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CREDIT RISK OF ICELANDIC MUNICIPALITIES

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Abstract: *In this article the results of an extensive research on the credit risk of Icelandic municipalities are presented. The methodology named after Altman was applied and the credit risk of Icelandic municipalities was assessed according to his model. In addition the relationship between financial health and the size of municipalities was examined. Finally a small study was conducted where the financial health of municipalities around the capital area was different from other. The results are that this methodology is useful when evaluating the credit risk of Icelandic municipalities. The findings indicate that Icelandic municipalities have been able to continue functioning financially even though being very weak financially. Smaller municipalities were on average much financially stronger than the larger ones. But there was not a statistical significant difference in the financial strength of municipalities around the capital to other municipalities around the country.*

Keywords: Iceland, municipalities, credit risk, Altman Z.

JEL classification: G01, G31, G33, G38.

1. Introduction
Icelandic municipalities are an important part of the society. Their importance has increased considerably and their part of public service has increased markedly. Therefor their operations, financial position and ability to do their functions is of critical importance for the Icelandic public. The fiscal health or financial situation of Icelandic municipalities has come into public scrutiny in late years. A few municipalities have come under severe financial strain and have had to seek assistance. There are examples of this in the capital area and also in the north and southeast of Iceland. When municipalities run into financial difficulties the negative effects on their inhabitants are profound. Services are cut, taxes are increased and the community is negatively affected. Thus making it a worse place for living (Eftirlitsnefnd með fjármálum sveitarfélaga, 2015).
In this articles the results of an extensive study on the credit risk of Icelandic municipalities is presented. The Altman Z is applied for the first time on the annual reports of Icelandic municipalities. This model was recently applied to determine the credit risk of counties in Texas (Fischer, Marsh and Bunn, 2015). This model calculates the Z coefficient and in this paper the Z values of Icelandic municipalities are examined. In addition the development of the Z coefficient is examined in municipalities which have come under extreme financial difficulties and had to ask for assistance. Finally small and large municipalities are compared as well as those in and around the capital compared to other municipalities.

2. The legislative framework
The laws which cover the finances of Icelandic municipalities are municipal laws 138/2011. In the 8 article it says that the governing body of the municipality controls the municipality and makes decisions regarding revenue and expenses of the municipality. In the 7 article the financial affairs of the municipality are explained. There it is stated that the municipality's

revenues should not exceed its expenses. Therefore the underlying assumption is that the municipality should be not running a budget deficit (Alþingi, n.d.).
According to the 71 article creditors of Icelandic municipalities are unable to force them into bankruptcy even though they run out of cash to cover day to day operations. Creditors are therefore unable to confiscate assets when faced with non-payment of debts (Alþingi, n.d.). This weakens the bargaining position of creditors when negotiating with distress municipalities and increases their willingness to agreement.
The Ministry of the interior, which manages the finances of Icelandic municipalities introduced a directive in 2012. The purpose of this directive was to clarify further the proper metrics regarding municipal finance. Also, to ensure proper monitoring of their finances. According to this directive the expenses of the A part, which is the core operation of the municipality, and the B-part, which is the consolidated accounts, should never be higher than the revenue on average every three years. In addition it set a limit on the total debt of the municipality which is that the total debts both for the A and B parts of the accounts should be less than 150% of total revenues (Innanríkisráðuneyti, 2012). It is still unclear if these measures are sufficient and enough to prevent future financial difficulties for Icelandic municipalities.

3. Financial development

There has been a great variability in revenues and profitability of Icelandic municipalities in recent years. Their revenues reached a peak in 2007 when the Icelandic economy was overheating and growing more than 9%. Then when the financial crises hit the country in 2008-2010 and the economy contracted their finances suffered badly. Their revenues plummeted and what was even more devastating were increased in the debt burden. Some municipalities had a considerable part of their debt in loans denominated in foreign currencies. Thus, when the Icelandic krona lost around half of its value in 2008 those loans skyrocket when measured in the Icelandic krona. Since 2010 the financial situation has improved gradually and their operations have been aided by considerable growth in the Icelandic economy which has been growing significantly in recent years.
Figure 1 shows the development of profitability, financial costs, and extraordinary charges for Icelandic municipalities 2007-2014. All the numbers on the picture are at constant prices. The numbers presented here are the sum of the total of all of Icelandic municipalities and do represent the consolidated accounts. The figure shows that the municipalities were running a healthy profit in 2007. Their total combined profit that year amount to 65 billion Icelandic kronas (ISK). The negative turnaround was gigantic the following year and the total loss of 138 billion ISK. The loss that year was mainly because of negative financial charges on loans denominated in foreign currencies. Since then there has been a minor loss in 2009 and again in 2011 but there has been good profit since 2012.

