress of Albanian Aromanian People was held. In addition to many Albanian Aromanians, a large number of diaspora Aromanians from Macedonia, Romania, Greece, Germany, France, and the USA participated in this conference.

Folklore groups performed and declarations emphasised the important contributions of Aromanian people to culture and development in Albania and elsewhere. Apparently, these events were meant to stimulate pride and to stress the importance of a collective identity. Hence, the Albanian Aromanians learned the so-called „Aromanian National Anthem“ at the first conference they were able to organise and attend.

Long known in the diaspora, this anthem, a fiercely ethnicist nineteenth-century poem by Constantin Belimace called „the will of the forefathers,“ calls for the maintenance of the the protection of Aromanian culture and language in its host-countries (Council of Europe 1997). To follow Gellner’s mythic imagery, it will be the objective of this paper to define who, or what, was the „prince“ who gave the kiss of life to Aromanians in Albania. Romance language. Since this first conference, many other conferences and folklore events have taken place on a large scale.

Associations and Factions

In 1996 and 1997, there were branches of the Aromanian associations founded in late 1991 in probably every city and many villages of central and southern Albania. In many cities one could find at least one local Aromanian association board, including a president, a vice-president and a secretary. These cause some confusion to the outside observer because there were often two parallel local associations governed by different boards. This is due to a split in the first association of 1991, resulting in legal registrations of new Aromanian (or Vlach) associations in 1993 (Korça) and 1995 (Vlora) and indicative of the fact that the followers of the initial Selenica (Vlora) group stood in opposition to the initial Korça group.

This situation reminds one of a common joke heard among young people in Tirana referring to what is conceived as an Albanian characteristic: „There are as many presidents (or chairmen) as Albanians in Albanian democracy.“ In fact, the registration documents of the different groups, as collected in Vlora and Tirana in 1996 and 1997 show some interesting irregularities. Comparing the lists of names of founding members, the transfer of loyalty by some individuals becomes evident. By moving from one association to another, these Aromanians chose to switch from a pro-Romanian to a pro-Greek faction, and vice versa.

When some of them were interviewed, former power struggles over positions in the associations were exposed. Aside from leadership conflicts, the disagreements were indicated through giving slightly different names and statutes to the evolving association. In 1995 and 1996, the Aromanian interviewees differentiated between a so-called „pro-Greek“ wing (or „Albanian Vlachs“) with political as well as cultural aims, and a „pro-Romanian“ (or „Albanian Aromanian“) wing with explicitly non-political, cultural objectives.

There is a tendency among many members of the pro-Greek faction to be active in, or supportive of, the Human Rights Party. This party is the successor to the former politically dubious „Omonia,“ which was said to have been in close contact with fundamentalist, nationalistic Greek circles before the Greek president Kostas Simitis came to power. Under Berisha’s government, „Omonia“ became illegal and was banned (cf. Kadritzke 1998).

In contrast, many of the pro-Romanian followers based in Korça and Tirana still remember the Romanian-supported Aromanian schools and the Aromanian churches from personal experience in post-communist times.

They eagerly engage in the revival of these institutions, giving Aromanian language courses to the youngsters and assisting and supporting Aromanian church rituals. In teaching Aromanian, missing words are consciously replaced by Romanian words, and Romanian religious texts serve as a basis for the liturgy which is also partly performed in either the Aromanian or the Albanian language. Thus, as brought to my attention by Thede Kahl, the factual existence of an original Aromanian liturgy (*Liturghier armînesc*) from the beginning of the 18th century, discovered by Ilo Mitkë-Qafëzezi in Korça and published in 1962 by Caragiu Marioteanu, is ignored. In recent years, this text has been reprinted and circulated among Albanian Aromanians with the support of the Aromanian diaspora, and can therefore be considered to be known by the Aromanian church activists of Korça. However, the text is printed in Greek letters, and therefore conceived of as alien by this faction which exclusively refers to Latin writings. In this, they reproduce another feature of the pre-communist pro-Romanian movement among Balkan Aromanians.

Like the Aromanian priest of Korça, these pro-Romanian activists tended to identify with the ruling Democratic Party since they felt grateful for their new opportunities and were also supported by bilateral friendship ties between Romania and Albania and presidents Berisha and Iliescu. With the practical disintegration of Albania in 1997 and accompanying immense disappointment with Berisha's Democratic party, many of these former supporters leaned towards even more conservative, monarchist parties which were left as the only alternative to the „Democrats“ or the „Socialists.“ Both groups construct discourses defining their ethnic identity in terms of their either Greek or Romanian preference.

„Discursive interfaces“

Romanian scholars (cf. as a classic: Capidan 1937; Papahagi 1932) and also members of the Aromanian diaspora in the Boston area in the USA, Germany and France classify the Albanian Aromanians among the so-called Macedo-Romanian or Southern-Danube Romance culture. Simply summarised, they base this cultural concept on linguistic evidence that the Aromanian language is a Romanian dialect. Second, it is based on the conception of historical continuity from the Thracians or

Dacians. Many of my Albanian Aromanian interviewees agree with this, although with the slight variation of extending the idea to include the ancient Illyrian tribes.

The idea of claiming direct descent from the Illyrians is taken from Albanian national historiography and makes the Albanian Aromanians „perfect“ Albanians.

In short, the Aromanian people are believed to be the descendants of various ancient romanised autochthonous tribes which were dispersed throughout South East Europe over time. Actors of the pro-Romanian wing, however, consciously avoid taking into account the idea of any possible relation to the ancient Hellenes. They say the ancient Greeks were „of no importance, they lived only around Athens, on the Peleponnesos and on the islands.“ In some villages, I also heard a variant that Aromanians once came from Romania through emigration. People of this faction feel— as some of my interviewees said— a kind of „nostalgia for Romania,“ where the „old culture“ is preserved, and where they easily understand the language.

Historically, there were also commercial links between bourgeois Albanian Aromanian traders and sedentary Aromanian craftsmen of prosperous southern Albanian cities with their counterparts in Romania until the Second World War. The pro-Romanian faction still remembers this connection from their family histories. At the same time, they always emphasise their patriotic feelings towards Albania. They proudly point out that the leading figures of the Albanian national movement were Aromanians. One of the interviewees in 1996 showed me a copy of a map of an old nationalistic Albanian book from 1913. The copy I received was called „The True Albania“.

Later I learned that it derived from the work of the first academic Albanian geographer Ahmet Gashi. A similar original ethnic map was titled „Ethnic Albania“ where Albania extends far into Greek territory, as far south as Preveza. These maps would add today's Greek Epiros to Albania as well as Kosovo. In contrast, leaders of the „pro-Greek“ faction explained to me that Aromanians are romanised Hellenes. This view is also shared for example by the Greek scholar Achilleas Lazarou (1976, 1994) whose papers are translated and published by this Albanian Aromanian faction; by the Institute for „North Epiros Studies“ in Joannina; and by many Orthodox priests on the Greek side of the border.⁸ In 1994 I was given a map by a Greek priest from the border area which showed Greece extending far into Albanian territory up to the Shkumbin river near Tirana.

This is also the space where the Greek minority of Albania is said to be situated. A leader of the Albanian Aromanian pro-Greek faction, confronted with

the arguments of his counterparts, once simply asked me: „Did Romania exist already 2000 years ago?“ Many of the pro-Greek Aromanian families practised a nomadic pastoralism (transhumance) well into the communist period, when mobility was hindered by the impermeable political borders between Albania and Greece.

Oral life histories, as taperecorded, showed that many of them used to be convinced communist partisans, employed as experienced pathfinders and caravan leaders, and that these nomadic Aromanians conceived the new possibilities of sedentarisation resulting from the first land reform and the creation of agricultural cooperatives as a great and fair gift. However, the ones successfully exploiting the new possibilities as land owning entrepreneurs soon abandoned this positive perception.

Under an Albanian policy paralleling Russian Stalinism, they became stigmatised *askulak* and, like the bourgeois urban Aromanian traders and craftsmen, they were expropriated and persecuted. On the other hand, Aromanian pastoralist and livestock competencies were welcome in cooperative work. Aromanians became veterinarians, shepherds in brigade work, and dairy experts in land cooperatives.

Evidently, during the post-communist transition period, many descendants from recently transhumant families started to revitalise a private, and this time sedentary, economy using livestock and dairy competencies again. They utilise old and temporarily-interrupted family relations on the Greek side of the border for commerce again. For example, in 1996 in the border area smuggling networks of goat's and ewe's milk cheese existed between Albanian and Greek Aromanian relatives.

Without judging the question of the existing political borders or of territorial claims at any time in history, there is an inner logic to both lines of argumentation. Two different discourses cut across the same people in the same territory, since they consider themselves to be one people referring to a Romance-language tradition, despite conflicting interpretations of descent and cultural belonging.

Therefore, comparing the contrasting arguments of classification in categories, such as the myth of origin, descent, historical events, language, religion and territory, one can speak of discursive interfaces. There are different family history dispositions and sentiments that endorse the choice of either sense of belonging, yet people switch their discourses, as a family or individually, if such a change is opportune, as will be shown.

Social Structures and Positions

Politics of social structures and positions negotiate prestige. There is a latent struggle for prestige going on among different groups in current Albania. To set off one's exclusive group as more prestigious than the others seems to be a *leitmotiv* for everybody. The southern Albanians consider the northern mountaineers to be primitive, whereas the people in the North see the Southerners as corrupt and not trustworthy. Since Ottoman times the people of the village next door have always been looked upon with suspicion.

The Muslims are considered to be weak traitors by their Christian neighbours because they are believed to have converted under the Ottomans, or for other reasons which are always related to a structural need for constructing criteria of inclusion and exclusion according to which access to various resources is defined. In this general atmosphere, Aromanians in Tirana explained assimilation during the communist period, when the Aromanian language was not passed on to the next generation, by the feeling of being despised when classified by urban Albanians as *Çoban* („pastoralist“). These interviewees actively and consciously intend to invert this lowprestige experience.

First, they demonstrate this through retrospective discourse: „Aromanians were always very educated, standing above other people,“ and by saying that „traditional mobility was a factor to get into contact with new ideas.“

Second, prestige and power is conjured up prospectively: „soon, my children will be proud to be *coban*,“ and „the Aromanian youth will be Albania's intellectual elite in the future.“

Third, future prestige is created in action: more than 900 Aromanian students study by now in Romania. Other students and pupils attend universities and schools in Greece. The usual subjects are medicine, law, economics and international relations. All Aromanian activists of the „pro-Romanian“ faction themselves have their children study in Romania.

At the same time, access to foreign scholarships is an extremely desirable resource in Albania today. A large number of scholarships offered by the Romanian government to Albanians depend on a verified Aromanian identity. Particularly if the Aromanian language is lost, as is usually the case among the

younger generation, the verification certificate is issued by the local or the central board of the „pro-Romanian“ Association of Albanian Aromanians.

