Financial Economics

Immigrant-operated Informal Financial Associations in South Africa: Problems and Solutions

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Abstract: While immigrants are at liberty to start self-help financial associations (referred to as stokvels in South Africa) to cater for their unfufilled need for capital, the benefits of this laudable effort are seldom maximised due to a number of shortcomings. **Aim:** This paper seeks to ascertain the operational obstacles that immigrant-run stokvels face and to suggest solutions accordingly. **Method:** Aiming to complement each other, quantitative and qualitative research approaches were utilised to conduct this study. Quantitative and qualitative data were collected through a self-administered questionnaire and one-on-one in-depth interviews. Purposive sampling technique was employed to reach the 123 participants who responded to the survey questionnaire and the 10 that took part in one-on-one in-depth interviews. **Results:** The typical immigrant African entrepreneur who participates in a stokvel, is a married male between ages of 30 and 46, and is fairly educated. While most of the respondents conceded that their stokvels faced operational problems, they also noted that the default on loan repayment and unskilled personnel on the loan management team were the issues of a greater concern. Hence, providing training and practical management skills becomes paramount to the smooth functioning of these stokvels. **Uniqueness and implications:** Though presumed to be a possible source of finance for immigrant-owned businesses, most studies have not explored the operational challenges that stokvels in South Africa face. The lessons drawn from this study may be of benefit to the respondents, policy-makers and academics.

Keywords: access to finance; informal financial associations; Tontins; immigrants; Cameroonian; South Africa

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1. Introduction and Background

Immigrants are more likely to start a business in their host country than the indigenous citizens (Fairlie & Lofstrom, 2013; Desiderio, 2014). Despite the numerous obstacles which they have to overcome to find suitable employment in the formal sector, their strong entrepreneurial and strong social networks support entrepreneurial activities. In an attempt to create jobs for themselves, the business ventures created by immigrants in turn provide employment for the citizens of the host country and immigrants from other countries. In fact, the growth of immigrant entrepreneurship generally supports poverty and inequalities reduction (Fatoki, 2014), although the challenges which are encountered by immigrants curtail their ability to launch and sustain successful entrepreneurial enterprises (Tengeh, et al. 2011).

Among the challenges faced by Small, Medium and Micro sized Enterprises (SMMEs), limited access to financial capital from formal sources stands out as the major obstacle to the start-up and growth of a business, irrespective of the national origin of entrepreneurs (Milica & Benton, 2013, Tengeh & Nkem, 2017). This notwithstanding, restricted access to financial resources has a peculiar effect on immigrant entrepreneurs than it does for their indigenous counterparts. A reason for this can be found in the characteristics of immigrant entrepreneurs and their enterprises, and the lack of familiarity of mainstream credit institutions with immigrant borrowers. The possibility of prejudice and discrimination, no matter how subconscious or subliminal it may be, cannot be entirely discounted. Mindful of the aforementioned, many immigrant entrepreneurs endeavour to find alternative means of obtaining financial capital for the start-up and growth of their businesses (Tengeh et al. 2011; Tengeh & Nkem, 2017), which entails their relying on informal financial institutions such as stokvels in South Africa. Stokvel is equivalent to njangi, practiced in the English-speaking regions of Cameroon. The culture of grouping together to raise finances, as practised by Cameroonians in South Africa, can be traced back to their home country. It is a common practice in Cameroon to form informal financial associations, and this dates back to a time when there were limited organised forms of financial institutions yet, particularly in the rural communities. For the purpose of this study, the terms "njangis" and "stokvels" will be used interchangeably to mean informal financial associations.

Although stokvels have been praised for their significant contribution in promoting immigrant owned businesses (Tengeh et al. 2011; 2012) there is little research evidence to neither support how these associations function or in identifying the challenges that they face. As such, this study attempted to ascertain the operational challenges faced by informal financial associations in order to recommend solutions accordingly. In addition, this study responds to Yusuf et al., (2009) call for a study that addresses the problems that hinder the operation and growth informal financial associations (IFAs).

2. Literature Review

2.1. An Overview of Informal Financial Associations

Informal financial associations (IFAs) allude to institutions which conduct financial activities which do not fall within the functional scope of the formal financial sectors and are not aligned with the standard practices (Aryeetey 1998; Beeior et al., 2016). Informal financial associations have been in operation even before the introduction of the modern banking system (Akinlabi, 2015). Customarily, these associations stem from within the poor communities, as a response to the need for financial services, which meet their specific needs. For instance, informal financial institutions have been credited for financing most entrepreneurial activities in poorer communities.

Informal financial associations can be broadly classified into three categories namely:

Proprietary informal entities such as money lenders, traders, estate owners, grain millers, small holder farmers, other types of businessmen and self-help groups;

Staff and social welfare schemes such as those which are run by employers, friends, relatives and neighbours; and

Mutual aid entities such as Accumulating Savings and Credit Associations (ASCRAs) and Rotating Savings and Credit Associations (ROSCAs).

Rotating Savings and Credit Associations (ROSCAs) are institutions whose members make fixed contributions regularly, such as either weekly or monthly to a fund from which payments are apportioned to each member in turn, through the following of lottery order, a bidding order or another means, which is deemed suitable by the group (Adeusi, & Ibitoye, 2015). This arranged contribution is regarded as an exchange for the privilege of receiving a lump sum at a certain point during the life cycle of the group. Thus, the rotating process gives some members the advantage of benefiting earlier than others, which implies that if the turn of a member comes early, the payment could be regarded as a credit mechanism in the form of an interest-free loan, and that if it comes later, it could be regarded as a saving mechanism (Aredo, 1993).

Although informal financial institutions take various forms, all the indigenous saving and finance associations have a single attribute in common, in that they unite the people in their communities and encourage them to identify their needs and to mobilise their resources in order to meet those needs. In this way, the members of the communities are enabled to provide for their financial assistance, which their governments and other regulated agencies are not able to provide.

2.2. Problems faced by Stokvels

Like most other organisations, stokvels are faced with their own unique challenges. The continued participation of members determines the success of the groups (Moliea, 2007).

The rigidity of fixed periodic contributions can present problems as contributions, which exceed the agreed amount are not accepted. This rule precludes members who have additional funds to invest at any particular time from doing so, which is likely to result in these funds being consumed, rather than being put aside as savings (Seibel, 2001). Furthermore, the element of rotation embedded in ROSCAs, entails that the members who benefit earlier are at the advantage if they were in dire need of money.

According to Buijs (1998), a stokvel is likely to act as a "personal line of credit", rather than as a means of providing lump sums to its members as in most cases the rotational payments do not coincide with the need of individual members for cash.

In a related study, in Nigeria, Adeusi, and Ibitoye (2014), identified the following challenges which are faced by informal financial institutions:

The inadequate financial resources which informal financial institutions have their disposal.

A lack of trained manpower in the informal financial sector, which could result in poor judgement with respect to the selection of enterprises for financial support.

Limited resources of skilled manpower at the disposal of informal financial institutions to monitor and control the lending process.

A low demand for loans and credit from entrepreneurs owing to the fact that they do not wish to run the risk of being unable to repay loans.

2.3. Managing Stokvels

Stokvels have a management structure just like other organisations. Their activities are always coordinated by a team put in place by members and this is always done through a democratic process. The management team usually consists of a leader otherwise referred to as the president, and then secretaries.

2.3.1. Organisational Features of Informal Financial Associations

According to Lee (2009), some stokvels comprise both men and women while the membership of others is confined either to women or men only. Lee explains that groups which restrict their memberships to females, usually do so in order to avoid including males, because they feel that it is difficult for men and women to work effectively together and that women understand one another better than men understand women.

Verhoef (2001) maintains that women normally prefer women-only stokvels because men are often unwilling to forego spending cash, which is available in the interest of receiving benefits in the future and also because they perceive men to be generally not trustworthy. Women also tend to regard stokvels as a means of freeing themselves from over-reliance on men. (Lee, 2009)

3. Methods and Materials

This paper was extracted from a recently completed Masters' thesis. The data collection took six weeks in June and July of 2016. A mixed approach was adopted to collect the data for this study. While relying on the questionnaire as the primary data-collection tool, personal interviews were held with the leaders of these organisations in order to complement the former. In support of this blended approach, Saunders et al., (2009), concedes that interviews can effectively supplement and expand the information that is gathered through other methods.

On the one hand, the data collected through the use of questionnaires was processed in relation to the research questions through the use of SPSS statistical software and the findings were presented in the form of frequency tables and pie charts. On the other hand, the data collected through personal interviews was analysed in terms of the themes that emerged and these were carefully aligned to the results of the questionnaire though presented as word verbatim responses from the respondents.

3.1. Target Population and Sampling

As Sekaran and Bougie (2013) note, a target population in any research study involving human participants refers to all of the people who qualify to be selected for inclusion in the research sample for a given study. Accordingly, in a pilot assessment, the researchers ascertained that there were approximately 22 Cameroon stokvel (njangi) groups, with an average membership of 16. For this study, the target population was considered to encompass all of the Cameroonians who are involved in entrepreneurial activities and are members of one of the stokvels which had been identified within the Cape Metropolitan Area.

A purposive sampling strategy was utilised to solicit participants to respond to the questionnaire and to take part in the face-to-face interviews. In the absence of an official database of immigrant-owned businesses in South Africa (Tengeh, et al 2011), it was difficult to obtain a reliable estimate of the actual size of the target population for a study of this nature. In line with similar studies, a sample size of

123 was adopted for the survey questionnaires (Kalitanyi, 2007; Tengeh et al. 2011, Khosa, 2014; Rogerson, 1997). Following (Saunders et al. 2009) counsel that between 8 and 12 interviews should be sufficient to study a fairly homogenous group, 10 participants were selected for the face-to-face interviews.

3.2. Development of the Questionnaire and Interview Schedule

Aspects such as complexity, layout and wording were also given due consideration in the development of the data collection tools. The questionnaire was 6 pages in length and included closed-ended and multiple-choice questions. It consisted of three sections, with the first endeavouring to extract demographic and general information concerning the respondents, the second containing questions which related to entrepreneurial activities and the third seeking to obtain information concerning the operational problems of stokvels.

This study also made use of semi-structured interviews. Although the process was time-consuming, the face-to-face encounters provided the researchers with an opportunity to use probing questions to draw out the unique standpoints of the interviewees with respect to their experiences and their situations. The interviews were conducted at venues which had been chosen by the interviewees in order to ensure their comfort and sense of security. The interviews were conducted in settings in which the interviewees felt secure. The interviews were conducted in English and each interview lasted between 20 and 30 minutes. A tape recorder was used to record the proceedings, after permission to do so had been obtained from each participant. To supplement the tape recordings, the researcher also took notes during the interviews. At the end of each interview, the researcher expressed his appreciation to each interviewee.

3.3. Ethical Considerations

As use was made of human subjects in this research study, the researcher gave due consideration to the relevant ethical implications, and ensured that the participants were not exposed to any physical or psychological harm of any sort whatsoever and that they were not subjected to any form of stress or embarrassment. The researchers fulfilled this professional responsibility to the participants in these respects by adhering to the guidelines of the Ethics Committee of the Cape Peninsula University of Technology at all times during the conducting of the study. For instance, consent to conduct the study was solicited from both the president of “the Cameroonian Association of the Western Cape” (CAASWECA) and the respondents targeted for the study.

4. Results and Discussions

The results are discussed under three headings: results of the questionnaire and personal interviews.

4.1. Genders of the Respondents

Of the 123 respondents, 75.6% were males and 24.4% were females. This finding concurs with that of Tengeh (2011) who had found that the majority of immigrant entrepreneurs in the Cape Metropole were males. This gender disparity possibly has cultural component, owing to the fact that Cameroonian males are more likely to start entrepreneurial ventures of this sort than their female counterparts. In addition, male Cameroonians tend to enter into activities, which are geared towards generating incomes, in order to support their families, while females tend mainly to concentrate on household activities. This finding also confirms that of Rogerson (1999) and Kalitanyi & Visser, (2014) who found that the typical immigrant entrepreneur is a young male and who work for close to 64 hours per week, six days a week.

4.1.1. Age of the Respondents

Table 1 notes that out of a sample of 123 respondents, 15.4% fell within the age bracket of between 26 and 30 years, 38.2% within that of between 31 and 35 years, while a majority of 43.1% fell within that of 36 and 45 years and only 3.3% were 46 years of age or older. In an earlier study, Tengeh, et al., (2011) found that the majority of immigrant entrepreneurs were below the age of 41 years, which also aligns closely with the finding of Asoba and Tengeh (2016).

Act 19 of the South African National Youth Commission of 1996 defines the youth of a country as being comprised of people between the ages of 14 and 35 years (SA 1996). Consequently, it may be concluded that most of the Cameroonian immigrant owners of small businesses, who fell between the ages of 26 and 35 years and comprises 53.6% of the research sample, could be classified as youths

Many researchers have found (Fatoki & Chindoga, 2011) that relatively few South African-youths are likely to start their own businesses, compared with their foreign counterparts. The low level of entrepreneurial involvement by South African youths has been identified as one of the main reasons for the low overall level of participation in the economy or entrepreneurial activity in the country. These findings are further supported by those of the report of the Global Entrepreneurship Monitor (GEM) (2012) which indicates that relatively few people start small businesses in South Africa and even fewer are able to sustain them.

It is easy to understand that engaging in entrepreneurial activities helps young people to achieve economic freedom, which in turn reduces their reliance on state welfare. In addition, entrepreneurship among the youth contributes to greater selfesteem and makes young people more productive members of their families and communities. It also promotes economic growth by providing employment and through the payment of taxes, which contribute to the overall revenue which the government is able to generate. The low level of entrepreneurial activities in South Africa places an additional burden on a government whose resources are already strained by endeavouring to meet the needs of large indigent segments of the population (Fatoki & Chindoga, 2011).

Table 1. Ages of the respondents

	Frequency	Percentage	Cumulative percentage
26 - 30 years	19	15.4	15.4
31 - 35 years	47	38.2	53.7
36 - 45 years	53	43.1	96.7
46 years or above	4	3.3	100.0
Total	123	100.0	

4.1.2. Marital Status of the Respondents

Table 2 below shows that a majority of the respondents (53.7%) who completed the questionnaires were married, and 39.8 % were single. 4.9% were divorced and 1.5% had been widowed. From these findings, it may be concluded that Cameroonian-owned small businesses in the Cape Metropole are likely to be owned by males between the ages of 31 and 45 years who are married. (Tengeh et al., 2011)

Table 2. Marital status of the respondents

	Frequency	Percentage	Cumulative Percent
Married	66	53.7	53.7
Single	49	39.8	93.5
Divorced	6	4.9	98.4
Widowed	2	1.6	100.0
Total	123	100.0	

4.1.3. Level of Education Attained by the Respondents

A significant majority (61.1%) of the respondents proceeded at least as far as matriculation level in their education, while 38.9% had not matriculated (see table 3). Khosa (2014) stresses the importance of education in business, in that it enables entrepreneurs to manage businesses effectively. During the course of conducting the field work for this study, the researcher observed that businesses which were managed or operated by respondents who had at least a university degree were well organised and kept proper financial records, a respect in which their less educated counterparts tended to be lacking, which serves to confirm the assertion which Khosa (2014) makes. Among the respondents who held matriculation certificates, 25.2% of the sample held matriculation certificate only while 22.8% were in possession of university degrees, 6% held trade certificates, 4.1% held advanced diplomas and the remaining 4.1% held postgraduate qualifications.

Table 3. Levels of education attained by the respondents

	Frequency	Percentage	Valid Percentage	Cumulative percentage
Below matriculation	48	39.0	39.0	39.0
Matriculation	31	25.2	25.2	64.2
Trade certificate	6	4.9	4.9	69.1
Advanced diploma	5	4.1	4.1	73.2
Degree	28	22.8	22.8	95.9
Postgraduate qualification	5	4.1	4.1	100.0
Total	123	100.0	100.0	

4.1.4. Challenges to the Smooth Functioning of Stokvels?

The results that 52 % of the respondents acknowledged that their stokvels face problems that are threatening their smooth functioning. However, 48 % of the respondents indicated that they had no problems.

4.1.5. Problems Faced by Stokvels

Stokvels just like other organisations have their own problems. As indicated in table 4, the most noticeable problems faced by stokvels as revealed by respondents are the lack of trained personnel to manage the loan process and the fact that some members do not respect loan repayment date. These two, according to the results combine to give about 72.3% of their problems. Other problems mentioned include the low turnout for loan application and untrustworthiness of some members which of course relates to the reason why some members do not respect loan repayment dates.

Table 4. Problems faced

	Number	Percentage	Percentage of cases
Some members don`t respect repayment dates	61	42.1%	49.6%
Lack of trained personnel to manage the loan process	44	30.2%	35.8%
Low turnout for loan application because of fear of risk	12	8.3%	9.8%
Some members are not trustworthy	28	19.4%	22.8%
Total	145	100.0	118%

Correlating the results of the quantitative tool to that of the qualitative tool, the following are verbatim quotations with regards to the problems that immigrant operated stokvels have to overcome:

Interviewee I:

"If I tell you that everything moves just as it is supposed to be, I will be lying. We have our own problems just like every other group. At times, some members will loan money, but when repayment dates comes, you start hearing stories. Someone will benefit from the contribution today, then in the next two weeks he is not able to contribute for others to also benefit."

Interviewee J:

We come across a few problems though at the end of the day, we always manage to solve them. For instance, some members find loaning money very easy, but when the repayment day comes, we need to run after them before they can pay. In some cases, some individuals fail to do contribution because of various reasons such as sickness, Law enforcement officers confiscated their goods and so on. But one thing I can assure you is that they always meet up before the end of njangi session"

Interviewee B:

I`m having problems with the way my present njangi secretaries are managing the process. They have no experience and so, I need to always be there in order for things to run well. Whenever I miss a session, my phone will keep on ringing because the secretaries are not doing their job well. Members call to complain. Because of this, I have decided to always be present so that I can take the time to groom them. It is a big call for me, but I have to do it".

Interviewee D:

"*Our njangi is just about three months old now and so far, there are no problems, probably because we are not many".*

4.4.6. Solutions to the Problems Faced by Stokvels

According to the results as presented in table 5,39.6% of the respondents suggest that members should be educated on how to invest their loans wisely. This is in order for them to make some profit and in turn repay their borrowed loans on the agreed dates. Another 29.5% of the respondents also suggest that training should be provided to the personnel managing the loan processes. Only 8.1% of them agreed that members should provide collaterals first before loans can be granted while some 15.4% of them agreed that members should provide sureties for their loans to be granted. Another suggested solution is that members should be encouraged to obtain loans, but only 7.4% agree to this.

Table 5. Suggested solutions to related problems

	Number	Percentage	Percentage of cases
Training should be provided to personnel	44	29.5%	35.8%
Members should provide collaterals before loans can be approved	12	8.1%	9.8%
Members should provide sureties before obtaining loans in case of no collaterals	23	15.4%	18.7%
Members should be encouraged to obtain loans	11	7.4%	8.9%
Members should be schooled on how to invest their loans wisely	59	39.6%	48%
Total	149	100%	121.2%

In support of the results of the questionnaire, the following verbatim quotations from the personal interviews allude to the possible solutions to the challenges faced immigrants in the operation of stokvels:

Interviewee F:

"*We keep on modifying our constitution frequently to prevent some of these problems from happening again".*

Interviewee A:

Some of my members have been blacklisted because of failure to repay the money. When you are blacklisted, you cannot loan any money again until after a defined period of time. In some cases, a defaulter is not even allowed to participate in the balloting process. You continue to contribute, but only benefit toward the end or at the end after all the "clean" members have benefitted. All these are well stated in our constitution so that no member should claim ignorance"

Interviewee B:

"Our constitution makes provision on a number of sanctions that will follow a member if he or she goes against the role such as suspension of membership, monetary fines, and other fines"

Interviewee C:

"*Our constitution defines possible remedies to possible problems that we may face along the way. Whenever a problem occurs which is not defined in the constitution, the general assembly brainstorms on it and then comes out with possible solutions? From then, it can become a clause in the constitution, which must be respected, after all, the constitution is drawn by the general assembly"*

From the above statements, it can be concluded that they always take care of their problems.

5. Conclusions

There is growing evidence that confirms the preponderance of immigrants in the economic activities in South Africa. This unfolds against a backdrop of a number of challenges which immigrants face. These challenges are not limited to discrimination and having a restricted access to finance from formal financial institutions. Under these circumstances, immigrants resort to the use of informal means to bridge the access to finance gap. For instance, they rely on self-help financial associations to fund the start-ups and even for the growth of their businesses. In fact, it could be asserted that the inability of immigrant entrepreneurs to obtain loans from commercial banks and other related financial institutions have resulted directly in the creation of immigrant-run informal financial institutions such as stokvels. Given the perceived role that stokvels play in promoting entrepreneurial endeavours and the apparent importance of access to finance in the entrepreneurship debate, this paper sought to ascertain the operational obstacles that immigrant-run stokvels face and to suggest solutions accordingly.

The results suggest that the typical Cameroonian entrepreneur that participates in a stokvel, is a married (54%), male (93%) aged between 30 and 46, and with basic education, with 25% having obtained matric and 39% attaining below than matric level. While most of the respondents conceded that their stokvels faced operational problems, they however noted that the default on loan repayment (42.1%) and unskilled personnel (30.2%) on the loan management team were central. Other problems mentioned included the low turnout for loan application (8.3%) and untrustworthiness of some members (19.4%), which of course relates to the reason why some members do not respect loan repayment dates.

Suggesting possible solutions, the respondents (39.6%) conceded that members should be educated on how to invest their loans wisely. This is in order for them to make some profit and in turn repay their borrowed loans on the agreed dates. Another 29.5 % of the respondents also suggested that training should be provided to the personnel managing the loan processes. Only 8.1 % of them agree that members should provide collaterals first before loans can be granted while some 15.4 % of them agree that members should provide sureties for their loans to be granted. Another 7.4% of the respondents alluded to members being encouraged to obtain loans.

This paper argues that limited access to finance will cease to be a major feature in the immigrant-owned business challenge discourse should immigrants be capable of meeting their funding needs and do so in a more efficient manner than the they would in the formal financial markets. We propose that any interventions to redress the operational challenges of stokvels should take cognisant of the unique cultural and entrepreneurial characteristics of the minority group concerned and the dynamics of the business environment.

6. Practical Implications, Limitations and Scope for Future Studies

Immigrant entrepreneurs have not only been able to create employment for themselves, but they are providing employment for a great many South Africans and immigrants from other countries. Alluding to the repression hypothesis, it is to be hoped that immigrant entrepreneurs would play a noteworthy role in the reduction of unemployment, poverty and would contribute meaningfully to the socio-economic development of South Africa, if they are given the right support.

The paper reveals that the informal financial associations have the potential of bridging the financial gap for marginalised entrepreneurs and especially immigrant entrepreneurs. The practice of saving voluntarily inherent in immigrants is an asset that should not be ignored by policy makers. If properly harnessed, this culture that forms the basis of the informal financial market may provide a sustainable solution to the current "restricted access to finance" that characterises the on-going debate on promoting enterprise and economic development in most countries. Cognisant of the close parallel between the group studied and other minority groups involved in entrepreneurial activities, it is apparent that any lessons to be gleamed from the current study could be of interest to the direct participants, policy makers and academics.

The results are restricted given that the study was limited to Cameroonians. A broader study should consider including other migrant groups. Using sophisticated methods, another study may want to gauge the impact of limited education on the success of stokvels. Perhaps another study that compares the challenges faced by immigrant stokvels to those of the native South Africans should be encouraged.

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Effect of Multiple Tax Regimes on Sustainable Development among Small Scale Enterprises in Lagos State: A Study of Lagos Island Local Government

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Abstract: The study examines the effect of multiple tax regimes on sustainable development among small scale enterprises in Lagos State. The burden of multiple taxes on small scale business in Lagos Island Local Government Area is compounded by the administrative burden to comply with these taxes which is higher than competitors. The specific objectives of the study are; to determine the influence of multiple tax burdens on business performance of small scale enterprises, and to ascertain the influence of multiple tax administration on small scale enterprises business performance. The study will cover small scale enterprises in Lagos Island Local Government Area in Lagos State. Survey design was adopted for the study. Data collection was done through primary and secondary sources. The researcher used judgmental sampling technique in selecting participants for the study. This sampling technique was used for convenience sake. The study discovered that there is significant relationship between multiple tax burden and business performance of small scale enterprises. We recommend that government should establish an institution to manage the issue of multiple taxes in economy. This will help to reduce high death tolls recorded among small scale enterprises in our economy.

Keywords: multiple tax burdens; multiple tax administration; small and medium scale development

JEL Classification: H20

1. Background to the Study

Asmelash (2002) describe small scale enterprises as an activities engaged by people who are unable to secure paid jobs or start economic activities of their choice. These kinds of business are family oriented and are often manage or controlled as family business. It is an accepted fact that small and medium scale is an engine to economic growth of the economy. Governments, and even policy

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makers and academics, take the survival of small scale enterprise very serious because of their roles in economic development.

Many small scale business promoters find it easy to start the business because of little capital involved. The small scale business entrepreneurs, especially in Lagos State that serve as commercial nerve center of Nigeria, are confronted with diverse problems which often leads to liquidation of their business. One of the main challenges confronting small scale business promoters is the issue of tax.

According to Arnold and Mclntyre (2002), tax is a compulsory levy imposed by government on citizen income and consumption of goods and services. Adeniyi and Adesunloro (2017) view tax as an important avenue for government to raise money in order to finance her projects and program. The fundamental philosophy of taxation is taking from the citizens according to their abilities and giving back to them according to their needs.

According to Decree 28 of 1998, there are categories of taxes and levies to be collected by federal government, state government and local government in Nigeria. The Lagos State Government passed the approved levies for Local Government Area and Local Council Development Area into law on 12 July, 2010. As laudable as the provision of the law is, it has not addressed the issue of multiplicity of revenue in the state. For example, licensing fee for sales of liquor, commercial premises rate and corporate parking fees within company premises. In Lagos State, the house of assembly has enacted the hotel occupancy and restaurant consumption law that impose 5% tax on consumption of goods and services in hotels, hotel facilities, event centers and restaurants. This can be regarded as sales tax because it excludes value added tax that federal government will collect from the business on the same service rendered. In support of Yaobin (2007), this form of multiple taxes may endanger sustainability of small scale enterprises in the area.

However, the tax law in Lagos State formally recognizes the appointment of tax consultants for tax administration. Some of the agents of tax consultants that serve as revenue collectors intimidate and harass small scale enterprises owners in the process of carrying out their duties in Lagos Island local government. The burden of multiple taxes on small scale business in Lagos Island Local Government Area is compounded by the administrative burden to comply with these taxes which make their product costs higher than their competitors. Hence, empirical researches on influence of multiple taxes on sustainable development among small scale enterprises are scanty. Thus, this study will examine the effect of multiple taxes on sustainable development among small scale enterprises in Lagos State.

1.1. Objective of the Study

The main objective of the study is to examine the effect of multiple tax regimes on small scale enterprises sustainable development in Lagos State. The specific objectives are:

To determine the influence of multiple tax administration on business performance of small scale enterprises.

To ascertain the effect of multiple tax burden on business performance of small scale enterprises.

1.2. Research Questions

The following questions will be answered by the study:

To what extent does multiple tax administration affect business performance of small scale enterprises?

How do multiple tax burdens influence business performance of small scale enterprises?

1.3. Hypotheses

The study will be guided by the following hypotheses:

There is no significant relationship between multiple tax administration and business performance of small scale enterprises.

There is no significant relationship between multiple tax burden and business performance of small scale enterprises.

1.4. Scope of the Study

The study will cover small scale enterprises in Lagos Island Local Government Area in Lagos State. Lagos Island was selected because it is the main commercial Centre of Lagos State. Multiple taxes and using of agents for tax administration is well pronounced in the area.

2. Review of Related Literature

2.1. Conceptual framework

The Concept of Multiple Taxation

Abimbola (2008) said that all the three tiers of government in Nigeria relied on taxation to boost their internally generated revenue. Revenue is generated through different heading without avoiding duplication of taxes. According to Fasoto

(2007), many taxes and levels are imposed on tax payers as against the only 39 approved by Tax and Levies Act.

Izedonmi (2010) describe the subjection of single income to more than one tax treatment by government as multiple taxation. Odusola (2006) cites an example of multiple taxation as when company profit is subjected to company income tax, withholding tax and pay as you earn by entrepreneurs. In Lagos State, in particular, when tax payer is transporting her goods across different local governments; she will be compelled to pay different forms of fees and levies that later amount to multiple taxes within the same state. Therefore, Nigeria is bedeviled with multiplicity of taxes imposed and administered by governments, Oyeaso *et al.* (2009).

2.2. Empirical Review

Agbor (2013) discovered in his study that there are incidences of multiple taxes within 21 tax subheads in Calabar. He posits that small scale business promoter paid for kiosk and or shop rates and forced to pay for operational permit. Multiple taxation also manifest in the signpost/advert tax. The jurisdiction for collection of this tax is the local government, but the state also collect tax on the same heading.

Salami (2011) asserted that there are more than 500 taxes and levies imposed by various tiers of government in Nigeria apart from those approved by Taxes and Levies (Approved list of Collection) Act. This issue of multiple taxes leads to increase in cost of doing business without corresponding increase in profit margin. He further stated that multiple taxation is more common in the Local Government than other tiers of governments. Nwokoro (2013) see multiple taxes as a threat to the growth of small scale business in Nigeria.

Adebisi and Gbegi (2013) examined the effect of multiple taxation on small scale enterprises survival in Nigeria and revealed that multiple taxation has negative effect on SMEs’ survival and the relationship between SMEs’ size and its ability to pay taxes is significant. The study suggested that government should implement uniform tax policies that will favour the development of small scale business in Nigeria.

3. Research Design

Survey design was adopted for the study. Data collection was done through primary and secondary sources. Structured questionnaires were used to generate data from sample population on multiple tax burdens and multiple tax administration. Secondary data were generated from books of account kept by the sample population. The population for the study comprises of small scale enterprises owners from Idumota, Obalende, Isale–Eko, Ereko and Tinubu Square.

These areas were selected because of high concentration of small and medium scale enterprises in the area and government generates more revenue from the environment.

The researcher used judgmental sampling technique in selecting participants for the study. This sampling technique was used for convenience sake. This sampling technique was used because the researcher wishes to focus on small and medium scale owners who pay taxes to state government and local government and keep their books of account up to date. Taxpayers in each selected market were asked to provide an evidence of tax payment receipts. A sample of 250 respondents was selected from these five areas. 50 respondents were selected from each of the five markets. This sample size was selected from each market because it is enough to generate and generalize the findings of a bigger population.

Five point Likert Scale was used for the structured questionnaire. The score was assigned to Likert scale as follows: Very Correct (5), Correct (4), I am not sure (3), Not correct (2), and Not Correct at all (1). Business performance will be measured by net profit margin while multiple tax administration and multiple tax burdens will be measure by battery of test items addressing a number of tax administrations and multiple tax burdens.

3.1. Model Specification

In order to test the above hypotheses, the relationship between the dependent variable (Bup) and the explanatory (independent) variables (Mtad and Mtbu) was estimated in the following models specified

$$Bup = f\,(Mtad + Mtbu) \quad (1)$$

The model to be used to confirm this proposition is presented below:

$$Bup = \beta0 + \beta1\ Mtad + \beta2\ Mtbu + eit \quad (2)$$

Where:

Bup = Business Performance

Mtad = Multiple Tax Administration

Mtbu= Multiple tax burdens

$\beta0, \beta1, \beta2$ = Regression Coefficients,

eit = Error term.

4. Data Analysis, Results and Discussions

Linear regression technique was employed as the basic statistical tool for data analyses in this study, with the aid of SPSS 20.0 software.

Table 1. The sample size of 250 selected from the population was tabulated below:

S/N	**Respondents Market**	**Total**
1	Idumota	50
2	Obalende	50
3	Isale – Eko	50
4	Ereko	50
5	Tinubu Square	50
Total		250

Source: Field survey, 2017

Two hundred and forty copies of questionnaires were purposively administered by the researcher. Two hundred copies were successfully retrieved from respondents. This represents 80% of the number of questionnaire administered.

Table 2. Administration of questionnaire details was tabulated below:

S/N	Administration of questionnaire	Number of copies	Percentage (%)
1	Copies administered	250	100
2	Copies returned	200	80
3	Wrongly filed/unreturned copies	50	20

Source: Field survey, 2017

Results and Discussions

Analysis of response

Research question: To what extent does multiple taxes administration influence net profit margin of small scale enterprises in Lagos State?

Table 3. The influence of multiple taxes administration on business performance of small scale enterprises.

The image part with relationship ID rId37 was not found in the file.

Source: Field survey, 2017

From the table above, majority of the respondents agreed that tax collection in Lagos Island local government have been contract out to tax consultants. This was supported by 4.50 mean score of the respondents. The tax consultants employed and control revenue collectors that are not knowledgeable about tax. Therefore majority of them abuse tax administration techniques by treats and intimidate tax payer in the course of tax collection. These findings were supported by 4.64, 4.76 and 4.74 mean scores of the respondents.

Some revenue collectors collect money from the tax payers and fail to record the total amount collected in the receipt issued to tax payers. The respondents shows that the administration of sales tax and value added tax on the same income affect their profit. Moreover, some revenue collectors extort money from entrepreneurs.4.35, 4.46 and 4.40 mean scores of the respondents corroborated this findings.

It can be observed that in the process of boosting internally generated revenue through tax, tax consultants employed revenue collectors that are not knowledgeable about tax and taxation. Therefore, the administration of tax or performances of their duties affect the performance of small scale enterprises in Lagos Island Local government.

Table 4. The model summary: regression coefficient for Business performance on multiple tax administration

Model					
	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig. F Change
1	.919	.845	.814	.00996	.003[b]

Source: Authors own study, 2017

Predictors: (Constant), Multiple Tax Administration

Dependent Variable: Business Performance

In the table (3) entitled the model summary of regression coefficient for business performance on multiple tax administration, the value of R value = .919; however adjusted R^2 = .814. It shows that 81.4% of the dependent variable (Business performance) have been explained by the independent variable; Multiple Tax Administration. However, the unexplained variation is 0.186 which is about 18.6%; thus we can understand that the model is providing a good fit to the data since the unexplained variation is 0.186.