Figure 1: The development of the profit, financial charges, and exceptional charges of the consolidated accounts of Icelandic municipalities in billion ISK 2007-2014.
Source: Union of Icelandic municipalities (2016).

But how has the development of debt been for Icelandic municipalities? In Figure 2 the development of total debts as a percentage of revenues is charted both for the A part and the consolidated accounts. The picture shows that the debt burden worsened considerably 2008-2010 and it peaked in 2010 when this ratio reached 250% for the consolidated accounts and 150% for the A part. It is worth noting that the one company, Reykjavik Energy, which is the public utility company which provides electricity and geothermal water for the capital and surrounding areas has more than half of the total debt of the consolidated accounts of Icelandic municipalities. Reykjavik Energy invested heavily in 2005-2007 which increased its debts considerably. Its debt was almost solely in foreign currencies and thus the fall of the Icelandic krona in 2008 affected it profoundly. Since the peak in 2010 the situation has improved gradually and total debts were around 154% for the consolidated accounts and 105% for the A part in 2014.

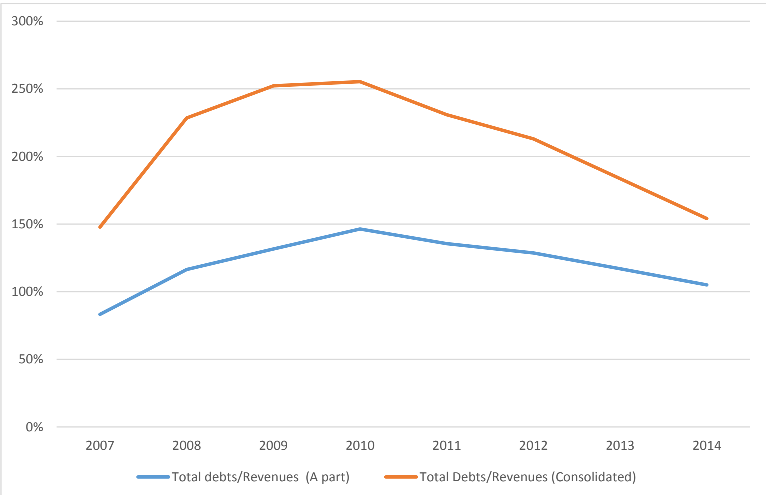

Figure 2: The development of total debts/revenues for the A part and the consolidated accounts of Icelandic municipalities 2007-2014.
Source: Union of Icelandic municipalities (2016).

4. Literature review

There is little consensus in the literature about the relationship between the size of municipalities and their financial effectiveness. When examining Australian municipalities the main findings were that the merger and the subsequent increase in their size lead to lower cost and more effectiveness. The reason was mostly economics of scales and the results of merger were that fixed costs were distributed on more people and operations become cheaper (Dollery and Crase, 2004). Other studies have found little relationship between the size of municipalities and costs. In an extensive research on Canadian municipalities the main conclusion was that there was little relationship between costs and size. One could even argue for lower average cost in smaller communities (Bodkin and Conklin, 1971). Even though it is an accepted consensuses that there are economics of scales in the cost of municipalities. But there are limits and the economics of scale disappear and the size becomes uneconomical. Where these limits are is questionable. Some research put the mark on 20-25 thousand inhabitants (Gabler, 1969; Southwick, 2012). Other have argues that the optimum low cost is reached at around 100 thousand (Bodkin and Conklin, 1971) (Mabuchi, 2001). Those numbers are high considering that the median size of Icelandic municipalities is a bit below 1 thousand inhabitants. And only one, i.e. the capital, having more than 100 thousand.
But what is the resound for these contradictory findings? One reason often mentions is a difference in the density of the population. In a research of US municipalities the outcome was that if controlled for the density of the population there was no economics of scales in municipalities (Southwick, 2012). Another explanation is a difference in the service that the community provides. Often smaller municipalities provide inferior service which leads to lower costs (Dollery and Crase, 2004).

5. Methodology

The credit risk of companies and probability of bankruptcy has been studied toughly. Since 1930 modes have been constructed which aim to predict corporate default (Ohlson, 1980) (Mossman, Bell, Swartz and Turtle, 1998) (Bellovary, Giacomino and Akers, 2007). The most prestigious model is though Altman's equation which he put forward to predict the bankruptcy of corporations in the production industry. This model is based on variables where liquidity, profitability, debt levels, etc., are applied to predict corporate default. Altman estimated that the model predicted bankruptcy within a year with 95% accuracy. In two years the accuracy was down to 72% and it was only 52% three years before default (Altman, 1968). Altman introduced a new model in 2002 intended to predict the default of companies in the service industry (Altman, 2002). That model calculates a Z coefficient and is as follows:

$$Z = 6,56\ X_1 + 3,26\ X_2 + 6,72\ X_3 + 1,05\ X_4 \qquad (1)$$

Where:
X1 is (current assets-current liabilities)/assets. This part of the equation measures liquidly in proportion of assets. If the current ratio (current assets/current liabilities) is under 1.0 then the coefficient X_1 is negative.
X_2 is profit/assets and measures profitability in relation to assets.
X_3 is EBIT (earnings before interest and taxes)/assets.
Finally X_4 is equity/total debts. This part of the equation measures leverage and equity. The higher the Z coefficient the better the credit score. Therefore higher Z coefficient leads to lower risk of bankruptcy. Altman stated that if the Z coefficient is under 1.1 the financial situation is very difficult and a significant risk of default. Between 1.1 and 3.0 the situation

was difficult. But if the Z coefficient was above 3.0 the financial health was sound and insignificant risk of bankruptcy for the next 3 years (Altman, 2002). In a recent study in municipalities in Texas this model was applied. The main findings were that the financial health of Texan municipalities was sound and only 1 of 85 had a Z coefficient under 1.1 (Fischer et al., 2015).

6. Results

But how is the financial health of Icelandic municipalities? What is their outcome when Altman Z is calculated? In this research the Z coefficient for all Icelandic municipalities was calculated using equation 1. Data from the annual reports of all Icelandic municipalities for the year 2014 was obtained from the Union of Icelandic Municipalities (Samband íslenskra sveitarfélaga, 2016). The Z coefficient was calculated both for the A part of the accounts and for the consolidated accounts. The findings are in the appendix where the Z coefficient of all Icelandic municipalities is presented. There the municipalities are ranked after the Z coefficient of the consolidated accounts. The results are surprising, i.e. the financial health of Icelandic municipalities is often very weak. There are 73 municipalities in Iceland. Of them, 27 had a Z coefficient below 1.1 in 2014 for the consolidated accounts. Even worse 6 municipalities had a negative Z coefficient for the consolidated account, but 11 had negative values for the A part.

6.1. Smaller vs. larger

In addition a study was conducted to test if there was a relationship between the financial health and size of Icelandic municipalities. It consisted of testing if there was a difference in the Altman Z coefficient between smaller and larger municipalities. Because both the size of population of Icelandic municipalities and the Altman Z coefficients are not normally distributed a nonparametric test, i.e. the Kruskal Wallis test was applied. The methodology used consisted of dividing all of the municipalities in two equally large groups based on the number of inhabitants and comparing the two groups. The municipalities which had less than 917 inhabitants were classified as small and those with more than that as large. Table 1 does show the results of this analysis.

Table 1: The Z coefficients of smaller and larger Icelandic municipalities 2014.

	Smaller	**Larger**
Average	6.34	1.45
Median	3.32	1.05
Standard deviation	9.34	1.56
P-value	0.000108	

Source: Union of Icelandic municipalities (2016) and author's calculations.

The results are conclusive. Small municipalities got considerably higher score than the larger ones. The median value of smaller municipalities was 3.32 but it was only 1.05 for the larger. Therefore, one can conclude that the financial health of smaller municipalities was much better than the larger. The average is higher than the median, especially for the smaller municipalities. It is interesting that the standard deviation is significantly higher for the smaller group, indicating a great variety in their financial position. The P-value indicates that the null hypothesis that median value of the two groups is the same is rejected. Therefore, one can conclude that the financial health of the smaller municipalities in Iceland was significantly better in 2014 than of the larger ones.

6.2. The capital area vs. other municipalities

But is there a difference in the financial health of municipalities in and around the capital from other municipalities around the country. A study was performed to find out if there was a difference in their Z coefficients. The definition of municipalities in the capital area would apply to all municipalities within a 1 hour driving range from Reykjavik. This applied to 24. Other "rural" municipalities were therefore 49. The results are presented in table 2. The other municipalities were on average in a better position, but there was not a statistically significant difference in the median based on Kruskal Wallis test as the P-value indicates.

Table 2: The Z coefficients of consolidated accounts of municipalities around the capital and other municipalities 2014.

	Other	Capital area
Average	4.17	3.44
Median	1.88	1.46
Standard deviation	7.86	5.46
P-value	0.851	

Source: Union of Icelandic municipalities (2016) and author's calculations.

6.3. "The point of no return"

Finally, a study was conducted to chart the "point of no return" i.e. when the financial situation of Icelandic municipalities was so bad that they had to seek assistance. That would include negotiations with creditors and an intervention by the Ministry of the interior. There are four cases of this in recent years. The development of the Z coefficient of these municipalities from 2002 until 2014 is shown in Figure 3. When the figure is examined it shows that for all of these municipalities their Z coefficients touched or went below -1.0. Even though this is not a sophisticated analysis, which is impossible to conduct because of so few cases, it gives an indication.