The leading members— since they are the ones with the contacts— mediate and either recommend the applicant as a boy or girl „from a good family“ or not. This key position, of course, entails enormous social power. The same is true for the „pro-Greek“ counterparts:

There is evidence that in 1992, without any bureaucratic troubles, visas, including official work permits (which for an average Albanian are very difficult to acquire) were handed out freely to those Aromanian people from villages around Vlora who identified themselves as „Helleno-Vlach.“ Even today, visas are allocated by priority to Albanians who can prove a Vlach heritage.

Again, leading members of the „pro-Greek“ Albanian Aromanian Association send their children to schools in Greece or have permanent economic relations with Greeks. I was told that they also use their ties to the Greek embassy and to Aromanian personal networks to mediate between the donor institution and the villages, and to recommend people.

Leading figures of both Aromanian Association factions accuse each other of abusing their position by taking money from the candidates. People in the villages told me that „with poor people you can do what you want.“ They argued that the poor would sign anything and with any faction if it would help them progress. There is also evidence (although no one would confess to this) that leaders from both factions switched their orientation in the last few years and had their children study first in Greece, but then in Romania, and vice versa.

There is also, of course, a very emotional bond and strong identification respectively with either the Romanian or the Greek State in cases where help had already been received, as witnessed by temporary returnees to the villages. When a new ethnicity had proven helpful in every-day life and contributed to boosting pride, emotional attachments developed.

Identity Relevance Variations

Finally, Aromanian identity is not always and everywhere of relevance. It is not normally referred to when it is a disadvantage. Apparently, Albanian Aromanian people of high social status in modern Albanian society, and this includes many well-known scholars, politicians and artists, tend not to engage in

Aromanian ethnic politics. Under no circumstances at all would some admit to their Aromanian family background.

As some interviewees explained, to emphasise a distinct identity might harm their image and status, even though they do not necessarily believe in the available dominant discourses. A well-known Aromanian scientist in Tirana, happily married to a Muslim woman in the communist period (when mixed marriages were politically correct), confessed he would never engage in Albanian Aromanian identity politics: „There is no doubt, anyway, westem from the Illyrians like any Albanian. We are romanised Illyrians.“ According to Tom Winnifrith, „it is in the towns where Vlachs tend to lose their identity, forgetting their Vlach speech and peculiarly Vlach way of life“ (Winnifrith 1992: 285).

This seems to be generally true for Tirana, where Aromanians live dispersed, but not for Korça, where Aromanians still prefer a specific quarter, and where the middle and older generations proudly explain that during the communist period they spoke their Romance language, as they still do today as long as no other Albanian is present.

Sometimes, one family is split into two identity orientations: a son and his family might be migrant workers in Greece and the daughter might have a scholarship at a Romanian university, for example. „We know who we are, we are Albanians,“ one Korça family explained, „and we adjust to the circumstances.

The historians should find out about our origin.“ For the Aromanian students in Bucharest, who are known among their fellow students as „the Albanians,“ Aromanian identity also plays a minor role. An Aromanian female student on vacation in Albania clarified: „Most of us don't know how to speak Aromanian. We know Romanian, now, and Albanian, of course. Nobody talks about Aromanian identity.

We are Albanians.“ In their favourite pub where they meet, they speak only Albanian. They know that they owe being chosen to study abroad to their Aromanian descent. There are, however, also cases of one or the other Albanian friend who was able to slip through, protected by a family relationship to the responsible Aromanian officials.

A number of students are descendants of mixed Albanian/Aromanian marriages. Some parents chose to inform them about their Aromanian identity only after the collapse of the communist regime. This newly achieved consciousness became relevant for them only when it offered the possibility to study in Greece or Romania.

A final example shows a sphere in which Aromanian identity is played down by the Aromanians but might be emphasised by non-Aromanian Albanians.

In the land privatisation process there is a conflict with regard to the new legislation that would balance the claims of the former cooperative workers with those of the former feudal landowners. Many former transhumant Aromanian families who settled in the villages only in the early communist period feel threatened by the former landowners. In disputes about this conflict, I never heard an Aromanian point to his specific identity because this could be a liability.

This was confirmed by research conducted in 1998 in a south-east Albanian village for it was shown that even non-Aromanian former semi-transhumant pastoralists are called „Vlachs“ by other villagers in order to indicate that they do not have any claim to land in terms of inheritance rights. Despite the turmoil in Albania in early 1997, the Aromanians did not give up their newlygained possibilities.

Aromanian students were advised to stay abroad in Greece or Romania while everyone was arming themselves in Albania. Some unidentified persons attempted to burn down the „pro-Romanian“ association’s office in Tirana in 1996. This office is situated in the same building as the socialist party organ, *Zëri i popullit*. The Korça church is still under construction after the money flow from Romanian and Aromanian businessmen was interrupted following the collapse of the Pyramid schemes.

Still, some Aromanians became hesitant about declaring their cultural heritage when the opposition press accused leading government officials of being of Aromanian descent, thereby attempting to disqualify them as trustworthy Albanians. This evokes memories of the late Albanian communist period when even the best-known Albanian writer, Ismail Kadare, explained the cruelties committed against Albanian people by the fact that the Politburo was composed of a quarter, if not a third, of Macedonians and Aromanians (Kadare 1991: 65; Schmidt-Neke 1993:187).

Summary and Concluding Remarks

Summarising the key points, I would like to stress that there is utilisation of identities as well as emotions with regard to these identities. In this there is a generation gap. The older generation was able to refer to an old model of

Aromanian identity when there was no social order and structure immediately after the breakdown of the communist regime.

They also felt a certain nostalgia remembering old Aromanian identity features from their pre- or early communist past, and now they also utilise identity politics for social positions, reputation, psychological compensation of an inferiority complex, economic advantages, and, most importantly, to secure future opportunities for their children.

The younger people seem not to care very much about Aromanian identity in terms of its symbolic meaning, but also utilise it to gain better opportunities for jobs and education. Emotional attachment may appear after having received benefits. In conclusion, the evidence strongly suggests that Albanian Aromanians' globalizing identity confers an advantage to them over non-Aromanian Albanians.

By renouncing a local identification in favour of one associated with more powerful States (Romania and Greece), that is, associated with ideas distant in space and time and therefore mystical and unchallengeable, they create access to scarce social, economic, political and cultural resources while profiting from new opportunities in the Albanian transition process.

Besides creating a sense of exclusivity, they are able to shift identities: they can choose between different modes of identification, or they can attribute distinct significance to different identities in various situations, referring to their pre-communist situation if opportune.

This flexibility is an efficient and profitable strategy of adjustment to different circumstances. It is undoubtedly not unique to the Albanian case. In contrast to essentialist assumptions, I want to stress that it is the flexibility of identities that makes people strong everywhere.

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Ombudsman and Administrative Justice

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Abstract

Ombudsman safeguards the rights, freedoms and lawful interest of individuals from unlawful or improper acts or omissions from organs of public administration. In the broader context of administrative justice, through this article, I am trying to point out the important role of Ombudsman within administrative justice. Being faced with the dilemma what to include in and omit, I decided to be focused in; (i) an overlook of establishment of this institution; (ii) some concepts of administrative justice without pretending the exhaustion of them, debatable in continuity; (iii) competencies of Ombudsman; (iv) Ombudsman in administrative justice. Administrative justice looks for a healthy and honest relationship between individuals and public administration. Individuals look for an efficient administrative justice, to put things right, to ensure an activity with reasonable expenses and proportional, and more important to have feedback from citizens for higher standards of decision-making. The citizen has some choices for handling conflicts or for the resolving juridical issues. He may submit the request directly to the court, or to an administrative competent body, but he may also submit a request/complain at Ombudsman, which protect him/her from injustices and abuses of the public administration with efficacy, without delays, free of charge. Therefore if the justice does not function and its action needs a lot of time, Ombudsman intervenes as a mechanism to fulfill the vain, to make justice done. This is the conclusion I intend to address in this paper.

Key-words: Ombudsman, justice, administrative, recommendation, responsibility.

Abstrakt

Ombudsmani ka për detyrë shqyrtimin e ankesave të individëve ndaj veprimeve të paligjshme ose të parregullta të administratës publike gjatë veprimtarisë së tyre në dhënien e shërbimeve publike. Në kontekstin e gjerë të një drejtësie administrative, nepërmjet këtij punimi, jam përpjekur të trajtoj rolin e veçantë dhe të rëndësishëm të Ombudsmanit në të. Ndodhur përballë dilemës se çfarë të përfshij në këtë punim potencialisht shumë të gjërë, vendosa të fokusohem në; (i) një historik të krijimit të këtij institucioni; (ii) disa koncepte të drejtësisë administrative pa pretenduar se janë shteruese, të debatueshme në vazhdimësi; (iii) kompetencat e Ombudsmanit; (iv) rolin e Ombudsmanit në drejtësinë administrative. Drejtësia administrative kërkon një raport të shëndetshëm dhe të ndershëm mes autoriteteve publike me individët. Këta të fundit duan një sistem administrativ drejtësie efikas që të vërë gjërat në rregull, të sigurojë në mënyrë eficiente të drejtat e shkelura, të kryejë veprimtari me kosto të arsyeshme dhe proporcionale dhe më e rëndësishme të shkëpusë *feedback* nga qytetarët dhe të sigurojë standarte më të larta shërbimesh dhe vendimmarrjesh. Individit ka disa alternativa për zgjidhjen e problemeve të tij me administratën publike. Ai mund t'i drejtohet gjykatës drejtpërsëdrejti, një organi administrativ kompetent, por mund t'i drejtohet edhe Ombudsmanit, i cili mund t'i japë zgjidhje më të shpejtë në kohë dhe me më pak shpenzime, duke tentuar të verë në vend drejtësinë administrative të mohuar apo cenuar. Prandaj nëse drejtësia nuk funksionon dhe veprimet e saj duan kohë të gjatë, Ombudsmani ndërhyr për të mbushur boshllëkun dhe të shërbejë si një mekanizëm zëvendësues, për të vënë drejtësinë në vend. Ky është konkluzioni me të cilin unë kam mbyllur këtë punim.

Fjalë- kyce: Ombudsman, drejtësi, administrative, rekomandim, përgjegjësi.

Абстракт

Улогата на Омбудсманот е разгледувањето на жалбите на поединците во однос на незаконитите или нередовните дејства во јавната управа во текот на нивната дејност при извршувањето на јавните услуги. Во еден поширок контекст на управното спроведување на правдата, во ова статија се потрудив да ја разгледам посебната и значајната улога на Омбудсманот при ова. Наоѓајќи се пред дилемата што да вклучам во оваа статија, која потенцијално е многу широка, одлучив да се задржам на: (И) една изложба на историјата на ова установа; (ИИ) неколку концепти од спроведувањето на административните правда, не претендирајќи дека се исцрпливи и постојано контроверзни; (ИИИ) надлежностите на Омбудсманот; (ИВ) улогата на Омбудсманот во административните правда. Административните правда бараат здрав и фер однос помеѓу јавните власти и поединците. Овие следните бараат поефикасен административен правен систем за да ги постави уредно работите, да ги обезбеди на поефикасен начин погазените права, да изврши активности со разумни и пропорционални трошоци и најважното да го прекине феедбацк-от од граѓаните и да обезбеди повисоки стандарди на услуги и одлуки. Поединецот има неколку алтернативи за решавање на своите проблеми. Тој може да се обрати директно до судот, еден управен надлежен орган, но може да се обрати и до Омбудсманот, кој може да му даде побрзо навремено решавање и со помали трошоци, обидувајќи да ги спроведе управните негирани или погазени правда. Затоа ако правдата не функционира и нејзините постапки бараат подолго време, тогаш интервенира Омбудсманот за надополнување на празнините и да послужи како еден заменувачки механизам, за ставање на место на правдата.