Table 5. ANOVA and the significance of the model

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.003	1	.003	27.290	.003[b]
	Residual	.000	4	.000		
a. Predictors: (Constant), Multiple Tax Administration						
b. Dependent Variabe : Business Performance						

Source: Authors own study, 2017

ANOVA results (specifically f-ratio) test the overall significance of the model. The *f*-ratio (27.290) shows that the variables, Multiple Tax Administration, are the major determinants in explaining business performance. It can be observed that the independent variables give a significant effect on the dependent variable based on the *f*-ratio, suggesting that; overall, the model in the study is significantly good enough in explaining the variation on the dependent variable. The independent variables are statistically significant because its significance value is 0.003, that is $P<0.05$. So the null hypothesis is rejected while alternative hypothesis is accepted. Therefore, there is significant relationship between multiple tax administration and business performance of small scale enterprises.

Analysis of Response

Research question: How do multiple tax burdens influence net profit margin of small scale enterprises in Lagos State?

Table 6. The effect of multiple tax burdens on net profit margin of small scale enterprises

The image part with relationship ID rId37 was not found in the file.

Source: Field survey, 2017

From the table above, it can be observed that tax consultants remunerations depend on revenue generated and this leads to excessive burden on the tax payers. This is supported by 4.55 mean score of the respondents. Entrepreneurs paid for parking fees, load and off load goods ticket on daily basis. They paid for satellite/mass permit; business sign post permit and mobile advert permit for the same product. It is confirmed that they paid for corporate business permit and trade permit on the same shop. These findings were supported by the respondents mean score of 4.68, 4.56 and 4.28 respectively.

Majority of small scale enterprises promoters agreed that multiple taxes constitute additional burden to the operational cost of the business. Moreover, they are not sure of the extent to which their income would be taxed. These findings were supported by the respondents mean scores of 4.08 and 4.74. Therefore, multiple taxes serve as a burden because it affect the performance of small scale enterprises negatively.

Table 7. The model summary: regression coefficient for Business performance on multiple tax burdens.

Model					
	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig. F Change
1	.912	.832	.798	.01038	.004[b]

Source: Authors own study 2017

Predictors: (Constant), Multiple Tax Burdens

Dependent Variable: Business Performance

In the table above, the value of R value = .912; however adjusted R^2 = .832 shows that 83.2% of the dependent variable, Business Performance, has been explained by the independent variables; multiple tax burdens. However, the unexplained variation is 0.168 which is about 16.8%; thus we can understand that the model is providing a good fit to the data since the unexplained variation is 0.168.

Table 8. ANOVA and the significance of the model

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.003	1	.003	24.727	.004[b]
	Residual	.001	4	.000		
a. Predictors: (Constant), Multiple Tax Burdens						
b. Dependent Variable: Business Performance						

Source: Authors own study, 2017

ANOVA results (specifically f-ratio) test the overall significance of the model. The *f*-ratio (24.727) shows that the variables (multiple tax burdens) are the major determinants in explaining business performance. It can be observed that the independent variables give a significant effect on the dependent variable based on the *f*-ratio, suggesting that; overall, the model in the study is significantly good enough in explaining the variation on the dependent variable. The independent variables are statistically significant because its significance value is 0.004, that is $P<0.05$. So the null hypothesis is rejected while alternative hypothesis is accepted. Therefore, there is significant relationship between multiple tax burden and business performance of small scale enterprises.

4. Conclusion and Recommendation

Small and medium scale enterprises play pivotal roles in socio – economic development of Nigeria. Despite their roles in economic development in the economy, it is their civil responsibility to pay tax to government cover. However the small and medium scale enterprises owners are directly or indirectly subjected to pay multiple taxes. Most of the agents employed by government as tax collectors do act as terror by coercing the small scale owners in course of collecting multiple tax from them.

The study investigate the influence of multiple tax administration and multiple tax burdens on sustainable development of small scale enterprises in, commercial nerve centre of Lagos State, Lagos Island local government area. We discovered that majority of agents employed for tax collection in Lagos State do harassed small business owners in collecting tax. It was discovered that some of them even collect money without issuing original receipts to the tax payers.

The study discovered that some of the tax collecting agents are aggressive in collecting money from small scale enterprises because of their personal gain. Some agent does not collect the stipulated amount from some small scale enterprise owner because they will not remit the money to government purse. The victims of this incidence are those small scale enterprises owners that know little or nothing about taxation. The attitudes of many tax collectors in Lagos State are not encouraging sustainable development of small scale enterprises in Lagos State.

Tax is a civil responsibility of all TaxAbleperson in Nigeria. We discovered that small and medium scale enterprises pay multiple taxes on the same income. This occurred mainly between Lagos State government and Lagos Island local government area, especially market taxes and levies. In fact, it was amazing when we discovered that small scale enterprises owners are subjected to double taxation by the local government officials. For example, the small scale business owner will pay tax for parking the vehicle that brought her goods from industry. The small scale enterprises owner will still pay tax for off loading the goods to the store. The money will be collected by Local government revenue collectors. Therefore, this incidence of multiple taxes on the same goods do hampered the sustainable development of the business because the tax burden will be too high.

Based on the above conclusion, we recommend that Lagos state government and Lagos island local government area should educate their both their staff and agents that deals directly with tax administration about how they should perform their duties with human dignity without compromising their integrity. This will help to reduce hooligan's character displayed by some tax collectors agent in the state. Moreover, all accredited agents for tax collection should write their name and agents name on their uniform, for proper identification, when performing their duties.

Small and medium scale enterprises owners need to be well enlightened about taxes and levies to be collected by all tiers of government. They should be educated on when to pay, where to pay and whom to pay their tax to. The government should design a strategy to be attending their meetings whenever they have meeting. This will give government an opportunity to interact with them better.

Multiple taxes is a great burdens that is killing small scale enterprises in Lagos State. Though, it is understandable that all tiers of government want to use all avenues to generate funds and it leads to multiple taxation. Government should establish an institution to manage the issue of multiple taxation in our economy. This will help to reduce high death tolls recorded among small scale enterprises in our economy.

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Relationship between China's Economic Growth and South Africa's Exports to China

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Abstract: The rapid growth of China's economy has increased China's demand for imports required to meet the increased demand for raw materials in its industries. In 2006, China became the largest export destination for South Africa. This paper seeks to examine the relationship between China's economic growth and South Africa's exports to China. The paper aims to find out whether there is any significant relationship between China's economic growth and South Africa's exports to China. Using an import demand function for China, we employ an ARDL framework to analyze the research problem based on quarterly data covering the period 1992 to 2015. We find no evidence that there is a significant relationship between China's economic growth and South Africa's exports to China. However, the results do show that there is a positive long-run relationship between South Africa's exports to China and the price of South Africa's exports. The positive coefficient of South Africa's export prices indicates lack of price sensitivity in terms of South Africa's exports to China. Based on the results, we recommend that South Africa should find ways to enable its exports sector to benefit more from the high economic growth in China. Among other ways, this could be achieved through negotiating a free trade agreement (FTA) between South Africa and China.

Keywords: China; economic growth; South Africa; exports; import demand; bilateral trade

JEL Classification: F43

1. Introduction

Different studies have shown that the growth of China's economy has led to increase in exports of other countries to China due to the increased demand of raw materials and intermediate goods in China. China shifted from being and agricultural based economy to a mass industrialized economy, thus, increased

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demand for raw materials. (Robertson & Xu, 2010, p. 3) China's economy has been growing at a rate of over 8 per cent over the last thirty years and this rapid growth of China's economy has made the country to target the world as its market, but also, to become the most attractive trade destination in the current off-shoring process.[1] This kind of economic growth is expected to induce an increase in imports in China's economy to cater for the increasing domestic demand. In economics literature, economic growth is believed to lead to an increase in imports since high income promotes consumption. (Ugur, 2008) China has become a major trade partner to the Asian countries especially its neighbours. In 2003, China became the second export destination for Japan and the first for South. (Gaulier, Lemoine & Ünal-kesenci, 2005, p. 10) Evidence form Sub Saharan Africa shows that China's imports from Sudan, Burkina Faso and Ethiopia have increased significantly between 1995 and 2005, because of the increased demand for these countries' exports by China (Geda & Meskel, 2008). Regarding South Africa, evidence shows that there has been rapid increase in trade between China and South Africa. According to Villoria (2009, p. 532), South Africa's exports, most of which are minerals, account for about 18 per cent of African trade with China. In addition to that, South Africa is the major Sub-Saharan African exporter of manufactured goods to China. (Alden, 2008)

The purpose of this study is to examine short run and long run effects of China's economic growth on its imports from South Africa. In doing so, the study adopts Auto-regressive Distributed Lag (ARDL) approach to estimate Chinas' import demand function based on quarterly data from 1992 to 2015. The use of the ARDL modeling framework sets this study apart from previous studies that have also investigated China's trade with South Africa. Thus, this study differs from other studies in different ways. One way in which this study differs from previous studies is that it discusses the direct effect of China's economic growth on South Africa's exports to China. In addition to that, this study also assesses the long run effect of China's growth on its imports from South Africa. To the best of our knowledge, no study has examined long run effect of China's growth on its import from South Africa. Other previous studies, for example, Rangasamy & Swanepoel (2011), examine the impact of China's economic growth on South Africa's trade and inflation. Another Study by Sandrey & Jensen (2007) assesses the benefit of free trade project between China and South Africa from welfare perspective. This current study therefore, addresses some of the gaps in literature and by so doing, contributes to the body of literature on the economic effects of China in South Africa.

The results of this study reveal that there is no significant relationship between China's economic growth and its imports from South Africa. Notwithstanding this

[1] See (Eichengreen, Rhee & Tong, 2004; Zafar, 2007).

revelation, the study found that there is a positive relationship between South Africa's exports to China and the price of South Africa's exports. This positive effect of South Africa's export prices suggests lack of price sensitivity concerning South Africa's exports to China.

2. Literature Review

In the literature, relative price and real income are the major factors that affect demand for imports in a country. Some theories show that an increase in domestic income leads to an increase in consumption of both local and foreign goods. (Ugur, 2008) In the case of China, the rapid growth of the Chinese economy led to an increase in the demand for raw materials needed in the domestic industries. Brenton and Walkenhorst (2010) found that an increase in demand for raw materials from China provides opportunities for developing African exports and reduces reliance on traditional, but slow-growing markets in Europe and the United States of America. According to Henderson (2008, p. 378), the most important factors that contributed to China's growth was China joining the World Trade Organisation that opened for China doors for more international trade. It can be deduced that the growth of China's export industries influenced the increase in China's demand for imports from other countries. This argument is supported by international trade theories namely: firms based theory of international trade, and monopolistic competition and bilateral trade theory.

2.1. Firm Based Theory of International Trade and the Theory of Monopolistic Competition

Firm based theory of international trade demonstrates that exportation and importation of goods in a country occur because of firm's activities. "New trade theory" links international trade with innovation and productivity of firms. (Curiak, Lapham, Wolfe, Collins-Williams & Curtis, 2011) The theory identifies factors that determine firms' involvement and growth in international trade to include the level of resources, firm's international experience, intra-industry trade, bilateral trade cost, access to finance and productivity. Economic growth leads to firms specializations. Firm's specialisation creates rooms for intra-industry trade between international firms. Intra-industry trade occurs when countries export one set of industries and import another. Specialisation among industries that differ in factor intensity changes the relative demand for various factors of production. (Bernard, Jensen, Redding & Schott, 2012) Large shares of international trade take place between relatively similar trading partners, apparently within firms. Firms can serve foreign customers through different channels: they can serve them through foreign subsidiaries, or collaborate with foreign firms to produce their products, or export their products directly to their customers. (Helpman, Meltz & Yeaple 2004, p. 300)

Krugman (1979) explains the theory of monopolistic competition that demonstrates how international trade may be driven by economies of scale that are prevalent in perfectly competitive markets. Firms in developed countries trade more with each other because they produce differentiated products with increasing returns. (Debaere, 2005, p. 249) Economies of scale reduces average cost of production, hence, making it possible for firms to purchase more capital, thus trade activities increase. Increasing returns to scale helps to explain bilateral trade by linking income levels of trading partners to trade volume between them. Literature shows that countries with similar economic growth levels tend to trade more between themselves.[1]

2.2. Effects of China's Growth on Trade with Other Nations

Among the different effect of China's economic growth, it can be argued that the effects of China's economic growth on trade in other countries have been both direct and indirect. The direct effects are due to China's increased demand for raw materials from other countries, whereas the indirect effects are as results of China's penetrating international markets through exportation of cheap goods meanwhile direct effects are mainly due to China's increased demand for foreign goods, mainly raw materials and machinery. Evidence of direct effect of China's economic growth has been shown in some countries in Sub-Saharan Africa. Using experiences of Sudan, Burkina Faso and Ethiopia, Geda & Meskel (2008) found that these countries' exports to China increased significantly because of the increased demand for their exports by China.

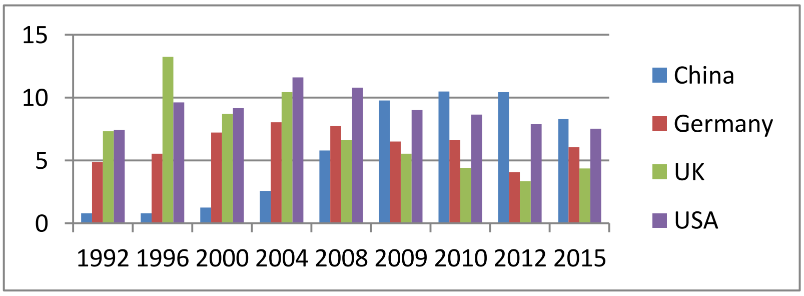
Despite the positive effects experienced in some economies due to trade with China, negative effects have been observed in other cases. Negative direct effects of China's economic growth on other countries are likely to occur when Chinese traders bring goods to other countries and compete with domestic traders. Lee (2007) reveals that in one of the Sub Saharan African countries, Uganda, local traders have been travelling to China for years to buy goods and sell in their local markets. However, in recent years, the Ugandan local traders are now experiencing stiff competition from Chinese traders who bring the same products into the country at a much cheaper price. The reason why China's products have been able to dominate domestic markets in Uganda is that in most respects, the domestic consumers are relatively illiterate and only care about price, not quality.

[1] See (Davis, 1995).

2.3. Trends in China's Economic Growth and South Africa's Exports to China

The growth of the Chinese market can be considered as one of the factors that have enabled South Africa to realise improvements in the volume of its exports. There is evidence of a rapid growth rate in bilateral trade between China and South Africa. This rapid growth in trade between China and South Africa has been due to a combination of burgeoning bilateral and of global factors. These factors include China's joining the World Trade Organisation in 2001 and the formal recognition of China's market economy by the government of South Africa (Alden & Wu, 2014). China created a new market for South Africa's exports during and after the great recession of 2009 that affected trade levels of industrialised countries. (Geld, 2010)

Figure 1. South Africa's total exports to China and SA's exports to the rest of the world 1992 – 2015



Source: World Integrated Trade Solutions

Figure 1 shows that between 1992 and 2012, South Africa's exports share to China grew by more than 10 per cent. On the other hand, South African exports to the United States of America (USA) and the United Kingdom (UK) decreased continuously from 2008 to 2012, after which they increased slightly in 2015. The trend depicted in the figure shows that South Africa's export destinations changed significantly over the period 1992 to 2012, resulting in China emerging as new dominant markets for South Africa's exports.

One of the factors that explain the increased trade between China and South Africa is that the growth of China's economy has led to an increased demand for power, which has caused China to increase its demand for cheap coal from South Africa. (Tu & Johnson-Reiser, 2012) Moreover, China's economic growth has also led to increase in demand for agricultural products from South Africa needed in feeding the growing population of China. Besides these, China uses some of the agricultural products from South Africa in domestic industries. (Sandrey & Edinger, 2009) Therefore, China's demand for South Africa's agricultural products is expected to increase due to the change in China's GDP, which has affected the

Chinese pattern of consumption of agricultural and food products. (Edwards & Lawrence, 2012, p. 8)

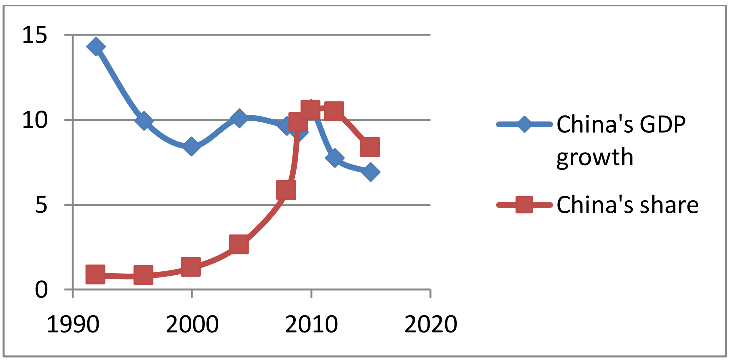


Figure 2. Trends in China's share in South Africa's exports and China's GDP growth

Source: World Bank (2015)

Figure 2 shows that between 1990 and 2015, there has been a positive relationship between China's GDP growth and its imports from South Africa. Although China's GDP growth declined in 1995, 2001, 2004 and 2011, most of the years registered positive changes in economic growth. China became the largest consumer of South Africa's commodities in 2006. Figure 2 also shows that the largest figure representing South Africa's exports to China was recorded in 2010, where South Africa's exports to China stood at 10.53%. (World Bank, 2015) Mineral resources are the major South African export to China, mostly iron and diamonds. South Africa also exports mining equipment to China, mostly in the form of vehicles, aircraft, vessels and associated transport and other machinery, and mechanical appliances. (Naidoo, 2007)

3. Model Specification and Data Description

Following Tripett & Thaver (2015), this study uses import demand function to estimate the effect of China's growth on its imports from South Africa. Traditionally, an import demand function is specified as a log-linear function of a relative price of imports and real income. (Senhadji, 1998) The log-linear representation allows the estimated coefficients to be interpreted as elasticities. The reason behind using income and price elasticity in the estimation of import demand function is their power in providing precise quantitative analyses that may result from the changes in income and prices. (Tripett & Thaver, 2015) Based on the Keynesian line of argument, it can be shown that an increase in domestic income may stimulate import demand, which could result in positive income elasticity. On the other hand, an increase in relative price could hurt the demand for imports, yielding negative import price elasticity. (Tang, 2008)

The current study uses the following import demand function:

$$M_t = f(Y_t, RP_t, Z_t^m) \quad (1)$$

where M_t is China's imports from South Africa, Y_t is the real national income of South Africa, RP_t is the real aggregate price level and Z_t^m is a vector of other factors that affect imports. The current study will instead use the model to determine China's import demand function with South Africa by using GDP as the real national income of China and Price as South Africa's export price indices.

The empirical model for the current study is expressed as:

$$InExport_t = \beta 0 + \beta 1\, InGDP_t + \beta 2 InPrice_t \quad (2)$$

Where $Export$ is South Africa's total exports to China; GDP is China's gross domestic product; $Price$ is the real price of South Africa's exports.

3.1. Estimation Techniques, Data and Variable Construction

The data used in the empirical analysis of this study come from the National Bureau of Statistics of China and from the South African Reserve Bank. The sample period for this study starts from 1992 because of lack of bilateral trade data between South Africa and China prior to 1992. Nevertheless, the quarterly data from 1992 to 2015 enabled the study to come up with acceptable results owing to an adequate number of observations available to run the regression.

The study adopted the Auto-regressive Distributed Lag (ARDL) model's approach to estimate the regression. ARDL helps to estimate departures from and adjustments to the long-run equilibrium, and to distinguish between long-run and short-run effects. Specifically, the study used Pesaran's (2001) bounds testing procedure to estimate the model. Pesaran's bounds testing procedure has the advantage of being applicable in the presence of I(0) variables, I(1) variables, or any mix of the two. Thus, the bounds testing results are not dependent upon unit-root pretesting. The other advantage of the bounds testing procedure is that bounds' testing has been shown to be more efficient in small samples than either the Engle-Granger or Johansen tests for co-integration. (Tripett & Thaver, 2015) Thirdly, the ARDL approach circumvents the problem of order of integration associated with other methodologies. Fourthly, the technique generally provides unbiased estimates of long-run model and valid t-statistics even when some repressors are endogenous. It is also argued that the ARDL technique corrects endogeneity biasness. (Yue, 2010) Lastly, using the ARDL approach avoids the problems resulting from non-stationarity time series data. (Bathalomew, 2010)

The ARDL bounds test was used to test for the existence of a co-integrating relationship in the model. Using the ARDL approach, the calculated F-statistics are compared against the critical values. Each variable in the equation is taken as dependent variable in the calculation of the F-statistic.

The underlying ARDL model for the study is specified as:

$$\Delta Export_t = \beta_0 + \sum_{k=1}^{m} \beta 1 i \Delta\, Export_{t-k} + \sum_{k=1}^{m} \beta 2 i \Delta GDP_{t-k} + \sum_{k=1}^{m} \beta 3 i \Delta Price_{t-k} + \varepsilon_t \qquad (3)$$

The null hypothesis testing for no co-integration is given by:

$H_0 = \gamma_1 = \gamma_2 = \gamma_3 = 0$

which is tested against the alternative hypothesis:

$H_1: \gamma_1 \neq \gamma_2 \neq \gamma_3 \neq 0$

If the F-statistic falls below the lower bound, one cannot reject the null hypothesis of no co-integration, whereas if the F-statistic exceeds the upper bound, then the null hypothesis of no co-integration is rejected. An F-statistic between the lower and upper bound leads to an inconclusive test.

After having determined whether the long-run relationship existed, the parameters in the ARDL equation were estimated and interpreted. Specifically, the long-run elasticities are equal to the coefficients on the lagged regressors normalised by the negative of the coefficient on the lagged dependent variable. The short-run elasticities correspond to the coefficients on the first-differenced regressors. Subsequently, the error correction model (ECM) of the ARDL representation was estimated. In the ECM, the coefficient of the error-correction term, which is known as the speed of adjustment, shows the magnitude with which there is convergence towards long-run equilibrium. The ECM for the current study is given by:

$$\Delta Export_t = \beta_0 + \sum_{k=1}^{m} \beta 1 i \Delta\, Export_{t-k} + \sum_{k=1}^{m} \beta 2 i \Delta GDP_{t-k} + \sum_{k=1}^{m} \beta 3 i \Delta Price_{t-k} + \alpha ECT_{t-1} + \varepsilon_t \qquad (4)$$

where $Export$ represents South Africa's export to China, GDP is the real gross domestic product of China; $Price$ is the price of South Africa's exports; ECT is the error correction term, while m represents the maximum lag length. ε_t is the residual error term. The Schwarz Criterion (SC) and Alkaike Info Criterion (AIC) was used to determine the optimal lag lengths for estimation.

3.2. Discussion of Empirical Results

In the empirical exercise, the variables were first tested for stationarity using the Augmented Dickey Fuller (ADF) and the Phillips-Perron (PP) tests. Afterwards, the cointegration test as well as the estimation of the short-run and the long-run coefficients were conducted using EViews 9 software. After obtaining the empirical results for the model of the study, diagnostic tests were carried out to determine the reliability of the results. Table 1 presents the results for the unit root tests.

Table 1. Unit root tests results

Note:, ** and *** denote stationarity at 10%, 5%, and 1% significance levels respectively*

The unit root test in Table 1 indicate all the variables are non-stationary in levels. However, after first differencing, all the variables became stationary at 1 per cent level of significance, as shown in the table above. Thus, according to the ADF and PP tests, all the variables used in this study, namely $Export$, GDP and $Price$ are integrated of order 1 or are I (1). After confirming the stationary of the variables, the study estimated the ARDL model, after which the error correction model estimation was done. Table 2 presents the results of the long-run and short-run estimations.]

Table 2. Results of the Long-run and Short-run Estimations

Panel A: Short-run results			
Variable	**Coefficient**	**T-statistic**	**Probability**
GDP	-0.000972	-0.040437	0.9678
Price	0.003630	0.058768	0.9533
CointEq(-1)	-0.228420	-3.397540*	0.0010*
Panel B: Long-run results			
Variable	**Coefficients**	**T-statistics**	**Probability**
GDP	-0.170728	-0.0664361	0.5082
Price	2.944661	8.359699*	0.0000*
C	11.726197	6.804773	0.0000
Estimation output			
R –Squared	0.984609	Adjusted R-squared	0.983918
Sum Squared Residual	5.104354	F-statistic	1423.422

*Note: *, ** and *** denote 10%, 5%, and 1% significance levels respectively*

The results from Table 2 show that in the long run, the coefficient of China's GDP is positive but statistically insignificant. However, the coefficient of price is positive and statistically significant, in the long-run, showing that a 1 per cent increase in South Africa's export prices will lead to a 2.94 per cent increases in South Africa's export to China. The results for the coefficient of South Africa's prices are puzzling in that the real price of South Africa's export is positively related to China's import from South Africa. The reason for these puzzling results could be that China mainly imports raw materials from the mining sector in South Africa. Most importantly, China uses these products as basic inputs. The results suggest that there is lack of price sensitivity in terms of China's imports from South Africa. Thus, the products that China imports from South Africa tend to be insensitive to price changes. Although puzzling, the results of this study are supported by Zhou & Dude (2011), who found a positive price elasticity for China when determining import demand function for India, Brazil and China. According to Zhou and Dube (2011), the explanation for the positive price elasticity of imports demand could lies in China's trade policy. China introduced a duty draw back system in the late 1980. The system allows duty rebates on imported raw materials, parts, components and so forth used in processing imports in China. This policy might have distorted the importing behaviour of China's importers and contributed to the positive price elasticity in the aggregate input demand estimation in China. The results for the current study further show that the error-correction term coefficient is negative, as required, and is statistically significant. The coefficient of determinations adjusted - R^2 shows that about 98.45 per cent variation in South Africa's trade with China is explained by the independent variables.

4. Conclusion

In this article, we have examined the relationship between Chinas' economic growth and South Africa's exports to China. Among other things, this study reviewed other literature on South Africa's trade with China, and examined the link between China's economic growth and South Africa's exports to China. In empirical investigation, the ARDL bounds testing approach to cointegration was used to estimate the relationship between China's GDP growth and South Africa's export to China.

The reviewed literature suggests that China's economic growth has led to increased demand in three major areas of South Africa's exports. Firstly, China's rapid economic growth has caused an increased demand for electric power, subsequently leading to an increase in China's demand for South Africa's coal. Secondly, China"s economic growth has also led to an increase in China's demand for South Africa"s agricultural products, especially wheat, corn, rice and sugar that are needed in feeding China's growing population. Thirdly, China's economic growth has led to increased industrialisation in China, which has increased China's demand for South Africa's raw materials. These raw materials include base metals, textiles, precious and semi-precious metal, stones and wood products that are largely used in China's industries. South Africa's exports share to China grew by more than 10 per cent from 1992 to 2012. China has become South Africa's number one export destination ahead of USA and UK. It can be said that the growth of China's economy has led to South Africa moving away from its former predominant export destinations and towards China.

Based on the empirical results, the study finds no evidence that China's economic growth is related to South Africa's exports to China, whether in the short run or in the long run. The study further examines how South Africa's export prices affect China's imports from South Africa. The results for South Africa's export prices were puzzling in that the real price of South Africa's export was found to be positively related to China's import from South Africa. The positive effect of South Africa's export prices may be due to lack of price sensitivity in terms of South Africa's export to China. This could be because China mainly imports raw materials from the mining sector in South Africa, which Chinese industries use as basic inputs. Generally, the basic inputs tend to be insensitive to price changes.

The graphical evidence shows that China is currently experiencing a slowdown in its economic growth and this might reduce China's imports from South Africa if the slowdown is mainly in industries using inputs that South Africa exports. Nevertheless, the slowdown in China's growth could be a temporary scenario that might not affect South Africa's export to China. In conclusion, South Africa should explore how it can benefit from the high economic growth in China. This could be achieved through negotiating a free trade agreement (FTA) with China.

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Performance Valuation of Romanian Mutual Funds Market during 2007-2015 Using Data Envelopment Analysis Methodology

Ioana Pop-Radu[1]

Abstract: The research enhances the investment funds efficiency analysis within a new founded method that has not yet been applied for the Romanian market. Consequently, the study provides a novelty approach of performance evaluation of mutual funds using the non-parametric method of Data Envelopment Analysis – DEA analysis. This research approach is significant as there were fewer studies that have included the local industry on the map of the global investment funds market. It becomes one of the studies that observes the main development areas of the national investment funds industry. As well, the research outlines the industry's redimensioning trends and sets a pillar for the local literature. Therewith, our approach gains relevance as it provides relevant alternatives in boosting the economy thourgh this investment vehicles – by funding companies and simultaneously by supporting economic growth. This topic is attractive for the latter researches as mutual funds issues (dynamic, market size, market shares) involve a wide areas of study, industries and countries, enhancing a great significance for both academic literature and global capital market as complex connections are involved between capital allocation, financing decisions and economy.

Keywords: investment funds; DEA; performance evaluation; efficiency and risk measures;

JEL Classification: E22; G23; O11; O16

1. Introduction

Since 1990, the investment fund industry has proven to be one of the components with the highest rate of growth of the financial sector in European countries (Enciu, 2003), becoming in almost all European countries an important way of attracting significant share of the household savings.

Our analysis on Romanian mutual funds industry is spread over a 10 years time period, between 2006 and 2015. The yearly selected interval facilitates the observation of the industry's dynamics – i.e. its upsurge between years 2005-2007, its recessive tear in 2008 and also the post-crisis evolution until end of 2015.

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The financial crisis has stimulated investors refocusing from other categories of funds that have gained ground in 2005-2006 towards the monetary market funds. Consequently, the money market funds grew up to a number of five funds in 2009 and to encompass 53,35% of the managed assets. The connection of money market funds with the banking sector (i.e. 5 local banks) has impacted the monetary market revival starting with year 2007. In addition, money market funds like BCR Monetar and Raiffeisen Monetar came to attract the largest number of investors in 2009-2010 (about 6 times higher in 2009, and by 10 times higher in 2010 than in 2008).

Given the complexity, timeliness and the continuous dynamics of investment funds market, this research adds a significant scientific contribution to the theoretical literature and provides realistic solutions for the interested parties. The carried approach creates value added by the fact that our study is a first step in assessing the determinants of market development Romanian investment funds in exposing an assessment model state of the industry and hence presents the current maturity level of the national market. However, the usefulness and originality lies in deepening the study in the Romanian market. More specifically, the undertaken analysis, rigorously structured reveals the local investment funds market attractiveness and sets its place in the global market in line with the countries with medium to high investment attractivity.

2. Evidence on Romanian Mutual Investment Fund Market Context during Analyzed Period

Despite of the global economic recession period, Romanian investment fund industry recorded a growth rate supported in the number of investors, in the number of emerging market funds and as well with the increase of the managed assets. Moreover, starting with 2009, the mutual fund industry in Romania recorded the highest annual growth rates in the total assets, so in 2014 reached to a middle position in the European market, being ranked 13th of 28 European countries.

More exactly, starting with 2008, 11 new mutual funds and 5 new close-end funds gradually attracted new subscribers, so in 2014 reaching to comprise about 309.000 investors within 98 domestic funds (71 open and 27 closed). Besides these domestic mutual funds, AAF reports the presence of a significant number of foreign mutual funds. The number of foreign investment funds has been also annually increasing with an average of 15%, reaching today to equal the number of mutual funds, as evidences by Chart 1.

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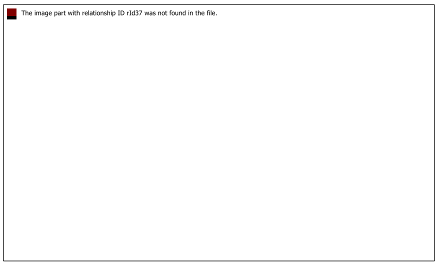
Chart 1. Structure of the Romanian investment fund market

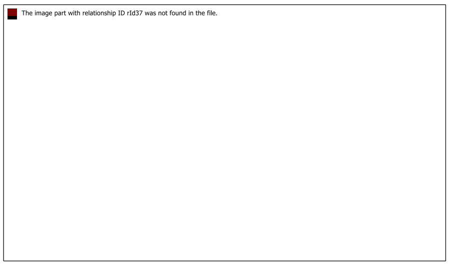
Source: Author's own processing using AAF, CNVM și ASF statistics

Of the total net assets managed by the Romanian investment funds, mutual funds have administered an average quote of 81% throughout the reviewed period, while closed investment funds managed the remaining 15%. Increasing the value of total net assets across the Romanian investment fund industry to 5.622 million RON (about 47 times higher than the total assets amount managed by the 21 funds in 2003), it was done mostly due to the new capital inflows of 2008-2010.

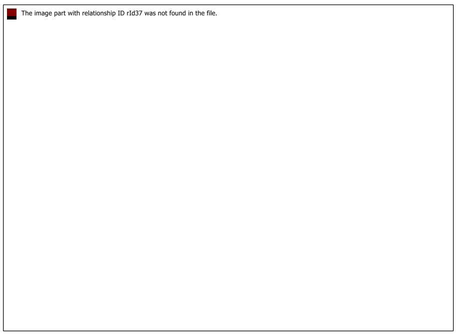
We find that the last 10 years have been very active for the domestic investment funds market. Following the observed ascendend trend – in their number and in the total of the managed amounts - we can say that at the end of 2014, the industry was stimulated by the fact that total assets multiplied 43 times and the number of investment funds increased by 4 times the situation of 2005. Moreover, as proof of the Romanian capital market's increasing attractiveness and openess, a significant number of foreign funds are active lately on the local market (e.g. from a number of two foreign mutual funds in 2005 up to 65 foreign mutual funds in 2014. As a consequence, all capital inflows of 2014 (approximately EUR 1 billion) and total net assets of over 5.7 billion EUR (5.717 million euros), ranked Romania as being the 13th state in Europe, standing at mid-table EFAMA of the 28th Member States.