Клучни зборови: Омбудсман, административна правда, препорака, одговорност

Introduction

As it is well known, the institution of the Ombudsman originated in Sweden at the turn of the 19th century and it was not until the mid-fifties introduced in Denmark under a constitutional amendment of 1953. The institution was aimed at enhancing the protection of the individual against abuse of administrative powers and the forms of maladministration. The idea spread and today Ombudsman is a household word. (*The Danish Ombudsman, published by the Danish Ombudsman, 1995 DJOF Publishing Copenhagen, Denmark, page 13.*) The modern history of the Ombudsman idea dates back to the years immediately after the end of the Second World War, when there started in Denmark as well as in all the democratic countries of Western Europe a general debate on the need for improved protection of the individual against acts of administrative authorities. (*The Danish Ombudsman, published by the Danish Ombudsman, 1995 DJOF Publishing Copenhagen, Denmark, page 14.*)

There is no generally accepted definition of an ombudsman, but in 1974 International Bar Association proposed the following definition, broadly accepted: "An office provided for by the Constitution or by action of the Legislature or Parliament and headed by an independent, high-level public official who is responsible to the Legislature or Parliament, who receives complaints from aggrieved persons against government agencies, officials and employees or who acts on his own motion and who has the power to investigate, recommend corrective action and issue reports".

In 1978, Ombudsman International Institution named this office with different names as: "Comisioner", "Parliamentary Ombudsman", "Human Rights Protector", and "Mediator".

Anyway not every institution or organ which has the characteristics or features of the Ombudsman must be perceived as such. There are many offices which have some functions very similar to Ombudsman, having as object of their work the protection of human rights, but there are huge differences, regarding the election or establishment of Ombudsman, its responsibility toward Parliament. Meanwhile other organizations acting in the field of human rights are voluntary joining organizations. Another difference between them is the report submitted before the Parliament and the suggestion made by Ombudsman for further steps being taken

for the improvement of human rights situation (*Toska E. "Effective criticism toward public administration", Tribuna Juridike no. 45, Decembre, 2003*).

This analyze regards classical concept of Ombudsman, but we should point out that there are many forms and different Ombudsman for the privat sector also, for example in England the privat industri has established a lot of Ombudsman institutions known as so called "english phenomenon".

The Council Europe member states have an old and broad experience in establishment of Ombudsman institution. Today this institution is not only European but is spreaded in many countries with common characteristics but also with differencies. In Albania, this institution is called as Avokat Populli, in Kosovo as Ombudsperson, in France as Mediator, in Maqedonia as Avokat i Popullit, in Italy as *Difensore Civico*, ect.

The Ombudsman model is established in international level also as provided in European Union Treaty (*"The international Ombudsman Book", Volume 4, 2000, International Ombudsman Institute*). European Ombudsman has been foreseen at the Mاسترict Treaty (article 21), "The citizen of the Union has the right to a petition to the European Parliament and to the Ombudsman in respect of article 194 and 195 of this treaty". To Amsterdam Treaty has been added a new a new paragraph in the same article, providing that: "Any citizen of European Union may write to EU institution at any official languages of the EU and replay should be in the proper language. The same provisions must be implemented for the citizens who complain to Ombudsman". (*Toska. E. "Ombudsman as European Union institution", Juridicial Journal, no.2/2008, Public Justice University*).

Two words on administrative justice

When we talk about justice, we inevitably think of the balanced scale. In *Nicomachean Ethics*, Aristotle has identified three forms of justice. The first, has to do with the way the sources should be distributed (so called *distributive justice*) – for example, in terms of equality and merits. The second deals with agreements, promises and other social contracts (*commutative justice*). The third and last related to the correction of errors (*corrective justice*). This [division] entails a series of concepts such as retrieval, adjustment, damage rewards and redistribution. Among all these three forms exists also the so-called procedural justice. To have fair decisions people should use impartial procedures like, the golden rule, balanced discussions or democratic decision – making. (*Krebs.L.Dennis "The evolucion of*

sense of justice, pg.229). Natural justice can be defined, in terms of one of its meanings, as the natural feeling of what is right or what is wrong.

In the administrative sense, natural justice is a well-defined concept that comprises two essential rules of lawful proceedings: *first*, a person cannot be a judge in its own trial and *second*, a person should always be heard fairly on his case before the court. The violation of natural justice should be classified as based upon wrong procedures or abuse of power. (*Wade.William;Forsyth.Christopher; Administrative Law Eight edition, Oxford, fq436-437*).

The absolute justice is characterized by a total lack of personal interest in decision making. However, the public administration and public officials always face criticism, as their decision making may often be based on wrong or inaccurate information but also on allegations of personal interest and pressure on decision making not always originating from public interest (*Richter L.William; Burke Frances; "Encouraging ethics", Rowman&Littlefield, 2007, p.41*).

Administrative justice is essentially applied for administrative acts within the executive branch but it is also guaranteed by various institutions, as those which are part of the judicial system (courts), non judicial (ombudsman) and those dealing with the resolution of conflicts on amicably basis (mediation, arbitration, conciliation etc.).

Arguably, it can be said that all public decision makers should relate to the scope of "administrative justice". Consequently, the administrative justice includes a set of values not always consistent with natural justice, participation, democracy, efficiency, transparency, cost services and accountability. The existence of a more autonomous administrative justice is growing in Europe.

The majority of European Union member states have adopted a special high administrative court model, distinguished from other regular courts. Contrary to what is perceived, which the existence of such a model is only in the French system, known as "exception *française*", the standard rule is that of not having only one Supreme Court. The variety of judicial systems offers 4 models: a supreme administrative court having only exclusive judicial powers (Germany), a specialized administrative court with consultative powers (France), a sole supreme court with an administrative chamber (Spain) and a sole undivided supreme court (United Kingdom).

A comparison between the different models, in the context of harmonizing guiding principles in administrative proceedings with European laws, points out

differences and similarities. In all the countries, the judicial check on public administration is professed as a crucial element of the rule of law.

More than anyone, the judges play an irreplaceable role between public administration and citizens, as guardians of fundamental rights. Law practitioners (attorneys) tend to consider administrative justice as judicial review, while law academics go beyond the role of courts, analyzing the function of a series of mechanisms for the resolution of administrative disputes. However, it looks like the courts are favored as courts' decisions enrich the administrative justice. (*Partington Martin; The administrative justice system, An introduction to the english legal system; sixth edition; Oxford;pg.143-144*).

Nonetheless, there isn't a universal way of understanding administrative justice. In a structuring attempt, administrative justice may be considered as divided in two branches: the first includes institutions, which review individual complaints in order to guarantee them a proper public service (courts, ombudsman, various administrative claim institutions); and the second incorporates the types of solutions to be reached (*Administrative Justice—an Ombudsman's Perspective on Dealing with the Exceptional RON MCLEOD, Administrative Justice—the Core and the Fringe Papers; 1999 National Administrative Law Forum, Robin Creyke &John McMillan*).

Ombudsman powers

The competencies of the Ombudsman can be classified in two groups on the one hand there are powers which are typical for almost all institutions and albeit in different forms- are implemented throughout; on the other hand, there are powers which are only inherent in some institutions. The quintessential powers are investigation; recommendation and reporting. It is due to these powers and their combination with one another that the Ombudsman-institutions differ most distinctively from all other state institutions. (*Kucsko-Stadlmayer Gabriele; European Ombudsman Institution, SpringerWienNewYork 2008, fq.39*).

Investigation

Most commonly the Ombudsman is assigned with a quite comprehensive power for the investigation of a case. As a rule the Ombudsman is not empowered to conduct procedures of taking evidence in the formal sense. Yes he can gather information in various ways and all administrative agencies examined by the ombudsman are obliged to assist him.

In detail the following is provided: (i) duty to give information; (ii) contact with specific incumbent; (iii) access to building and rooms.

Recommendation

From the beginning of his investigation, as well as during its course the Ombudsman can come to the conclusion that there is no reason for further action. More typical for the Ombudsman is his authority to give recommendations. These are acts which do not give rise to a directly enforceable duty of observance but are not completely ineffective. The instrument of recommendation expresses the particular character of the ombudsman's function; he is effective neither because of his official authority nor through confrontation or threats, but due to his power of persuasion and public denunciation. Although from a purely legal perspective this may seem to be a weakness of the ombudsman's powers from a legal policy point of view it has to be considered as the reason of the ombudsman's practical effectiveness and therefore as his outstanding force. (*Kucsko-Stadlmayer Gabriele; European Ombudsman Institution, Springer Wien New York 2008, fq.44*);

Reporting

Almost all ombudsmen have to submit annual reports on their activities to parliament. This applies even to those ombudsmen who are not appointed by parliament like the ombudsman of France. The reporting fulfils several differing functions: firstly the ombudsman renders account of his activities which shall put his accountability to parliament into effect. Secondly the reporting can render grievances transparent to parliament and hence enable it to employ its own various competencies within the democratic control of administration.

The third very important function of reporting is to impose a form of soft sanction in case of non compliance with recommendations and lacking assistance in investigating and clearing up affairs. Finally, the ombudsman's activity report can draw the attention of parliament to a possible necessity of legislation amendments. (*Kucsko-Stadlmayer Gabriele; European Ombudsman Institution, SpringerWienNewYork, 2008, p.48*).

Specific Powers

The Ombudsman's specific powers may be considered as 'new' compared to the typical above-mentioned powers, as they are given to this institution later on with the scope of strengthening and making the latter more effective. In a structural approach, these powers can be described as follows:

- The right to file a petition with the Constitutional Court;
- The right to challenge laws, normative acts or international agreements;
- The right to propose amendments and additions to laws or normative acts, in view of completing the legislation;
- The right to challenge court decisions;
- The right to request the interpretation of constitutional provisions

It is worth mentioning in this occasion the additional powers of the People's Advocate in the area of human rights' protection, especially in new democracies like Albania, where the primary role of the People's Advocate is not seen as a monitoring institution of the public administration but as an institution whose main constitutional function is to protect fundamental rights and liberties of citizens. (*Toska E. "Effective criticism toward the public administration", Juridicial Tribune no. 45, Decembre 2003*).

The People's Advocate, in its role as the National Mechanism to Prevent Torture, has also the right to monitor the implementation of the laws for the detainees and individuals in custody.

With regard to the additional powers, it cannot be left out also, the role to inform and educate individuals about their constitutional rights, which for some People's Advocates is part of their function, done through public meetings, advertising and brochures containing legal information, TV appearances etc.

Another additional power of the Ombudsman is the performance of research and analysis on the situation of human rights and the submission of opinions in regard. (*Kucsko-Stadlmayer Gabriele; European Ombudsman Institution, SpringerWienNewYork 2008, pg.57*).

Ombudsman role in administrative justice

When justice is applied and decided by administrative bodies (without excluding courts), we find ourselves before the so-called administrative justice, when implemented by the judicial bodies, we find ourselves before the constitutional, civil or criminal justice. In this context, the Ombudsman as an administrative body offers a range of advantages in order to play its role in the development of the administrative justice. It is a confidential body and is easily absorbable by the public as an independent institution.

It offers services free of cost. It offers a variety of means in order to repair the violated rights, although with no binding force, but with an argumentative/persuasive force. The investigative process conducted by the Ombudsman is being considered more and more as an accurate process, more economical and more effective than courts. In fact, the examination of cases by the Ombudsman has no hearing session, but it has an enterprise of actions in the inquiry/investigation domain that seem to be as successful as it may be a proper judicial process.

According to the European Ombudsman Institute (EOI), the two most prominent institutions in the field of protection of human rights are the Constitutional Court and the Ombudsman institutions. Constitutional Courts certainly play a significant role in establishing constitutional justice and through it administrative justice, but the Ombudsman has definitely a contrary role in this relation, which means that plays a major role in the establishment of administrative justice and obviously through it in the establishment of constitutional justice. Below we will present the Ombudsman's activity in three main areas, areas in which it intervenes by giving his contribution to administrative justice.

The Ombudsman seen in the light of good administration/good governance

The Ombudsman with its powers in the process of reviewing the individual's complaints offers more and more interpretations on cases of mismanagement/bad administration or good administration by public authorities. Mismanagement/bad administration, as a theoretically treated notion, initially as an idea in the years 1966-1967 was defined and it did include in itself prejudice, negligence, delays, careless behavior, malice, arbitration and so on, of bodies and public officials in the exercise of their functions.

The saying "and so on" is an opened door, because the concrete cases brought before the Ombudsman for examination, if there is room for mismanagement, but which it does not enter into the abovementioned grounds, but if it is to interpret the fact may constitute a case of mismanagement, and by doing so it expands the circle of issues to be considered as misinterpretation. When dealing with these cases, the role of the Ombudsman becomes important, by expanding and giving more meaning to the interventions which aim at reaching a good governance level.

In the annual report of the Parliamentary Ombudsman of Great Britain in 1993, it was given a complete and detailed notion of the concept of misconduct/mismanagement, according to which mismanagement happens when we encounter; savagery, severity, lack of readiness to treat the applicant as a person who has legal rights, refusal by public administration to respond to reasonable and logical questions, negligence to inform an individual of his/her rights, intentionally giving the wrong advice or a legal misleading, lack of information for valid advices, establishment of rules that would produce an unsatisfactory result and not practical, not giving legal guidance to the competent bodies and persons, display of racial prejudice, color, religious, ideological, political, and any other type, following of failed procedures with conscience, being partial.

This report gives a very broad view of the meaning of "maladministration" and an Ombudsman office, when having the complaint under examination, although at first glance (*prima facie*) finds no violation, should analyze very carefully, if found or not in front of the abovementioned cases, in order to meet as well one of his many duties, that of well-functioning and good administration of the public administration. (*Toska. E. "Effective criticism to the public administration, Law Tribune; No. 43, December 2003*).

An appeal court in London in its decision had decided that before coming to court to claim mismanagement, the citizen should go first to the Ombudsman. (Abraham. Ann. "Ombudsman and Administrative Justice" published by the Society for Advanced Legal Studies, January/February 2006; p.19). To the contrary of courts, which judge the fairness of decisions if they were legitimate or not, the Ombudsman considers not only the fairness of decisions, but it rather evaluates the behavior of the authorities if it were proper, ethical and fair. (*Speech of the Dutch Ombudsman Dr. Alex Brenninkmeijer, 5-7 October, 2007 Conference, Armenia, "Cooperation between the courts and the Ombudsman in the protection of human rights"*).

Ombudsman intervenes among the public authorities to improve standards of expectations by the public authorities and to shape the decision-making structure in the right way in order to avoid repeated mistakes in the future. This institution does not only deal with the examination of individual cases, but also deals with the control of public bodies on their activities for which they have had a complaint. So we can say that the institution corrects mistakes made against an individual but suggests, recommends, changes in the procedures or practices which have led to the violation in order to prevent the violation in the future. (*Roy Gregory, Philip Giddings, Righting wrongs, The Ombudsman in six continents, ILIAS, IOS Press; p.34.*). At the same time, the Ombudsman through the examination of the complaints presented, makes the public aware and tells to him the parameters of good governance, it equals management standards to state organs. The Ombudsman's activity is affected by the changes through which the public sector performs its tasks. He can become a very good measurement parameter of these changes if they are positive and towards improving the legal position of individuals or the opposite.

The Ombudsman seen in the light of the justice administration

Despite the confusing terms of "good administration / mismanagement" or "administration of justice", they are not the same thing and in relation to the contributions that gives the Ombudsman concerning them, I see it reasonable to treat the administration of justice separately.

Above, mismanagement is defined as a partial behavior, negligence, delay, careless behavior, malicious behavior, arbitration of bodies and public officials when exercising their executive functions, while the administration of justice

should be seen as the administration of not only administrative justice but also of judicial justice, where the Ombudsman intervenes in many systems.

The Ombudsman therefore tends to look mismanagement / administration of justice of the courts and of public authorities (public bodies and executive bodies and bodies belonging to other powers as long as they perform executive duties). What situations or cases will be considered as part of the administration of justice is a difficult classification and not regulated uniformly in all legal systems. In most cases, it is understood as a part of the administrative proceedings (ex, setting hearings, enforcement of a decision, initiating disciplinary proceedings against a judge).

In some countries the administration of justice is of a substantial nature. Therefore the administration of justice is a competence of the control of the Ombudsman not only when exercised by administrative bodies, but even when exercised by judges. In some systems with administration of justice and control of the Ombudsman on it, it is understood its exercise by employees of civil courts (chancellors, secretaries, etc.)

Due to the independence of judges, control over the mismanagement of the judicial power is limited mainly to delays and delays in court proceedings. Nevertheless the Ombudsman in this matter draws the attention of the competent authorities controlling the activity of judges, their behavior, through reporting or making recommendations for disciplinary measures against them.

Powers of Ombudsman in the administration of justice are arranged in different ways. If they are not explicitly defined, the Ombudsman acts as it does in other areas with the authorization to investigate recommend and report. In some cases it recommends to the judge himself, in other cases to the supervisory bodies of the work of judges, and in other cases to the chief judge.

Indeed, the control reasons are different depending on the legal systems. Some Ombudsmen have the right to exercise control only in some specific problems such as delays, improper conduct of judges, not giving service for official judicial documents, delay in execution of court decisions. (*Kucsko-Stadlmayer Gabriele; the European Ombudsman Institution "SpringerWienNewYork, 2008; p.28, 29).*

Despite the skeptical discussions on his inferior role compared to courts, it cannot be removed the Ombudsman's indisputable role in promoting justice. (*Trevor Buck, Brian Thompson, Richard Kirkham, "The Ombudsman and Administrative Justice Enterprise", p. 5).*

Ombudsman seen on the light of the protection of human rights

Ombudsman's institution is closely related to the concept of rule of law. Therefore the role of the Ombudsman is very specific and necessary. The establishment of the ombudsman's institution as an mediation institution is a political choice, which reflects knowledge of the connection between the protection of human rights and extra judicial means of administrative control.

Ombudsmen who seek constitutional recognition as independent administrative authorities indicate the evolving process of the consolidation of democracy and the realization of the essence of the rule of law (note: the essential/key element is the protection of human rights) (*EUNOMIA*, "The Ombudsman in South Eastern Europe", pg.31).

Part of the work of an Ombudsman is the protection of human rights in many forms. Since in most cases the Ombudsman has the right of control over the legislation, if the legislation is compatible with the European Convention on Human Rights and Fundamental Freedoms (ECHR), he may recommend changes to the legislation; thereby playing its role in the improvement of human rights' standards.

Another way of its contribution to the standards of human rights is the exercise of control over the executive organs regarding the interpretation of laws, making them more understandable for the general public through administrative acts/regulations. While referring to the hierarchy of (judicial) norms, administrative organs are obliged that each and every act/regulation they issue must be done in accordance with the law, the constitution and international agreements. Thereby the Ombudsman may intervene in this regard to see if an individual normative or administrative act is in accordance with the principles of constitutionality, legality and hierarchy of norms.

Top of Form

In some Ombudsman their task in monitoring and improving the standards of human rights is expressed, while in others this consist on the control over good administration. Through these actions they affect human rights indirectly, e.g. length of proceedings.

The Ombudsman has the right to intervene in such cases, this being a competence related not only to the administration of justice, but also to the protection of human rights as “*reasonable time*” is a principle safeguarded by article 6 of the ECHR.

Even though in some Ombudsman the control of human rights is expressed, while in some others is implied, this doesn't change these institutions from one-another in the practice of their work, as human rights are considered either as part of the legal system, or are included in the concept of good administration. (*Kucsko-Stadlmayer Gabriele; the European Ombudsman Institution "Springer Wien New York, 2008, page 36-39*).

Regarding the contributions of the Ombudsman in this area, the European Court of Human Rights in the case *Egmez v. Cyprus (2005)* has considered the institution as an effective remedy under Article 35 / 1 of the ECHR for the protection of fundamental rights violated by the national authorities. The court has stated that by lodging a complaint with the Ombudsman, the applicant discharged his duty under Article 35 § 1 of the Convention because he gave an opportunity to the Cypriot Republic to put matters right through its own legal system. According to the court, as the applicant complained to the Ombudsman, he gave local authorities the opportunity to take appropriate measures to regulate the negative consequences of the event, ordering an investigation, able to identify and punish police officers involved. Likewise in the case *Leander v. Sweden (1987)*, ECHR held that the aggregate of several tools at once, including a complaint to the Ombudsman constituted an effective remedy under Article 13 of the ECHR.

Notwithstanding the above mentioned cases, generally, a complaint to the Ombudsman does not constitute an effective remedy (*TP and KM vs. United Kingdom (2001)*, *Silver vs. United Kingdom (1983)*) even though referring to the effect of article 13 of the ECHR, there are “pro” and “against” on Ombudsman being an “effective remedy”. (Toska.E." Ombudsman as effective remedy in accordance with article 13 of the ECHR, Legal Life magazine, the Magistrate School of Tirana, May / 2006).

Conclusions

“Administrative Justice” as a concept is not easy to define and the debate over the role of the Ombudsman in administrative justice is even more difficult. Differences between the *common*, *constitutional* and *administrative justice*, can be made/argued on the basis of laws or bodies that implement them.