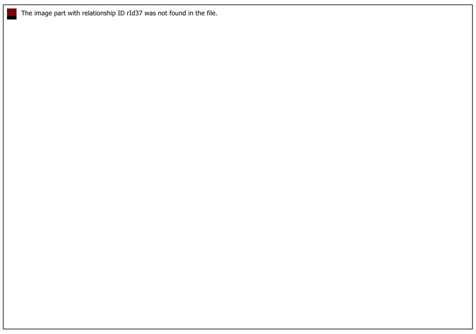
Conducting an analysis of cycles for the Romanian mutual funds market experienced during 2006-2011 period (using quarterly observations), we find a strong cyclical behavior modification of the total assets managed by equity funds and money market funds. Their trends are opposites, while bond funds show low intensity fluctuation and balanced funds retain a steady evolving, as shown in chart 2.



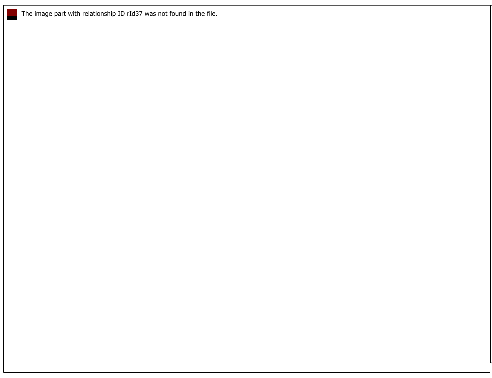


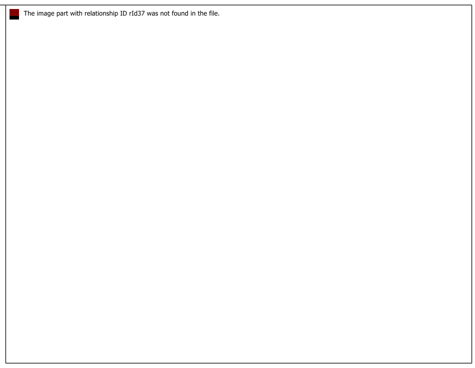
Total net assets per type of funds - European overview



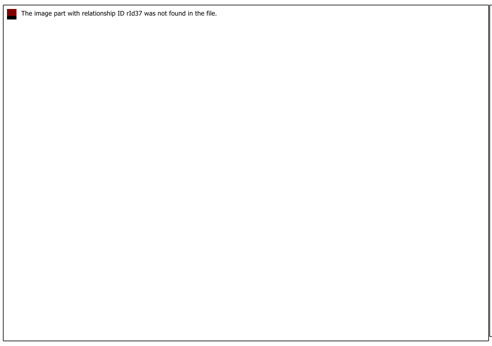


Total net assets per type of funds – ECE overview - 2005 - 2014





Total net assets per type of funds – Romanian market overview



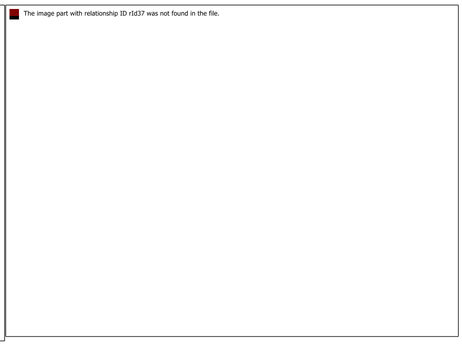


Chart 2. W dynamics of the mutual funds market during financial crisis period. Total net assets per type of funds - global overview

Source: Author's own processing using ICI, EFAMA and AAF data

With different amplitudes, the above records present a W trend for all investment funds in the same period of time i.e. 2008-2011 for global and European perspective, while in case of CEE and Romania's analysis destabilizing impact was registered during 2012. Taking advantage of the expanding equity market, Romanian equity funds were favorites in investors' allocations. Thus, it appears that the most dynamic sector of industry - equity funds - showed a significant tightening in 2007-2009 and 2011-2012, in conjunction with the relaunch of low-risk funds (money market and bond funds) as alternatives to preserve investors' portfolios.

Summarizing the conducted analysis of the Romanian mutual fund industry's indicators during period 2005-2014, the results are the following:

- average investment per investor in the total open-end funds was around 29 thousand RON, with 17% greater than the average achieved in 2010;

- net capital inflow was at 993 million lei, realizing amid underwritings of over RON 5.727 million and repurchases of over 4.734 million lei;

- during 2013-2014, within the Romanian capital market there were 60 active mutual funds of which 20 bonds funds, 18 diversified funds, 17 equity funds, 1 money market funds and as well, other funds classified under "other funds";

- the number of investors in domestic mutual funds has significantly increased in recent years, reaching the level of 271.547 investors in 2013, with 12.46% more than in 2012. Of these, 9822 were institutional investors, increasing by 10.22% compared by 2012;

- the total net assets amount of domestic mutual funds by the end of 2011 was 6.780 million, which means an increase of 19.11% from the level recorded at the end of 2010;

- the growth rate of total assets of mutual funds experienced the same dynamic that the entire market, making it dominate of the market. Here we must recognize the significant share held by the five SIFs;

- under an inflation which fell below 1% in 2014 and quotas of bank interest rates below 2%, mutual funds have continued to develop drawing last year net subscriptions of nearly EUR 1 billion, reaching a level of assets of approximately EUR 4.4 billion and over 300,000 individual and institutional investors;

- the investors distribution among different fund categories shows that there is a concentration of attractiveness to funds with an investment policy geared towards fixed income instruments (e.g. bond funds). According to ASF data (2014), bond funds represented approximately 94.42% of the total assets managed by investment trusts Romanian.

Last 4 years demonstrated that Romanian capital market has joined European competition, reducing the fragmentation of the market from regulatory institutions unification of entities active in the capital market under the FSA. At the same time, adapting national legislation to the European legislative framework has allowed the removal of discriminatory barriers between EU states, allowing access and authorization of foreign investment vehicles on the local market, while outsourcing national funds in the foreign market.

We found that in the last period, the industry investment fund in Romania has registered a sustained rate of growth (both in the number of funds active in the market and the value of total assets managed by them), without being strongly affected by the contagion of latter economic crisis. Thus, despite the inconveniences arising on the global stock market in 2008, Romanian mutual funds recorded increases of over 86% up versus 2005 status, mainly due to rising capital inflows into equity and diversified funds.

3. DEA Empirical Analysis

3.1. DEA Benefits

Empirical investigations using the multifactorial regression models and Data Envelopment Analysis method have substantially complemented our study and their results are significant in outlining the development of Romanian investment funds.

In the first part, the developed econometric model, quantifies and explains the performance of the Romanian mutual funds considering an eight indicators panel data within a monthly evolution between time period 2006-2015, distinctively for equity funds and balanced funds market. The driven results consistently demonstrate a significant positive effect of the NAV persistence, risk and return"s rate, market share and market conditions over the Romanian investment funds total net assets growth. On the other hand, the reduced historical evidences and investor's moderate financial literacy have become factors that are dampening investment funds dynamics.

In assessing the performance of mutual funds, DEA approach consists in building performance indices and scores by incorporating multiple factors of input and output variables within the model. Namely we refer to:

- inputs (fed into the model as variables of effort) i.e. cost of funds (redemption fees, consultancy fees, administrative expenses, operating expenses, etc), measures of risk (market volatility and dispersion of returns) and valuation of funds sizing (market share, the volume of total assets managed and their inflows);

- outputs (described as results) i.e. expected return or expected yield in excess of the risk free rate, stochastic dominance indicators and performance indices (Sharpe, Traynor, Jensen α), all properly correlated with the investment funds type that they are influencing.

Following advantages of DEA usage are appropriate in evaluating the efficiency of mutual fund market:

- non -parametric method based on mathematical linear programming technique, which does not take into account the random estimation errors nor their distribution;

- DEA measures the performance of a fund in relation to its category best performance and reporting them against a "best results frontier border";

- provides information on the causes of inefficiency funds, devising ways to divert funds to optimum efficiency;

- offers improvement alternatives for each input-output variables by marking the efficiency border in relation to the fund with the best results.

The exposed benefits of the DEA method will ensure effective identification of the investment funds in each analyzed category or within the entire market, so it will facilitate the capital allocations orientation toward investment alternatives with the best yields and thus protecting inefficient capital of those variants.

3.2. Data and Methodology Review

In order to define the efficiency of investment funds in Romania per category of funds, we investigated a sample of 82 investment funds (52 mutual funds, 15 closed-end funds and 15 foreign funds) through an input oriented DEA model for which we have considered both hypotheses i.e. with constant returns to scale (CRS) and variable returns to scale (VRS). The selected sample represents 44% of the total number of undertakings for collective investment in the Romanian market during 2007-2015 that includes 65% of the open-end investment funds, 38.46% of close-end funds and a share of 22.39% of foreign investment funds. Instead, by referring to the number of investment funds existing at the level of 2014 (a total of 144 funds), the sample comprises a majority of 56.94%. The efficiency indicators of investment fund records were reported considering the literature evidences (Eling, 2006; Babala et al., 2009; Roman, Suciu, 2013; Manta & Bădircea, 2014) and their dimensioning was defined by cost and risk indicators for inputs and result indicators for the output variable. The inputs of the model are defined by indicators that cover up the vector "risk - cost – size" being symbolized with I1, I2 and I3. They are represented differently for each category of funds in relation to the most representative elements. The outputs of the model are indicators that describe the "effects or the results" which we consider appropriate in sizing the risk-adjusted performance (i.e. Sharpe ratio, Treynor and Jensen) with respect to each of the analyzed funds. (i.e. FDA, FDD, FDO) The structure of the models is briefly evidenced in table 1.

Table 1. Input – output variables of DEA efficiency testing model

FDA efficiency testing model	
Input	**Output**
I1: Cost index *Ic* I2: Risk elements σ^2, β I3: Size measures: *market share, lnNAV, Δ%NAV*	O1: Risk-adjusted performance measured through Jensen/Treynor/Sharpe rates
FDD efficiency testing model	
Input	**Output**
I1: Cost index I2: Risk elements σ^2, β I3: Size measures: *market share, lnNAV, Δ%NAV*	O1: Risk-adjusted performance measured through Sharpe and Treynor rates
FDO efficiency testing model	
Input	**Output**
I1: Cost index I2: Risk elements σ^2 I3: Size measures: *market share, lnNAV, Δ%NAV*	O1: Risk-adjusted performance measured through Sharpe rate

Source: Author's own processing

By analyzing the correlation matrix of the risk and cost indicators, we found that there is a strong correlation between them which favors the construction evaluation model taking into account a 4 indexes structure based on three inputs and one output.

To establish a common evaluation score, we proceeded to use a measurement scale in order to define the effectiveness (Table 2.):

Table 2. Efficiency scale

Calculated scores	Evaluation	Symbol
SE ≥ 80%	High efficiency	
80% ≥ SE ≥ 50%	Above average efficiency	
SE ≤ 50%	Poor efficiency	

Source: Author's proposal

Assessing the effectiveness of Romanian investment funds during 2007-2014 period needed a divided analysis within three groups e.g. mutual funds category (i.e. UCITS), close-end funds (non-UCITS) and foreign funds investment funds (abr. FS) all being present and authorized to operate on the market in Romania. By applying DEA evaluation model of efficiency the analysis will be orientated towards identifying the best performing fund category and the funds with the best results obtained during the last 7 years for each category of these three.

3.3. Results

The usage of DEA methodology applied within input oriented variant has outlined, as expected, the same trend observed in assessing the performance of funds. The mutual funds' performance is marked by the financial crisis between the years 2008- 2011, thus, amid retraction of the market the efficiency scores follow the same trend.

Table 3. Efficiency scores per investment funds categories

Ani	OPC Romania				OPCVM				AOPC				FS			
	CRS	VRS	SE	SI	CRS	VRS	SE	SI	CRS	VRS	SE	SI	CRS	VRS	SE	SI
2007	100%	100%	100%	0%	100%	100%	100%	0%	100%	100%	100%	0%	100%	100%	100%	0%
2008	0%	19.30%	0.10%	19%	0%	25.10%	0.00%	25%	0%	83.90%	0.12%	84%	0%	20.00%	0.00%	20%
2009	0.20%	88%	0.20%	88%	0.10%	100%	0.10%	100%	0.00%	87%	0.00%	87%	0.30%	100%	0.30%	100%
2010	55.10%	59%	86.30%	4%	45.30%	100%	45.30%	55%	45.80%	100%	45.80%	54%	79.90%	100%	79.90%	20%
2011	5.80%	84.60%	6.40%	79%	2.40%	100.00%	2.40%	98%	2.20%	49.10%	4.48%	47%	17.20%	100.00%	17.20%	83%
2012	11.50%	62.90%	13.20%	51%	5.90%	61.90%	9.53%	56%	3.30%	57.80%	5.71%	55%	44.60%	100.00%	44.60%	55%
2013	71.50%	100%	71.50%	29%	42.30%	100%	42.30%	58%	37.20%	65%	57.23%	28%	100.00%	100%	100.00%	0%
2014	51.90%	100%	51.90%	48%	35.60%	100%	35.60%	64%	6.00%	70%	8.53%	64%	91.30%	100%	91.30%	9%

Source: Author's own calculations

DEA investigation reached to report the following remarks:

- effectiveness analysis of the collective investment undertakings in Romania during 2007-2014 was the most fruitful period time in terms of the overall market results, while 2009 and 2011 generated the highest scores of inefficiencies;

- the latter financial crisis has opened investment fund market in Romania for foreign markets as international investment funds succeeded to manage a great part funds over the local market. Pioneer funds are the best example of foreign investment funds that have been very active within the domestic market during 2008-2014 offering high return rates;

- economic decline of 2009 (-6%) has not fully destabilized the investors' confidence in the Romanian collective investment schemes, keeping for them an average level of efficiency of over 80 %;

- closed funds shares, except SIF and FP, proposed also good yields like Certinvest Arta Romania, Certinvest Leader, Hermes and Matador, being able to offer better yields than common funds (following as if the years 2009 and 2013).

- compared with the best yields we identified the followings:

Mutual funds	*Best performance funds*
Equity funds	Carpatica Stock, OTP Avansis şi Erste Equity Romania
Balanced funds	BT Clasic, Carpatica Global, OTP Balansis
Money market funds	Bancpost Plus, iFond monetar, Erste Money Market RON
Bond funds	BT Obligaţiuni, Certinvest Obligaţiuni, Orizont şi Stabilo

- mutual funds have been pretty volatile being marked by a strong dropdown in 2009 and 2011, but have managed to adjust a place on the efficiency frontier of the Romanian market above average.

3.4. Research Limits

Due to the complexity of efficiency concepts, the literature has not reached to identify and to appreciate the complete economic efficiency through a single indicator. Therefore, our results will be limited to these two methodologies and will cover only the Romanian market segment of mutual funds during the analyzed period.

4. Final Remarks

Last 10 years have proven that Romanian capital market has joined European competition by reducing its fragmentation by unifying the regulatory institutions under the FSA (starting with 2011). Adapting national legislation to the European legislative framework has allowed the removal of discriminatory barriers between EU states, allowing access and authorization of foreign investment vehicles on national territory at the same time national funds have been outsourced in the foreign market. Consequently, the Romanian investment funds market has been sustained with a constant growth rate both in the number of active funds and in terms of the total managed assets, without being affected the by the financial crisis contagion.

Although the macroeconomic context has imposed a resizing effect to the national market of investment funds, we have identified that the market is following an upward trending to maturity. By acceding its status from frontier market into emerging area, Romanian mutual fund market was reformed and as a consequence started to gain capital within market competition.

The undertaken documentation during this research period has shaped a comprehensive study on evaluating the Romanian mutual fund market size and identifying the potential growth of this industry. In our opinion, the Romanian market offers various opportunities as it provides positive signals in attracting investors from both local and foreign markets as long as the domestic market was preferred and halted during recession time against other developed economies.

Motivated by the fact that not very numerous researches have been carried out over Romanian mutual fund market, we have undertaken this current study in terms of evaluating the radiography of the domestic market in order to understand the implications of these investment vehicles. Thus, the conducted research over the last 10 years' evidences is significantly contributing to mutual funds research literacy within the following inputs:

- applying and adapting a consistent and wide sample of methods and quantitative techniques for sizing the Romanian mutual fund market, testing and evaluating performance and identifying the main determinants of investment funds development;

- aligning specific methods of microeconomic efficiency analysis i.e. DEA to assess the best performance alternatives as well as identifying potential optimal portfolios;

- analyzing the most recent data derived from statistical evidences of national regulatory authorities. The included data are comparable to European and international evidences, being reported to statistics of EFAMA, EVCA and ICI.

Under these circumstances, the practical approach of this research is highlighted by assessing the internationalization degree of the Romanian mutual funds market, evaluating its effectiveness analyzing the main driving factors and inhibitors of the investment fund industry in Romania.

The conducted research suggests considering the following aspects in order to attract investors to support national mutual fund market and implicitly the local economy:

- in the coming period, especially on a medium term, i.e. during 2015-2017 period, the major challenge will continue to constitute the national capital market anchoring to the international market while simultaneously supporting the revival of lending activity and rebuilding investors trust into these investment vehicles;

- attracting both domestic and foreign capital within the local investment market becomes the real path towards the consolidation of investment funds while supporting market competition;

- promoting investment funds to individual investors as an alternative to traditional saving forms;

- supporting an active stock market that maintains a direct interaction between capital owners and those in need of resources for business development;

regaining investors' trust in stock market instruments while promoting caution and reluctance of both investors and national issuers as these aspects significantly restricts the liquidity of the market;

- supporting a universal stock market as the next step of market consolidation. Given that the current liquidity is increasing and macroeconomic balance and economic growth are above the EU average, Romania's stock market prefigures truly stable conditions.

We acknowledge that this research is restricted to local market and its results cannot be extended to other markets, but it provides a comprehensive and useful guidance material to anyone interested in investments. At the same time, the theme is attractive to all specialists and this research is foreshadowing a complex radiography of the national investment fund market.

As this topic will continue to be debated, our future studies could be directed towards widening the research on the determinants of efficiency and inefficiency. In this way, we can validate if the current results are relevant and the observed units are truly efficient or inefficient in relation to other investment vehicles.

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A Panel VECM Analysis of Competition, Access to Finance and Economic Growth in BRICS

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Abstract: This study examines the interplay between competition, access to finance and economic growth in Brazil, Russia, India, China and South Africa (BRICS). It adds to the ongoing debate on the interdependence that exists among competition, access to finance and economic growth by exploring their causal relationship using the panel Vector Error Correction Model. The results obtained suggest that there is a long run causality running from the access to finance (proxied by interest rate spread) and competition to economic growth. This is not surprising because it is generally expected that the interplay between competition and access to finance has some influence on the growth of any economy. The study did not find any evidence to support any long run causality running from economic growth and competition to access to finance. Neither was there any evidence showing any causal relationship between economic growth and access to finance and competition.

Keywords: economic growth; competition; access; finance; panel VECM

JEL Classification: G32

1. Introduction

Bank competition, access to finance and economic growth have gained prominence in literature. (Beck, 2011; de Guevara & Maudos, 2011; Zhuang et al., 2009) Competition among banks opens up the banking landscape which should lower cost of funding and at the same time increase the availability of banking facilities for better access to the real sector of an economy. These are the principles that underline the market power hypothesis and the finance-growth model. (Beck, 2013; Beck, Demirgüç-Kunt, & Maksimovic, 2004; Denicolò & Zanchettin, 2010; Schumpeter, 1911) It is therefore expected that a country's economy should grow relative to the extent to which competition has been able to make finance available for investment business purposes.

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Brazil, Russia, India, China and South Africa were named BRICS by Jim O Neil in 2001. South Africa officially joined BRIC in December 2010 to form BRICS. BRICS is considered to be a formidable economic block given the current pace of their growth. It is forecast that by 2050 the combined wealth of BRICS may surpass the economies of the 7 richest economies (known as G7) of the world put together. According to Hawksworth and Cookson (2008), the GDP at purchasing power parity (PPP) of Brazil, Russia, India, China and South Africa will be 3.1%, 3.5%, 5.0%, 4.6% and 3.3%, respectively, exceeding the forecast G7 average of 1.9% by 2050.

BRICS countries have the following common denominators; their large geographical and demographic sizes, relatively fast-growing economies and their significance in regional and international affairs. In addition, they aim to harness alternative sources of finance for development to increase trade amongst member states while diversifying their economies to achieve development both domestically and internationally. The combined BRICS GDP account for approximately 25% of world GDP, which further showcases how potentially important this grouping is to the world economies.

We use data from BRICS countries as being representative of emerging markets over the period 2000 to 2015. BRICS represents an economic block of emerging market countries which have common economic agreements such as a preferential trade agreement and improving the institutional environment. (Kwenda, Oyetade, & Dobreva, 2017) BRICS countries are increasing their cooperation, promoting trade and investment and increasing intra-foreign direct investment (FDI). These countries hold more than 30% of global financial reserves, and have witnessed a threefold increase in FDI among themselves. (Wilson, Purushothaman, & Goldman, 2003) Furthermore, these countries have shown interest in promoting financial sector development, resource mobilisation and increasing access to finance. For example, in 2015 BRICS countries launched the New Development Bank (NDB) to mobilize resources for development projects; this is an important step in coordinating development within member countries. In addition, the BRICS group is well-organized and committed to reforming their financial sectors (Chittedi, 2010) through reducing governmental intervention in national financial sectors, privatizing banks and liberalizing their stock markets.

This study analyses the interplay between bank competition, access to finance and economic growth in the economic block of emerging market countries that have reformed their financial sectors, mobilized resources and increased cooperation with the aim of contributing to the 2050 growth forecast. It provides answers as to whether there is need for further strengthening of these countries' financial institutions for the purpose of achieving the 2050 forecast.

The study contributes to extant finance-growth nexus literature by offering new evidence on the interplay between bank competition, access to finance and economic growth. Second, from a methodological perspective, the current work improves on previous work by using the panel Vector Error Correction Model (panel VECM). This study, to the best of our knowledge is the first one to explore bank competition, access to finance and economic growth nexus using the panel VECM technique among BRICS economies. Our results show that competition and access to finance collectively cause economic growth of BRICS in the long run and the disequilibrium in the system being adjusted at the speed of 7.62%. Therefore, we conclude that formal finance and competition in the banking sector have been largely instrumental in the growth of these economies and recommend that while alternative source of financing may be plausible, policies that will further strengthen the formal financial system must be enhanced and consolidated.

The rest of the paper is structured as follows: Section 2 presents the literature review. The data and methodology are discussed in Section 3. Section 4 presents and discusses the estimation results and robustness checks. Section 5 concludes the paper.

2. Literature Review

The relationship between access to finance and economic growth as well as between competition and economic growth are well-captured in literature. The finance-growth hypothesis and information hypothesis dominate the theories underscoring the interaction between access to finance and economic growth providing divergent views. Proponents of the finance-growth model argue that finance is necessary for economic growth. It is rooted in the supply-leading hypothesis (Ang, 2008; Beck, 2013; King & Levine, 1993; Levine, 2005; Patrick, 1966; Schumpeter, 1911, among others) that emphasized the importance of access to formal finance for economic development. The market power hypothesis predicts that low competition adversely affects access to finance which consequently reduces economic growth. This industrial organization theory posits that the cost of finance reduces with improved efficiency in a competitive banking environment which arguably increases access to finance given the drive to innovate and expand services in order to remain in the market. The theoretical model of Denicolò and Zanchettin (2010) substantiates this argument, where in modelling the effects of competitive selection process on economic growth submitted that the market selection effects of competition boost innovation incentives hence more access to finance with competition in the banking system.

The information hypothesis, however, has contested the general market power theorem that competition is beneficial to economic growth in the sense that market power reduces access to finance that hampers the growth of industries. According to the information hypothesis theory, competition reduces access to finance because of the existence of information asymmetry and agency costs which make it difficult for banks to internalize the returns from investing in lending. (Léon, 2015) Stiglitz and Weiss (1981) argued that the risk of adverse selection and moral hazard is increased with information asymmetry resulting in credit rationing. Thus, the information hypothesis therefore insists that market power is necessary to ease the blockage that is occasioned by information asymmetry between borrowers and lenders through impacting both monitoring and screening activities.

Attempts to empirically test these theories have resulted in varied conclusions. Beck et al. (2004) investigated the effects of the banking market structure on the firms' access to bank finance in 74 countries using the ordered Probit model and concluded that competition improves access to finance. Their results provided evidence which showed that firms face more obstacles in accessing finance in more concentrated banking industry. However, they found this relationship to be influenced by the level of economic and institutional development. In an earlier study of the extent to which competition in credit market helps in determining the value of lending relationship, Petersen and Rajan (1995)'s conclusion did not support the market power hypothesis theory. Using the Tobit regression with two-sided censoring to analyse data collected from 3404 US firms survey for the period 1988 and 1989, as they found better credit to be associated with concentrated banks. They argued that creditors are more likely to finance credit-constrained firms when credit markets are concentrated because it is easier for these creditors to internalize the benefits of assisting the firms. However, Love and Martínez Pería (2014) affirmed the findings of Beck et al. (2004) in their study of 53 countries between 2002 and 2010. In exploring the impact of bank competition on firms' access to finance using the pooled ordinary least squares (OLS), they found that low competition hampers access to finance, although their results suggest that competition impact is influenced by quality and scope of credit information sharing mechanism, as better credit information mitigates the damaging effects of low competition. Meanwhile, Diagne (2011) rather found an ambiguous relationship between competition and firms' access to finance in his study of West African Economic and Monetary Union (WAEMU) area. In a fixed effects panel data analysis of WAEMU using interest rate spread for competition and current GDP per capital, Diagne (2011) investigated the effects of bank market entry of price lowering and access to finance on individual firms and found evidence to conclude that competition failed to improve access to finance, but did for medium and large firms.

Studies that have focused on competition and economic growth relationship are quite positive with pockets of unclear results. Investigating the causality among bank competition, financial innovation and economic growth in Ghana for the period 1990-2009, Adu-Asare Idun and QQ Aboagye (2014) surrogate the Herfindahl-Hirschman Index (HHI) for competition and the natural log of GDP for economic growth. Using the Granger causality test, bound test Auto Regressive Distributive Lag (ARDL), the authors found a long run positive relationship between competition and economic growth, but negative relationship between them in the short run. Thus, suggest that competition in the banking system does not amount to an immediate gain for the economy as only a sustained competitive banking system will make the difference. This is in tandem with an earlier Ghanaian study that covered the same period, method and variables by Asante, Agyapong, and Adam (2011). They had found that competition granger causes economic growth and as such concluded that long run competition is positively related to growth. Whether competition boosts economic growth was the thrust of a panel of 10 African countries study by Banya, Banya, Biekpe, and Biekpe (2017). Employing the Boone indicator as a competition measure and growth rate of per capita GDP as a measure of economic growth for the period 2005 to 2012, and fixed and random effects panel data analysis, they provided evidence to show that competition in the banking system improves the economic growth of the countries studied. In a related study, Man (2015) confirms the competition growth hypothesis in a panel data analysis with nonparametric Kernel regression of 187 countries for the period 1988-2007. Man (2015) explored the possibility of a non-linear relationship between competition and economic growth by surrogating net interest margin for competition and average growth rate of real GDP for economic growth. He found that bank competition fosters growth and also found limited evidence to support nonmonotonicities such as inverted u-shapes, hence concluded a positive relationship between the duo. In a regional study of the effects of competition on economic growth, Valverdie, Humphrey, and Fernandez (2003) found rather an unclear relationship between competition and economic growth. Their conclusion was based on the Granger causality between competition by Panzar-Rosse H-Statistics and Lerner index and regional economic growth over the period 1986-1998 in five large regions in Spain. The authors found that the difference in competition has no link with improved regional growth and so could not arrogate improvement in competition with economic growth in the area.

In terms of industrial growth, several studies have investigated the link between competition and the growth of firms given the links the growth the latter has with the growth in an economy and have generally come to the conclusion that they are positively related. For instance, Claessens and Laeven (2005) studied the relationship between competition and industry growth of 16 industrial based countries for the period 1980-1990 and found that competition makes financially dependent industry grow faster. Furthermore, Caggiano and Calice (2016) support this argument with an empirical study of 23 Gulf economies manufacturing sector for the period 2002-2010 with the findings that financially dependent firms grow faster with competition in bank. They further stressed that less activity restriction, better credit information and greater institutional effectiveness reduce the damaging effects of low competition in banks.

The other aspect to address is whether access to finance affects economic growth as theories suggests. The growing empirical literature in this respect is not inconclusive. Access to finance, an important force to cross-country non-convergence growth in an economy, was the finding of Abdmoulah and Jelili (2013) who explored a non-linear relationship between access to finance and economic growth panel of 144 countries for the periods 1985-2009. They used a dynamic panel data analysis with the generalized method of moment (GMM) and threshold effects to analyse domestic credit to private sector (DCPS) as a percentage of GDP for access to finance and average growth of GDPPC GDP per capita for economic growth to arrive at the positive conclusion. This confirmed the results of an earlier panel vector auto regression (VAR) analysis of 109 developing and developed industrial countries conducted by Calderón and Liu (2003) for the period 1960-1994. Using similar data, Calderón and Liu (2003) investigated the direction of causality between financial development and economic growth and found a reverse causality between financial development and economic growth. In a similar study, but with ARDL, Iyoboyi (2013) conducted an empirical investigation of the impact of financial deepening on economic growth in Nigeria during 1981-2010 and concluded that a bidirectional causality between access to finance and economic growth existed. Meanwhile, P.O. Demetriades and Hussein (1996) applied VAR and error correction model (ECM) to financial development and real GDP in 16 countries and concluded that the relationship between access to finance and growth is unclear. This is against the backdrop that their results provided little evidence to support the fact that access to finance leads to growth as well as bidirectional or reverse causality between the variables even as causality patterns vary across countries, they argued. Similarly, Hassan, Sanchez, and Yu (2011)'s conclusion on the role of financial development in enhancing growth of low- and middle-income countries was mixed. They analyzed data on annual GDP per capita growth and DCPS as a percentage of GDP using OLS with robust-heteroscedastic error, weighted least square regression and VAR for 168 countries for the periods 1980-2008. They found a positive relationship between access to finance and economic growth in developing countries. Though they found a reverse causality between economic growth and access to finance in much of the region, they argued that the relationship is unidirectional in the two poorest countries. Furthermore, Inoue and Hamori (2016) found that access to finance to be significant and robust in explaining economic growth in Sub-Saharan Africa in a GMM analysis of the nexus for the period 2004-2012. An early single country study of the causal relationship between financial development and economic growth in Korea for the period 1971-2002 yielded a positive relationship as well.

(Yang & Yi, 2008) On the contrary, a country study of Italy by Capolupo (2017) over the period 1965 to 2009 found evidence to conclude a negative relationship between access to finance and economic growth. He investigated the finance-growth nexus in Italy using OLS, two-stage least squares (2SLS) and instrumental variable (IV) regression to analyse DCPS as a percentage of GDP for access to finance and rate of growth of real income per capital to surrogate economic growth.

Notably, Law and Singh (2014) argued with evidence from 87 developed and developing countries for the period 1980-2010 that threshold effects exist in finance growth relationship, that is, finance is beneficial to growth only but to a certain extent. Hence, they argued for an optimal finance in an economy as more finance is not necessarily good for economic growth. Firm-level studies of Rahaman (2011) in investigating why some firms grow faster than the others in London and Ireland explored data from 5214 firms for the period 1991-2001 and concluded that financing has a significant influence on firms' growth.

Even though literature is rather inconclusive as regards the relationship between competition and access to finance on the one hand and competition and economic growth as well as access to finance and economic growth on the other hand, there appeared to be a large pool of evidence supporting a positive relationship between among these pairs of variables resulting in a growing consensus. To the best of our knowledge, no literature has explored these relationships in the individual or in a pool of the BRICS countries. Given the strategic importance of these countries in the emerging market world that have prompted researchers alike to investigate factors that have placed these countries on the stead of economic prosperity, this study seeks to fill the gap in literature of what role access to finance and competition have played in the economies of the economic block.

3. Methodology

3.1. Data and Variable Description

Data for BRICS countries; the GDP annual growth, interest rate spread and domestic credit to private sector were sourced from the World Bank Development Indicators (WDI) for years 2000 to 2015. Data for interest rate spread for India were not available on WDI and were sourced from Asian Development Bank by collecting data on deposits and lending rates and netting them following WDI definitions as we could not get an already computed IRS for India even on the Asian Development Bank (ADB). As our data is for short time period for the purpose of panel VECM analysis we carried out frequencies conversion by converting the data for each variable per country on a quarterly basis based on the work of,[1] IRS has been used in literature to proxy the competitiveness of the banking sector, as it is believed that a competitive banking sector will be reflected in how much margin a bank will be able to charge higher and above its deposits rate. (Diagne, 2011; Man, 2015) Literature used DCPS, domestic credit to private sector to surrogate access to finance in most economies[2]. DCPS defines the proportion of credits granted per period by banks to the private sector to finance the real sector of the economy.

3.2. Data Analysis

The aim of this study is to investigate the existence of a causal relationship among competition, access to finance and economic growth in BRICS based on the theoretical underpinning of the three concepts in literature. A lot has been done in this area that has seen varied methods explored. These methods include OLS (Caggiano & Calice, 2016; Capolupo, 2017; Claessens & Laeven, 2005; Diagne, 2011; Love & Martínez Pería, 2014), Tobit and Probit regressions (Beck et al., 2004; Petersen & Rajan, 1995), Granger causality with ARDL (Adu-Asare Idun & QQ Aboagye, 2014; Asante et al., 2011; Iyoboyi, 2013; Valverdie et al., 2003), fixed and random effects (Banya et al., 2017; Diagne, 2011), 2SLS, IV regression and GMM,[3] PVAR, VAR and ECM (Calderón & Liu, 2003; P. O. Demetriades & Hussein, 1996). These methods have their merits and shortcomings. This study seeks to employ the panel VECM to study the causality among these variables in BRICS. This is borne out of the fact that panel VECM, according to Rahman and Mustafa (2015), has the ability to differentiate short and long run relationships while producing more efficient estimates than ordinary VAR. It has also been adjudged to automatically convert variables to first difference with E-Views. Moreover, the error correction term (ECT), which is the cointegration term built in VECM makes it possible for deviation from the long-run equilibrium to be corrected with a gradual speed of short-run adjustment.