Generally, the judiciary organs are the ones that implement and interpret common law, the interpretation of the constitution and constitutional control of laws are competences/rights of constitutional courts or courts that exercise constitutional control, while the control over the activity of public administration’s organs is a competence of Ombudsman, without excluding/putting aside the role of administrative courts called as the “*heart*” of the administrative justice system. However when talking about administrative justice we should give merits to the primary role of the Ombudsman. I think that there is no hierarchy or strict rules on the effectiveness of various bodies involved.

The individual must find (depending on nature of the case, its specific circumstances, and the legal framework) the most effective tools.

An individual may file a complaint to the administrative body or court, but also to the Ombudsman as an institution which can give fast solutions on time and with less expense, trying to put right the administrative justice denied or violated. The ombudsman is sometimes the first choice of an individual to find solutions to his complaint, while the duty/task of an Ombudsman goes beyond the examination of a single complaint.

Because of the powers he has, his role in expanding the depth of investigations in administrative matters that may affect a large number of individuals, making Ombudsman an institution that addresses problems that contribute to the promotion of democratic governance, opened and responsible.

In conclusion, we find the Ombudsman as an institution that gives its contributions in terms of goodadministration / good governance, administration of justice and the protection of human rights by promoting them. All together they contribute in the administrative justice.

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Superficial characterization of Goshica's clay in its natural state and after treatment with organic reagents

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Abstract

Organic clays obtain from the ion exchange of interlayer cations with organic quaternary ammonium ions of and have different characteristics from those of natural clay. Replacing inorganic cations of clays by tetramethylammonium chloride (TMA) and tetraethylammonium chloride (TEA) displace the clay layers from one another and causes change in the interlayer of clay crystals. Tetramethylammonium and tetraethylammonium cations intercalate between layers of natural clay through the cationexchange mechanism, being exchanged with smaller alkaline metal ions.

For superficial characterization of the clay was used volumetric method of nitrogen adsorption. The adsorption isotherms obtained are type II and during desorption appeared hysteresis H3. Hysteresis presence indicates the presence of pores in natural clay as well as in treated ones. In the case of using tetramethylammonium, which has smaller dimensions than tetraethylammonium, the distance between the clay layers grow less than tetraethylammonium is used. By performing the intercalation process of these ions, between the clay layers are also created the pores with exactly same dimensions.

Keywords: Clay, Tetramethylammonium chloride, Tetraethylammonium chloride, Adsorption, Desorption

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Abstrakt

Argjilat organike të fituara nga jonoshkëmbimi i kationeve ndërshtresore me jone organike të amonit kuaternar kanë karakteristika të ndryshme nga argjilat natyrore. Zëvendësimi i kationeve inorganike të argjilës me tetrametilamonium klorur (TMA) dhe tetraetilamonium klorur (TEA) zhvendos shtresat e argjilës njëra nga tjetra dhe shkakton ndryshim në shtresat e kristaleve të argjilës. Kationet tetrametilamonium dhe tetraetilamonium ndërfiten në mes të shtresave të argjilës natyrore përmes mekanizmit të kationoshkëmbimit, duke u shkëmbyer me jone të vogla të metaleve alkaline. Për karakterizimin sipërfaqësor të argjilës është përdorur metoda volumetrike e adsorbimit të azotit. Izotermet e fituara janë të tipit II dhe gjatë desorbimit shfaqet histerezë H3. Prania histerezës tregon praninë e poreve si në argjilën natyrore poashtu edhe në ato të trajtuara. Në rastin e përdorimit të jonit tetrametilamonium, i cili ka dimensione më të vogla se joni tetraetilamonium, distanca në mes shtresave të argjilës rritet më pak se kur është përdorur tetraetilamonium. Duke u kryer procesi i ndërfitjes të këtyre joneve, në mes të shtresave të argjilës janë krijuar pore me dimensione saktësisht të njëjta.

Fjalët kyçe: argjilat, tetrametilamonium, tetraetilamonium, absorbim dhe desorbim

Апстракт

Органските глини добиени од размена на меѓуслоевите на катјони со органски квартерни амониумови јони имаат различни карактеристики од оние од природна глина. Замената на неорганските катјони на глина од тетраметиламониум хлорид ги преместуваат слоевите на глина и предизвикуваат промена во меѓуслоевите на кристалите на глина. Катјоните на тетраметиламониум и тетраетиламиониум се вметнуваат меѓу слоевите на природна глина преку механизмот на промена на катјони, променети со помали алкални метални јони.

За површна карактеризација на глината се користи волуметриски метод на атсорпција на азот. Добиените изотерми при атсорпцијата се тип II и за време на десорпција се појавува хистерезис H3. Присуството на хистерезис укажува на присуство на пори во природната и во обработената глина.

Во случај на користење на тетраметиламониум кој има помали димензии од тетраетиламиониум, растојанието помеѓу слоевите на глина расте помалку. Со вршење на процесот на вметнување на овие јони, меѓу слоевите исто така се создаваат пори со потполно исти димензии.

Клучни зборови: глина, тетраметиламониум, тетраетиламиониум, атсорпцијата, десорпција

Introduction

Clays are natural products that can be used in industry as raw or treated with physical and chemical methods. Characteristics of modified clays are highly dependent on the type of clay used for activation, the mode of activation, the activation requirements and the activation agent used. Organic clays obtained by cationexchange of interlayer ions with quaternary organic ions have different characteristics from those of natural clay. Clays lose their water holding capacity during modification, that is a typical characteristic of montmorillonite clay, and increase their affinity for nonpolar compounds.

The longer the carbon chain of one substitute radical the more organophilic becomes clay's surface. By modification clays acquire new properties that enable their usage in the environmental industry to remove the organic pollutants (oils, pesticides) from water. Also, these clays have the lowest costs for their regeneration.

Experimental

Material

Goshica's clay, tetramethylammonium chloride, tetraethylammonium chloride (Fluka product packaging), Gas nitrogen and liquid nitrogen from Messer - Albania.

Methods

Superficial characterization is done for all samples by nitrogen adsorption in temperature 77K, using volumetric method. Quantities measured are atmospheric pressure, gas pressure p_0 in the reservoir before adsorption and equilibrium pressure after adsorption and then the amount of nitrogen adsorbed has been calculated. On the basis of the amount of nitrogen adsorbed is calculated specific surface area with BET method, pore distribution and cumulative volume of pore.

Pretreatment of natural clay

Clay was pretreated to remove the sand from the clay material. Pretreatment consists in washing the clay by consecutive decantation, vacuum filtration, drying to constant weight at 105 °C temperature and grinding. The washed samples were kept in the closed container to prevent moisture absorption from the clay.

Organic treatment of clay

Organic modifications have been carried out according to the procedure described by Barrer and others. In a 500ml flask were put 300 ml of distilled water, then were added 25g washed clay and 25g quaternary ammonium salt. The amount of water should be taken such as that the salt concentration to be below the critical concentration of formation micelle. The concentration of salt is taken higher than the value of cation exchange capacity to reach saturation of the clay by ions and to shift the balance that is established during ionic exchange in products formation direction. In order to avoid decantation was used mechanical stirrer, with constant speed rotation 250 rpm / min. Suspension is being kept in water bath at constant temperature $t = 50$ °C. Ion exchange was performed for 60 min for TMA and TEA. After that, the clay is washed by decantation until the absence of chlorides (evidence AgNO_3). Pastes obtained by filtering modified clays, were dried in vacuum eksicator at room temperature until constant weight. The drying process lasted 9 days. To simplify the marking and to distinguish clay from each other, they were labeled as follows: Clays treated with tetramethylamoniumchloride → TMA-clay Clays treated with tetraethylamoniumchloride → TEA-clay Untreated clay → N-clay.

Results and discussion

The results for specific surface areas, calculated by BET method and cumulative pore volumes for all clays are summarized in table 1.

Adsorbtion-desorbtion isotherms, integral and differential pore distributions are shown in charts 1-9.

Table 1. Values of specific surface area and cumulative volume of all samples.

Clay	Specific surface area (m ² /g)	Cumulative pore volume (cm ³ /kg)
N-clay	99.0	128.7
TMA-clay	75.18	194.01
TEA-clay	86.03	204.51