3.2.1. Model Specification

We follow Wang, Zhou, Zhou, and Wang (2011) and Mahadevan and Asafu-Adjaye (2007) to test for causal relationship between economic growth, competition and access to finance among BRICS countries. Standard procedures require us to conduct panel unit root test, panel cointegration test, panel VECM and lastly Wald test.

[1] See (Borys, Horváth, & Franta, 2009; Cheng, 2006; Kutu & Ngalawa, 2016; Ngalawa & Viegi, 2011).

[2] See, (Adu-Asare Idun & QQ Aboagye, 2014; Capolupo, 2017; Claessens & Laeven, 2005; Law & Singh, 2014).

[3] See (Capolupo, 2017; Inoue & Hamori, 2016; Law & Singh, 2014; Rahaman, 2011) among others).

The relationship between, economic growth, competition and access to finance among BRICS countries can be expressed as;

$$\boldsymbol{gdpg_{it}} = \acute{\eta}_{it} + \boldsymbol{\xi_{1i} irs_{it}} + \boldsymbol{\xi_{2i} dcps_{it}} + \boldsymbol{\varepsilon_{it}} \text{ ....Equation 1}$$

Where $i = 1, 2 \ldots N$ denotes the BRICS countries in the panel, $t = 1, 2. \ldots \ldots t$ equals the time period, $gdpg$ is gross domestic product annual growth, representing economic growth of BRICS countries, irs is interest rate spread which is a competition measure and $dcps$ is domestic credit to private sector, a proxy for access to finance in the various BRICS economies. The task is estimating the parameters in the model which are the respective long run elasticity estimates of regulation, competition and stability and undertake some panel test of causality relationship between the variables.

3.2.2. Unit Root Test

First, test for the order of integration in the economic growth, competition and access to finance will be performed. This will be done by panel unit root test considering the IPS test (Im, Pesaran & Shin, 2003), LLC test (Levin, Lin, & Chu, 2002) and the augmented Dickey-Fuller (ADF) test. The essence is to ensure comparison and validation of results with a view to further engender consistency. (Demetriades & Fielding, 2012; Ishibashi, 2012)

3.2.3. Cointegration Test

Where the unit root test gives variables that are of order one integration, then cointegration analysis will be applied to determine the presence of a long run relationship among the variables following the Maddala and Wu (1999) approach to identify the number of cointegration relationships between the three variable in the study. Maddala and Wu (1999) relied on the Johansen (1988) test for cointegration to consider the suggestion of Fisher (1932) to combine trace test and max-eigen statistics to test for cointegration in full panel by combining individual cross sections for cointegration. Johansen Fisher Panel Cointegration test type aggregates p-values of individual Johansen maximum likelihood cointegration test statistics. (Maddala & Kim, 1998; Maddala & Wu, 1999) This test, unlike Pedroni (2004) and Kao (1999) whose cointegration tests are residual based taken from Engle Granger two step test that are both one way cointegration, is system based cointegration for the whole panel. This will be based on the following model;

$$\boldsymbol{gdpg_{it}} = \boldsymbol{\beta_i} + \boldsymbol{\zeta irs_{it}} + \boldsymbol{\xi dcps_{it}} + \boldsymbol{\varepsilon_{it}} \text{............... Equation 2}$$

Where; $gdpg, irs, and\ dcps$ are the variables described in $Equation$ 1 above.

3.2.4. Estimation Technique

Finally, the direction of causality will be identified by estimating the panel-based VECM and used to conduct the causality test on the variables relationship. The empirical model is represented by the following VECM equations;

$$\Delta \mathrm{gdpg}_{it} = \lambda_{1j} + \sum_{k=1}^{m} \varphi_{11ik}\, \Delta \mathrm{gdpg}_{it-k} + \sum_{k=1}^{m} \varphi_{12ik}\, \Delta \mathrm{irs}_{it-k} + \sum_{k=1}^{m} \varphi_{13ik}\, \Delta \mathrm{dcps}_{it-k} + \psi_{1i}\varepsilon_{it-1} + \mu_{1it} \text{...........Equation 3}$$

$$\Delta irs_{it} = \lambda_{2j} + \sum_{k=1}^{m} \varphi_{21ik}\, \Delta irs_{it-k} + \sum_{k=1}^{m} \varphi_{22ik}\, \Delta gdpg_{it-k} + \sum_{k=1}^{m} \varphi_{23ik}\, \Delta dcps_{it-k} + \psi_{2i}\varepsilon_{it-1} + \mu_{2it} \text{ ....Equation 4}$$

$$\Delta \mathrm{dcps}_{\mathrm{it}} = \lambda_{2\mathrm{j}} + \sum_{\mathrm{k}=1}^{\mathrm{m}} \varphi_{31\mathrm{ik}}\, \Delta \mathrm{dcps}_{\mathrm{it-k}} + \sum_{\mathrm{k}=1}^{\mathrm{m}} \varphi_{32\mathrm{ik}}\, \Delta \mathrm{irs}_{\mathrm{it-k}} + \sum_{\mathrm{k}=1}^{\mathrm{m}} \varphi_{33\mathrm{ik}}\, \Delta \mathrm{gdpg}_{\mathrm{it-k}} + \psi_{1\mathrm{i}}\varepsilon_{\mathrm{it-1}} + \mu_{1\mathrm{it}} \text{...........Equation 5}$$

Where Δ denotes first differences and k is the optimal lag length to be determined. The Equations (3) - (5) allow this study to test for short run and long run causality. The presence or absence of a long run causality is determined by investigating the significance using the probability value on the coefficient, ψ, of the error correction term, $\mathcal{E}_{it-1}$ in the equations.

4. Empirical Results

The results of our long run and short run causality tests among economic growth, competition and access to finance among BRICS countries using panel VECM are presented in this section. The usual procedure is to start by testing for presence of unit root which must be stationary at order 1 as a precondition for testing for long run cointegration.

Table 1. Summary Statistics

	DCPS	GDPG	IRS
Mean	62.89788	5.323348	10.89932
Median	52.61074	5.553772	4.924115
Maximum	161.8798	14.57967	45.68628
Minimum	12.00273	-8.660945	2.324885
Std. Dev.	33.97067	3.827615	12.43641
Skewness	0.927343	-0.577145	1.58694
Kurtosis	2.943924	4.105132	3.902529
Jarque-Bera	45.9067	34.0494	145.1744
Probability	0.00000	0.00000	0.00000

Sum	20127.32	1703.471	3487.781
Sum Sq. Dev.	368128.1	4673.553	49337.95
Observations	320	320	320

Source: Authors' estimation, 2017

This process is followed by the VECM for long run analysis and finally Wald test for a short run causality. In addition to these, we present results of summary statistics, correlation between our variables as well as some post estimation tests. Table 1 shows the summary statistics of the variables considered in this study. These results indicate that the variables are fairly normally distributed given the Jarque-Bera statistics, and having a skewness around -1 and 1 is considered symmetric as well as Kurtosis around 3.0. The Spearman's rank correlation between the variables seems quite significant especially between DCPS and IRS which is quite high and negative. This suggests an inverse relationship between DCPS and IRS. This is unexpected as increased competition is deemed to be favourable for access to finance as this has the tendency to reduce the margin between the lending and the deposit rate. But this result may subsist where there is concentration and banks possess market power with the ability to widen this margin between lending and deposit rates. An increase in the distance difference between lending and deposits rate may cause dissaving which may eventually reduce how much is available for credit. The same explanation may suffice for the negative correlation between IRS and GDPG. As expected, the correlation between DCPS and GDPG is positive implying that increasing access to finance available to fund the real sector of an economy should have a positive and significant influence on the economic growth. Further analysis in this study will clarify this relationship.

Table 2. Spearman's Rank Correlation

	DCPS	GDPG	IRS
DCPS	1.000000000	0.179988208	-0.745248563
GDPG	0.179988208	1.000000000	-0.351263369
IRS	-0.745248563	-0.351263369	1.000000000

Source: Author's estimation, 2017

For consistency and comparison, we used three approaches for testing panel unit root, IPS, LLC and ADF, see Table 3 below. The results of IPS and ADF are not significant for both GDPG and DCPS at levels I(0) signifying the presence of unit root. In the case of IRS, while IPS and ADF are both not significant at I(0), we found LLC to be significant at less than 5%. Given the ratio of significance, we could conclude that this variable has unit root at I(0) and thus not significant at levels. Overall, GDPG, IRS and DCPS are all non-stationary at I(0) and must be tested at first difference, I(1). At I(1) all our variables are stationary for all the approaches employed signifying absence of unit root at order 1 and meeting the conditions for testing for long run cointegration tests.

To test for long run cointegration among our variables, we adopted the system based Fisher type Johansen panel cointegration test. The use of the Fisher type Johansen panel cointegration tests is borne out of the motivation stated in the foregoing. In Table 4, the corresponding probabilities of the Trace statistics and the Max-Eigen tests show that there are at most one and at most two cointegration equations (CEs) among GDPG, IRS and DCPS. This is true as we could not accept the null hypothesis of the none that says there is none number of cointegration equations among the variables. Hence, we support the evidence suggesting the existence of a stable long run relationship among the variables. This validates the use of panel VECM to better capture and predict results about causality. In Table 5 below are the results of our Panel Vector Error Correction estimates for the cointegrated equation, since the

Table 3. IPS, LLC and ADF Panel Unit Root Test

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Source: Author's estimation, 2017

Table 4. Johansen Fisher Panel Cointegration Test (GDPG, IRS DCPS)

The image part with relationship ID rId37 was not found in the file.

Source: Author's estimation, 2017

objective of this study is to determine whether there is the existence of a long-run causality among the variables being considered in BRICS. However, there are two implications to the coefficients of the cointegration equations in Table 5, one could be that there would be a long run causality and the other would mean speed of adjustment towards long run equilibrium. The guideline is, when the cointegration equation's coefficient is negative and significant, there is a long run causality running from the independent variables to the dependent variable as well as speed of adjustment towards long run equilibrium. Our analysis has three models, based on the dependent variable corresponding to each of the three variables. For the first model where GDPG is the dependent variable, we found the cointegration equation's coefficient to be negative and significant at -0.076187 giving a probability value of 0.0000. The implication of this is that there is a long run causality running from the independent variables, IRS and DCPS to the dependent variable GDPG. This is not surprising as we expected the interplay between competition and access to finance to have some influence on economic growth. The result is consistent with finance-growth and the industrial organisation market power hypothesis. It also supports the findings of Banya et al. (2017), Caggiano and Calice (2016), Inoue and Hamori (2016), Rahaman (2011), among others who found that competition as well as access to finance to cause economic growth.

The second implication is the error correction term implying that the speed of adjustment is 7.62% annually. Hence, we can say that the whole system is getting back to long run equilibrium at the speed of 7.62% annually. This meant that there has been some disequilibrium in the past that is now been corrected at the speed of adjustment stated.

Table 5. Vector Error Correction Estimates

	Coefficient	Standard Error	t-Statistic	Prob.	Dependent variable
CointEq1	-0.076187	0.017976	-4.238268	0.0000	GDPG
CointEq2	-7.44E-05	0.000555	-0.133954	0.8935	IRS
CointEq3	-0.001232	0.000841	-1.465892	0.143	DCPS

Source: Author's estimation, 2017

In the case of Models 2 and 3, even though their error correction terms are negative, they are not significant at 0.8935 and 0.143 for IRS and DCPS dependent variables respectively. Therefore, we do not have any evidence to support any long run causality running from GDPG and DCPS to IRS, neither can we say the same for IRS and GDPG to DCPS. These also do not have any implication for speed of adjustment.

The final procedure is to test for a short run causality using Wald test as set out in Table 6 below. The results of the tests for the three models show that there is no short run causality running from the independent variables to the dependent variables respectively. For want of generality, Model 1 shows there is no short run causality running from IRS and DCPS to GDPG, for Model 2, GDPG and DCPS to IRS and Model 3, IRS and GDPG to DCPS. This is a validation of our panel VECM model. Overall, the summary of the models is that there is a long run causality running from IRS and DCPS to economic growth in the BRICS countries. In other words, access to finance and bank competition can cause their economic growth in the long run.

Table 6. Wald Test

Test Statistic	Value	df	Prob.
Chi-square	3.39745	4	0.4936
Chi-square	1.568016	4	0.8145
Chi-square	0.358491	4	0.9857

Source: Author's estimation, 2017

Overall, our results support the fact that economic growth is being caused by access to finance and competition. Thus, suggest the need for the economic policies in these countries to pursue activities that will liberalise the banking system such that they become more competitive and make finance more available to the real sector of the economy for a purposeful economic growth and transformation. Competition is not only able to drive expansion of the financial institutions, but also drive down finance cost that is a requisite for business disposition to taking more finance for further investment.

We carried out some post-estimation test to validate the results of our model; the Jarque-Bera test shows that none of the residuals of our model suffers from any normality issues. The same for heteroskedasticity test.

5. Summary and Conclusion

The basic assumptions underlying this study are the market power hypothesis and the finance-growth model that presupposed that competition in banks should engender access to finance which in turn should impact positively on the economy. The BRICS economies have emerged overtime and hence our investigation as to the role of these phenomena in contributing to those economic gains. We employed panel VECM to analyse competition, access to finance and economic growth surrogates and found a unidirectional causality among the variables suggesting that competition and access to finance cause economic growth in BRICS. Hence, the conclusion that the finance-growth hypothesis holds for the economies. We therefore recommend that policies that will enhance the further robustness of the financial institution of the constituent economies should be promoted. Institutions such as a common regulatory bank may play a substantial role in this regard.

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Effect of Income Diversification on Household's Income in Rural Oyo State, Nigeria

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Abstract: Analysis of income diversification conceives of diversification in terms of strategies employed to earn cash income in addition to primary production activities from a variety of sources. It is often argued that this is a strategy primarily intended to offset risk. This study focused on analyzing the effects of diversification on household income in rural farming household in Oyo State, Nigeria. The result presented was based on primary data collected from a random sample of 120 households from two Agricultural zones (Ibadan/Ibarapa and Ogbomoso) of Oyo State. Descriptive statistics was used to describe the socioeconomic characteristics such as age, marital status and primary occupation of the respondents while two-stage least square (2 SLS) was employed to determine effect of diversification of income on per household income and income diversification of rural farming household. Results of descriptive statistics revealed that majority of the farmers were married with mean household size and age of 8 persons and 44 years respectively.2SLS showed that number of income source (NIS), share of off-farm income (OFS), Herfindahl Diversification Index (HDI), years of experience and farm size were positively significant to the per capita household income. Selected human capital variables such as years of education, years of vocational training and extension agent contacts have positive significant effect on income diversification of the farmers in the study area. The study concluded that number of income source and years of education were the major factors affecting per household income and income diversification of rural farming household.

Keywords: Income diversification; Number of income source; Off-farm income; Herfindahl Diversification Index

JEL Classification: I31; D13; D31; O13

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1. Introduction

Income diversification has been defined in different ways. One definition of income diversification refers to an increase in the number of sources of income or the balance among the different source. Thus, a household with two sources of income would be more diversified than a household with just one source, one that accounts for 90 percent of the total. (Joshi et al. 2003; Ersado, 2003) Income diversification is often used to describe expansion in the importance of non-farm income. Non-farm income includes both off-farm wage labor and non-farm self-employment. (Escobal, 2001) Diversification into nonfarm activities usually implies more diversity in income sources, but this is not always the case. For example, if a household increase the share of income from non – farm sources from 30 percent to 75 percent, this represents diversification into non – farm activities but not income diversification in terms of the number and balance of income sources.

The share of income coming from nonfarm activities often correlates with total income, both across households and across countries. In addition, the positive wealth -non-farm correlation may also suggest that those who begin as poor households in land and agricultural enterprise may decide to invest in better productive agricultural technologies or in non-farm activities capable of lifting them from povert. (Adelekan & Omotayo, 2017) This definition of income diversification is linked to the concept of structural transformation at the national level, defined as the long – term decline in the percentage contribution of agriculture sector to gross domestic product (GDP) and employment in growing economies. In the view of United Kingdom's Department of Foreign and International Development (DFID), a livelihood comprises the capabilities, assets (including both material and social resources), and activities required for a means of living and it is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resources base. (Joshi et al. 2003)

Livelihood diversification therefore refers to attempts by individuals and households to find new ways to raise incomes and reduce environmental risk, which differ sharply by the degree of freedom of choice (to diversify or not), and the reversibility of the outcome. Livelihood diversification includes both on – and off – farm activities which are undertaken to generate income additional to that from the main household agricultural activities, via the production of other agricultural and non – agricultural goods and services, the sale of waged Labor, or self-employment in small firm, and other strategies undertaken to spread risk. (Barrett et at., 2000)

2. Problem Statement

Multiple motives prompt households and individuals to diversify assets, incomes, and activities. The first set of motives comprise what are traditionally termed "push factors': risk reduction, response to diminishing factor returns in any given use, such as family labor supply in the presence of land constraints driven by population pressure and fragmented landholdings, reaction to crisis or liquidity constraints, high transactions costs that induce households to self-provision in several goods and services. The second set of motives comprise "pull factors": realization of strategic complementarities between activities, such as crop-livestock integration or milling and hog production, specialization according to comparative advantage accorded by superior technologies, skills or eendowment. (Barrett et at., 2000) These micro level determinants of diversification are mirrored at more aggregate levels. From the "push factor perspective", diversification is driven by limited risk bearing capacity in the presence of incomplete or weak financial systems that create strong incentives to select a portfolio of activities in order to stabilize income flows and consumption, by constraints in labor and land markets, and by climatic uncertainty.

The consequence of the ubiquitous presence of the above factors in rural Africa is widespread diversification. Despite the persistent image of Africa as a continent of "subsistence farmers", non-farm sources may already account for as much as 40–45% of average household income and seem to be growing in importance. (Little et al., 2001) Perhaps more importantly, non-farm activity is typically positively correlated with income and wealth (in the form of land and livestock) in rural Africa, and thus seems to offer a pathway out of poverty if non-farm opportunities can be seized by the rural. But this key finding is a double-edged sword. (Soderbom & Teal, 2001) The positive wealth–non-farm correlation may also suggest that those who begin poor in land and capital face an uphill battle to overcome entry barriers and steep investment requirements to participation in non-farm activities capable of lifting them from poverty. (Little et al., 2001) Hence the rapid emergence of widespread attention paid these issues by scholars, policymakers and donors.

Despite the persistent image of Africa as a continent of "subsistence farmers", non-farm income already account for as much as 40-45% of average household income (Little et al., 2001) And it is typically positively correlated with income and wealth. in rural Africa, and thus seems to offer a pathway out of poverty if the opportunities can be seized by the rural farming households. Hence promoting diversification is equivalent to assisting the poor. Human capital plays an important role in income diversification as indicated by some scholars. (Yesufu, 2000) They indicated education and training as the most important direct means of upgrading the human intellect and skills for productive employment.

Education also facilitates access to a number of different economic activities, either as a formal requirement for wage earning jobs or because it helps setting up and managing own small businesses. (Minot et al., 2006) Therefore makes this study important in Nigeria as it will be useful for the economic policy maker in formulating policy for poverty reduction. Although several studies exist on income diversification in Nigeria, these include Oluwatayo, (2009), Babatunde and Qaim, (2009), Ibekwe et al., (2010), among many others, however there is dearth of study on the effects of diversification on per capital household income, particularly among the crop farmers in Nigeria. Thus, this study is introducing an interesting dimension to the concept of income diversification in rural Oyo State.The objectives of the study were to describe the socioeconomic characteristics of the farmers and to determine the effect of income diversification on per household income.

3. Methodology

Study Area

The study was carried out in Oyo state, Nigeria. The study area has a total land area of 28,454 square kilometers and a population of 5,580,894 people (2006 population census). The landscape consist of old hard rocks and dome shaped hill which rise gently from 500 meters in the southern part and reaching a height of about 1,219 meters above sea level in the northern part.

Sampling size and Procedure

The primary data used for the study were collected through administration structured questionnaire tailored towards realizing the objectives of the study. Multistage sampling technique was employed to select the respondents from the study area. In the first stage, two zones which are Ibadan-Ibarapa and Ogbomoso were randomly selected out of four zones. The second stage involved the random selection of two local government areas from each zone. These are: Ido and Ibarapa Central local government areas from Ibadan-Ibarapa zone and Surulere and Ogo-Oluwa local government areas from Ogbomoso zone. Then two villages were randomly selected from each local government to make a total of eight villages. These are Bakatari and Araro from Ido, Shekere and Aba Alabi from Ibarapa Central, Arolu and Ilajue from Surulere and Ahoro-dada and Tewure from Ogo-Oluwa local government areas respectively. Finally fifteen food crop farmers were randomly selected from each of the villages making a total of 120 respondents.The descriptive statistics and two-stage least square regression were used to analyze the data collected.

4. Model Specification

Income based approach was used which focused on three measures of income diversification:

The number of income sources (NIS);

The share of off – farm income in total income (OFS);

The Herfindahl diversification index (HDI).

Because of endogeneity of the measures of diversification, two-stage least squares technique was employed for the model estimation, using household education, household productive assets and access to credit as instrumental variables.The most general structural form of the income functions of household i can be expressed as (Ersado 2003): $Y_i = D\beta_i + Xi\,\beta_2 + \mu_i$

Where**:** Y_i = per capita household income

D = Measures of income diversification (NIS, OFS and HDI)

X_i = Vector of explanatory variables as mentioned above

β = Vector of respective parameters

μ_i = Error term

The 2SLS was then applied to replace the actual problematic D variable in the equation by a counterpart variable that is purged of its stochastic or random component to ensure that the ordinary least squares procedure could be applied. In order to do this, a reduced form equation was specified as a function of all the exogenous variables in equation (7) and a set of instrumental variable as:

Di = $X_1\delta_1 + Z_1\,\delta_2 + \varepsilon_1$

Where Z_1 is a vector of instrumental variables which exert impacts on income diversification but not on household expenditures. The predicted values from this OLS-estimated reduced form equation (8) defined as D_i, is then inserted into the structural equation to replace the problematic D_i. As a result, the equation can be reduced to the following reduced-form equation that can be estimated by using the OLS: $Yi = D_1\delta_1 + X_1\delta_2 + \omega_1$

The explanatory variables X_i are as earlier defined, while the vector of instruments Z_i, include education, access to credit and productive access cost

5. Result and Discussion

Socioeconomic Characteristics of Food Crop Farmers

The result of socioeconomics distribution of the respondents was presented in Table 1. The result revealed that about 27.0% of the farmers were female while about 83.0% of them were male in the sample population. This implies that more males engage in farming activities than female which implies that male households dominated the captured respondents in the study area and this is in line with the finding of. (Omotayo, 2016) Majority (92.5%) were married with mean household size of 8, therefore they have the possibility of making use of family labour and will result to reduced cost of production. Also, this was in conformity with Ibekwe et al., (2010), who reported that farmers with large household size has a positive implication on income diversification because farmers with large household size need additional income to meet family needs. The mean of the entire age distribution of farmers in the study area was 44 years with majority (70.5%) having 5 – 10 years of formal education. This inferred that most of the interviewed farmers were still in their productive age and this could have positive effect on income diversification. Distribution of respondents based on number of adults above 60 years of age and children below 14 years of age in their household revealed majority (70.0%) have no adult over 60 years of age living with them while about 20.0% of them have about 6 – 10 children living with them. This suggests that the dependency ratio with in the family is very low and this could have positive effect on household income.

Table 1. Socioeconomic Characteristics of the Respondents

Variables	Frequency	Percentage
Age		
<30	17	14.17
31-40	24	20.01
41-50	45	37.49
51-60	34	28.33
Gender Distribution		
female	20	16.67
male	100	83.33
Marital Status		
married	111	92.50
not married	9	7.50
Household size		
1-5	36	30
6-10	53	44.17
11-15	21	17.50
16-20	9	7.50
>20	1	0.83
Number of Adult		
0	84	70.0

1	14	11.67
2	22	18.33
Distribution no of Child <14		
<5	99	82.50
6-10	18	15.0
>10	33	2.5
Year of Education		
0	5	4.17
5-10	71	59.17
11-15	32	26.67
16-20	12	10.0
Year of Training		
0	37	30.83
1	9	7.
2	68	56.67
3	6	5.0
Contact with Extension		
0	14	11.67
1-3	87	72.50
4-6	19	15.84
Farm size		
<5	74	61.47
6-10.5	44	36.67
above 10.5	2	1.67
Farming Experience		
<10	39	32.50
11-20	28	23.33
21-30	36	30.0
31-40	16	13.33
>40	1	0.83
Average Income		
farming income	350,966	32,23
commerce income	106,791.00	9.81
livestock income	66,875,00	6.14
processing income	46,666.00	4.29
labour income	10,416	0.96
fishing	73,333	6.73
salary	112,916	10.37
hunting	19,583	1.80
Land Ownership		
own land	67	55.83
otherwise	53	44.17
Land Cost		
0	68	56.67
11000-30000	24	20.0
31000-50000	17	14.17
51000-70000	10	8.33
71000-90000	1	0.83

Cost of Product Asset		
<10500	68	56.67
706000-205000	35	29.17
20600-30500	10	8.33
30600-400000	4	3.33
40600-50500	1	0.83
Distance		
0	1	0.83
3	28	23.33
4	46	38.33
5	15	12.50
5.5	15	12.50
6	15	12.50
Membership of Organization		
belonging	65	54.17
not belong	55	45.83
Access to Credit		
have access	65	54.17
otherwise	55	45.85
Source of Credit		
formal	65	54.17
informal	55	45.83
Credit Obtained		
0	55	45.83
60,000-200,000	22	18.33
201,000-400000	14	11.67
301,000-400000	5	4.17
401,000-500000	4	11.67
>500,000	10	8.33
Total	**120**	**100**

Source: Field Survey Data

2SLS Regression for the Effects of Diversification (NIS) on Household Income

The result of the 2sls regression for the effects of diversification (NIS) on per capital household income is presented in table 2. The result shows that the following variables are statistically significant and have positive influence on per capital Household Income: Number of Income Sources (NIS), Number of contacts with Extension Agents and years of experience. This implies that an increase in these variables would lead to an increase in Per capita Income of the household. This result was in line with Schwarze and Zeller (2005), who identified extension programmes as a way of developing human resources. The higher the number of extension agent contacts, the more the productive innovations the farmers have, hence the higher the per capital income of the household. Years of experience are also statistically significant. This is not surprising as accumulated experience contributes to skills needed to diversify income generating activities, thereby increases the per capital income of the household. Other variables that significantly influence the per capital income of the household are dependency ratio and household size. Contrary to expectations, these two variables are negatively related to the per capital income of the household. This means the more the households that are dependent, the lower the per capital income of the household head. Also ordinarily a surplus rural labour force should have a positive and significant effect on per capital income of the household. But in this study the coefficient of household size is negatively significant which contradicts the apriori expectations.

Table 2. Parameter Estimates of 2SLS Regression

Per capita Income	Coefficient	Standard Error	Z	P> /Z/
NIS	82609.18	10784.81	7.66***	0.000
Age	1102.042	12231.74	0.14	0.886
Age^2	-61.61281	93.1535	-0.66	0.508
Sex	20368.55	32729.13	0.62	0.534
Marital Status	-45654.63	30628.48	-1.49	0.136
Dependency Ratio	-198194.3	57967.6	-3.42***	0.001
Household Size	-13337.66	2963.359	-4.50***	0.000
Years of Vocational training	-9923.554	9037.215	-1.10	0.272
Extension Agent contacts	24467.19	9810.448	2.49**	0.013
Farm Size	7493.61	7254.387	1.03	0.302
Years of farming experience	3448.963	1495.816	2.31**	0.021
Land Ownership	-33855.65	44216.42	-0.77	0.444
Distance to market	7657.751	8173.896	0.94	0.349
Access to electricity	5049.346	25459.77	0.20	0.843
Land Cost	-956.8192	1003.694	-0.95	0.340
Constant	42570.45	162253.3	0.26	0.793
Number of Observation	120			
Prob > Chi^2	0.0000			
Wald $Chi^2(15)$	506.59			
Root MSE	81859			
Adjusted R^2	0.8084			

Legend: *, **, *** Coefficients are significant at 10%, 5% and 1% respectively

Instrumental variables: Years of education of the household head, household productive assets and access to credit.

2SLS Regression for the Effects of Diversification (OFS) on Household Income

The result of the estimates of the effects of diversification (OFS) on per capital household income is presented in table 2. It shows that off-farm share income, gender of household head and farm size have significant and positive influence on per capital household income. This implies that an increase in these variables would lead to an increase in the per capital household income. For instance, an increase in the off-farm income share increases the per capital household income by 735,081 naira. It is obvious that off-farm activities are more lucrative than farming alone. Thus, diversification is pursued as a strategy to increase per capital household income. Also the coefficient of farm size is also positively significant to the per capital household income. This implies that, while off-farm activities can increase the household income, farming still remains important for household livelihoods in rural Nigeria. (Babatunde & Qaim, 2009) Other variables that significantly influence per capital household income include dependency ratio, household size and years of vocational training. Contrary to expectations the household size and years of vocational training are negatively related to the household income.

Table 3. 2.SLS Regression for the Effects of Diversification (OFS) on Household Income

Per Capita Income	Coefficient	Standard Error	Z	P>/Z/
OFS	735081.3	152994.4	4.80***	**0.000**
Age	3070.567	11358.66	0.27	**0.787**
Age^2	-49.66164	138.8691	-0.36	**0.721**
Sex	119916.2	53068.87	2.26**	**0.024**
Marital status	-48376.24	45815.68	-1.06	**0.291**
Dependency Ratio	-170018.7	86322.14	-1.97**	**0.049**
Household Size	-16629.99	4411.813	-3.77***	**0.000**
Years of Vocational training	-51860.52	18704.39	-2.77**	**0.006**
Extension Agent contacts	9779.131	17397.55	0.56	**0.574**
Farm Size	19888.73	11003.35	1.81*	**0.071**
Years of farming experience	2866.82	2200.791	1.30	**0.193**
Land Ownership	-3391.096	67757.91	-0.50	**0.960**
Distance to market	4295.656	12011.47	0.36	**0.721**
Access to electricity	7897.672	38404.23	0.21	**0.837**
Land Cost	452.741	1520.877	0.30	**0.766**
Constant	-204057.8	247848.7	-0.82	**0.410**
Number of Observations	120			
Wald Chi^2 (15)	0.0000			
R – Squared	0.5771			
Root MSE	**1.2e + 05**			

Legend: *, **, *** Coefficients are significant at 10%, 5% and 1% respectively

4.2.6. 2SLS Regression for the Effects of Diversification (HDI) on household income.

The result of the 2sls regression for the effect of HDI on household income is presented in table 3. It shows that HDI, gender of the household head and extension agent contacts are significantly and positively related to per capital household income. The results revealed that diversification (HDI) has a positive and significant effect on household per capital income. For instance HDI increases the household per capital income by 704,025 naira. Similarly gender of the household head and extension agent contacts also have positive and significant effect on household per capital income. For instance, per capital household income of the male-headed household is 99,419 higher than their female counterpart. Also the households with higher number of extension agent contacts will have better productive innovations that will assist in diversifying his economic activities. And hence increase his per capital income.

Table 4. 2SLS Regression for the Effects of Diversification (HDI) on Household Income

Per capita Income	Coefficient	Standard Error	Z	P>/Z/
HDI	704025	190807.2	3.69***	0.000
Age	8872.058	118718.01	0.75	0.455
Age^2	-138.2183	145.3326	-0.95	0.342
Sex	99419.65	55947.11	1.78*	0.076
Marital status	-43478.13	48804.11	-0.89	0.373
Dependency Ratio	-259321.4	92542.46	-2.80**	0.005
Household size	-16510.81	4668.397	-3.54***	0.000
Years of Vocational training	-47846.74	21541.93	-2.22**	0.026
Extension Agent contacts	32289.93	16316.11	1.98**	0.048
Farm Size	8247.736	11388.46	0.72	0.469
Years of farming experience	3714.758	2538.032	1.46	0.143
Land Ownership	-33624.49	70754.29	-0.48	0.635
Distance to market	2810.92	12948.09	0.22	0.828
Access to electricity	-13555.37	39795.62	-0.34	0.733
Land Cost	412.2373	1620.605	0.25	0.799
Constant	-231487.9	267797.2	-0.86	0.387
Number of observation	120			
Prob > Chi^2	0.0000			
Wald $Chi^2(15)$	195.28			
R – Squared	0.5277			
Poof MSE	1.3e+05			

*, **, *** Coefficients are significant at the 10%, 5% and 1% level respectively

6. Conclusion and Recommendation

This study examined human capital and income diversification in rural Oyo State. The study reveals that most of the households in the study area have fairly diversified income sources with farming remains the dominant income source for those with lower level of human capital, (poorer households), off-farm activities are the main sources for the ones with higher level of human capital (richer household). They tend to be more diversified which was showed by using different measures of income diversification. Econometric analysis confirmed years of education, years of vocational training, extension agent contacts, access to credit and productive asset increase the level of household diversification. In other words resource/poor households in the study area are constrained in diversifying their income sources. Hence human capital plays an important role in income diversification.

Therefore government should intensify its effort at enhancing human capital development through formal education, vocational training and extension programmes for the farmers so as to enlighten them about the benefit of income diversification to improve their welfare. Having established from the study that respondents with high level of human capital were able to diversify their income sources more than those with low level, another key determinant for income diversification is access to credit. Credit enables households to change their stock in physical capital within a short time to take advantage of income opportunities outside agriculture. Therefore, a possible policy measure is to improve the participation of poor households in formal credit, with low interest rates.