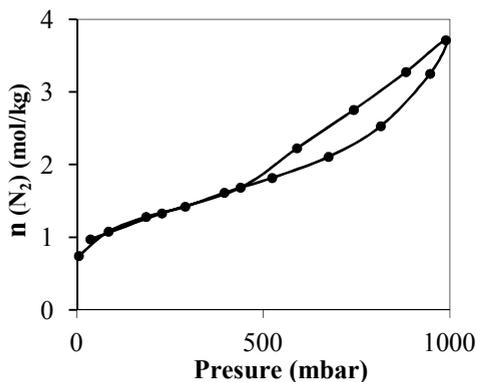


Fig. 1 Adsorption-desorption isotherm for N-clay

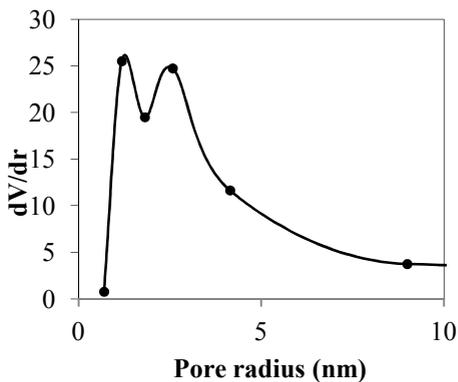


Fig. 2 Differential pore distribution for N-clay

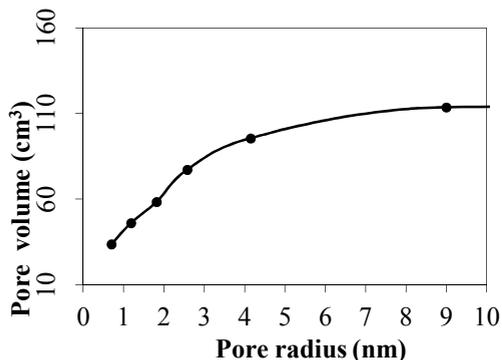


Fig. 3 Integral pore distribution for N-clay

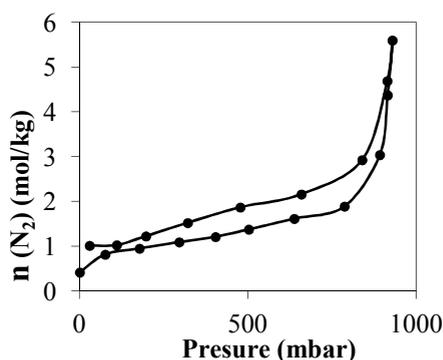


Fig. 4 Adsorption-desorption isotherm for TMA-clay

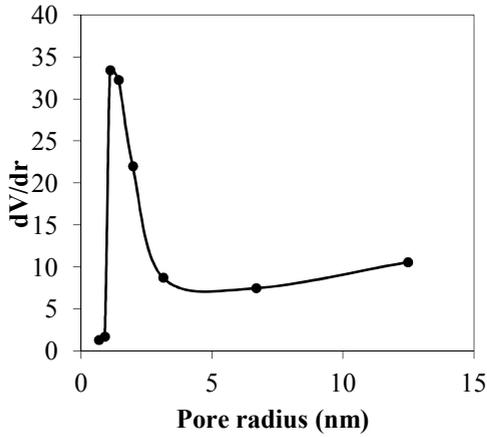


Fig. 5 Differential pore distribution for TMA-clay

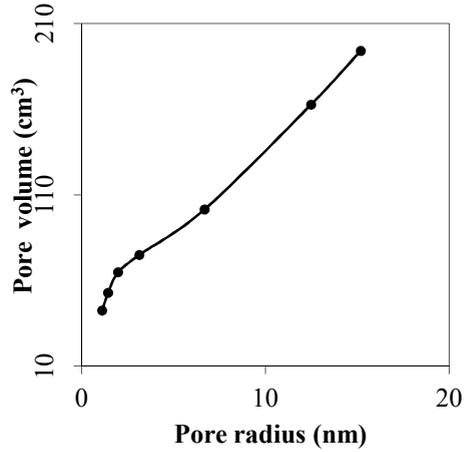


Fig. 6 Integral pore distribution for TMA-clay

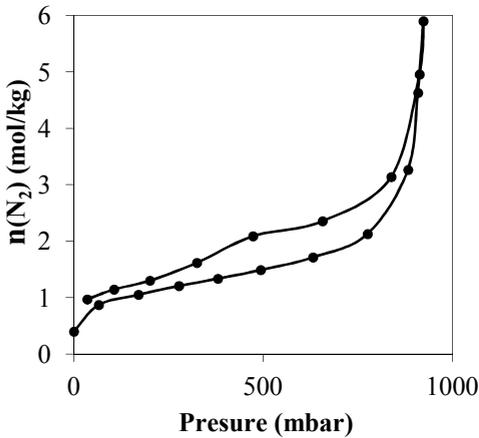


Fig. 7 Adsorption-desorption isotherm for TEA-clay

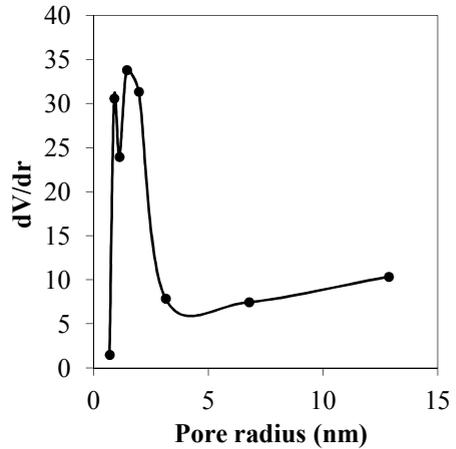


Fig. 8 Differential pore distribution for TEA-clay

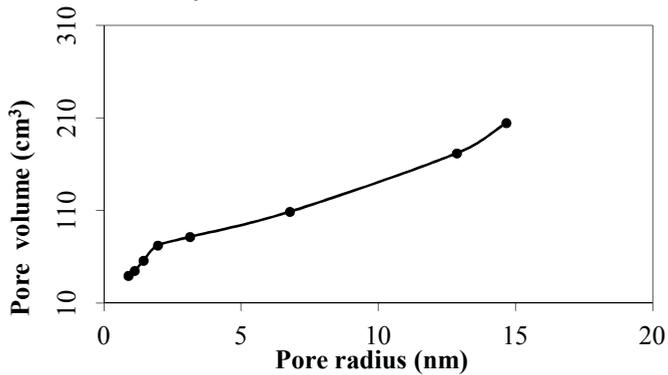


Fig. 9 Integral pore distribution for TEA-clay

It is noticed from the graphs that all isotherms are type II, while hysteresis are type H3. As it is clear from the integral and differential pore distribution, tetramethylammonium and tetraethylammonium ions intercalate between layers of natural clay through the mechanism of cationexchange, being exchanged with smaller alkaline metals ions. Because of this, the distance between the layers of clay and pore size is increased. It appears very clearly in the differential pore distribution of TMA-clay, that in the case of using tetramethylammonium ion which has smaller dimensions than tetraethylammonium ion, the distance between the clay layers grows less than when tetraethylammonium ion is used. By performing the process of intercalation of these ions between the clay layers, are created pores with exactly the same dimensions. This is observed in the differential pore distribution graph, there is only one peak which is narrower.

This is evidence of monodisperse material obtained. Monodispersity is a desirable feature in many applications of porous materials, especially when are used as adsorbents or separation processes. In the example of these clays modified with TMA and TEA is also noted the validity of Kelvin's equation to the pore size of about 2 nm. Results that are obtained using this equation match well with the results obtained if we compare the size of TMA and TEA cations. The pore distribution of organic clay is found in 0.9-2 nm region and it can be said that adsorbents gained are microporous bodies.

Conclusions

Tetramethylammonium and tetraethylammonium ions intercalate between layers of natural clay through the mechanism of cationexchange, being exchanged with smaller alkaline metals ions. In the case of using tetramethylammonium ion, the distance between the clay layers grows less than tetraethylammonium ion is used. The pore distribution of organic clay is found in 0.9-2 nm region and it can be said that adsorbents gained are microporous bodies.

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The primary lactose intolerance frequency amongst both genders at age group 7-12 in Albanian population of Macedonia

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Abstract

The essential aim of this study is to determine the frequency of Lac_R allele in both genders at age group 7 – 12 amongst Albanian population in Macedonia, which is responsible for phenotype dispersion of Primary Lactose Intolerance. In this research project 115 Primary School pupils are included. Research method is MTT (Milk Tolerance Test) or LTT (Lactose Tolerance Test), which is consisted of measurement of fasting blood glucose level, before and 40 minutes after drinking of 200 ml of milk or taking 2gr of lactose per kilogram as a water solution. The onset of clinical signs like increased glucose levels for less than 1,1 mmol/L in comparison with initial values, abdominal pain, abdominal fullness and bloating, diarrhea, etc. These signs are used as key parameters for the presence of Primary Lactose Intolerance and the existence of Lac_R allele in above mentioned subjects. Based on obtained results we can conclude that the Primary hipolactasy in Albanian population of Macedonia is dispersed as follows: 75.44% in male subjects and 66.62% in female subjects. The difference between expected frequencies in male pupils in comparison with females ($y_{em} - y_{ef}$) goes through cascade decrease from 15% to 3%, which demonstrates unsustainable difference.

Key words: Primary Lactose Intolerance; lactose; LacR allele; gender

Abstract

Hulumtimi për bazë ka përcaktimin e frekuencës së alelit LacR në të dy gjinitë e grupmoshës 7-12 vjet të popullatës shqiptare në Maqedoni, që është përgjegjës për përhapjen e fenotipit të Intolerancës Primare ndaj Laktozës. Në hulumtim kanë marrë pjesë 115 nxënës të shkollave fillore. Metoda e hulumtimit është MTT (Milk tolerans test) ose LTT(Lactose tolerans test), që konsiston në matjen e glukozës esëll në gjak, para dhe 40 min pas marrjes së 400 ml qumësht ose marrjes së laktozës (2gr për kg peshë trupore të tretur në 400ml ujë). Shfaqja e shenjave klinike si rritja e vlerave të glukozës me më pak se 1,1mmol/L nga vlerat fillestare, dhimbja e barkut, fryrje e barkut, diare etj., janë marrë si parametra përcaktues të egzistencës së Intolerancës Primare ndaj Laktozës dhe egzistencës së alelit LacR tek subjektet në fjalë. Nga rezultatet mund të përfundojmë se Intoleranca Primare ndaj Laktozës tek popullata shqiptare e Maqedonisë është e përhapur me 75.44% tek meshkujt dhe 66.62% tek femrat. Diferenca ndërmjet frekuencave të pritura të nx. meshkuj me ato femra (yem - yef) vjen duke u zvogëluar nga 15% në 3%, gjë që tregon se kemi të bëjmë me një ndryshim jo të qëndrueshëm.

Fjalë kyçe: Intolerancë; primare; laktazë; LacR; gjini

Абстракт

Истражувањето се базира на одредување на фреквенцијата на алелот LacR кај двата пола на возраст од 7-12 години од албанското население во Македонија, која е одговорна за ширењето на фенотипот на Примарната Интолерантност врз Лактоза. Во истражувањето учествуваа 115 ученици од основните училишта. Методот на истражување е МТТ (Milk Tolerans Test) или ЛТТ (Lactose Tolerans Test), која се состои во мерење на глукозата во крвта пред и 40 мин по земање на 400 мл млеко или лактоза (2гр/ кг телесна тежина растворени во 400ml вода). Појавата на клиничките знаци како што се зголемување на глукозните вредности на помалку од 1,1 ммол/Л од првичните вредности, абдоминална болка, стомачна дуење, дијареа, итн., се земаат како параметри за утврдување на постоење на Примарната Интолерантност врз Лактоза и постоењето на алелот LacR на истите субјекти. Од резултатите може да се заклучи дека Примарната Интолерантност врз Лактозата меѓу албанското население на Македонија се простира 75,44% кај мажите и 66,62% кај жените. Разлика меѓу очекуваната фреквенција меѓу мажи со жени (ует – уеж) е намалувано од 15% до 3%, што укажува дека се работи за нестабилни промени.

Клучни зборови: Интолеранција, примарна лактаза; LacR; род

Introduction

Lactose is a disaccharide, which means it is composed of two saccharides (sugars) joined together. Lactose Intolerance (LI) is the inability to digest significant amounts of lactose due to a shortage of the enzyme lactase, which is normally produced in the small intestine and its function is to separate the two sugars from each other. It is estimated that 75% of adults worldwide show some decrease in lactase activity during adulthood. The frequency of decreased lactase activity ranges from as little as 5% in northern Europe, up to 71% for Sicily, to more than 90% in some African and Asian countries. Lactase breaks down the lactose, the main sugar in milk, into two smaller sugars glucose and galactose to be absorbed in the bloodstream. LI is the most common disorder in the world, although it may be claimed that humans were never made to be lactose tolerant.

In a normal digestive system all the food we eat is broken down into smaller and simpler 'bits and pieces' by the help of the enzymes that are present in our saliva, stomach and the digestive tract. This helps the body to absorb the food, take out the nutrients, proteins, carbohydrates and whatever is needed to maintain itself. Lactase breaks down milk sugar (lactose) into the simpler form of sugar called glucose and galactose that can then be absorbed into the bloodstream.

It is not quite clear why there has to be a special carbohydrate (sugar) in milk. Some writers hypothesize that lactose solubility may be matched best with milk synthesis and expression, and it may provide appropriate energy while minimizing osmotic load. As far as is known, lactose has no special nutritional importance for adults. It is the most important source of energy during the first year of a human's life, providing almost half the total energy requirement of infants.

Lactose has several applications in the food industry. It is used, for instance, in sweets, confectionery, bread and sausages because of its physiological properties: lactose provides good texture and binds water and color. Lactose is only about one third as sweet as sucrose (normal sugar) and less than half as sweet as glucose.

To be absorbed, lactose needs to be hydrolyzed (broken down) in the intestine by a β -galactosidase, lactase-phlorizin hydrolase, generally called **lactase** (read [article](#) explaining how lactase functions and how sugars are absorbed). Lactase is found most abundantly in the jejunum (at the beginning of the small intestine), and it specifically only hydrolyses lactose. It is found at the tip of the intestinal villi and

is therefore more vulnerable to intestinal diseases that cause cell damage than other sugars, which are located deeper.

Pharmaceutical preparations of fungal or yeast-derived lactase have been developed for the treatment of lactose maldigestion. There is evidence that these preparations increase lactose digestion and alleviate symptoms, but different preparations seem to vary in their effectiveness, and they do not help all subjects. One case report on allergy to supplemental lactase enzyme (Lactaid and Lacteeze) has been published in the Journal of Allergy and Clinical Immunology (Volume 97, Issue 6, Pages 1414-1416).

Terminology of Lactose Intolerance

The following are terminology differences and possible confounding terms about lactose intolerance:

- **Lactose maldigestion & lactose malabsorption:** are terms to describe a poor lactose hydrolysing capacity without symptoms.
- **Hypolactasia, lactase non-persistence, lactase restriction:** means that there is low lactase activity in the jejunal mucosa.
- **Normolactasia, lactase persistence:** when there is persistent lactase activity comparable to the neonatal period
- **Lactose Intolerance:** should only be used for a clinical entity, describing symptomatic lactose maldigestion (20% of hypolactasic individuals).

Types:

There are different types of lactose intolerance, in addition to which there are other causes of intolerance to lactose.

Different reviews and reports group Lactose Intolerance (LI) differently. Some categorise them in two groups while others in three. However, they always refer to the conditions correctly. It is a matter of opinion whether one of the conditions that causes LI fits in one group or is presented in a separate group. I prefer to subdivide LI or Lactase deficiency in three groups as in my opinion this is a more logical way.

Hence, there are three groups of **Lactase Deficiency:**

- **Congenital Lactase Deficiency:** two types of very rare genetic disorders

- **Primary Lactase Deficiency:** most common, around 75% of the world population
- **Secondary Lactase Deficiency:** caused by a disease or condition and may be only temporary.

Primary Lactase Deficiency

PLD is usually referred to those persons who do not produce enough lactase after weaning. This type is also called Late Onset Lactase Deficiency. This by far the most popular and accounts for more than half the world population. However, another type of PLD, not talked about very much is present in premature babies whose underdeveloped small intestines are not mature to produce enough lactase.^[14]

Late Onset Lactase Deficiency

Also know as **Adult Lactase Deficiency**. This is by far the commonest of them all. **Late Onset Lactase Deficiency** is also considered as the commonest genetical disorder of all disorders (but is it really a disorder?). Enzyme levels are highest shortly after birth and decline with aging, despite a continued intake of lactose. Within the animal world, nonhuman mammals usually lose the ability to digest lactose as they reach adulthood. Some populations of the human species, including those of Asian, South American, and African descent, have a propensity for developing lactase deficiency. By contrast, races descended from northern Europe or from the north-western Indian subcontinent are likely to retain the ability to absorb lactose into adulthood. Late onset lactose intolerance occurs several years after birth and is unlikely to be a problem until after 5 to 7 years of age.

Lactose, a disaccharide (two single sugars attached to each other), is present in milk and processed foods. Dietary lactose must be hydrolyzed to a monosaccharide (single sugars) in order to be absorbed by the small intestinal mucosa. A deficiency of intestinal lactase prevents hydrolysis of ingested lactose. The osmotic load of the unabsorbed lactose causes secretion of fluid and electrolytes until osmotic equilibrium is reached. Dilation of the intestine caused by the osmosis induces an acceleration of small intestinal transit, which increases the degree of maldigestion. Within the large intestine, free lactose is fermented by colonic bacteria to yield short-chain fatty acids and hydrogen gas. The combined increase in faecal water,

intestinal transit, and generated hydrogen gas accounts for the wide range of gastrointestinal symptoms.

Symptoms of lactose intolerance include loose stools, abdominal bloating and pain, flatulence, nausea, and borborygmi.

A diagnosis or even the suggestion of lactose intolerance leads many people to avoid milk and/or consume specially prepared food with digestive aids, adding to health care costs.

Symptoms:

- **Abdominal pain** - cramps, often localised to the per-umbilical area or lower quadrant
- **Bloating** - caused by the formation of gases that expand in the warm conditions of the digestive system
- **Flatulence** - caused by the gases produced by the bacteria. H₂S is the gas associated with the odour
- **Borborygmi** - may be audible to the patient and on physical examination
- **Diarrhoea** - stools are usually bulky, frothy and watery
- **Vomiting** - particularly adolescents
- **Nausea** - may be present, probably due to acidity and gases escaping backwards
- **Weight loss** - if kept unattended
- **Malnutrition** - especially in babies
- Persons who suffer from lactase deficiency and do not avoid lactose or use commercially available lactase enzyme may suffer from **weight loss** and **malnutrition**.
- Symptoms vary from individuals when they start. They may start within 15 minutes but they may also initiate after an hour. There is a high difference between patients in the perception of symptoms.
- The severity of symptoms varies depending on the amount of lactose each individual can tolerate. Some of the symptoms may be confused with those of milk allergy but milk allergies can cause the body to react quicker, more often within a few minutes. If you are not sure compare the symptoms of lactose intolerance with those of milk allergy.

Treatments

While we wait for gene therapy, fortunately, lactose intolerance is relatively easy to treat. No known way exists to increase the amount of lactase enzyme the body can make.

Although some writers claim that by introducing gradually the intake of lactose, may increase the production of lactase to normal levels, their work has never been published in medical journals.

Medical treatments

A lactose-free diet is an effective means of controlling the symptoms of lactose malabsorption in a person with lactase deficiency. However, some lactose-intolerant people can drink small amounts of milk (one cup) without symptoms. Those individuals that decide to avoid dairy products should take supplemental calcium.

A more effective way of treating lactose intolerance is by the intake of digestive enzymes. Tablets or capsules containing lactase, the enzyme that breaks down lactose, should be taken immediately before having food containing lactose. Lactase enzyme liquid is also available to pre-digest milk, if incubated, which then can be consumed without suffering any symptoms. The intake of lactase digestive enzymes helps persons with LI to maintain a normal life without suffering the symptoms and in addition helps these persons not to sacrifice their bones with low calcium intake.

Dietary changes that may be helpful

Although symptoms of lactose intolerance are triggered by the lactose in some dairy products, not all lactose-intolerant people need to avoid all dairy. Dairy products have varying levels of lactose, which affects how much lactase is required for proper digestion. Milk, ice cream, and yoghurt contain significant amounts of lactose—although for complex reasons yoghurt may not trigger symptoms in some lactose-intolerant people.

Many people with lactose maldigestion tolerate more lactose in experimental studies than in everyday life, in which their symptoms may result from other

carbohydrates as well. Sucrose and the indigestible carbohydrates lactulose and fructooligosaccharides (FOS) have all been shown to produce symptoms in lactose-intolerant and milk-intolerant people. Moreover, other foods containing starch and gluten may also produce symptoms similar to lactose maldigestion.

Nutritional supplements that may be helpful

Supplemental sources of the enzyme lactase is recommended to be used to prevent symptoms of lactose intolerance when consuming lactose-containing dairy products. Lactase drops may be added to regular milk 12 to 24 hours before drinking to reduce lactose levels. Lactase drops, capsules, and tablets may also be taken orally, as needed, immediately before a meal that includes lactose-containing dairy products. The degree of lactose intolerance varies by individual, so a greater or lesser amount of oral lactase may be needed to eliminate symptoms of lactose intolerance.

Some reports say that researchers have yet to clearly determine whether lactose-intolerant people absorb less calcium while other emphasise the importance of calcium supplement in lactose intolerant people who do not use lactase digestive enzymes. As lactose-containing foods are among the best dietary sources of calcium, alternative sources of calcium (from food or supplements) are important for lactose-intolerant people. A typical amount of supplemental calcium is 1,000 mg per day.

Lactobacillus acidophilus supplements on their own do not appear to be completely effective in eliminating the signs and symptoms of lactose intolerance. In a preliminary trial, people with lactose intolerance were given Lactobacillus acidophilus supplements twice daily for seven days, but failed to show any improvement in symptoms or laboratory measurements of lactose digestion. However, Lactobacillus acidophilus supplements maintain a healthy digestive system and are of great benefit for Secondary type lactase deficiency for a quicker recovery after taking antibiotics.

Diagnosis of Lactose Intolerance

The most common tests used to measure the absorption of lactose in the digestive system are the **lactose tolerance test**, the **hydrogen breath test**, and the **stool acidity test**. These tests are performed on an outpatient basis at a hospital, clinic, or doctor's office. However, one can also perform a **home self-test**.

Prevalence of Lactose Intolerance

The prevalence of primary lactose deficiency varies according to race. In a review by Gudmand-Hoyer E published in *The American Journal of Clinical Nutrition* (1994), it is lowest in Scandinavia and Northwest Europe (3-8%) and close to 100% in most of Southeast Asia. In Europe the frequency increases in the southern and eastern directions, reaching 70% in southern Italy and Turkey. There is also a high prevalence of lactose maldigestion in the people of Africa with the exception of cattle-raising nomads. Moreover, studies conducted by Scrimshaw and Murray and Sahi review the prevalence of lactose maldigestion globally. The prevalence is above 50% in South America, Africa, and Asia, reaching almost 100% in some Asian countries. In the United States, the prevalence is 15% among whites, 53% among Mexican-Americans and 80% in the Black population. In Europe it varies from around 2% in Scandinavia to about 70% in Sicily (see map below). Australia and New Zealand have prevalence of 6% and 9% respectively. In general, it can be stated that about two thirds of the world adult population is lactase non-persistent.

Age

The age at which lactase deficiency presents varies from one race to another. In Blacks and Asians, hypolactasia usually manifests itself in early childhood (1-2 years in Thai), whereas in whites, it seems to occur later in childhood or in adolescence (10-20 in Finns). Lactose intolerance is not common in young white children. However, rotavirus infections may be an important cause of secondary lactose maldigestion in children, and, as the infection is cured, lactose maldigestion disappears as well.

There might be differences in hydrogen production after ingestion of lactose according to age, but the findings are not entirely consistent. The amount of breath hydrogen was shown to increase with age up to the age of 64 to 70 years and after lactulose challenge in a group of elderly subjects whose mean age was 76 years compared with a group of younger adults with a mean age of 32 years. However, in the study of Rao *et al.*, hydrogen excretion was lower in the age group over 70 years than in the group between 60 and 69 years. It is not known whether these variations are due to differences in lactose digestion or in the colonic microflora.

The age group 7 – 12 years is considered as increased frequency zone for Primary hypolactasy; meanwhile the age groups after 12 years old are regarded as “value inflation zones” of relative frequencies related to Primary.