Also, the findings also highlighted the influence of physical infrastructure on income diversification. Poorer households are constrained in terms of this infrastructure (good road, network, electricity and pipe-bone water). Therefore policy on rural development could improve access of rural households to these infrastructures. Finally, the fact that richer household are more diversified in rural Nigeria suggest that other mechanism which could not be captured in these study are at work. Babatunde (2009), suggest that, markets that are small and poorly integrated which is a function of infrastructural weakness may be one of them. Therefore income diversification should be considered as just a policy objective, rather, it should be understood as a household response to various market imperfections. Hence policy objective should be to reduce these imperfections and make markets work better. While this would facilitate income diversification both among the poorest and the richer, it would also impact positively on their income.

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Revenue Generation in Nigeira: Diversifying from Primary Sectors to Non-Primary Sectors

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Abstract: This study tried to identify non-primary sectors as an alternative sector for revenue generation in Nigeria. The Nigerian economy over the years had anchored only on primary sectors for revenue generation, neglecting the non-primary sectors. Studies had shown that there is need to diversify the economy away from oil and expand its revenue base given the volatile nature of the prices of the primary sectors products in the world market. Applying econometrics analysis, specifically Vector Autoregression (VAR) estimate and subjecting the estimate to various diagnostic test, alongside ascertaining the order of integration of the variables and their cointegration status, the study revealed that there is no causal relationship between non-primary sectors and revenue. The implication is that non-primary sectors had not contributed to revenue in Nigeria. The potentials in non-primary sectors had not been explored for revenue generation and revenue generated from crude oil sales had also not been invested in these sectors. The study therefore identified the non-primary sector as an alternative source of revenue generation. It was recommended among others that a long-term development plan be made to achieve the set goal of harnessing the potentials in the non-primary sectors.

Keywords: Secondary Sector; Tertiary Sector; Vector Autoregression; Structural Change Model

JEL Classification: H27; H29

1. Introduction

Over the years, Nigerian economy had revolved round the primary sectors (Agriculture, mining, and drilling of crude oil). In the 1960s Nigerian economy was mainly an agrarian economy accounting for over 80% of export earnings, over 63% of GDP, and about 50% of total government revenue. (Olaniyi, Adedokun, Ogunleye & Oladokun, 2015; Oji-Okoro, 2011) Its contribution to GDP in 2003 was 34% and in 2015, it fell below 30%. (Olaniyi, et.al. 2015) Its value added to GDP in 2016 was 21.2%. Crude oil was discovered in Olobiri in 1959 and since the commencement of its exploitation and exportation, it became the major export product, accounting for over 90% of total export, 80% of total government revenue

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and 70% of GDP. One common factor affecting the primary sector is the volatile nature of the prices of its product in the world market. The price of agricultural produce is known to be volatile, so also that of crude oil. The recent drop in the price of crude oil in the world market affected the revenue considerably in 2015 and 2016. Available data showed that total revenue dropped from N10,068.85 billion in 2014 to N6,912.50 billion in 2015 and N5,679.03 billion in 2016, because of the fall in oil revenue from N6,793.83 billion in 2014 to N3,830.10 billion in 2015 and N2,693.91 billion in 2016. (Central Bank of Nigeria, 2016) Even the GDP growth rate declined from 6.2% in 2014 to 2.8% in 2015 and declined further to -1.5% in 2016 which pushed the economy into recession. Policies made to diversify the economy away from oil still centered on agriculture (primary sector). Only the agricultural sector is being given attention, invariably going back to where it started from in the 1960s. Government had made little effort to revamp the other sectors of the economy especially manufacturing and this made its contribution to GDP low. This is not healthy for the economy as its efforts are geared only towards the primary sectors given the volatile nature of its prices in the global market. The overreliance of the economy on primary sectors for revenue generation, had affected all other sectors of the economy, causing them to experience crises. This view was corroborated by Achugbu, Monogbe and Ahiakwo (2017) who noted that the overreliance on oil for revenue generation has ditched the level of development in Nigeria and paralysed other sectors. This has affected the development and growth of the Nigerian economy. Economic growth theorists argued that for a country to grow and, it must undergo various stages of growth. (Rostow, 1960; Lewis, 1954) The Structural Change Growth Model postulated that for an economy to grow, it must shift from the primary sector (Agriculture- crop production, fishery, forestry; Mining) to secondary (Manufacturing, Building and Construction, Power) and tertiary (Services-transport, health, financial sector, hotels, insurance) sectors. (Clark, 1940; Kuznets, 1966; Chenery & Syrquin, 1975; Matsuyama, 1991) With the recent economic crises Nigeria experienced, it became paramount to shift from the revenue driven primary sectors (Agriculture and oil) to non-primary sectors (manufacturing, building and construction, power, services, entertainment industry, tourism, software industries, hoteling, telecommunication, information technology, wholesale and retail trade, etc), as this will go a long way in not only expanding the revenue base of the economy but also cushion the effect of the external shock on oil revenue. This view was shared by Akpan, Nwosu and Eweke (2017) who stated that there is need to search for other means of revenue generation given the fact that Nigerian economy recently experienced crises due to the oil price that nosedived in the world market. Therefore, the focus of this study is to identify the non-primary sector as an alternative source of generating revenue, ascertain if non-primary (secondary and tertiary) sector had affected revenue generation in Nigeria over the years, and determine how government can generate more revenues from these sectors for the growth and development of the Nigerian Economy.

2. Literature Review

Primary sector economy is that sector economy that deals primarily with production of raw materials for manufacturing. It is based on natural resources like petroleum, solid minerals, agricultural produce. Chete, Adeoti, Adeyinka and Ogundele (2016) identified primary sectors in Nigeria to include agricultural sector, oil and gas sector. International Monetary Fund (2015) noted that mining sector, agricultural sector, among others are primary sectors. Nubar and Yan (2013) identified agriculture and mining in china as primary sectors while manufacturing and industries as non-primary sectors (secondary sector). On the other hand, Non-Primary sectors are other sectors not categorized under primary sector. They include secondary sector (manufacturing, construction, industries, etc), tertiary sector (services, trade, tourism, information technology, etc). The concept of diversification of the economy and revenue sources of government had been a national issue in recent time. Several studies relating to this study had been carried out. The need for diversification in developing countries is paramount, for the attainment of the growth objectives of these countries, Nigeria inclusive. Suberu, Ajala, Akande and Olure-Bank (2015) opined that there is need to diversify the Nigerian Economy away from its mono-cultural nature (oil based economy) to break loose from the challenges of a mono-economy. Achugbu, et.al (2017) carried out a study on diversification of the Nigerian economy through non-oil sector and their findings revealed among others that diversifying away from oil to non-oil sector will increase total revenue generated by over 35%. Riti, Gubak and Madina (2016) in their study on diversification and economic performance observed that manufacturing sector exhibited a negative relationship with growth. This was attributed to the un-explorative nature and total neglect of the sector by government. Exploring this sector would help in the diversification process for better economic performance. Bassey (2012) noted that for Nigerian economy to experience rapid growth and sustainable development, savings and revenue from crude must be channeled into infrastructure and manufacturing industries. This view was shared by Anyaehie and Areji (2015) who opined that the huge revenue generated from crude oil should be used to diversify the economy.

2.1. Theoretical Framework

The theoretical framework for this model was anchored on the structural change model of economic growth. The structural change model showed how a country migrates from the subsistence agricultural level to industrial level leading to an increase in output growth. Lewis (1954) postulated that during the process of growth, labour moves from agricultural sector to industrial sector, with the income fixed and significantly not different from what was earned in the primary sector, and the excess profit made by the industry is ploughed back into production, thereby enhancing output level. Chenery (1960) modified Lewis theory by incorporating human and physical capital accumulation. His model was based on the following strategies; production transformation (agriculture to industry), change in consumers demand from consumables (food) to manufactured goods, creation of market for export of the manufactured goods and distribution of the country's population base on resource usage and socio-economic issues. The structural change model laid emphasis on shifting from primary sector to secondary and tertiary sectors for the attainment of economic growth and development. This study therefore hinged on this model in trying to determine how the economy can grow by shifting or diversifying its revenue sources from primary sector to non-primary sectors for the attainment of the countries growth objectives.

3. The Method

Vector Autoregression (VAR) estimate was used to analyse the annual time series data ranging from 1981 to 2016. The use of VAR for this study lied in its usefulness in describing the dynamic behaviour of economic time series. Given the nature of time series data, it is paramount to test for the presence of unit root, and ascertain the order of integration of the variables and their cointegration status. It is important to note that the use of VAR will be appropriate if the variables at levels are not cointegrated. For this study, two models were specified; secondary sector model and tertiary sector model. The secondary sector model was proxied by share of manufacturing and Construction to GDP, while the tertiary sector was proxied by share of trade (wholesale and retail) and service to GDP. These variables were used since the study is based on revenue generation. Data was sourced from Central Bank of Nigeria Online Statistical Bulletin. The model is thus specified;

Model I

$$Rev = b_0 + b_1Manuf + b_2Constr + U_i \quad (1)$$

where;

Manuf = share of manufacturing to GDP,

Constr = share of construction to GDP,

Rev = total government revenue.

Model II

$$Rev = C_0 + C_1Trade + C_2Servi + U_I \quad (2)$$

where

Trade = share of wholesale and retail (trade) to GDP,

Servi = share of service to GDP.

4. The Result

The result from the analysed data is shown below;

4.1. Result for Model I (Secondary Sector).

Table 1. Unit Root Test: Augmented Dickey Fuller Test

Variables	Levels	1st Diff.	Decision
Lrev	-1.326053	-5.789476	I(1)
Lmanuf	0.697100	-5.091045	I(1)
Lconstr	1.257572	-3.264530	I(1)

ADF Test Critical Value at 5% = 2.95

The ADF test result showed that all the variables are integrated of order one, judging from the values of their first difference which is greater than the 5% ADF critical value of 2.95.

Table 2. Unrestricted Cointegration Rank Test (Trace Statistic and Maximum Eigen Statistic.

Hypo. No. of CE(s)	Eigenvalue	Trace Statistics	0.05 Critical value	Prob.	Max-Eigen Statistic	0.05 Critical Value	Prob.
None	0.352086	26.29743	29.79707	0.12	14.75593	21.13162	0.3066
At most 1	0.227145	11.54150	15.49471	0.18	8.760570	14.26460	0.3066
At most 2	0.078536	2.780928	3.841466	0.95	2.780928	3.841466	0.0954

Trace Test and Max-Eigen Test indicates no Cointegration at 0.05 level

The Cointegration result (Trace and Max-Eigen Test) revealed that there is no long-run relationship between the variables. In other words, the variables are not cointegrated at levels. The application of VAR model becomes useful at this point.

Table 3. Vector Autoregression (VAR) Estimates

	d(lrev)	d(lmanuf)	d(lconstr)
d(lrev(-1))	-0.017666 (0.17975) [-0.09828]	0.068041 (0.05934) [1.14668	0.030859 (0.03477) [0.88740]
d(lmanuf(-1))	-0.581361 (0.50767) [-1.14516]	0.062767 (0.16759) [0.37453)	0.391186 (0.09822) [3.98291]

d(lconstr(-1))	0.136567 (0.54456) [0.25078]	0.364769 (0.17977) [2.02910]	0.542118 (0.10535) [5.14572]
C	0.25884 (0.07311) [2.81610]	0.009958 (0.02413) [0.41262]	-0.001968 (0.01414) [-0.13914]
R^2	0.043262	0.166882	0.616410
R^{-2}	-0.052412	0.083570	0.578051
F-Stat.	0.452180	2.003101	16.06950

Log likelihood = 62.98760, AIC = -2.999271, SC = -2.460555, Lag Length = 1

Table 4. VAR Granger Causality Test

Dependent Variables	Other variables	Chi-sq	Df	Prob.
d(lrev)	d(lmanuf)	1.311390	1	0.2521
	d(lconstr)	0.062893	1	0.8020
	All	1.333206	2	0.5134
d(lmanuf	d(lrev)	1.314875	1	0.2515
	d(lconstr)	4.117260	1	0.0424
	All	5.611927	2	0.0604
d(lconstr)	d(lrev)	0.787480	1	0.3749
	d(lmanuf)	15.86357	1	0.0001
	All	17.07076	2	0.0002

The VAR Granger Causality Test showed that manufacturing and construction sectors do not granger cause revenue, judging from the probability values (0.25 and 0.80). Revenue does not granger cause manufacturing (0.25) and construction (0.37), implying that revenue generated by government had not been used to enhance these sectors productivity. On the other, a bidirectional relationship exists between manufacturing and construction, judging from their probability values (0.04 and 0.0001).

4.1.1. Relevant Diagnostics

Table 5. VAR Residual Portmanteau Tests for Autocorrelations and Serial Correlation LM Tests

	Portmanteau Tests		**LM Tests**	
Lags	Q-Stat	Prob.	LM Test	Prob.
1	4.719807	NA*	23.86525	0.0045
2	12.57187	0.7038	9.867690	0.3613
3	18.38601	0.8256	6.856346	0.6521
4	25.97621	0.8363	7.000212	0.6371
5	29.84889	0.9360	4.064518	0.9071
6	39.28915	0.9030	11.24202	0.2595
7	41.84231	0.9711	2.648775	0.9766
8	43.44724	0.9947	1.663246	0.9957
9	45.48275	0.9991	1.905725	0.9929

10	51.30892	0.9994	5.900342	0.7498
11	52.06716	0.9999	0.788280	0.9998
12	55.57118	1.0000	3.651595	0.9328

Table 6. VAR Residual Normality Test

Component	Skewness	Chi-sq	Df	Prob
1	0.151703	0.151703	1	0.151703
2	0.570098	0.570098	1	0.570098
3	-0.794981	-0.794981	1	-0.794981
Joint		5.553447	3	0.1355

Table 7. VAR Residual Heteroskedasticity Tests: No Cross Terms

Joint:

Chi-Sq	Df	Prob
45.10744	36	0.1420

The diagnostic result from portmanteau test and LM test revealed that there is no autocorrelation and serial correlation in the model. For the normality test (skewness) the residuals are multivariate normal while the heteroskedasticity test revealed no heteroskedasticity in the residual. Thus, we do not reject the null hypothesises of the diagnostic tests.

4.2. Result for Model II (Tertiary Sector)

Table 8. Unit Root Test: Augmented Dickey Fuller Test

Variables	**Levels**	**1st Diff.**	**Decision**
Lrev	-1.326053	-5.789476	I(1)
Ltrade	0.360791	-3.100582	I(1)
Lservi	-1.053912	-9.652323	I(1)

ADF Test Critical Value at 5% = 2.95

The unit root result showed that all the variables are stationary at first difference given their values which is greater than the ADF critical value of 5%.

Table 9. Unrestricted Cointegration Rank Test (Trace Statistic and Maximum Eigen Statistic

Hypo. No. of CE(s)	Eigenvalue	Trace Statistics	0.05 Critical value	Prob.	Max-Eigen Statistic	0.05 Critical Value	Prob.
None	0.374433	26.63299	2.979707	0.11	15.94931	21.13162	0.2278
At most 1	0.179900	10.68367	15.49471	0.23	6.743188	14.26460	0.5199
At most 2	0.109433	3.940484	3.841466	0.05	3.940484	3.841466	0.0471

Trace Test and Max-Eigen Test indicates no Cointegration at 0.05 level

The cointegration test (Trace and Max-Eigen) revealed that the variables are not cointegrated. Thus, no longrun relationship exists between the variables.

Table 10. Vector Autoregression (VAR) Estimates

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Log likelihood = 43.90251, AIC = -0.868907, SC = 0.505221, Lag Length = 3

Table 11. VAR Granger Causality Test

Dependent Variables	Other variables	Chi-sq	Df	Prob
d(lrev)	d(ltrade)	2.037925	3	0.5646
	d(lservi)	3.732733	3	0.2918
	All	5.535822	6	0.4771
d(ltrade)	d(lrev)	2.152746	3	0.5413
	d(lservi)	0.369566	3	0.9465
	All	2.276677	6	0.8926
d(lservi)	d(lrev)	1.599769	3	0.6594
	d(ltrade)	47.05248	3	0.0000
	All	51.80300	6	0.0000

The VAR causality test showed that trade and service do not granger cause revenue, revenue and service do not granger cause trade, but trade granger causes service. Revenue does not granger cause service. Thus, a unidirectional relationship exists between service and trade.

4.2.1. Relevant Diagnostics

Table 12. VAR Residual Portmanteau Tests for Autocorrelations and Serial Correlation LM Tests

	Portmanteau Tests		LM Tests	
Lags	Q-Stat	Prob.	LM Test	Prob.
1	1.302397	NA*	6.994093	0.6377
2	9.657962	NA*	14.19776	0.1155
3	11.35273	NA*	7.262041	0.6099

4	18.21268	0.0328	8.739499	0.4617
5	21.91531	0.2358	6.834218	0.6544
6	28.86888	0.3673	10.88052	0.2840
7	31.50111	0.6824	3.078491	0.9611
8	37.09869	0.7927	6.013534	0.7386
9	42.93685	0.8604	6.429584	0.6963
10	46.98840	0.9343	3.675457	0.9314
11	58.21258	0.8800	14.13382	0.1176
12	63.50061	0.9244	6.906954	0.6468

Table 13. VAR Residual Normality Test

Component	Kurtosis	Chi-sq	Df	Prob
1	2.699006	0.123963	1	0.7248
2	14.45783	7.195811	1	0.0073
3	3.276357	1.635799	1	0.2009
Joint		8.955573	3	0.0299

Table 14. VAR Residual Heteroskedasticity Tests: No Cross Terms

Joint:

Chi-Sq	Df	Prob
119.6772	108	0.2082

The diagnostic test revealed that there is autocorrelation and serial correlation in the model. The normality test (kurtosis) showed that the residuals are not multivariate normal. This can be attributed to the small observation of 35 (sample size). Thus, it can be ignored since all other diagnostic result are in order. The heteroskedasticity test showed that there is no heteroskedasticity in the residual.

5. Conclusion and Recommendation

This study had revealed that the non-primary sectors had made no significant impact on total revenue in Nigeria, neither had revenue generated being used to invest in these sectors. Anchoring on the structural change growth model, Nigeria need to grow by diversifying its revenue base from primary sector revenue generating economy into non-primary sector revenue generating economy, unlocking the untapped potentials in the non-primary sectors and harnessing them for growth and development. This aligned with the opinion of Riti, Gubak and Madina (2016) that government had not explored the manufacturing sector. One of the ways through which these potentials can be unlocked is to invest in human capital. The strength of every nation lies in its human resources, Nigeria is endowed with human and natural resources which if properly harnessed can spur the growth and development of the economy. Revenue from crude oil can be used to invest in human capital (education) focusing more on technical (welding, fabricating, molding e.t.c) and other related basic engineering courses in high (secondary) schools. This will help lay a solid foundation for the future of the manufacturing and construction sectors. Also, revenue from oil can be used to enhance the service and trade sectors through the development of the tourism and entertainment industries. Therefore, it is recommended that;

i. A long-term development plan/policy should be made towards the harnessing the potentials in the non-primary sectors.

ii. Government should invest in tourism sector to attract foreigners as this will not only spur domestic (wholesale and retail) trade and services but also increase the country"s foreign earnings. Entertainment industry can also attract tourist which will increase the total revenue generated.

iii. Government should create enabling environment for all these to strive by ensuring security of lives and property.

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Tax Havens - a Compromise between Legality and Morality

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Abstract: The aim of this paper is to point out the main consequences of the tax havens upon the economy, and to attire the attention upon this matter in order to think about measures of limiting it. The paper related to other research in this topic area is an attempt circumscribed to those before it, in order to attire the attention on this pernicious matter. The main methods employed to capture the research evidence are: observation, survey, case study. Collected data were analysed descriptively and inferentially. The results of the study are meant to focus the interest towards this less discussed matter, which avoids regulations and favour the developing of evil phenomena affecting peoples live, finally. So, the implications of this study meaning: tax avoidance, and thus reducing the share of GDP allocated to welfare, the enormous consequences on the pour countries especially, all these and others could interested not only the researchers, but also all people and their governments. This value of the subject is obvious, and thus any attempt like this paper will be a small contribution to the awareness of conscience - "to whom it may be concerned of".

Keywords: fiscal paradise; international tax evasion; money; off-shore

JEL Classification: G39; G40; G19

Motto
"Any truth passes through the stages: it is ridiculed first, then it is met with violence, eventually accepted as obvious."
A. Schopenhauer

1. Introduction

The tax paradise is a place to "relax" those who want to bypass the payment of taxes and duties. The offer is represented by offshore companies, companies registered in these tax havens, companies that do not ask for much information about account owners, offer anonymity, and often promise protection against the

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actions of authorities related to the origin of money. Demand comes from business people, politicians, actors, athletes, etc. who want to bypass the payment of taxes and fees. Intermediaries who facilitate money travel in tax havens are tax consultancy firms, law firms and banks. The big tax advisory companies are preparing their juniors by turning them through countries to learn and use all the gates for so-called tax optimization - to use all legal (but immoral) opportunities to lower taxes and fees paid.

The tax haven is the state that makes favorable legislation available and the offshore financial center which is made up of the economic agents that take advantage of this legislation. The existence of "tax havens" on the globe benefiting people seeking more favorable tax treatment is a form of international tax evasion. These "tax oases" are legal entities that grant tax advantages to companies that establish their registered office or to natural persons residing in their territory. Examples of such areas are: Liechtenstein, Andorra, the Bahamas, Bermuda, Cyprus, Panama, Macao, Switzerland, Cayman Islands etc.

1.1. Statement of Problem

In a tax haven, companies driven by people who do not live on the island and do not generate income are tax-exempt. In fact, any money that was not produced on the territory of the state is not charged. The pressure exerted by budget problems, the inequity of austerity measures, increasing inequalities, reducing the share of GDP allocated to labor remuneration and the explosion of material deprivation rates, especially among young people, will be enormous. Authorities will respond by disposing of these practices and addressing the lack of solutions to these issues. A simple solution to be applied is that companies (especially multinationals) pay taxes and duties to the state in which they invest and earn income. They are entities that most likely think they pay too much to the state and who, on the other hand, prefer to hide their adversity from the principles of the European social model - a model that currently affects all the pillars of operation. We know that these mechanisms are fleeing to flee through offshore mechanisms. A simple solution to be applied is that companies (especially multinationals) pay taxes and duties to the state in which they invest and earn income.

The international forums react to this economic phenomena: so, the Organization for Economic Cooperation and Development (OECD) stated the following criteria as necessary to define a tax haven; these are: insignificant or non-existent charges, the lack of transparency of the tax system, and the absence of exchange of tax information with other states.

According to the International Monetary Fund, 50% of international transactions "flow" through tax havens. These accounted for approximately 4,000 banks, two thirds of the hedge funds and 2 million fictitious/firewall companies. There would be about 7,000 billion euros in assets in these accounts, which is more than three times the GDP of France and more than 35 times the GDP of Romania.

The existence of tax havens raises several distinct types of problems: tax competition, economic competition between companies from different countries, the fight against money laundering and the financing of criminal organizations, and the stability of the international financial system. Moreover, tax havens also generate a share of assets that can not be quantified, intended to launder dirty money from corruption or drug trafficking.

1.2. Objective of the Study

In line with the forgoing, the main objective of this study is to investigate the interplay between fiscal paradises and economy, and the specific objectives are as follows:

i. To determine the relationship between GDP of countries and those money going abroad to tax havens.

ii. To determine the link between the policy of offering investors very low tax rates (in the off-shore zones) and their flourishing development in a short time with effects on the long run.

iii. To examine the influence of tax havens towards world economy.

1.3. Short Historical Incursion

Looking back in time, someone could say that international tax evasion has existed since ancient times. So, at that period in Greece, the islands in the vicinity of Athens were used by traders to store goods. This avoids a 2% tax levied by the city on imports and exports. In the sixteenth and seventeenth centuries, Flanders became a tax haven, since trade made through its ports was subject to tax obligations and minor restrictions. Tax havens exist in the modern sense of the term after the First World War. It is hard to tell now whether the initiative came from business people who have always wanted to "protect" their money from the eyes of curious people, or from those entities - states or areas in a particular country - who simply offered a preferential tax treatment in the desire to attract business. But the modern concept of tax haven emerged in 1926, when the small state of Liechtenstein adopted an authorization law to attract foreign capital. The moment that marks the rise in the importance of tax havens is the end of the Second World War, when there is a multiplication of the number of subsidiaries of a parent company. Initially used to expand parent companies abroad, foreign affiliates began to be used later as a means of tax evasion, by implanting them into stable currency countries that did not control trade, had a more permissive system.

2. Literature Review

Many attempts underpinning have been made in this matter, different viewing angles, and more different conclusions. In this section, past studies on the subject matter were reviewed conceptually, theoretically and empirically.

The first specialized paper on this subject emerged in 1983, the Gordon Report, at the request of the French Ministry of Finance. According to this report, "the tax haven is any country that is considered as that is what it is like". Another definition, appearing to Roger Brunet (1980), finds that it's called a fiscal paradise. The actual term of tax havens is taken from English, from the word tax-haven, which means a haven, a tax port. The picture is good. The business man is compared to a seaman seeking his refuge; he crosses the great tax laws, as well as his storms, which are the controls and taxes on the external signs of wealth, then reaching the tax paradise, which is the port.

Avi-Yonah, Reuven (2000) presents the different reasons of which they appeared the fiscal heaven zones, and propose some interesting possible solutions; the author analyses the supply jurisdictions and production tax heavens both with corporate residence jurisdictions and headquarters tax heavens.

Hansen and Kessler (2001) explain the existence and the characteristics of tax havens through the interplay of political and geographical factors. In a system of independent democratic jurisdictions among which individuals are mobile, equilibrium tax regimes depend on the relative geographical size of the jurisdictions. In equilibrium, small jurisdictions are inhabited by wealthy households and conduct low tax policies (tax heavens) while poor households live in large jurisdictions where taxes are high (tax hells).

Desai et al., (2004) analyses what types of firms establish tax haven operations, and what purposes do these operations serve; they notice that firms with sizeable foreign operations benefit the most from using tax havens, an effect that can be evaluated by using foreign economic growth rates as instruments for firm-level growth of foreign investment outside of tax havens. One percent greater sales and investment growth in nearby non-haven countries is associated with a 1.5 to 2% greater likelihood of establishing a tax haven operation.

James R., Hines Jr. (2004) review the use of tax havens by international businesses, and to evaluate the effect of their tax systems on economic outcomes in tax haven countries and elsewhere. The policy of offering investors very low tax rates is potentially costly to tax haven governments, if doing so reduces tax collections that might otherwise have been used to fund worthwhile government expenditures.

Lorraine Eden and Robert T. Kudrle (2005) classified these zones into: Havens can be separated into four groups (Palan, 2002, p. 154) countries with no income tax where firms pay only license fees (e.g., Anguilla, Bermuda), countries with low taxation (e.g., Switzerland, the Channel Islands), countries that practice so-called "ring fencing" by taxing domestic but not foreign income (e.g., Liberia, Hong Kong), and countries that grant special tax privileges to certain types of firms or operations (e.g., Luxembourg, Monaco). Further, they have focused on the policy actions of national governments and international organizations vis-à-vis tax havens. However, the analysis clearly points to the roles played by actors within these countries, in particular, to multinational enterprises, international tax and accounting firms, and other elites that are their primary beneficiaries – an area to which future research attention should be directed.

Dharmapala and Hines, (2006) analyzes the factors influencing whether countries become tax havens. Using a variety of empirical approaches, and controlling for other relevant factors, governance quality has a statistically significant and quantitatively large impact on the probability of being a tax haven. The effect of governance on tax haven status persists when the origin of a country's legal system is used as an instrument for its quality of its governance. Low tax rates offer much more powerful inducements to foreign investment in well-governed countries than elsewhere, which may explain why poorly governed countries do not generally attempt to become tax havens and suggests that the range of sensible tax policy options is constrained by the quality of governance.

Andrew K. Rose, Mark Spiegel (2006) analyze the causes and consequences of offshore financial centers (OFCs). Since OFCs are likely to be tax havens and money launderers, they encourage bad behavior in source countries. Nevertheless, OFCs may also have unintended positive consequences for their neighbors, since they act as a competitive fringe for the domestic banking sector. The authors derive and simulate a model of a home country monopoly bank facing a representative competitive OFC which offers tax advantages attained by moving assets offshore at a cost that is increasing in distance between the OFC and the source. Their model predicts that proximity to an OFC is likely to have pro-competitive implications for the domestic banking sector, although the overall effect on welfare is ambiguous. The authors test and confirm the predictions empirically. OFC proximity is associated with a more competitive domestic banking system and greater overall financial depth.

Joel Slemrod and John D.Wilson (2009) demonstrate that the full or partial elimination of tax havens would improve welfare in non-haven countries. We also demonstrate that the smaller countries choose to become tax havens, and we show that the abolition of a sufficiently small number of the relatively large havens leaves all countries better off, including the remaining havens. We argue that these results extend to the case where there are also taxes on wage income that involve administrative and compliance costs.

Ronen Palan et al, (2010) provide an up-to-date evaluation of the role and function of tax havens in the global financial system—their history, inner workings, impact, extent, and enforcement. They make clear that while, individually, tax havens may appear insignificant, together they have a major impact on the global economy. Holding up to $13 trillion of personal wealth—the equivalent of the annual U.S. Gross National Product—and serving as the legal home of two million corporate entities and half of all international lending banks, tax havens also skew the distribution of globalization's costs and benefits to the detriment of developing economies. The first comprehensive account of these entities, this book challenges much of the conventional wisdom about tax havens. The authors reveal that, rather than operating at the margins of the world economy, tax havens are integral to it. More than simple conduits for tax avoidance and evasion, tax havens actually belong to the broad world of finance, to the business of managing the monetary resources of individuals, organizations, and countries. They have become among the most powerful instruments of globalization, one of the principal causes of global financial instability, and one of the large political issues of our times.

T.C. Halliday, Gregory Shaffer (2015) set out an analytic framework for building theory and studying transnational legal orders (TLOs)[1]; the authors create a conceptual framework for studying, both the institutionalization of legal orders across national boundaries, and the ensuing implications for law and social ordering more generally.

Eugenia Ramona Mara (2015) identifies the major determinants of tax havens in the actual economic context, The main finding of this approach is that low taxation is not enough for a country to be a tax haven. Despite the fact that the corporate tax rate is indeed significant according to the model, the percentage of services in GDP proves to be the most prominent variable, and only the countries which have an important part of their GDP made up of services are likely to acquire tax haven status.

Gabriel Zucman (2015) after concluding that 8% of the world's financial wealth is held offshore, costing at least $200bn, synthesizes: "A growing policy concern, yet hard to quantify: for some observers, considerable tax revenue losses, for others, most of the activities in tax havens are legitimate; on both sides, generally limited empirical evidence".

3. Research Methodology

The starting point of the research process relates to the definition of research problem. The precisely defined problem is necessary condition for the proper

[1] TLOs = Transnational Legal Orders.

setting goals and tasks for research. The basic problems of the concrete empirical research are the following:

- Are these fiscal paradises moral or legal?? The subject of research is announced in the title of the paper — "Tax Havens - a Compromise between Legality and Morality" and is in direct correlation with the objectives of the research.

- Based on a defined problem and the subject of research, emanates the following basic aim of this research effort:

- Identify the extend of which these tax havens affect not only the economy, but also the income of populations.

Proceeding from the basic goal of the research, the following partial list of research objectives is performed:

- Execute the measurement of the phenomenon of avoiding taxes towards economies;

- Determine the degree of affecting GDP (and welfare included) of "donating" states, and comparatively with those of the "receiving" money states.

- Identify the means of reducing these practices of avoiding taxes, and to emphasize the necessity of paying them in the country which made possible to obtain profit.

The necessary data for resolving the defined problem were used both the primary and secondary data sources, the latter were prevailing. Realization of the research process began in collecting data from secondary sources, such as: the publication of statistical data, reports, market research reports, economic analysis, web data.

In conducting the survey the limits has been encountered reflecting on the unfair reporting of all the sources, both those leaving the countries, and also those entering into the fiscal paradise. But this inconvenient becomes a challenge for next research.

4. Morality or Legality?

The rationale for which some of their business people and firms establish their residence in tax havens, although it is within the limits of legality (somewhat at its limit), but it is certainly a matter of morality. Such mechanisms are immoral, not necessarily illegal.

From the point of view of the authorities in tax havens, the existence of this system is usually explained by the "poverty" in resources and the need to raise funds to the budget. Companies and wealthy people would have no interest in residing in the Cayman Islands, Panama, the Virgin Islands, or other such places. Instead, by adopting a very “relaxed” tax system, tax havens have attracted important investments, assured the locals and even the relocation of specialists (lawyers, bankers, accountants). Some of them simply do not want to pay big taxes in their home countries. Can we accuse him of anything? Generally, if they do not have official positions in government or do business with the state, no. It is a personal and perfectly legal decision to pay as little taxes as possible (called tax optimization). This is the legal and even moral part of the story.

Two major motivations are “civil” when a businessman conceals part of his family wealth. Divorce lawsuits are the main cause of this type of action, but there are other forms of divorce, company dissolution, and other specific situations. Here we talk both of the morality and the legality of the process of dissimulation of wealth, and it is based on the second characteristic of the existence of tax havens: the secret (or elegantly said, the confidentiality) on the final beneficiary of wealth or shares in the established firms. Technically, confidentiality is ensured either by actions on the bearer or by indirect holding of amounts (in the official documents a law firm or other specialized entity appears). Even if in some cases the concealment of money by life partners can have relevant motivations and explanations, at least for people who use the property to hide their fortunes, they are certainly both immoral and illegal for their life partners - from the point of view of Civil Code, at least. About 20% of the cases of placement of wealth in tax havens have this motivation. But the economy does not operate with such notions. It operates with legally-illegal concepts. Who legitimizes these mechanisms and why do the great powers and the condominiums tolerate them, not to say they protect them? Offshore mechanisms are immoral, not necessarily illegal. The origin of the money deposited there is not always legal. They have been encouraged, in recent years they are endangered.

If we consider some examples: as for Romania, they are much money coming out of here, as statistics precises: so, according to the Global Financial Integrity report, only in 2009 the country has left more than $ 12 billion non-taxed. This is repeated annually. What are the mechanisms for removing this money and where do they come from? The money-making mechanisms are related to tax optimization. Registration of companies in tax havens, transfer pricing mechanism, moose systems, VAT fraud, money laundering. We can look at where the money comes from - in 2015, the average share of the underground economy in GDP in EU countries was 18% , the underground economy accounting for 30.6% of GDP in Bulgaria, 28.6% of GDP in Romania, 27.8% of GDP in Turkey, 27.7% in Croatia, Estonia 26.2% of GDP, Lithuania 25, 8% of GDP, and Poland and Latvia as much as 23.3% of GDP each (note that the poorest and most inequalities in the EU are here!) Or we can look into the Fiscal Council Reports where we see how evasion total tax and levy amounts to ROL 100 billion a year (€ 23 billion) of which three quarters comes from VAT fraud. Capital has an aggressive lobby, often formed by professional, well-trained people. Where are the money going? We know about tax havens and "customer-friendly" banks. But if we look at where these "friendly" banks are, we have big surprises. Top 5 of these dubious Swiss banks/countries: Switzerland, Hong Kong, USA, Singapore, Cayman, UK. In the top 10 May and Luxembourg and Germany. Panama is only 12th place ranked.

The moral problem in this area goes to a question: is not there a lot of hypocrisy in this game? Of course there is a lot of hypocrisy, and especially in developing countries, where the budget, pensioners, young people, the unemployed are blamed while the mind is thinking about new ways of avoiding taxes and taxes. But even if these tax havens/offshore mechanisms are to be narrowed, other ways to extract capital will be innovated: soft regulation, capture of regulatory agencies and rent seeking, creative accounting. Capital has an aggressive lobby, often formed by well-trained, professional people. At the same time, the syndication rate is decreasing, the labor market is becoming more flexible, globalization and trade integration with low-cost countries reduce the negotiating power and thus the prospects for rising labor payments. These attempts at removing hidden money could be signs of balancing the income paid to labor and capital, as we are in developed countries. So, the question remains: is there morality, or legality?

4.1. Characteristics of the Fiscal Heavens

There are about 73 tax havens around the world, but there is no precise data on the amounts of money that arrive here. The main features of tax havens and offshore financial centers for the sake of understanding as easy as possible. For example, in the Report of Expert Richard Gordon (1983) for the Treasury of the United States of America, recalled in the paper 2, these characteristics are stated as follows: a reduced tax rate compared to the investor's country of residence; secret banking and commercial; the lack of currency control or at least the lack of its applicability in relations with non-residents; bank facilities; communication and transport facilities; opportunities for implementing fiscal strategies that minimize tax burden; economic and political stability; opening up foreign capital; the availability of qualified personnel; appropriate geographic location etc.

A truth is that there is no fiscal paradise to please everyone. Some areas have specialized in banking activities, others serve the interests of multinationals, while others gather under their umbrella the wealthy to the world. In addition, about this world of "offshore" finances - countries or jurisdictions with tax laws, either tax-free or with very low taxes - not all is well.

Violation of privacy is punished with imprisonment. Countries as Panama, Liechtenstein, Switzerland, and all the other ministries of the economy have strict laws on black money laundering to ensure that financial institutions based there are not used for illicit purposes. And there are special departments investigating any possible violation of these regulations. In addition, "offshore" banks have strict "customer knowledge" procedures so that anonymous "numbered" accounts have just become a story.

As long as businesses are legal, financial secrets are defended with holiness. In tax havens it is forbidden to disclose any aspect of financial transactions, including information on private banking accounts, without a court order. Many of the offshore jurisdictions impose huge fines or even imprisonment for employees of banks who violate the privacy of an account holder.

4.2. One in Five Accounts, Registered in a Tax Haven

Data on the size of the "offshore" preserved wealth is difficult to obtain since neither government nor financial institutions are interested in gaining an overview of these financial havens.

The Bank for International Deposits (BDI), which records country-specific cash deposits, estimates that there was a total of 14,000 billion of such deposits worldwide in 2004, of which $ 2,700 billion were retained in the countries "offshore". That means that one in five deposits is registered in a fiscal paradise. Instead, research firm Merrill Lynch/Cap Gemini estimated in 1998 that one third of the wealth of those with more than one million dollars was kept "offshore".

In the area of taxation, residence, not citizenship, is important.

According to the latest report, between 2002 and 2003, their fortunes amounted to a total of 27,000 billion, of which 8.500 billion (31%) were registered in a tax haven. Merrill Lynch estimates an increase of these offshore assets by 600 billion a year. Which would mean that the figure now reached 9.7 trillion dollars. Most "offshore" countries are charging taxes based on residence, not citizenship. So, for example, Europeans everywhere can come to Switzerland to get rid of state payments. The bankrupt American company, once an energy giant, said profits of $ 2.3 billion between 1996 and 1999 but did not pay a US government fee. This required a network of 3,500 companies, of which 440 were registered in the Cayman Islands tax haven. In the world, there are no fewer than 73 such tax evasion refusals, according to data from the Tax Justice Network, which fights against these paradises for the rich. The reason invoked is that they fuel poverty in the world.

4.3. Data Analysis and Results

Case studies

Netherlands Antilles

Authorities governing the four islands of the Netherlands Antilles have adopted "offshore" legislation to cut the tax for some passive income derived by competent local companies by 90 percent. Since 1940, the Dutch Antilles government has created a favorable climate for offshore companies. Each year, approximately 3,600 billion of foreign companies' money flows through banks in the Netherlands Antilles and the Netherlands. The Netherlands Antilles are also the new Quantum Fund home owned by the Hungarian-based investor George Soros, as well as branches of more than 50 international banks including ABN AMRO and Deutsche Bank.

Hong-Kong

No tax on salary, no fees for profits made from the sale of capital investments and many deductions from payments to the state for individuals. In Hong Kong, however, there is a standard income tax of 16% and a corporate tax of 17.5%. The Government of the Hong Kong Administrative Region has pledged to develop both tax and finance legislation so that this area becomes the most important Asian tax haven. To this end, authorities have eliminated property and inheritance taxes. And it is a big step forward considering that the Hong Kong government has so far earned nearly $ 200 million annually from its inheritance taxes. The rest of the taxes are so small that the city can be considered a genuine tax haven.

Switzerland

Aliens who become residents of this country can find here the tax paradise they wanted. That, after having previously negotiated the income that will be charged in the administrative canton where they will live. Generally, the revenue to be charged is equal to five times the amount paid for the rent of a dwelling. The European Commission has been fighting for some time against the Swiss tax regime, arguing that the tax exemptions granted to companies setting up their headquarters here are in fact illegal state aid that must be eliminated. According to Swiss officials, this fiscal policy applied to foreign companies annually brings the economy about $ 2.39 billion.

Liechtenstein

The little prince has been defending all banking secrets since 1926. Liechtenstein is one of the most “old” tax havens in the world. The royal families of Great Britain, Belgium and Luxembourg are among those who appreciate the professionalism and discretion offered by the financial institutions in the principality. Liechtenstein is governed by the same aristocratic family for 800 years and the small country is recognized for the best private banking services in the world. So the principality is a magnet for those with fat accounts. Officials here do not charge taxes for most of the companies or properties owned by foreigners.

Cayman Islands

Do you snorkeling and scuba diving as long as you can? Where else than in the Cayman Islands, UK-dependent territory, one of the most famous tax havens. Here is heaven indeed on earth. Zero taxes for foreign companies or residents. Here are 40 of the world's largest banks. In June 2000, the multilateral organizations officially classified the Cayman Islands as a tax haven, but also as a non-cooperative territory in the fight against black money laundering. The authorities' response here was to limit the confidentiality of bank information. The move has helped Cayman Islands be removed from the list of non-cooperative territories.

Singapore

Strategically located, Singapore is reputed to be an attractive financial center for offshore funds. However, this "Switzerland of Asia" is not sought for very low taxes because in most countries in this area taxes are insignificant. Singapore is attracting Asian riches for banking policies that protect information about the financial situation of customers. Legislation on the confidentiality of banking information entered into force in 2001 and since then the tiny republic has been recognized by the strictness with which this law is enforced. And Singapore does not give up on these rules because of the pressures from foreign governments.

Bahamas

A paradise for golf lovers and one for those who want to get rid of large taxes to be paid to the state. There are no personal income taxes in the Bahamas and no profits from the sale of capital investments. And those who have rich relatives can sleep peacefully. The state will not half their inheritance. However, temporary residents have to pay a percentage of the value of the property they own. But dolphin swimmer makes all the money. Bahamas are among the tax havens that quickly turn into prominent financial centers that can always compete with industrial cities like Los Angeles, Chicago, London, Tokyo and New York.

Panama

Some call it "Switzerland of Latin America", but the people of the republic strongly affirm that their country lives much better than there. Panama offers a solid financial infrastructure, and foreign residents and corporations are exempt from tax. In addition, living and administrative costs are minimal. But as the country is growing, it tends to become inconclusive for the large number of foreigners who are going to "retire" here. The cost of a property on the beach reaches $ 140,000. Celebrities bought apartments in the area for $ 10 million, also left themselves seduced the mirage of Panama.

Gibraltar

To become a permanent resident of Gibraltar, you need two letters of recommendation by which the government characterizes you as worthy of the new status. Individuals pay taxes only for the first 90,000 dollars of total income, which is a maximum of $ 56,000, regardless of the amount in your account. In Gibraltar, companies are virtually exempt from paying state contributions as long as they do not work here. They contribute to the local budget with $ 200 a year. There are, however, stamp duties for property and import taxes. Although Gibraltar is practically located in Spain, the region is actually an independent British tax haven.

The Isle of Man

The nation with the oldest parliamentary structure, dating back 1000 years ago - enjoys a successful national economy with well-regulated financial, banking and insurance sectors. The region has its own government, but is still dependent on the UK. However, Isle of Man officials administer as much as important things like taxes. This jurisdiction has for many years been considered a tax haven, but also one of the safest and most attractive such offshore areas. There are no fees for profits made from the sale of capital investments or taxes for capital transfers or stamp duties. There is a VAT and an income tax, but not more than 18%. In addition, the government has steadily reduced this percentage to 10%. The authorities are rushing that in the next four years corporations will no longer be taxed with any profit tax.

About 33,000 offshore companies are registered in the island. In addition, there are about 2,500 companies coming from other jurisdictions that are present in different forms. It is estimated that in Jersey only 600 billion euros, money that has escaped taxes, hidden in the accounts and in the funds of some fifty international banks. More than half of the 98,000 inhabitants are bankers, accountants, lawyers and financial advisers. For example, ads at St. Helier airport promotes tax advice and property management, not fast-food restaurants.

It's like a big country club, where you have to have at least 11 years of residence, goods of over 8 million and to buy a home of at least 2 million euros.

The financial sector is the fourth part of the island's economy, because corporate tax is very advantageous, and the maximum tax is 20%, with a cap of 125,000 euros per year, whatever the volume of revenue. There are no inheritance or surplus levy. For millionaires it’s a real bargain.

The per capita income is 22,000 euros, bigger than the English one, but the peasants (that's what they call the local jargon for those who are not millionaires and do not work in the finance sector) are fire and seem to grow by 3% of VAT to offset the drop in revenues due to the growing pressure on tax havens.

Ranked by the World Bank as the 5th richest nation in the world by GDP per capita, the largest sectors are insurance and e-Gaming with 17% of GNP each, followed by ICT and banking with 9% each.

Cyprus

Cyprus accounts for about 2% of the EU's gross domestic product, and yet its problems are seen as a threat to the euro-zone. Further, the incident sent shock-waves on US markets.

Over the years, Cyprus has built an extensive infrastructure of lawyers, accountants and other tax specialists, a system that has helped to attract Russian magnates. Currently, 320,000 companies are registered in Cyprus, with only 860,000 people. Most are ghost companies that cover foreign companies and wealthy people who want to avoid paying tax liabilities.

Such actions from potential “potential” countries in Cyprus can bring serious economic problems for the small island country, which is making great efforts to keep the vital financial industry on the line with a tens of thousands of jobs people.

The unemployment rate in Cyprus, already at 15%, could rise in this context.

5. Conclusions

Tax havens play a very useful role. Tax havens offer protection against excessive taxation. They work like a safe in the case of someone who has cash, offering security against thieves. When the tax burden exceeds a certain level, it becomes profitable to relocate or keep your capital in a more permissive jurisdiction.

The tax paradigm allows the continued accumulation of capital and investments, otherwise asphyxiated by tribulations and taxes. If tax havens were an economic aberration, then governments everywhere would not have invented “free zones”, tax exemptions and other differentiated treatments on their own territory, precisely in order to attract foreign investment. Moreover, tax exemptions are not a privilege. Tax harmonization must not always be done by increasing tax, not by reducing it! That is why people always try to escape these taxes.

Anyhow, the negative impact and effects of the tax avoidance upon the budgets of the countries have to be taken into consideration, and to attire new and better regulations. Thus, the governments should adopt and implement trade and fiscal policies that are capable of sustaining the economy and the ever human desire of avoiding rules.

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Implementation of Export Marketing in Transition Economies: Case Studies from Kosovo

Visar Rrustemi[1]

Abstract: This paper investigates the state, barriers, challenges and perspective of implementing the export marketing in Kosovo through a number of case studies by using the methodology of target sample survey, which to some extent can make generalizations. Like many developing countries, Kosovo faces a huge trade deficit. While researchers in generally tend to focus on macroeconomic policies to find the causes of deficit in foreign trade and the government undertakes reforms to improve the balance by boosting export, the largest part of the game often has to be played by the companies themselves under whatever macroeconomic actual policies at home and abroad. This is what the findings from this paper suggest when exploring the level and forms of export marketing in the surveyed companies. Although the companies engage in different export marketing activities, none of them reported any prepared marketing strategy in this respect. Instead, they still consider export marketing, which they use as synonymous with international marketing, to be part of their overall marketing strategy and export within department for export. What appears that they need more, isa merger or specialization of these two (export and marketing) into one separate department or the export marketing.

Keywords: Kosovo; trade deficit; export marketing

JEL Classification: F14; M31; P33

1. Methodology

The findings from this paper rely on the case studies of nine companies in Kosovo conducted through a survey questionnaire on site in 2015. The questionnaire contained questions regarding business performance in general, and focused on export and marketing related to it. A quantitative and qualitative research methods were used. Qualitative research has been introduced to easier identify the conditions, perspective and challenges in the development of export marketing. Sample survey made use of the target method, which is based on the personal judgment of the author and three important components: i) appropriate sample, ii)

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the sample is knowledgeable good problem, and iii) the quota sample. The meets these three criteria. First, appropriate or selected companies, particularly those which are most popular for export. Second, the problem of the development of export marketing has been recognized by the author. Third, the quota or number of selected companies provides representation in terms of basic population.

2. Introduction

Kosovo's economy is one of the poorest in Europe with a very large trade deficit. As of 2015, the coverage of imports by exports stoodat only 12.3%. This trend is present since 2001, reaching a maximum of 13.7% at one time (in 2010) and is likely to continue without any significant improvement in the decade to come.By the end of 2015, Kosovo imports mainly came from: Serbia (12.7%), Turkey (12.0%), Germany (11.9%), China (9.4%), Italy (9.2%), FYR Macedonia (5.0%), and Albanian (3.7%). The largest share of Kosovo's export for the same period was to: Albania (13.3%), Serbia (10.7%), FYR Macedonia (9.1%), Germany (4.4%), Turkey (4.3%) and Switzerland (4.3%). With all these and the rest of the countries Kosovo has a negative trade balance. Imports are dominated by machinery, household appliances, beverages, foodstuffs and tobacco, while exports by metal scraps and base metal (accounting for 4base metal (accounting for 45.5% of the total), mineral products, foodstuffs, and beverages. (Kosovo Agency of Statistics, 2016)

As a small and an emerging transition economy, Kosovo's development rests on trade openness and liberalization. The country is landlocked and due to its specific political and international circumstances (the so-called supervised independence) it has first to get integrated in region of Southeastern Europe. A study by Mulaj focusing on trade regimes and export prospects, found that Kosovo was making a kind of reintegration with successor states of former Yugoslavia, but still with worse negative trade balance than it used to have prior to the dissolution of the Yugoslav common market. (Mulaj, 2009, pp. 221-244)

The chances of making a substantial improvement in trade balance by increasing the volume as well the structure of export can be identified in three main directions. Like in many emerging economies facing huge trade deficit, an ideal approach is by attracting foreign direct investment (FDI). This has proven useful when companies from developed countries invest in poorer economies, then export the goods back to their home country at cheaper prices which may occur as a result of having access to cheaper labor force and raw materials in poorer countries. The second opportunity is the Government economic policies and reforms aiming to boost export. In this respect, most countries have moved to eliminate traditional Government erected barriers on foreign trade such as customs duties, or trade liberalization. However, the freedom of movement for people and goods cannot ensure an increase of export versus import. It may simply worsen the situation of trade deficit asforeign companies are eased to export to the country which aims at increasing its own. While the first two opportunities apply to national economies that are a result of Government policies, the third at micro level is perhaps the most important one as it depends on the companies themselves through export marketing strategy, which is the focus of this paper.

Regardless what macroeconomic policies are in place at home as well abroad, individual or group export marketing by the companies may be the decisive factor of success or failure. Favorable economic, in particular trade policies may not produce intended results if the companies do not elaborate their own strategies. Though the Government provides many inroads and plans to lower the trade deficit, it is the companies that have to act on their entrepreneurial way for their own interest, and that is to make more profit. In pursuing this objective, the companies by making use of export marketing strategies may often leave a national economy and its consumers in the mercy of higher prices imposed by exporters, thus a company which cannot compete at home with imported goods, may find the way to export with cheaper prices. This relationship is complex and subject to a number of factors such as market imperfections, market failures, dumping prices, contracts, and so on.

3. Literature Review

There are various definitions of international marketing, all of which gravitating to having a common goal as "opening doors to the world markets". In simple terms, international marketing implies a firm that undertakes one or more marketing mix decisions beyond national boundaries. In the US since the early 70s of XX century for the first time have started the different definitions for international marketing. Hess and Cateora defined international marketing as a business activity in which goods and services are oriented towards consumers of different countries of the world. The only difference in the definition is that international marketing activities occur in more than one country, but differs more as it takes into account the complexity and diversification which is found in the activities of international markets. (Cateora & Pervez, 1999, p. 6) Having reviewed several definitions of other authors, Bradley argues that international marketing means to identify the needs and desires of consumers in countries with different cultures, to offer products, services, technologies and ideas to give the firm a competitive advantage. (Bradley, 2002, p. 3) In principle, we understand what international marketing is. Only the name *international* has been added to marketing. However, this means that marketing activities undertaken in some countries must be coordinated between the countries. This definition is not without drawbacks. Putting individual objectives on the one hand the definition and objectives of the organizations on the other hand, the definition emphasizes the relationship between a customer and an organization. As a result, the definition of the significance of the relationship were unjust business - business, which includes transactions between the two organizations. In the world of international marketing, governments, quasi-governmental agencies, and profit and nonprofit entities are frequently buyers. For example, companies like Boeing and Bechtel have nothing to do with the products for consumers. Similarly, the Russian export agency, Rosoboroneksport, has adopted a Western style approach to marketing to sell arms from 1700 the country's military facilities. (Onkvisit & Saw, 2004, pp. 3-4) Here we should make a remark or difference in this international marketing; our focus is on activities, businesses, trade, sales, and customers in the commercial sphere, therefore references in the production of weapons, selling them, government subsidies and humanitarian, do not fall under the normal international and export marketing, and as such, they only can confuse and understanding of the concept.

Keganidentified international marketing with global marketing, as a process of orienting the resources and objectives by a company in global market. (Keegan, 1995, p. 1) According to Majaro, international marketing and globalization are not only interconnected but also stay in the dependency ratio. Thus, globalization appears as a marketing strategy. However, management at world level implies the definition of international marketing complex which can be described as local marketing and international marketing, summarized in the following way: i) Local marketing, which means manipulating the variables controlled by the company such as price, advertising, distribution, and product in a controlled environment composed of different economic structure, competitive, cultural values and legal infrastructure within the borders of a country, simply called marketing; ii) International Marketing is a complex international operation in which the primary objective of the company is to reach the right degree of synergy in all operations; iii) Export marketing involves the flow of international transactions. In achieving this goal, national marketing, export and import (foreign trade) apply; iv) Cooperative marketing is focused on international exchange, which includes export marketing, investment, joint ventures and multinational marketing. The characteristic of this marketing is that internationalization of production with access to high technology; v) Transnational marketing applies mainly to multinational companies with the aim of internationalization of capital which establish the companies or affiliations in different countries of the world. (Jakupi, 2008, pp. 12-13)

If we are satisfied with the definition and understanding of international marketing, it does not mean that we have cleared up the concept in our relevant case, or export marketing. Earlier we noted no any significant difference in the definition of domestic and international marketing, but from the activity and circumstances that occur and develop one and the other, they were different. International marketing is a broader concept and includes more activities. Exporting is a part or only a segment of the international marketing primary aimed at export, or the former is an intermediate stage of the latter.

As a consequence of the globalization and saturation of local markets, the companies can create opportunities to enter the new markets. Entering simply means that the company's existing products or services are also available in a foreign country. The main reasons why companies seek to enter new markets in foreign countries, according to Johansson, are: to exploit the market potential and growth, high level of profit, learning from a main market, pressure from competitors, diversified markets, learning how to do business abroad, and so on. (Johansson, 2000) There are different entry strategies used by the companies to access international markets, where Ayal and Zifhave distinguished two general ones: i) the strategy of concentration in the market, and ii) market diversification strategy.If the company chooses the first, focuses its efforts on a limited number of attractive markets, while the diversification strategy incorporates large number of markets. (Ayal & Zif, 2003, pp. 84-94) The concentration strategy is based on a long-term view of opportunities to operate in international markets. Bradley maintained that the company enters the market by committing resources in order to have long-term profitability through market penetration. This strategy sets the goals easily available to the international market and minimizes the risk of investment. A general advantage of using this strategy is that it is universal for all industries.Market diversification strategy is based on a relatively balanced spread of resources across a number of markets.The main advantages of this strategy are: flexibility, reduced concentration and a way to gain speed in several important competitive advantages. (Bradley, 2002, p. 3) The strategy of concentration provides a rapid rate of growth in new markets, especially products that are characterized by a cycle of very short life, thereby creating barriers for other companies to enter the market and thus result in higher profits for the company which manages to enter first.

To access foreign markets requires the strategies that are meant as plans for future actions. Export marketing strategies represent a complex approach of techniques and tactics that are appropriate and flexible conditions prevailing in international markets. Considering the fact that businesses have significant similarities between themselves, the question is the necessity of designing and implementing differentiated strategies and achieve the intended purpose. In essence, export marketing requires deeper and more sophisticated expertise in the four elements of e marketing mix, standardization, adaptation, aggregation, diversification, and competition. Deeper expertise should be available in response to the elements of different international environment such as culture, macroeconomic situation, political, juridical, social and cultural environment. These elements are taken into account when drafting the strategy that make up the offer. Information on international markets have a key role in the export marketing strategy.

The program for export marketing strategies explore the activities consisting of finding methods of production and instruments of international marketing mix. Although strategies in this regard are quite complex and flexible, the priority is what makes possible the homogenization of differentiated market segments. Strategies to increase the volume of export are a long-term process aimed at penetrating foreign markets and increase profit. For these strategies to succeed in foreign markets, the fundamental issue is to solve internal problems and facilitating export, and that should be preceded by research and analyses.

From development point of view, exports are classified as classical or traditional, and advanced or export marketing or exporter. Classical exports, as the name itself suggests, is the earliest form of entry into foreign markets. Itwas also known in ancient times when various tribes exchanged goods, initially in the form of tramps, and later in exchange for coins. This export form still exists today. The difference between historical stages is that today without proper research inthe time of global competition, it is difficult to export. Advanced or export marketing is the most developed form of export involving a range of activities to be undertaken prior to entering foreign markets.

By the forms of engagement and dominance, the export can be direct and indirect. The first or direct export has to do with the case where the producer or exporter sells to a buyer in foreign markets. If a company that deals with export, develops a section that deals with issues of export or sale in foreign markets. Direct export has some advantages manifested through a better control of the majority of marketing stages of entry and the launch of products in foreign markets. Such export goes step by step or in the form of scales.The second or indirectexport is the manufacturer that exports using independent organizations, for example, the use of specialized agencies for export, associations, partner companies, and authorized representatives with the exclusive right to import. It is undertaken in order to reduce the cost of production companyto enter into foreign markets and export performance, or to share these costs with intermediaries who should be paid.

Marketing is a process that takes exporter in several cycles or phases. First, the company explores opportunities for penetration in foreign markets and designs the plan for export. The plan is made based on the information collected, market research and marketing exporter. During this phase, the company identifies the resources and assess the causes of the motives for export. Entry into foreign markets is not easy and carries large costs on research, determination of market structure, segmentation, creating the system of distribution, competitive analysis, and identification of key contacts.

Preparing the marketing strategy is a stage where the exporter based on combined assesses export capacities of the company. The strategy must contain details of examined opportunities wand entry barriers in each market, as well as to identify customer requirements in target markets, who are the customers, who will sell goods, what are conditions of supply, marketing mix elements of international distribution channels that will be used, and what promotion instruments will be used. Once these activities are carried out, preparation for the export marketing campaign follows. The campaign is based on placing the information with which potential customers are informed about the type of products that will be offered in target and segmented markets. Depending on the feedback coming from the customers, the draft implementation plan of export marketing is prepared. (Previšić & Došen – Đurđana, 2000) It is understood that the implementation plan is not yet secured the success of the enterprise for export, because foreign markets often appear unpleasant surprise because of unknown environments and other enterprise strategy aimed at the same markets.

Export marketing as a broad and complex activity involves, among others, partner arrangements, the most known of which are: consortium export, cooperative export, "piggy back" marketing or complementary export, lohn works, and leasing. The works associated with export marketing include: compensation, barter, back purchasing, switch, and factoring. Given that these are the areas which the surveyed companies are mostly found to apply one or more of them, it is useful to discuss what they imply.

Consortium export occurs when the company is small and does not have sufficient capacity to make export. Two or more companies join their efforts as a consortium with a common goal - export. Union brings greater strength, while profits in the consortium is shared proportionally among parties that constitute it. The consortium advantage is that it allows the mobilization of resources and capacities that are dispersed in two or more business entities to provide synergistic effect with the greatest impact on marketing. When the companies organize the consortium to export, they become more attractive for potential agents and distributors, mobilize more members within the group, thus affecting the country's economic development by using more resources rationally, and enable to overcome more easily the potential risks arising in the process of export marketing. *Cooperative export* is similar to consortium, but here the companies need to cooperate with other partners to reach out qualitative outputs in certain foreign markets. Companies in the leading role in export marketing get more familiar image which place the products as their own, although the products can be produced in a cooperative way. Cooperation can be developed in various forms, for example, a company specializing in the production of certain parts or byproducts which are then assembled and finalized by another partner. Export Cooperative has special importance because of its specialized work to achieve higher productivity in manufacturing, more efficient distribution, and greater rationality in the price of exported products. *"Piggy Back"* or complementary export marketingrepresents a form of contractual joint exporting products and services to foreign markets. This includes exporting by the leading company and accompanying member. The leader makes the choice, and the accompanying member does not have promotion to foreign markets. Although attendants are not equal to the leader, this marketing has its advantages expressed in complementary basis. *Lohn works* are a specific form of exports, which are based on the completion of the production process using raw materials from ordering to production of final products. The reason for these works is that companies in different stages of production have alsodifferent capacities. Thecontract is signed between the companies having raw materials, and those that have manufacturing capacity in order to export. Lohn works can deal with byproducts and final products. The advantage of these works is to use the capacity, manpower, income generation and keeping active the production functions, buttheir shortcoming is that it diminishes creative abilities fragmented into the company's work. *Leasing works* are a special form of international marketing, which means the lease of fixed assets to other entities. Partners (lender/donor and recipient/borrower) enter into contracts. The interest of the lender is to generate incomes from the rent of the assets by the deadline determined in the contract. After the deadline, the contract may be extended or terminated. The leaser in some cases may also decide to acquire the assets of the lessor at market prices in case their use has benefited and has concluded that in the long run it is better to put forward payments for the activities to be carried out. Both contracting parties find the benefits of leasing on their own affairs. Another advantage of leasing is that the funds for the use of modern, productive, with new methods, and technical achievements in certain environments are not available to many. This is why leasing as a form of export marketing occupies a very important role.

Compensation as a work related to export marketing can be in the form of commodity exchange of goods by value, and a little exchange is compensated in money. It is very old form dating back to the tramp, but is still widespread in the modern world, especially in the countries with weak or not convertible currency. These arrangements are a form "piggy back" discussed above. Compensation works have their own principles, such as: i) bids and counter bids clarified in the contract; ii) exchange for commodity goods that can be from the same industry or economic sector; iii) differ from one area to another; iv) cash payments under the contract; and v) may include bank guarantees. Full arrangement occurs when the value of the commodity invoiced is reimbursed 100% by the company of the other country. The partial arrangement is considered the invoiced value compensated by a percentage of the commodity (say 70%) while the rest of the value paid in cash. *Barter* works are also very old form of trade. Here the in the compensation works money is not participating in the exchange, but goods are directly exchanged with the same value and quantity between countries or companies. The other difference is that the compensation works occur combined with arrangements, and to the barter the procedure is simpler. Barter is more prevalent in the countries with large outstanding debts. To avoid burdening the state with even more debt and avoid stagnation, the works are implemented through barter exchanges. The advantage is not in their simplicity, but also in certain circumstances when presented as the way out of debts or lack of money. Repurchasing isa kind of activity where the seller works by the buyer feedback arrangement, reaches a value equal to the selling. Its most recognized name is as parallel trade. Although separated, these works are contingent on one another. However, the contracts have to be signed separately. In export marketing it engages in transactions by parties who find common interests, especially in industrial marketing arrangements (equipment, machinery, transport vehicles, etc.). *Switch* are the work of third parties acting as intermediary in dispute resolution between the contracting parties. "Switch", sometimes known as "swap" (change of role or country) works are known as trilateral trade, where each party has its own interests. The advantage is that more parties are engaged, giving the trade multilateral character.Weaknesses occur when switchers offer discounts that are available for the same products and thus make the destabilization of the market, because the switchers' interest are only in what are paid for, and may not be interested inwhat prices the exported goods are sold. *Export factoring* implies intermediation in dealing with the financial means to achieve efficiency and safety in the sale of products in foreign markets. Specific mechanism is related to export marketing works that includes three entities: the client as seller or exporter, the buyer, and factor. The exporter sends the goods to buyers in a foreign country, and entrusts the work related to these contracts as factoring. Factoring in export marketing is important because it accelerates trade and contributes to increased competitiveness, it eliminates visible dangers to credit, reduces the costs and time for export, and increases the volume of contacts and information between different entities by making many transactions more integrated and interdependent. (Katz , 1990)

Entering the foreign market as a component of export marketing provides the highest level of strategic cooperation, but this also requires large commitment of resources and analyses.

Today, mutual efforts to promote foreign direct investment (FDI) are made by host countries as well as foreign countries, with the main objective to boost export. FDI have priority in many stages in international trade that require the import of raw materials. However, barriers are common and they reduce the rate of entries. From a strategic perspective, the barriers can be created or used to gain competitive advantage by the company. Effect of entry barriers is expected to reduce the flow of entry into the industry. (Mata & Portugal, 2004) Sudarsanam considered increasing the effectiveness of barriers in the market as a condition by other elements of the market structure to created or defend monopolies. (Sudarsanam, 1992) According to an earlier finding by Porter, there are seven major barriers to entry that companies face when entering or after entering foreign markets: i) economics of scale; ii) product differentiation; iii) capital requirements, companies must invest large financial resources to compete in the market' iv)the costs of relocation; v) access to distribution channels; vi) independent costs of size; and vii) government policy (licensing or permit requirements restricting access to raw materials, subsidies or favorable development of government policies affecting specific industries). (Porter, 1980)

In general classification, there are two types of obstacles: tariff barriers and non-tariff barriers. Customs tariffs are a common package as barriers. When the export tariffs are levied, they usually apply for scarce resources in the absence of the exporting country or raw materials, or more or less to serve the logic of protection of local production.The purpose of setting the tariffs by the Government is to collect tax revenues, protect the local industry, trying to keep foreign goods out of the country, and stimulate domestic consumption. Given the scope of tariffs, in comparison between the protection and income, the second goal or revenue generation is relatively lower than the first.Taxes under derivative transactions or collected at any point in the stage production and distribution chain, and are levied on the value of the product, including taxes charged to the product in the early stages.Non-tariff barriersare more subtle or not so obvious. As such, they are even more diverse. Their impact may be more devastating than the tariff barriers. Common non-tariff barriers to entry, include: classification, assessment, documentation, product requirements, and quotas in trade.

4. Specifics of Exporting Marketing

Marketing specifics of SME exporters in Kosovo to a great extent can be superficially understood by the general economic situation and very small volume of exports. They will be better understood by studying the empirical data from the survey with some of the companies that export. But there are some other export marketing specifications in Kosovo. The first is that most companies by their profile are generally small size by their number of employees and resources available. This situation presents a double limitation on the capacity required for a genuine strategy to export marketing strategy and its implementation. They are mainly oriented to regional markets that are emerging economies like Kosovo with similar drawbacks (large share of the informal sector, high level of corruption, poverty widespread and in general small purchasing power, fragile political and institutional stability, etc.). Although many Kosovo companies and businessmen traveled abroad and have seen marketing experiences in foreign companies, what is needed it is not an attempt to copy their behavior, but learning to respective conditions of Kosovo. Strategic decisions can be extracted and operational decisions by ad-hoc situations (from case to case) when appropriate, butthis approach should be in the framework of strategic decisions.