Gender

Hardly any studies have compared lactose tolerance between the genders. According to some studies in a randomly selected population, gender did not have any effect on the prevalence of hypolactasia. In a study by Jussila it was reported that, among 504 hospital patients, women experienced gastrointestinal symptoms and nausea after milk ingestion more often than men. In a study by Krause *et al.*, women marked higher symptom scores than men despite lower hydrogen excretion. Their results respecting differences in hydrogen excretion are not consistent with those of and other study by Saltzberg *et al.*, who found no difference in hydrogen excretion between men and women after lactulose ingestion. Based on the results of the above studies, women seem to experience stronger gastrointestinal complaints than men, but it is not possible to draw any conclusion on the possible differences in hydrogen production between the genders.

Genetics

Selective adult-type hypolactasia is inherited through a single autosomal recessive gene. Both pretranscriptional and posttranscriptional mechanisms seem to be involved in the expression of the low enzyme activity. A Finnish group has recently reported assignment of the CLD gene. Their analyses indicate that one major mutation in a novel gene causes CLD in the Finnish population.

A culture-historical hypothesis has been proposed for lactase persistence: After the beginning of dairy farming, when there were periods of dietary stress, there would have been an advantage for those individuals who had high levels of intestinal lactase. As a result of increased survival, high intestinal lactase activity would have become typical of such a group. Lactase persistence is, indeed, more common in the areas with long traditions of dairy farming. However, production of the enzyme does not seem to be induced by lactose consumption.

History of genetic prevalence

The ability to digest lactose into adulthood (lactase persistence) would have only been useful to humans after the invention of animal husbandry and the domestication of animal species that could provide a consistent source of milk. Hunter-gatherer populations before the Neolithic revolution were overwhelmingly lactose intolerant, as are modern hunter-gatherers. Genetic studies suggest that the oldest mutations associated with lactase persistence only reached appreciable levels in human populations in the last ten thousand years. Therefore lactase persistence is often cited as an example of both recent human evolution and, as lactase persistence is a genetic trait but animal husbandry a cultural trait, gene-culture coevolution.

Several genetic markers for lactase persistence have been identified, and these show that the allele has multiple origins in different parts of the world (i.e. it is an example of convergent evolution). The version of the allele most common amongst Europeans is estimated to have risen to significant frequencies about 7,500 years ago in the central Balkans and Central Europe, a place and time approximately corresponding to the archaeological Linearbandkeramik and Starčevo cultures. From there, it most probably spread eastwards as far as India. Likewise, one of the four alleles associated with lactase persistence in African population, is also probably of European origin. Since North Africans also possess this version of the allele it is probable that it actually originated earlier, in the Near East, but that the earliest farmers did not have high levels of lactase persistence and, subsequently, did not consume significant amounts of unprocessed milk. Lactase persistence in Sub-Saharan Africa almost certainly had a separate origin, probably more than one, and it is also likely that there was a separate origin associated with the domestication of the Arabian camel. None of the mutations so far identified have been shown to be causal for the lactase persistence allele, and it is thought that there are several more yet to be discovered.

The evolutionary processes driving the rapid spread of lactase persistence in some populations are not known. In some East African ethnic groups lactase persistence has gone from negligible to near-ubiquitous frequencies in just three thousand years, suggesting a very strong selective pressure. But some models for the spread of lactase persistence in Europe attribute it primarily to a form of genetic drift. Competing theories on why the ability to digest lactose might be selected for include nutritional benefits, milk as a water source in times of drought, and increased calcium absorption helping to prevent rickets and osteomalacia in low-light regions.

Roman authors recorded that the people of northern Europe, particularly Britain and Germany, drank unprocessed milk. This corresponds very closely with modern European distributions of lactose intolerance, where the people of Britain, Germany, and Scandinavia have a high tolerance, and those of southern Europe, especially Italy, have a lower tolerance.

In east Asia, historical sources also attest that the Chinese did not consume milk, whereas the nomads that lived on the borders did. Again, this reflects modern distributions of intolerance. China is particularly notable as a place of poor tolerance, whereas in Mongolia and the Asian steppes horse milk is drunk regularly. This tolerance is thought to be advantageous, as the nomads do not settle down long enough to process mature cheese. Given that their prime source of income is generated through horses, to ignore their milk as a source of nourishment would be foolish. The nomads also make an alcoholic beverage, called Kumis, from horse milk, although the fermentation process reduces the amount of lactose present.

Objectives

The main objective of this research was to find the dispersion frequency of the Primary Lactose Intolerance phenotype in Albanian pupils in Macedonia of an age from 7 to 12 years old by gender. This would provide a clear picture about the allele Lac_R frequency within the same population.

Materials and methods

115 pupils of Albanian Nationality took place in this research. Their age ranged from 7 to 12 years old. The utilized test for the determination of the Primary Lactose Intolerance as a phenotype of the Lac_R allele measures the level of glucose in blood and is known as MTT (Milk Tolerance Test). The glucose measurement has been carried out with a glucose-meter before and 40 minutes after drinking of 400 ml of highly adopted cow's milk or 2 grams of lactose per each kilogram of body's weight. The increase in the level of glucose of 1.1 mmol/l is considered as a sign that the subject suffers from Primary Lactose Intolerance.

Other symptoms, such as stomach pain, abdominal fullness and bloating, diarrhea, etc. helped us to identify subjects with Primary Lactose Intolerance.

Pupils with poor health condition or with diagnosed gastrointestinal illnesses as well as those with family history of gastrointestinal complaints or related genetic disorders are excluded from this research.

The data was processed and statistically analyzed to determine the Primary Lactose Intolerance dispersion frequency along with the Lac_R allele identification. The correlation coefficient between the Primary Lactose Intolerance phenotype dispersion and the gender of the individuals has also been considered.

Results and discussion

Based on statistical analysis of the research data, we managed to obtain these results:

- Frequency variations for pupils with Primary Lactose Intolerance male or female, range of age between 7 – 12 years old

On Table 1 and Table 2. frequency data is presented y_{oif} (%) dhe y_{oim} (%), with referred values x_{mi} (vj), for classes 1 – 5 with effective clusters for male or female pupils in “elevation” zone, and their obtained results based on the linear-functional approximation model:

Table 1. Basic data for female gender

i	X _{mi} (years)		FEMALE	
Class	Mid Interval	Total number of	Y _{oi} (%) Relative Frequency	Correlation coefficient
Number	of age group	pupils in a	observed among pupils	Significance
	in each classes	class	with PH in classes	Linear Regression Equation
1	7.5	10	50	r = 0.83
2	8.5	11	54.5	
3	9.5	13	69.2	0.025 < p < 0.05
4	10.5	15	86.7	
5	11.5	11	72.7	y = 7.76x - 7.1
Total		60		

Table 2. Basic data for male gender

	X _{mi} (years)		MALE	
Class	Mid Interval	Total number of	Y _{oi} (%) Relative Frequency	Correlation coefficient
number	of age group in the classes	pupils in a class	observed among pupils with PH in classes	Significance
				Linear Regression Equation
1	7.5	13	61.5	r = 0.82
2	8.5	12	75	0.025 < p < 0.05
3	9.5	10	70	
4	10.5	9	88.9	
5	11.5	11	81.8	y = 5.45x + 23.7
Total		53		

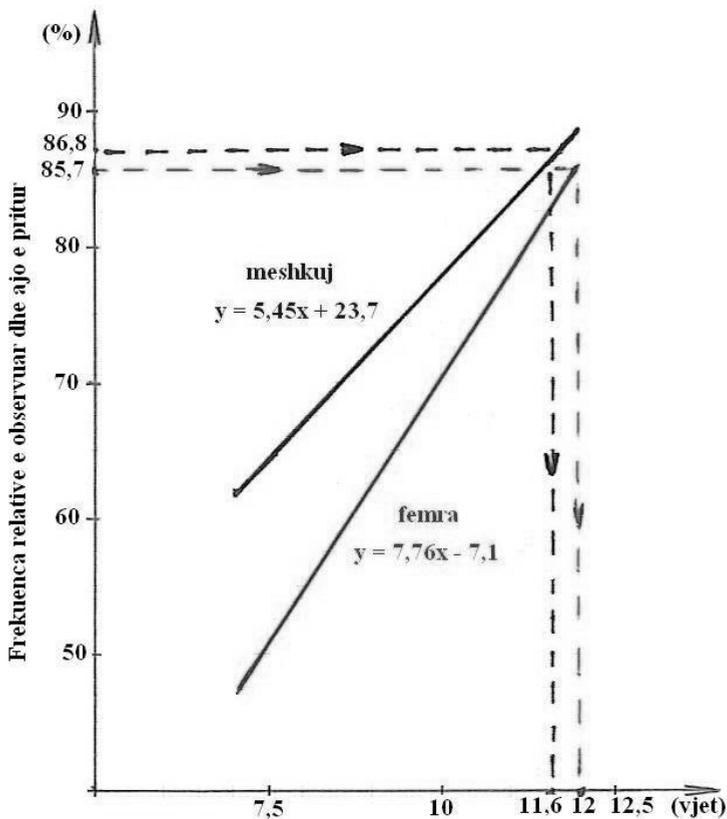
For the biome of variables $[x_{mi}(v_j), y_{oif}(\%)]$ dhe $[x_{mi}(v_j), y_{oim}(\%)]$, of review 6, correlation coefficient is set respectively $r_r = 0,83$ dhe $r_m = 0,82$ both with significance value ranging $0,05 > p > 0,025$. Equations of linear regression lines resulted as:

$$y_{ef} = 7,76x - 7,1 \quad (1)$$

$$y_{em} = 5,45x + 23,7 \quad (2)$$

In Figure 1 positions (1) and (2) are presented.

Figure 1. Positions of linear regression lines for the expected relative frequencies



On Figure 1 (column 6) on the interval 7 – 12, discrepancy between expected frequencies among pupils with Primary Lactose Intolerance both male and female, is decreasing from 15% to 3%. Consequently there is no sustainable change.

Based on the graph it's noticeable that female subjects are starting from lower values of Primary Lactose Intolerance as early as from age 7, but these subjects are facing higher gradients of increase up to its maximal expression (approximately age 12). Meanwhile, male subjects are starting from higher Primary Lactose Intolerance frequency values, but they are characterized with lower gradients of increase up to its sustainable level (approximately age 11.6).

Conclusion

For the female pupil clusters (60 in total) or with male subjects (55 in total), age group 7 – 12 years old, characterized as a zone with increased frequencies, we found positive correlations: $r_f = 0,83$ and $r_m = 0,82$, these both values have significant levels $0,025 < p < 0,05$; $y_{ef} = 7,8x - 7,1$ dhe $y_{em} = 5,4x + 23,7$. Discrepancies between expected frequencies between genders ($y_{em} - y_{ef}$) decreases from 15% to 3%, which demonstrates that there is a non-sustainable change.

Specific age that separates increasing growth zone from the “value inflation zones”, for each respectable cluster male or female is: $X_{sp/f} = 12,0$ yrs. with standard deviation S.E = 0.6 yrs. and $X_{sp/m} = 11,6$ yrs. with standard deviation S.E = 0.8 yrs., in this case we can consider this facts as a sign of equality between genders.

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