Kosovo as a small and underdeveloped country, in particular SMEs, to some extent are facing a shortage of high-profile experts in the field of marketing. Very good experts have either migrated for a better life, or are involved in various governmental sectors, public and international organizations operating in Kosovo. The level of experts in the private sector is insufficient. Creativity and innovation are low. Marketing programs and concepts are oriented mainly from necessities to business survival and rarely can one find a well-planned strategy. Perhaps this is due to the general circumstances.Another reason of failure to implement or insufficient implementation of export marketing is that Kosovo is a small country that means little space to operate.

5. Case Studies

As explained in the methodology section, the collection of primary data is carried out in the form of survey. Quantitative and qualitative data on their economic indicators were collected and analyzed. The following case studies are presented for each company separately: Devolli, Stone Castle, Elkos, Pestova, Water Rugova, BirraPeja, NZB Union, SL, and Janina. This section discusses the profile of each of them.

1. Devolli

Founded in 1990, currently employs about 900 workers. Deals with production and trade (export-import) of a wide range of products in food industry.In Kosovo it is mostly known to produce juices “Tango”, milk “Vita”, and Turkish coffee. It has an installed production capacity of 50,000 liters of juice per day, and 12,000 liters of UHT milk per hour, and is one of the biggest manufacturers in the region. It has cooperated with “Tetrapak” company which has supplied the Swedish technology, with the EU standard and American FDA. It has invested heavily in network of sales, thus making one of the largest networks of distribution in Kosovo and the region.

It is a partnership and has 5 founders, of which 2 are the owners, managed jointly by the owners and the manager. Here there is a leadership through the network of customers and clients. Besides trade as its main, and production as a secondary activity, it also deals with services. Legal framework, especially for export it considers favorable to some extent and states that there are obstacles to export to countries of the region.Distribution and sale in Kosovo is managed through seven regional sales centers, most of which are located in Peja (where it is based) and Pristina. Distribution activities in Macedonia and Albania are made by trucks. Has the golden medals "The Century International Quality Era Award", on April 18, 2005 in a competition of 71 countries of the world.

Despite relatively good business results, although falling compared with previous years, highlights three key obstacles in its activity, and: 1) taxation and customs; 2) the poor state of infrastructure (roads, electricity, telecommunications); and 3) unfair competition that comes from the informal sector, smuggling and tax evasion. Export marketing strategy still is without elaboration in details, because, as stated during the interview, the economic circumstances in Kosovo and the region are in some sort of crisis, and this has prevented the strategy and action plan for expansion. The biggest rise in prices of food items brought not so much a decline in sales. For as much as prices rose last year, buyers who do not afford the higher prices of imported goods, returned to Devolli. A concern for the company is that if the purchasing power of the population continues to fall, then this could also affect the company's plans for new products and improving the quality of existing ones for which investment is required.

2. Stone Castle

Earlier known as NBI "Orahovac", has been part of the international wine market. During the 1980s the company has exported 32 million liters of wine in the German market. NBI "Orahovac" within which operated the winery, was one of the largest in the Balkans. The wine cellar has the capacity of processing about 70,000 barrels a year and storage capacity of about 500,000 Hl.

On July 31, 2006 the agreement was signed and strengthened between the Kosovo Trust Agency and the new owners to sell NBI "Orahovac", that became as the New Co StoneCastle Vineyards and winery L.L.C. The company to main wines and their derivatives:1) red wines: "Cabernet Sauvignon", "Merlot", "Pinot Noir", "Amphora" and "Vranac"; and2) white wines: - "Rhine Riesling", "Chardonay", "Elena" and "White".

Wholesale distribution is done through representatives (El-Kos, and ETC). Distribution in the region is done through various distributors, namely the companies that are authorized such as Rack, Ivena Commerce, and Karanta. Only few people are assigned to marketing who make promotion in the mass media (TV, radio, newspapers, magazines, internet). It hopes to succeed in international markets, although this has not yet had any elaborate strategy for export.

The products are high quality with affordable prices for customers. Design and packaging are another element, which together with brand products, have become popular products company.To improve the quality of wine and a new design of bottles, labels and other associated parts of the final product, it expects to penetrate the European and world market. At the moment there are concrete offers and is in negotiations to enter into contracts for the sale of wines in Switzerland and the

Scandinavian countries. Currently it exports to Albania, Bulgaria, Croatia, Serbia and Macedonia. It also exports a little in China, and the USA. In the local market where there is a competition, which pushes the company to be more oriented to export.

3. LLC "Pestova" -Pestovë

KPS "Pestova" is private company founded in 1991 by an owner, mainly with his own resources. Itproduces, imports and sells seed potatoes, has the factory for manufacturing of crisps ("Vipa Chips"). Potato is produced by the company and in collaboration with other small farmers. Potato processing is done in the factory, which has an area of 5000 m2. Currently it employs 21 workers.The company consists of four departments: i) Input trading mechanism; ii) production and processing potatoes; iii) marketing and sales; andiv) finance/accounting.

"Pestova" is also the exclusive representative of the Dutch company "AGRICO" for the sale of seed potatoes for Kosovo. In cooperation with this foreign as well as with the Ministry of Agriculture of the Republic of Kosovo, it produces and sells potato seeds for Kosovo. It is the distributor of a company from Poland "CLICH" which produces agricultural mechanization, and is representative for Kosovo of chemicals and fertilizer Belgian company "Hermo". Potato products are: potatoes for consumption, seed potatoes, potatoes for the production of chips. The types of chips produced, are: VipaClassic, Vipa Ketchup, Hot Pepper Vipa, Vipa Sweet Pepper, Vipa Beef and VipaPizza.

The distribution until 2008 was made by the company itself and by mid-2008 due to the increasing demands of customers, through authorized distributors which proved more effective and beneficiary. Within few months, sales increased by 70% for the chips and brought costs reduction by 30%. This type of distribution applies only to chips/crisps.

It exports to Albania, Macedonia, and Montenegro, in which it has authorized representatives; distributor for Albania is "VllezeritDedja" who is also the distributor of potatoes and agricultural machines, and for Macedonia is "Dauti Commerce" in Skopje.Physical distribution in Kosovo is made by the company trucks. Kosovo competition is weaker than in other countries. The objective of the company is to be present in the market of Albanian by 30% of share.

4. Natural water "Rugova"

This company started operations under the name of "Rugova Water", which was established on 28.11.2006, where in the beginning there were only 7 workers employed that gradually increased. The main activity is water bottling. Water bottling plant in DrelajRugova is close to the source of an area of 50 acres and comprises 1000m² facility.

Water flowing from a natural spring lies at an altitude of about 1000m. The main product assortment includes the following: Rugova water: 0.25 L 2. Rugova water: 0.5 L 3. Water Rugova 0.75 L 4. Water: 1.5 L 5. Water Rugova: 5 + 1 L 6. Water Rugova: 12x0.5 L.Transport if usually made by the vans to the final consumers which are shops, supermarkets and restaurants.

The distribution channelsare direct. The cost of distribution is high because they have to be present wherever it is possible for customers, so this cost is a burden tothe volume of sales.The company's competitors in Kosovo are numerous; Bonita, Dea, Kika, Don Aqua, Water Well, Water Ice, which are local companies, and importers.

5. BirraPeja

It works since 1971 as a socialistcompany until 2006 when it was privatized. The factory is located in the city of Peja, in a total area (including its infrastructure) of 24 ha. It produces beer, a products which is present almost everywhere in Kosovo market where alcoholic beverages are sold. In the domestic market it has involved a number of distributors. The company "Agro Trade" is the distributor for the city of Pristina, in Ferizaj-NT "Shkodra, Prizren-NT" "meteor", Glogovac-NT, "Vjosa", "Gjilan-NT", May 1 "Mitrovica" Liridoni "Gjakova- "star Bec" Therandë- "Lila Com", andFusheKosova "Elkos Group".

Is the leading Kosovo company which managed to penetrate foreign markets, where there are authorized distributors: to US Illyrian Import, for the UK, Switzerland, Germany, Netherlands, France, Belgium, Italy, Denmark "Kelmendi Import-Export", the Albania "sh.pk Kuinda" Bosnia and Herzegovina DOO-"Sam Pino", and Mountain of black –red "Monecco".

Beer product is diversified into some form of packaging, and with different volumes:

- Glass bottles in returnable crate 24x0.33L, and 20x0.50L;

- Pack with refundable bottles 20x0.33L, and 6x0.33L;

- Premium bottled beer package irreversible 20x0.33L;

- Package of bottled beer without alcohol 24x0.33L;

Since it enjoys a monopolistic position in the market as a producerin Kosovo, it is sponsor of many different activities through promotion. It was declared the best company of the year in 2008 and the best company in 2009 by the Ministry of Trade and Industry of Kosovo.

Unlike most of the other companies surveyed, the Peja Brewery has managed to implement some kind of export marketing. Slovenian partner "LaskoPivo" which is also the co-owner is involved in lohn works with it. Cooperation takes place in the form of specialization, where Slovenian partner deals with the production of some components of beer. The leading role in marketing is played by BirraPeja exporter due to its image which it has had and has in the market. In complementary export marketing, the Slovenian partner appears as a member in the role of assistant to export and share in the benefits on complementary bases. Since beer is subject to certain stages from production to final product, BirraPeja is engaged in lohn works.

6. Elkos

Founded in 1990 and re-established in 2000, deals with the production and trade of various commodities and selling them through wholesale and retailin food industry. It is a partnership and has 5 founders, of which 2 are the owners of the company. It employs 330 regular employees. 300 of them work in the sales points and the factory, and 30 in administration consisting of 26 males and 4 females. The average salary of workers in trade and production is 250 euros and 350 euros for those in administration. In 2011, the export value represented close to 20% of turnover.

There are also plans for the future to expand into other locations within Kosovo and the opening of new lines of production, improve the quality of products and services, resume the production of some products sold before, but now it had to stop them as their sale are not proving profitable.

The company is distributor for BirraPeja in Fushe Kosovo, but there is no any form of export marketing. Its export is made through authorized distributors and representatives in Albania and Macedonia. It is the largest importer of foodstuffs in Kosovo and the leading supplier of supermarkets and shops. Raw materials for the production and export of products are provided mainly from imports (flour from Serbia), and for meat products from Brazil by exporters to Kosovo.

5. Janina

The factory is producing plastic tubes for circulation of warm and cold water, and central heating. It deals with the sale of additional equipment which is needed for the installation of water. It started working in this activity since 2003 and is one of the most successful companies in Kosovo in the production of plastic pipes. It is divided into production and sales sector. It employs 15 workers and covers 80% of the market share for of plastic pipes in Kosovo

The company has grown to penetrate the market of Albania, Macedonia, Serbia, Montenegro, Greece, Switzerland, and Slovakia. Its products are also equipped with a certificate of SKZ-testing laboratory in Germany, which is internationally recognized.It plans to invest in new projects worth over € 2,000,000. By the end of February 2010 already had invested over € 1 million. Investment include:

- The establishment of the new plant;

- The purchase of new machinery for plastic pipes with a capacity 5 times greater than the capacity of existing machinery;

- Opening of the new line of laminate products (plywood with plastics);

- Together with the Swiss partner plans to start the production of and electric brushes.

For the last two, Janina projects will be the first company that will introduce these new products to the Balkan market.

6. NZB Union

NZB "Union" carries out various construction and craftsmanship activities, ranging from stone work, construction of houses, flats, different centers, construction of roofs. Deals with handicrafts, paintings, ceramics, floors, water system, central heating, hydro-thermal insulation, metal works, and the manufacture of doors, windows and cupboards using material from Germany "Roplasto". Located in Industrial Zone, p.n, Pristina, established the contact with "Roplasto" through participation in trade fairs in different countries. Its call for collaboration received a positive response. The agreement for collaboration was concluded in 2008.

The German partner has its interestin the lohnexport marketing for the production of plastic doors and windows, for which it has a contract with.The material arrives through commercial agents to "Roplasto" by trucks. This new material has made the company superior over other competitors in respective sector.

The main competitors of the company are: Rehau, Aluplast and Salamander."Union" in the promotion strategy has been and is focused on advertising on television, radio, direct promotion via leaflets, as well as participation in trade fairs organized in the sector of construction in Kosovo. It mainly exports to the markets of the region (Albania, Macedonia, Montenegro).

7. SL

SL is a company in the food industry. Initially it had done market research for the start of production of various kinds of bread, and chose the production of a single product - standard 500 gram bread. Due to growing demand, it has doubled its production capacity by installing a second production line in the existing plant. Sales of this product increased rapidly even though the company has virtually no promotional activities.

The company has two shifts working in manufacturing. Each shift has 10 employees who have sought training and preparations. Four of them have been specially trained for baking cakes. Four others are employed in stock and ensure efficient flow of products. Fourteen other workers work during the day and about seven in the administration. Therefore, the total number of employees including 25 auto-drivers car currently reach about 70. It varies and sometimes reaches 80 people.

Besides small bakers in Kosovo, there are two other major competitors in the production of industrial bread wholesale in order. Both produce a similar kind of standard bread with a similar price, but not with the same quality. The price is the same with the bread of other producers, which increases competition. Knowing that the bread is anelementary product for consumption, the marketing activities have been small and with limited opportunities for product differentiation. It does not deal with short-term export plan and does not intend to enter into such efforts.

6. The Current Level of Export Marketing Implementation

Since we got some of the major companies that export, a kind of generalization on export of Kosovo, as noted in the methodology, can be made. This section relies more on the data related to export, by which we can make descriptive evaluation on the current level of implementing the export marketing. Table below summarizes the main figures for each surveyed company.

Table 1. Business performance indicators and export as of 2014

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Source: Author's survey data

Figures from the table above suggest that export is dependent on several factors and varies according to the company size and sectors. Larger companies established earlier or with longer experience in business have greater volume of export and are more likely to implement export marketing than small ones. Export in relation to the number of workers turned out not to be so consistent with the company size. For example, Janina although much smaller size than Elkos, made largest export compared to its fixed assets. The reason for exceptional cases where small and newly established companies are more likely to export, depends on a number of factors, among others, the type of activity and products. This suggests that companies like Janina alongside local market may have as its primary target export since its establishment. Others have gone through a process of identifying and meeting the customers' needs at home market, then became more export oriented. If the home market is saturated with certain products and competition for them is fierce, this does not mean that the companies cannot enter production for export. The companies where the main activity is focused on production, are more likely to develop partnership arrangements as a type of export marketing (“BirraPeja”, “Union”). Also, the companies in collaboration with foreign partners from developed countries such as “Union” can more easily and quickly penetrate foreign markets through partnership arrangements than those that did not have this kind of partnership.

Although we encountered some forms of export marketing, they are more a development or evolution of classic export, which isa dominant form and without any export elaborated strategy. What we witnessed from the survey as production capacities, transport, pricing, distribution points, promotion, are elements of marketing mix, not the export marketing strategy. The products are of high quality and present in the local market as well as abroad at affordable prices, but at the same time Kosovo market is flooded with similar products sold at higher prices. Let us take the example of bottled drinking water “Prolom” from Serbia, “Radenska” from Slovenia, and “Jana” from Croatia. All of them are sold at higher prices than domestic bottled water. A 450 gram of “Medex” brand honey from Slovenia is twice as much more expensive than of Kosovo’s counterparts. Why does this happen, and why the shelves in Kosovo supermarkets occupy more space than domestic similar products? The explanation can be found in the export marketing strategy, in which Kosovo lags behind. It is understood that the companies cannot do more in this direction on their own. Table below summarized the main forms and arrangements used by the surveyed companies.

Table 2. Formsand arrangements of export marketing

Company	Export	Main export destination	Distribution	Export marketing
Devolli	✓	Albania, Macedonia	By the company and its authorized distributors	No
Stone Castle	✓	Albania, Bulgaria, Croatia, Serbia, Macedonia	Authorizes distributors	No
Pestova	✓	Albania, Macedonia, Montenegro	Specialized distributors	No
UjiRugova	✓	Albania	Importers	No

BirraPeja	✓	USA, UK, Switzerland, Germany, Holland, France, Belgium, Italy, Denmark, Albania, Bosnia and Herzegovina, Montenegro	Authorized distributors and representatives abroad	Cooperative export, complementary export marketing, piggy back, and lohn works
Elkos	✓	Albania, Macedonia	The company itself	No
Janina	✓	Albania, Macedonia. Serbia, Montenegro, Greece, Switzerland, Slovakia	Authorized distributors	No
NZB Bashkimi	✓	Albania, Macedonia, Montenegro	Specialized distributors	Lohn works
SL	X	None	None	No

Source: Author's survey data

The most frequent countries in the third column "main export destination" are the ones that we also came across when referring to the share of overall export by country (Albania, Serbia, FYR Macedonia), which are Kosovo's first neighbors. The distribution network in most cases include the company itself and/or authorized distributors. Only in one case the importers come from Albania to import "UjiRugova". In another ("SL"), despite being a manufacturing company, it has not yet managed to make any export. The last column in Table 2, which is of particular importance, highlights that only two out of nine companies apply the forms of export marketing. In general terms, this may partially explain the very small and underdeveloped export of Kosovo.

7. Conclusions and Policy Implications

Export marketing in a small and emerging economy such as Kosovo is still underdeveloped both at national and firm level. Even marketing in general has yet to evolve and catch up with modern trends. The reason behind this underdevelopment can be traced back to decades of socialist economy, loss of former markets, and the difficulty to penetrate foreign markets today in a globalizing economy. The presence of many international organizations and missions in Kosovo, among others, development agencies and interested companies for investment, has brought a new approach. Yet, the figures on foreign trade, especially from export perspective, and the evidence from case studies, suggest that Kosovo's export perspective remains limited to neighboring countries and not even being able to match import or lower the trade deficit.

The small volume of export is mainly made through classical export, but there are some promises to intensify the rest of the forms to penetrate in foreign markets. Case studies identified the causes of smaller export, which largely can be attributed to the lack or underdevlopment of export marketing strategies. Some export marketing types that are being implemented by the companies in question, appear to generate better results than through classical export. Although there is a lot of discussion as how to make the economy more export oriented, concrete measures at national level should emphasize the importance of FDI, where foreign companies, especially from developed countries, are more diversified and experienced. Among others, FDI can bring a new enterpreneurial spirit and the experience in exporting across countries. What Kosovo Government can do and should do, is to prepare a so far missing export strategy. Such a strategy should focus on the parameters of the sectors where there are more potentials for export, then analyze the strategies of penetration into foreign markets, and support the development export marketing arrangements.

At micro or company level, export can be boosted if export marketing strategies are detailed into the types of export. If a product or service is indeed of good quality and with favorable prices, it is still insufficient to enter a foreign market. Marketing is the key, even if the products are not competitive at home but may be demanded abroad. Indian and Turkish restaurants may find it difficult to compete in their own countries, but in the UK and Germany apart from higher demand, follow their import for cuisine from India and Turkey. Although Kosovo partially has her own cuisine, there has still not been any serious attempt neither to market traditional recipes nor exporting them. If a business is not specialized in industrial production of such foodstuffs, it can act as a collection point and make arrangements with other businesses which can produce and export. A good export strategy would be if the activities in this respect are coordinated with specialized agencies which have better access to foreign markets. At present, Kosovo companies with limited resources may prioritize a consortium as an advanced form of export marketing. The benefit from the consortium would be the evolution of other export marketing forms. To make this strategy feasible, a support from institutions and easing of conditions for export is needed, while the task of the companies remains to improve the quality of their products and services to make them more competitive.

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Do Apprenticeships Increase Youth Employability in Romania? A Propensity Score Matching Approach

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Abstract: The paper aims at bringing together two main current research interests: youth employability on the one hand, and use of econometric techniques in order to evaluate the impact of different policy measures, on the other hand. The topic of youth employability is very actual for Romanian labour market, as early school-leaving and the rate of youth not in employment, education or training are among the highest in EU and show no sign of going to decrease significantly on medium and long term. Work-based leaning, as apprenticeship or internship programs are lately promoted as efficient measures to address both the need for a better school-to-work transition, as well as a better education-job match. The paper provides some insights regarding the youth experience of apprenticeship in Romania and empirical evidence to support the hypothesis that work-based programs could increase youth employability. The empirical findings where obtained through a counterfactual approach, by applying the propensity score matching technique on a sample of respondents selected from the Flash Eurobarometer 378 dataset. Our results confirm a low but positive impact of apprenticeships on youth employment in Romania. Also, the analyses confirm that apprenticeships address more to low educated young persons, so the impact of the programs is even more relevant as could be an effective measure for increasing youth employability of disadvantaged youth.

Keywords: apprenticeship; youth employment; counterfactual analysis; propensity score matching; impact assessment

JEL Classification: J24; J08; C21

1. Introduction

The financial and economic crises of the last decade contributed to the aggravation of youth situation on the labour market through the entire European Union. But, after the crises, some countries undertook successful measures and improved youth participation to education or to the labour market, while others still fight with the

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issue. But youth with low levels of education were severely affected by the crises and the recovery of their situation is still expected to come (ETUI, 2012a).

Youth are usually disadvantaged by their lack of work experience in accessing labour market, mainly in times of supply redundancies. But if you are young, low educated and without work experience the opportunities to find employment are among the lowest, both in time of redundancies or high demand (ETUI, 2012a; 2012b).

Moreover, both employment opportunities and education opportunities are not distributed equally among population, high disparities between different groups being evidenced by previous papers (rural-urban areas, ethnical minorities, groups with different economic background) (Zamfir, 2017; Checchi & van de Werfhorst, 2014; Green, 2011).

A wide range of policies were developed in order to increase the flexibility of working arrangements and to facilitate the mixture of opportunities for both learning and gaining work experiences (ILO, 2017). But, as said before they are available mainly for those continuing their education, and, as it is easily presumed they are also not also equally distributed among population.

Skills development, even if we are referring to core ones (theoretical or practical ones) or to soft skills, remains the only proven way to increase the youth access to the labour market (ILO, 2013).

Apprenticeships are among the measures designed to support both youth without qualification and companies. They are programs allowing companies to hire (by contract) and to train youth systematically for a period of time. Apprenticeship can be organised in companies or on a school base (depending on the system in place in a specific country), but what makes them distinct is their rather long term duration and their end with a recognized qualification (ILO, 2017).

Even if Romania had well developed links between education and economy during the communist period, during transition and deep economic restructuring, these links between education and companies were severely affected. The current apprenticeship system has its roots in a law enacted in 2005, and then changed repeatedly during the following years. But the law and its changes had no success as in 2012 only 60 contracts of apprenticeship were registered by authorities (World Bank, 2015).

This paper aims to lighten the topic of the importance of apprenticeships in Romania and to empirically test their impact on youth employability, through a counterfactual approach. The research questions that we put to test, through a counterfactual scenario is as such: *Does the participation to apprenticeship programs increase youth employment?*

2. How Does the Theory of Change Work?

But why is so much emphasize put on the importance of apprenticeships (and more widely on traineeships) for a more rapid and smooth school-to-work transition? Countries such as Germany, Austria and Netherlands have a long tradition in organizing educational system on a dual learning bases, and strong institutional arrangements facilitating both the involvement of companies in providing skills to the young generations, as well as the youth rapid insertion into jobs adequate with their qualification (Saar & Ure, 2013). But this model function properly in countries were specialization is valued and generate significant returns in term of wages. Therefore, companies will be interested to attract, train and retain their workforce, while youth will be interested to follow long term work-based learning as it represents a guarantee for a rapid employment afterwards.

But there are also empirical evidences that apprenticeship increase youth labour market outcomes also in countries that are not associated with the dual system model. The measures target on early school leavers or on those on risk to become NEETs proved to be efficient also in countries such as Slovenia, Slovakia, Ireland and UK (ECORYS, IRS, IES, 2013).

Kluve et al. (2016) carried out a significant research endeavour to systemize the findings of 113 impact evaluations based on counterfactual methods on active measures addressing youth employment in both developed and developing counties. The findings of the study evidenced the positive impact of skills development programs on the probability of youth to find and maintain a job, on the quality of the employment as well as on the youth wages. But, according to the authors, the results of the investments in skills development are not so rapidly evidenced and vary a lot with the country income level and also with the design of the intervention. The benefits of investment in youth skills development are higher among low and middle income countries, as in fact they have large cohorts of low educated people. Also, the above mentioned study revalidate the findings of previous studies underlying that when in-classroom and on-the-job training are combined, the outputs of the programs in terms of labour market outcomes are better (Kluve et al., 2016; Tripney et al., 2013; Fares & Puerto, 2009).

So, most of the studies pointed out to the benefits of apprenticeship on the youth employability and their labour market outcomes, so it is expected to find the same relation for the Romanian case.

3. Data and Methodology

In our case, the counterfactual analysis actually consists in determining what would have happened to those respondents that followed apprenticeship programs in the absence of the treatment. The counterfactual scenario is actually a hypothetical one, so statistical methods and proper design of the counterfactual analysis are needed in order to obtain a reliable impact evaluation. So, propensity score matching technique is applied in order to estimate the impact of apprenticeship programs on youth employment.

The logic of the **counterfactual analysis** consists in building two distinct groups of similar individuals in terms of observable characteristics: the treated and the control groups. The only difference between the two groups selected is that the youth belonging to the treated group had access to apprenticeship program, while those belonging to control group did not benefit from the treatment. As there are also other types of work-based learning programs similar as objective with apprenticeship, such as internships or traineeships, we built the control group out of individual receiving no intervention, neither apprenticeship, traineeship or internship. So it is expected that the results will be even more reliable.

Once the treated and the control groups are built, the propensity score matching technique will imply conducting a matching between each treated and non-treated unit in order to assure reliable unbiased results of impact assessment. Finally, the average difference of the two groups' outcomes will be computed in order to indicate the net impact of the intervention.

3.1. The Propensity Score Matching technique

Propensity score matching (PSM) is a non-experimental evaluation technique that uses only observable information from a sample of individuals that did not participate in the intervention so to estimate what would have happened to the treated ones in the absence of the intervention.

PSM is actually a semi-parametric estimation that implies first an estimation of the propensity scores through a logit or a probit model, followed by a non-parametric matching of these scores based on distinct algorithms. Finally the matching quality is checked and the average effect of the treatment is computed.

The matching procedure involves pairing treated units with similar control units. According to Dehejia and Wahba (2002) the matching methods can lead to unbiased estimates of the net impact in case the relevant differences between each two units are captured in the pre-treatment covariates.

We used STATA12 software in order to carry out the analysis. The PSM method implies conducting the following three main steps:

Step 1: Estimating the propensity scores. First a probit or a logit model is estimated in order to generate the propensity scores. Although the logit model is normally preferable, both dichotomous models yield similar results consisting in each individual's probability of being treated. The design of the dichotomous model is extremely crucial at this step and the choice of the covariates play a significant part in the process of generating the propensity scores.

Step 2: Matching the units based on the propensity scores. Based on the estimated propensity scores, several matching algorithms are applied in order to assure a proper matching between each treated and non-treated units. Some of the most common algorithms applied in the PSM are the following: the Nearest-Neighbour (with or without caliper), the Radius Matching, the Stratification Matching and the Kernel Matching. The simplest one is the nearest-neighbour method (NN) which selects for each treated unit a control unit with the closest score. The choice between all of these algorithms can generally be perceived as a trade-off between bias and variance, although similar estimation results should be obtained through either of these methods (Dehejia & Wahba, 2002).

Step 3. Testing the matching ability and estimating the net impact based on mean differences. After the matching is conducted based on these specific algorithms, the matching quality is then checked and the impact of the treatment can be computed as the average difference of the two groups' outcomes (Caliendo & Kopeinig, 2008).

3.2. Data

In order to run the impact assessment of the apprenticeship programs on youth employability, we used the dataset of the Flash Eurobarometer 378 regarding the experience of traineeships in the EU for the year 2013. The Flash Eurobarometer covers of 27 EU member states, and the sample for Romania consisted in 500 youth aged 15-35 years old. The fieldwork was carried out in the spring of 2013. The above mentioned Eurobarometer measures on the one hand the youth participation to traineeships, apprenticeships and student jobs as ways of acquiring work experience, and on the other hand their current status on the labor market (employed or not).

Romania is the country characterized by the lowest rate of youth participating to any type of traineeship programs, only 26% of surveyed youth mentioned that they had such experiences, compared with 68% at EU level (European Commission, 2013). For our specific topic – the apprenticeship, only 13% of investigated youth declared they had such experiences. For the case of Romania we did not have high expectations with respect to participation to traineeships, as all available statistical data indicate its low incidence. The data declared for the Eurobarometer points out that companies found some ways to develop apprenticeship programs, even if they were not organized according to the low in practice at that moment of time. 60

youth aged 15-35 years old benefited from apprenticeship programs, while 368 respondents declared not taking part to any kind of traineeships. Therefore the first one will be considered as the treated group, while the latter will be considered suitable to design the control group for the counterfactual scenario. The sample of youth aged 15-35 years old seems small but it has the advantages of being a national probabilistic sample, with a sampling error up to ±4.4% for a 95 level of confidence. Both the treated and the control group are selected randomly, so one of the most important conditions for applying counterfactual scenarios is this way adequately addressed.

Since the matching process implies finding for each treated unit the control unit(s) that are similar in terms of observable characteristics, the selection of these characteristics becomes very important. For this topic we took into consideration the following socio-demographic covariates provided by the data set of Flash Eurobarometer 378 (European Commission, 2014): *age* (as a numerical variable) and the following categorical variables: *gender* (male/female), *area of residence* (urban/ rural), as well as *education* (no education/ medium level of education/high level of education, after post-codification). The low number of covariates considered for PSM technique is one of the most important limitations of our study, all the socio-demographic variables covered in the dataset being considered. But, on the other hand, we have to mention that all the above mentioned covariates were proved by other papers to be relevant in shaping the youth transition from school to the world of work.

In order to capture the impact of apprenticeship on youth employability we created a binary treatment variable, which takes value 1 in case of "having at least one apprenticeship experience" and 0 if not.

To assess the employability we used as outcome variable the employment status of the individuals at the time of the survey, taking value 1 if "employed - either on their own, employee or worker" and 0 in case of being "unemployed or inactive".

4. Results of Impact Assessment

As said before, the treated group consisted of only 60 respondents who benefited from apprenticeship programs, while the control group was built based on the 368 respondents who declared not to have taken part in any kind of traineeships (apprenticeships or other interventions with similar objective covered by the survey).

A probit model was estimated in order to generate the propensity scores, each categorical variable being replaced with a set of dummy variables corresponding to each variable's sub-categories minus the comparison base. The sole exception is that the dummy variable representing high education level was considered as comparison base, due to the low number of observations. The form of the model can be summarized as follows: *treatment = f (age, age², male, low education level, medium education level, urban)*

Table 1. Probit model estimations explaining the participation to apprenticeships

Covariates	Coefficients	Std. errors
Low education level	0.39	0.249
Medium education level	0.28	0.221
Male	0.33**	0.155
Urban	0.15	0.166
Age	-0.080	0.173
Age^2	0.002	0.003
Constant	-0.746	2.278
No. obs.=428	LR chi2= 8.73	
Pseudo R^2= 0.025	P value= 0.189	

where *** stands for 1% significance level, ** stands for 5% significance and * stands for 10% significance level.

Source: Authors' own computations

The results of the probit model are presented in Table 1, where we notice a small value for the pseudo R^2 indicating that the chosen covariates explain only to a very low extent the participation probability to the apprenticeship programs. We are aware of the implications of such biases caused by limited number of observations. Thus, we further on refer only to the main findings resulted from the coefficient signs of the covariates.

The most notable finding is that education becomes a downside factor to someone's opportunities of taking part to apprenticeship, as the chances of youth with medium or low education levels are greater than those high educated. Thus, to a certain extent the objectives of an apprenticeship program are reached, those with the lowest level of education having the highest probability of being covered by the intervention.

Moreover, the probability of attending an apprenticeship decreases with age, higher the age, lower the motivation of youth to engage in such programs, or, by contrary, the reaching out of such apprenticeship programs diminishes with age. Again, we notice the optimum focus of the apprenticeship programs on youth that find themselves at the beginning of their working life.

Young males and youth living in urban areas tend to be more likely to benefit from an apprenticeship experience than females or youth living in rural areas.

Based on the probit model we were able to compute the propensity scores that have the following distribution characteristics, as presented in fig. 1.

```
                  Estimated propensity score
-------------------------------------------------------------
      Percentiles      Smallest
 1%     .070683         .070683
 5%    .0813813         .070683
10%    .0862863         .070683       Obs                 461
25%    .1077987         .070683       Sum of Wgt.         461

50%    .1406233                       Mean           .1443986
                        Largest       Std. Dev.      .0483074
75%    .1816201        .2832726
90%    .2090297        .2832726       Variance       .0023336
95%    .2371225        .2832726       Skewness       .6935415
99%    .2832726        .2832726       Kurtosis        2.95496
```

Figure 1. Distribution of the propensity scores

Source: Authors' own computations using STATA 12

Before applying the matching algorithms, the *balancing property* was checked and confirmed. Moreover, the *common support* restriction was applied so to limit the range of probabilities to the observations with enough common features to be considered in the matching process. The common support area was restricted to the area: [0.071, 0.283], while the observations outside the interval were excluded from the analysis.

Several matching algorithms were tested and the estimated average treatment effect of apprenticeship program on youth employment was computed based on the average treatment effect on the treated (ATT). The results are presented in Table 2.

Although both the Radius and the Kernel algorithms yielded similar results, according to the t test, the only statistically significant result of the net impact was recorded for the Kernel algorithm, where the standard errors were obtained through the Boostrap method after computing 100 iterations.

Table 2. Average treatment effects on the treated

Mathcing method	Units in the treated group	Units in the control group	ATT	Std. Err.	t
ATT estimation with Radius	60	343	**0,115**	0,068	1,677
ATT estimation with the Kernel Matching method	60	343	**0,108**	0,054	2,01**

* 2 blocks were considered, as it is the optimal number of blocks to ensure that the propensity scores do not differ between the control and the treatment group

** Standard errors were obtained through the Bootstrap method after computing 100 iterations.

Source: authors' own computations using STATA

Based on the counterfactual scenario, we can conclude that the opportunities of a young person to find a job are around 10.8% - 11.5% higher for those participating to an apprenticeship program, as compared with those youth who did not. Therefore, even though the sample was quite small, we were still able to bring some empirical evidence to support the hypothesis that apprenticeship experience does increase the youth employability in Romania, especially for the less educated youth.

5. Conclusions and Policy Implications

The aim of this paper was, as stated previously, to test the contribution of apprenticeship experiences on youth employability in Romania. Usually promoted top-down, through European and national public policies, at least regarding Romania, there were almost none evidences with respect to their efficiency.

The empirical findings where obtained through a counterfactual approach, by applying the propensity score matching technique on a sample of respondents selected from the Flash Eurobarometer database. Our results suggest a low, but positive impact of apprenticeships on youth employment in Romania, and, what is most important, the apprenticeships are tailored more on the needs of low educated young persons, males and living in urban areas. Age is generally seen as a downside factor in gaining apprenticeship experience. So even if the legal framework of apprenticeship fails to attract the companies, the flexibility provided by the employment low was used by employers in order to train youth labour force.

We brought evidence to support the fact that the chances of a young person in finding a job are 10.8% - 11.5% higher for those youth following an apprenticeship program in comparison to those who did not attend any. Even though the sample used in the analysis was small, but statistically representative at a national level with and acceptable standard error, we managed to empirically argue in favour of developing apprenticeship experiences for increasing youth employability.

Moreover the findings of the paper may lead to some relevant policy implications. Maybe the most important finding refers to the need of companies to be adequately addressed by policy measures targeting the development of work-based learning. Even if Romania has a law regulating apprenticeship programs, it is implemented only at a very low scale, while, as we could saw above, companies found other frameworks to develop such programs. In 2014, The Romanian Ministry of Labour was subject of a technical assistance program aiming to increase the applicability of the apprenticeship law (World Bank, 2015). But even if the law was subject of minor changes, they failed to attacked companies in order to increase their use of apprenticeship programs.

Another important finding for the policy design refers to the most important beneficiaries of apprenticeship programs, mainly youth with low education (up to a maximum of compulsory education). The participation of low educated youth to apprenticeship programs lead to import effects on their probability of finding employment. The cost of apprenticeship programs are expected to be high, if we consider the main target group so adequate financial support has to be designed for companies in order to increase their interests for such programs.

Apprenticeships are promoted currently through the Operational Program Human Capital 2014-2020, mainly addressing the youth NEET (not in employment, education or training). So, even if the design of the European program seems to be adequate, the high bureaucracy of such programs in Romania must be considered in the following evaluations of their impact.

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Insights into International Tourists' Experiences of, and Satisfaction with, Zimbabwe's Tourism Offerings

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Abstract: This study sought to gain insights into international tourists' experiences of, and satisfaction with, Zimbabwe tourism offerings. The study emanates from the standpoint that, for tourism to enhance its potential to transform economies and livelihoods, the focus for development, in that regard, must be directed towards increasing the number of travellers to destinations, creating memorable experiences, and ensuring that the service quality is satisfactory, based on their expectations and perceptions. The study's objective was achieved through the use of a questionnaire survey, with the data obtained being presented in tables from the highest to the lowest mean scores. The satisfaction of the tourism offerings was negative, in which the highest mean score was Attitude of the personnel/service providers (M=2.73), and the lowest mean score was Road network to/from points of entry, prominent attractions and other amenities (M=1.58). The respondents viewed all the given tourism offerings as top development priority, with the highest mean score being accommodation facilities (M=4.93), and the lowest being theme parks (M=4.77). In addition, the perceptions of the tourism offerings were found to be generally negative, with the highest mean score being a friendly environment for the tourists, and the locals are welcoming and friendly (M=4.44), and the lowest being There is a good road network in Harare that allows for easy access to and from tourism offerings (M=1.86). The study offers insights into an understanding of the development and marketing of tourism offerings, service quality and delivery, as well as of the policy and planning direction for destination managers.

Keywords: Tourist profiles; perceptions; tourism products; experience and satisfaction; Zimbabwe

JEL Classification: Z32

1 Introduction

Tourism is seen as one of the major products of globalisation (Choibamroong, 2017), which is ranked as one of the main economic activities, with the irrefutable power to boost economies and to enhance livelihoods in a number of countries (Biswakarma, 2015). Jurdana and Frleta (2017) advance the understanding that tourism is the largest and fastest growing industry globally, with an increasing

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amount of travel occurring for a number of reasons. With the increased amount of travel growing from 25 million international travellers in 1950 to 1.2 billion in 2015 (United Nations World Tourism Organisation, 2016), tourism has, arguably, become a major competitive industry, in terms of which tourists' perceptions (Rajesh, 2013) expectations (Holloway, 2004), experiences (Echtner & Ritchie, 2003; Mohamed, 2008), and satisfaction (Chand et al, 2016; Fayed et al, 2016) have been staged at the centre of the policies, plans and strategies formulated by countries to influence the increased amount of travel to their destinations (Chand et al, 2016). With the growing popularity of tourism as a livelihood for a number of countries, developed and developing alike, tourism product development has increasingly become tourist-centric (Alamgir & Nedelea, 2016; Fayed et al, 2016: 14), with destinations striving to offer increased value to tourists, compared to the competing destinations. Fayed et al (2016) argue that, due to the increased competition among destinations to win a greater market share of tourists than before, understanding the present-day tourists has become a crucial aspect in such regard.

Further, Fayed et al (2016) advance the notion that tourism, with its associated benefits, has become a very competitive industry, in terms of which marketing and developmental efforts are directed towards attracting tourists and meeting their expectations through the provision of pleasurable experiences and the creating of a degree of satisfaction that might influence repeat visits. The above offers a perspective that the tourist is at the centre of an effective service marketing (Zeithaml & Bitner, 2003), in terms of which tourism planners at destinations must (1) understand who their tourists markets are (Choibamroong, 2017), and (2) increase the service quality to cater for the markets' expectations (Bar et al, 2016), for them to remain competitive (Fayed et al, 2016). Elsewhere in the extant literature, some scholars (see, for example, Fayed et al, 2016, p. 14) have argued that destinations have adopted an approach, in terms of which they aim to satisfy such elements as (1) destination attractiveness, (2) destination competitiveness, (3) tourists' experiences and satisfaction, (4) tourists' loyalty to the destination, and (5) tourists' perceived service quality and destination image. Chand et al (2016, p. 74) argue, however, that, inasmuch as the elements might be satisfied, understanding who the tourists at a destination are remains a complicated activity, as tourist behaviours have become more complex than in the past, regarding choosing a destination and a service. The complexity of doing so poses challenges in understanding the tourists' expectations, which might result in negative experiences, and in the ultimate dissatisfaction of tourists during their visit.

Tourism has long been developed to cater for tourists' needs and expectations (Koutoulas, 2004; Lo, 2017; Pike & Page, 2014; Tichaawa & Mhlanga, 2015). However, in as much as there are an increasing number of studies (Fayed et al, 2016; Hosany et al, 2015) that have focused on tourists' experiences and satisfaction, gaps still exist in determining the experiences and satisfaction in terms of an international tourist perspective, especially in relation to the emerging economies in sub-Saharan Africa, which are increasingly investing in the tourism sector, so as to harness the purported benefits (Rogerson, 2015a). As tourists' experiences and satisfaction are seen as indicators upon which destinations measure their performance levels and competitiveness (Chand & Kumar, 2017; Fayed et al, 2016; Hensley & Sulek, 2007; Mohamed, 2008), the current study's objective was to gain insights into international tourists' experiences and satisfaction within a Zimbabwean tourism product offering context. The aim was to gauge the extent to which the current international tourists' experiences and satisfaction are positive, as well as to propose mechanisms for sustaining the two. Focus on a developing country is essential, given the limited number of studies that have, to date, been conducted on the subject matter. Hence, the study makes a useful contribution to the extant tourism literature on what present- day international tourists perceive to be the current offerings in parts of sub-Saharan Africa

2. Literature Review

2.1. Tourists' Experiences and the Profiling of Tourists

When tourists travel, their main expectation is to have memorable experiences, irrespective of the main purpose of travel. Unsurprisingly, there has been growing research interest in understanding why tourists travel to a destination (Tichaawa, 2017; Rogerson, 2015b), why they behave in the way that they do (Zeithaml & Bitner, 2003), why they buy tourism products (Gabbot & Hogg, 1998), and why they make decisions in the way that they do (Rajesh, 2013). The growing interest emanates from a desire to understand the tourists and their travel patterns in a race to develop a more competitive product offering that enhances the ***tourists' experiences***, creates satisfaction, and allows for repeat visits. In the above regard, it becomes crucial to profile tourists, as they are, undoubtedly, key to the development of a more sustainable tourism offering at a destination. Holden (2016) postulates that tourists are the market for tourism offerings, with them being involved in financial transactions with the tourism service providers involved (Koutoulas, 2004; Lo, 2017). Koutoulas (2004) argues that tourism development initiatives worldwide are largely influenced by the tourists' needs and expectations concerned. In the light of the above, the profiling of tourists is argued to be the best way of learning of their needs and expectations (Fagerton, 2017; Tichaawa & Harilal, 2016). In such a case, information like the types of tourist, in terms of their socio-economic and demographic backgrounds, their buying patterns and their decision making, is important to profile if the destination wants to understand the expectations and to influence the positive experiences involved (Fayed et al, 2016).

Earlier works often cited in relevant tourism literature by Kotler (1979) advances four benefits on the profiling of tourists: (1) it gives the destination a better understanding of the different tourist segments' needs and expectations; (2) it allows for the meticulous development, marketing and positioning of tourism offerings to meet the expectations of the right market at the right time; (3) it helps to identify more effective methods of delivering tourism offerings to the tourists (Fayed et al, 2016, p. 15); and (4) it enhances the tourists' experiences, that should help to create a higher satisfaction level. With regards to the understanding and profiling of the tourists, Zeithaml and Bitner (2003) posit that the process of doing so helps to understand a tourist's personal *external factors* (for instance, family, culture and economic status) and *internal factors* (such as attitude, perceptions and buying patterns) that affect the tourists' participation in the tourism product offering consumption process. Rajesh (2013) argue that the tourists' experiences and overall satisfaction level with tourism offerings are measured against their personal external and internal factors, versus the consumed tourism product. To simplify the above, Fayed et al (2016) highlight the fact that the tourists' external and internal factors are those that create their motivation to travel, and, therefore, are crucial to understanding them, with the destinations concerned needing to look at their motivation for travel in the first place.

2.2. Tourist Travel Motivations

In the absence of the needs, desires or interests (interpreted as motives) to travel, tourism ceases to exist. In the above regard, Gabbott and Hogg (1998) highlight the importance of understanding the motives of the tourists concerned, in terms of which they indicate that motives are divided into two: escape motives, and compensation motives. Escape motives, on the one hand, are the tourists' individual characteristics and the tourist's cultural attributes that stand as push factors in relation to travel to other environments (Gabbott & Hogg, 1998). On the other hand, compensation motives are the destination of choice's attributes, such as activities, the vibe, the weather, attractions, accessibility, and accommodation, which act as pull factors that rouse the tourist to visit (Gabbott & Hogg, 1998). According to Holloway (2004), a combination of escape and compensation motives creates the *primary purpose of visiting* a destination. The extant research has shown, further, that the primary motives for travel to a destination are: leisure/holiday (Rogerson, 2015a); business (Rogerson, 2015a); visiting friends and relatives (VFR) (Rogerson, 2017); shopping; and sports (Tichaawa & Harilal, 2016), among others. Fagerton (2017) argues that the visited destination becomes inseparable from the aforementioned tourist motives, for it is the role of the public sector, the private sector, the community members and other relevant stakeholders at the destination to meet the needs and expectations attached to the motives, through a provision of transport, accommodation, activities, and other facilitating and supporting amenities. Fayed et al (2016) press that the extent to which the abovementioned is provided to tourists influences their experiences and overall (dis)satisfaction levels, which them inform how they perceive the destination and its tourism products, and, thereafter, their future decision to travel.

2.3. Tourist Perceptions

Another crucial aspect in the understanding of tourists is their perceptions (Rajesh, 2013). Fayed et al (2016) describe a tourist's perceptions as being a way in which a tourist experiences a tourist destination and its tourism offerings, and tries to make sense of the experiences that he/she has. The definition concerned offers the perspective that a tourist's perception is how a combination of tourism offerings, such as attractions, accommodation, and things to do and see, are viewed by the tourist. In order to understand the tourists' perceptions, a number of studies (Echtner & Ritchie, 2003; Gunn, 1988; Mohamed, 2008; Rajesh, 2013) have advised destinations to look at the tourists' views on such attributes as the general infrastructure, the different types of attractions, the accessibility and availability of things to do and see, the pricing of tourism services, the economic factors prevailing at the destination, safety and security, the attitudes of locals, the tourism organisers, and the service providers. In addition, such factors as demographic profiles, more especially in the originator region, the degree of familiarity with the destination, and the associated expectations (Fayed et al, 2016, p. 17) play a major role in creating perceptions about the destination.

2.4. Tourist Levels of Satisfaction

Satisfying the tourist is a priority for many destination managers and tourism authorities. The above is because, according to Hensley and Sulek (2007), perceptions influence the tourists' experiences and their levels of (dis)satisfaction. Therefore, the tourists' experience must be satisfactory for the tourists to consider revisiting (Chand et al, 2016), or, better still, remaining loyal to the destination (Fayed et al, 2016). The concept of tourist satisfaction, which is described by Fayed et al (2016, p. 17) as being the tourists' assessment of the perceived service quality, is one of the major performance indicators of a destination. The idea of 'satisfaction' can be described as the extent to which positive feelings are roused by the touristic experiences at a destination. Fayed et al (2016) highlight the importance of tourists' satisfaction levels with tourism offerings, in terms of which they underscore that the sustainability of the offerings depends on to what degree the tourists were satisfied during the consumption process (experience). According to Hosany et al (2015:484), tourist satisfaction is measured through *place attachment* and *place dependence*. In this regard, Hosany et al (2015) define place attachment as being the attributes that fulfil the tourists' needs and that connect to the tourists' internal factors (Fayed et al, 2016) and escape motives (Gabbott & Hogg, 1998), such as for the available attractions. In contrast, the concept of 'place dependence' is defined as the ability of a place to provide the facilitating of amenities, and to connect with the tourists' compensation motives (Gabbott & Hogg, 1998). The above is in terms of, for example, facilities that enable the tourists to fulfil their needs, such as those for accommodation and transport, and things to see and do (Prayag & Ryan, 2012; Scannell & Gifford, 2010). Place attachment and place dependence influence the tourists' loyalty to a destination (Gross & Brown, 2008; Williams & Vaske, 2003), in relation to which destinations that develop strategies that create attachment and that generate dependence always influence the levels of good experiences and tourist satisfaction accessed. Tourist satisfaction is one of the most critical elements of destination marketing (Liu et al, 2017), with it influencing the tourists' choice of travel, in terms of considering whether or not to revisit the destination (Hosany et al, 2015). One of the main activities of the tourism stakeholders at a destination entails identifying variables influencing tourists' satisfaction levels (Chand et al, 2016). Further, the degree of satisfaction attained is a result of the tourists' perceptions of the product offering (Vega-Vazquez et al, 2017), their expectations of the service quality involved (Chand & Kumar, 2017), and their actual experiences during consumption (Liu et al, 2017). The above means that satisfaction occurs after the tourists have already consumed the tourism products involved (Fayed et al, 2016), in terms of which the tourists gauge their expectations against the perceived service quality and the degree of service effectiveness, as based on their experiences (Hosany et al, 2015). In the above case, tourists can only indicate a high level of satisfaction in the event that their expectations have been met (Vega-Vazquez et al, 2017). To achieve the goal of measuring the tourists' satisfaction levels, a number of variables relating to the consumed tourism products/service, such as the quality of attractions and service, are usually given for the tourists to indicate their associated level of satisfaction with each variable, by means of a Likert scale (Fayed et al, 2016), as was used in the current study.

3. A Note on Methodology

To measure the international tourists' experience and satisfaction levels, a quantitative research design that incorporates a case study approach was employed in the current study. Harare, the capital city of Zimbabwe, which is the main gateway city for international travel into the country, was the focus of the present study. A purpose convenience sampling method was employed for the sampling of the tourists. In the study, the tourists were accessed at the point of entry, being Harare International Airport, as the focus was on overseas travellers. The main reason behind using a convenience sampling method for the survey population was that it was both difficult to identify tourists, and to distinguish an international tourist from a traveller. Therefore, it was relatively easy for the researchers to target the tourists' point of exit.

A structured questionnaire survey was used as the survey instrument to obtain the results of the study. Likert-type scales was used in the survey instrument, with experience and satisfaction levels being gauged along a number of predetermined variables, as informed by the literature reviewed, as well as by the destination characteristics concerned. To meet the study objective, and to ensure that a reasonably large population size was sampled, the researcher decided to target international tourists at two different locations. During a six-week data collection period, international tourists were targeted upon departure from the airport, and from their place of accommodation. The hotels, guest houses and lodges involved that were requested, and willing, to grant access to their guests assisted in the data collection. International guests who had checked out of a hotel, and who were on their way to the airport were asked to complete the survey with the assistance of hotel staff. In addition, international tourists were also targeted upon departure from the Harare International Airport, at which point trained fieldworkers purposively targeted them by way of a screening question. At the end of the data collection period, a total of 223 valid surveys were received, which formed the basis of the empirical results presented in the results and discussion section below. The obtained data were analysed using the Statistical Package for the Social Sciences (SPSS) software, version 24. The use of such software allowed for the conducting of statistical tests to generate the inferential data that assisted with the presentation of the results.

4. Findings

4.1. Reliability Analysis

Reliability is mainly concerned with a scale's internal consistency, regarding whether the items involved all measure the same underlying construct. One of the most commonly used indicators of internal consistency is the Cronbach's alpha coefficient. The response 4-point scale used to indicate the ***level of satisfaction with the overall experience*** was ordinal, with the categories used being: (1) very dissatisfied; (2) dissatisfied; (3) satisfied; and (4) very satisfied. Furthermore, the response 5-point scale used to measure ***which tourism products should be prioritised in the tourism product development*** was ordinal, with the categories used in terms of the level of satisfaction with the overall experience being ordinal. The categories used were: (1) not at all a priority; (2) not a priority; (3) neutral; (4) priority; and (5) essential priority. Additionally, the response 5-point scale used indicating the ***level of quality of the tourism offerings*** was also ordinal, with the categories used being: (1) poor; (2) fair; (3) good; (4) excellent; and (5) unknown. All the dimensions measured had a very good internal consistency, with Cronbach alpha coefficient values of over the accepted level of 0.70. The alpha values show the scores for the product offering and for the infrastructural level of satisfaction with the overall experience being 0.96, the natural/human-made attractions being 0.93, the tourist services and events being 0.91, and the tourist attractions and services level of quality of the tourism offerings being 0.90.

4.2. Respondents' Profile

The necessity of profiling the demographics of the respondents in this study emanates from a belief that demographics and psychographics influence tourists' behaviour, explain their expressed views and attitudes towards tourism offerings and satisfy the need for more knowledge and for an improved understanding of the needs and expectations of the different tourists involved (Holloway, 2004; Rajesh, 2013). In such regard, the findings of the study indicate that there were more female respondents (58%) than there were male (42%). The results showed that there was an equal distribution of the age groups that participated in the study, with an average age of 35 years old. In addition, the study found out that the respondents originated mainly from Europe (37%), Southern Africa (29%), Asia and the Middle East (14%), North and South America (10%), and other parts of mainland Africa (10%). Most of the respondents (55%) indicated their economic status as average. Further, the respondents indicated that their main purpose in visiting Zimbabwe was leisure and holiday (49%), VFR (16%), and business (11%), with an average group composition of from two to three people travelling together, and the average frequency of visit being twice a year. Apart from the primary purpose for visiting Zimbabwe, the majority of the respondents (76%) indicated visiting natural attractions to be their secondary activity engaged in during their stay in Zimbabwe. The average number of nights spent in Zimbabwe was three, with there being an interest in repeat visits to Zimbabwe expressed.

4.3. Level of Satisfaction with the Tourism Offerings

The international tourists were asked to rate their level of satisfaction with a number of tourism offerings and services. Table 1 depicts a possible point of concern for the destination managers involved, considering that, while the tourists seemed to be somewhat happy with the attitude of the personnel / service providers (M=2.73), the friendliness and helpfulness of the locals (2.68), and safety and security (M=2.63), they expressed dissatisfaction with the number of things to see (M=1.84), the pricing of tourism offerings (M=1.68), the general infrastructure (M=1.65), and the road network (M=1.58) concerned, indicating that such aspects required urgent attention from a Zimbabwean tourism development perspective. Vega-Vazquez et al (2017) indicate that tourists tend to reveal a high level of satisfaction only when their expectations are met through the experiences that they have at a destination.

Table 1. Levels of satisfaction with the tourism experience

Item	Variables	N	Mean	Std dev.
V1	Attitude of the personnel / service providers	223	2.73	0.638
V2	Friendliness and helpfulness of the locals	223	2.68	0.722
V3	Safety and security	223	2.63	0.734
V4	The general ambience/vibe	223	2.47	0.795
V5	Accommodation facilities	223	2.08	0.801
V6	Things to do and see	223	1.84	0.852
V7	Diversification of the tourism offerings	223	1.83	0.798
V8	Access to places of interest	223	1.79	0.870
V9	Positioning of tourism products	223	1.72	0.802
V10	Management of tourism attractions visited	223	1.71	0.816
V11	Pricing of tourism offerings	223	1.68	0.784
V12	General infrastructure (e.g. state of roads, water supply, etc.)	223	1.65	0.728
V13	Signage	223	1.64	0.746
V14	Road network to/from prominent attractions and other amenities	223	1.58	0.743

Responses based on a 4-point scale (1= very dissatisfied, 4 = very satisfied).

4.4. Rating of Tourism Product Offering Priorities

Tourism offerings are developed to cater for the needs and expectations of tourists (Holden, 2016). Therefore, it might be, to a relatively large extent, beneficial to the tourist destination if such offerings were to be prioritised from a tourist perspective. Accordingly, the international tourists generally indicated a high priority level on all the tourism offerings indicated in the survey instrument (see Table 2). With the highest mean score being obtained for the accommodation facilities (M=4.93), and the lowest being obtained for the theme parks (M=4.77). Clearly, the international tourists considered all of the aspects as important focus areas that required development appropriate to their needs. Unsurprisingly, accommodation and air transport were regarded as the most prominent priorities. The above argument is strengthened by the United Nations (2017), whose report on tourism and economic development in Africa through tourism recognises the need for such least developed countries as Zimbabwe to focus on developing and sustaining the enablers of tourism development, including infrastructure. The availability and quality of such basic infrastructure as roads, airports, accommodation, and other supportive tourist infrastructure, including attractions, are crucial for enhanced competitiveness in the sector that should lead to improved tourism receipts and to crucial benefits for the local citizenry.

Table 2. Rating of tourism product offering priorities

Item	Variables	N	Mean	Std dev.
V1	Accommodation facilities (hotels, guest houses, etc.)	223	4.93	0.347
V2	Airline industry	223	4.90	0.450
V3	Cultural attractions	223	4.88	0.407
V4	Natural attractions (mountains, lakes, landscapes, etc.)	223	4.87	0.392
V5	Transport network	223	4.85	0.548
V6	Monuments	223	4.84	0.481
V7	Tour operators / travel agencies	223	4.81	0.518
V8	National parks	223	4.81	0.439
V9	Events/festivals	223	4.80	0.542
V10	Car hire	223	4.80	0.506
V11	Theme parks	223	4.77	0.606

Responses based on a 5-point scale (1= not a priority at all, 3 = average priority, 5 = essential priority).

4.5. Level of Quality of the Tourism Offerings on Display

The result portrayed in Table 3 below show that the international tourists ranked the tourism offerings as being of low quality, which could be seen as affecting their level of satisfaction and experiences. The highest mean score was linked to the quality of service offered by the ground travel organisers (V1) (M=2.47). Transportation (V10), banking services (V11), and water and electricity (V12) were noted to be of low quality, which negatively influenced the satisfaction levels and experiences of the tourists. According to Hosany et al (2015), the tourists' levels of satisfaction were based on the service quality of the tourism offerings, by means of which place attachment and place dependence were created, resulting in the tourists' loyalty to the destination. Therefore, tourism destinations managers must consider the continuous strengthening of inter-sectoral linkages and tourism, as such linkages as banking, transportation, and water and electricity (United Nations, 2017) could have an effect on the tourists' levels of satisfaction attained, and on their experiences at a given destination. Perhaps, through sustainable public-private partnership initiatives, the above could be achieved, as Rogerson (2016) observes that such partnerships are important drivers of infrastructural development in most parts of sub-Saharan Africa.

Table 3 Ranking of the level of quality of the tourism offerings on display

Item	Variables	N	Mean	Std dev.
V1	Travel organisers (tour operators and travel agents)	223	2.47	0.623
V2	Food and beverage outlets	223	2.13	0.533
V3	Events/festivals	223	2.03	0.605
V4	General atmosphere (ambience)	223	2.01	0.669
V5	Cultural attractions	223	1.91	0.608
V6	Natural attractions	223	1.87	0.621
V7	Human-made attractions	223	1.86	0.608
V8	Merchandise (souvenir/gift shops)	223	1.83	0.622
V9	Accommodation	223	1.51	0.683
V10	Transportation	223	1.22	0.482
V11	Banking	223	1.16	0.438
V12	Water and electricity supply	223	1.10	0.412

Responses based on a 5-point scale (1 = poor, 3 = good, 5 = excellent).

4.6. The Perceptions and Attitudes Regarding Tourism Offerings

Tourism development initiatives worldwide are largely influenced by tourists' needs and expectations (Holloway, 2004; Rajesh, 2013). In terms of such logic, the gaining of insights into the tourists' experiences, and into the levels of satisfaction attained in relation to the tourism product offerings and service quality, was the best way of learning about their needs and expectations, and of strategising towards the sustainable meeting of needs (Lo, 2017). Table 4 below shows that the international tourists felt that Harare was a friendly environment for tourists, and that the locals were welcoming and friendly, as they rated this item highly (M=3.44). Contrary to the recent perceptions that Zimbabwe is an unsafe place to visit (Zengeni & Zengeni, 2012), most international tourists also felt safe travelling in the country (M=3.29). However, the tourists rated good value for money (M=1.92), poor signage (M=1.89), road network and accessibility (M=1.86) poorly, indicating a negative perception of the items. Overall, items V3 to V13 received low mean scores. When the key dimensions that are measured in the current study (Tables 1, 2, 3 and 4) are looked at holistically, a good level of consistency can be seen in the responses received from international tourists in terms of their levels of satisfaction and the experiences that they had in Zimbabwe, which can be summarised as low.

Table 4. Respondents' perceptions of tourism offerings in Zimbabwe

Item	Variable statements	N	Mean	Std dev.
V1	Harare is a friendly environment for tourists, and the locals are welcoming and friendly.	223	3.44	0.937
V2	I felt safe travelling in Zimbabwe.	223	3.29	1.183
V3	Harare motivates tourists to make repeat visits.	223	2.49	0.918
V4	There is a wide range of car hiring companies, which are easily accessible from Harare international Airport and around the city.	223	2.39	0.952
V5	There was a wide range of accommodation facilities (hotels, guest houses, and campsites) from which I could choose during my stay in Harare.	223	2.34	0.945
V6	There were many things to do and see that enhanced my stay in Harare.	223	2.16	0.967
V7	There were regulations of behaviour and environmental usage relating to all the tourist attractions that I visited in Harare.	223	2.10	0.945
V8	Tourism products of Harare are well marketed and promoted.	223	2.08	0.874
V9	My first experience, on my arrival in Harare, was highly satisfactory.	223	2.06	1.013
V10	I am happy with the current state of tourism products in Harare.	223	2.01	0.921
V11	Harare ensures good value for money.	223	1.92	0.885
V12	Harare has proper signage.	223	1.89	0.887
V13	There is a good road network in Harare that allows for easy access to and from tourism offerings.	223	1.86	0.856

Responses based on a 5-point Likert scale (1= strongly disagree, 3 = neutral, 5 = strongly agree).

4.7. Implications and Conclusion

The above study has shown that the current tourism offerings in Zimbabwe were generally rated poorly, and portrayed a low level of international tourist satisfaction with their experiences. Surprisingly, despite the above-mentioned finding, the respondents indicated that they would consider revisiting Zimbabwe in future, which is a positive indication in terms of the future prospects of Zimbabwean tourism. However, the respondents pointed out such worrying factors as the weak infrastructure, the inconvenient banking system, the expensiveness of the destination, the lax safety and security, and the corrupt policing, which might well serve to discourage them from revisiting the country in future. Such factors could be the reason for the number of international tourists to Zimbabwe by air having decreasing over the past decade, with a 13% drop having occurred between 2007 and 2016 (ZTA, 2016). The recent underperformance in the above regard is an issue that is worthy of some consideration, given that the country is currently faced with economic challenges to which tourism could be a solution.

In relation to the findings highlighted in the paper, the international tourists' low levels of satisfaction might have been attributed to a lack of attractiveness of the country's tourism offerings, as the negative responses offered the perspective that the offerings made available might not have appealed to the international tourists in the present context. In addition, such aspects as the poor infrastructure, the bad road networks, and the poor banking system in Zimbabwe were noted as being factors that affected the tourists' experiences. Another issue that could have brought about a low level of satisfaction might have been the pricing of the tourism offerings. The respondents indicated that Zimbabwe was an expensive destination that did not offer value for money. The finding is consistent with ZIMSTAT's (2016) VES report, which indicates that international tourists tended to perceive most of the country's offerings as being expensive. The devaluation of the Zimbabwean Dollar over the past years, and the adoption of the US Dollar as the official currency of the country, as well as the scarcity of certain goods and services as a result thereof, could have been blamed for the increased costs that had been passed on to the tourists in the above regard. Besides, as the tourist profiles of those who were sampled in the study revealed, most of the tourists concerned originated from developing economies in the global south, where the income levels were low, which might have affected the related spending power. Therefore, as Hellstrand (2010, as cited in Ntimane and Tichaawa, 2017, p. 27) underscores, the need for destinations to "continuously strive to balance the pricing and quality of service that they offer with a view to maintaining, or retaining, customers, and to gaining their loyalty" is of essence in the above regard.

The poor state infrastructure has also been noted as being a key factor about which the current tourists to Zimbabwe are concerned. In relation to the above, Mlambo (2017) highlights that there is a lack of upgrading of the once good infrastructure in the country, in relation to which he argues that the country, in overhauling its stuttering endeavours at economic rebuilding, should urgently upgrade the national roads, which are over forty years old, the antiquated railway system, as well as the country's airport infrastructure. Given that tourism is seen as an industry that enhances economies (Biswakarma, 2015), its development could be a way out for the struggling and 'distressed' economy for which Zimbabwe has become well-known. In the above regard, there is a need for investment in tourism in the country, given that most of the role players who previously ran the sector, left a while ago. In the above regard, the present study recommends the formation of public-private investment partnerships as a way of developing tourism. Tourism might not function without the existence of the private sector, as the sector is responsible for meeting the needs and expectations of the tourists (South Africa. DEAT, 1996). Hence, the formation of public-private partnerships could be the first step to be taken towards creating an enabling environment in which tourism can develop still further (see Rogerson, 2016).

The current study's results have implications for tourism marketers generally, in terms of identifying what motivates tourists to travel to a destination, and in regards to the developing of strategies to provide for the necessary tourism offerings, and for facilitating and supporting the facilities that are required to enhance the Zimbabwean experience. The exertion of more effort to understanding the needs and expectations, through market research, of tourists is required. Furthermore, new marketing and development efforts should be focused on what is meeting the needs and expectations of the current market. Service quality and delivery should be promoted at various destinations, with tourism business being advised to offer a service that meets the expectations of the identified tourists' motives (Ntimane & Tichaawa, 2017). On an ongoing basis, studying the tourists' profiles and motivations, and their changing needs, should inform the strategic initiatives that are adopted with the view to providing memorable experiences and the degree of satisfaction that they desire (Fayed et al, 2016). The diversification of tourism product offerings and activities should, therefore, play an important role in the planning of tourism development within the Zimbabwean context going forward. As the United Nations (2017) report on African tourism posits, the country's economy depends on tourism as the sector that contributed over 10% to the country's GDP in 2014, with it being a source of employment and wealth creation, as well as poverty alleviation, for its citizens. However, as is the case with most sub-Saharan African destinations, the sector still need to be harnessed for it to realise its full potential (World Bank, 2013).

A few limitations linked to the current study should be considered in terms of generalising the outcomes. Firstly, the study was limited to obtaining insight into the international tourists' experiences and their degree of satisfaction with Zimbabwe's tourism product offerings, with a specific focus on the airborne tourist only. International tourists coming into Zimbabwe also tend to travel by road, with the majority of such tourists travelling from mainland Africa. Cross-border international tourism represents a significant aspect of most parts of sub-Saharan Africa, to which Zimbabwe is no exception. Consequently, the profiles and experiences of the road-using incoming tourists were not considered in the current study, which could have yielded a different outcome if they had been included, and they should, therefore, be the subject of future-related research. Additionally, it will be important to ascertain, though further research, the influence of sociodemographic variables on the international tourists' experiences and levels of satisfaction, as such variables are important in terms of determining the similarities and differences across profiles to inform market segmentation planning. Secondly, the sample size, although deemed acceptable for the present statistical analysis, should be considered, as using a much larger sample might also have provided some differences in the study. Lastly, the employment of a more insightful and interesting focus within the same context would enable the ascertaining of the key tourism stakeholders' views of Zimbabwe's tourism product offerings and the levels of tourist satisfaction, so as to be able to unpack, holistically, the visitors' experiences and degree of satisfaction obtained.

5. References

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