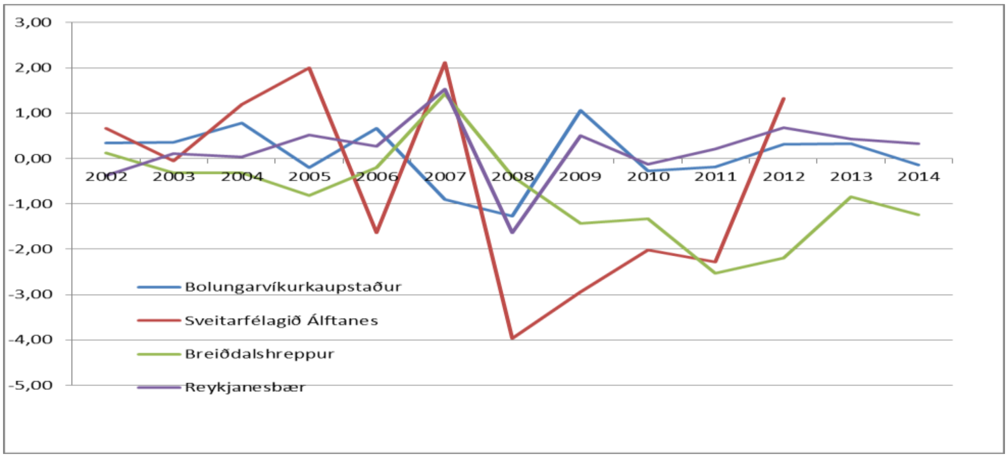

Figure 3: The development of Z coefficients of the consolidated accounts of four municipalities 2002-2014.
Source: Union of Icelandic municipalities (2016) and author's calculations.

Figure 4 does show every the worst municipality and its Z coefficient from 2002 until 2014. The municipalities which were in the worst position 2002-2005 managed to recover unaided. What they have in common is that for none of them, except for one, the Z conflict went below -1.0. The worst situation was in 2008 for Sveitarfélagið Álftanes when its Z coefficient touched -4.0. That indicated that this municipality was in a hopeless financial situation. A significant part of its debt was then written off and it was merged to a neighbouring municipality and thus ceased to exist.

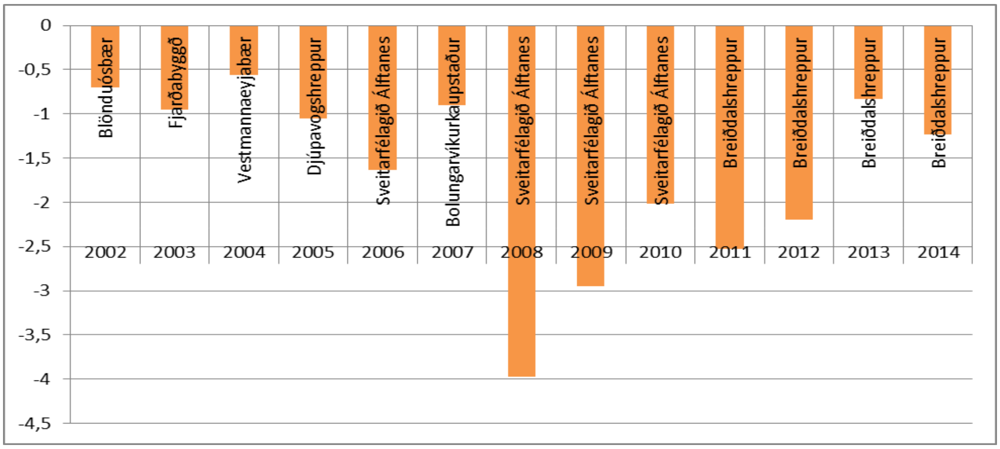

Figure 4: Lowest Z coefficients of Icelandic municipalities 2002-2014.
Source: Union of Icelandic municipalities (2016) and author's calculations.

This limited analysis suggests that the critical value of the Z coefficient has been around -1.0. Then the situation has become so bad that the municipality has had to seek assistance and negotiate with creditors. That is considerably lower than expected, with 1.1 being the expected value, and indicates a surprising resilience.

7. Conclusion

The methodology presented here, i.e. to calculate the Altman Z coefficient does give an important information regarding the financial position of Icelandic municipalities. It gives a good indication of their relative financial strength of but is less clear about the risk of severe financial distress or bankruptcy. The findings indicate that the financial health of the biggest municipalities is on average weak and worse than was expected. But smaller municipalities are often in a much better position and they are often debt free.

It is surprising how few municipalities have had to seek assistance from the Ministry of the interior given how weak their financial situation often is. For that there are probably many reasons. One possible explanation is that Icelandic municipalities are able to cut costs when times are tough. That's because a significant portion of their expenses goes into funding nonobligatory expenses. They are able to cut those expenses and avoid financial distress. Another likely explanation is that the creditors, i.e. Icelandic financial institution which lend the municipalities are willing to extend loans and change terms when the municipalities face financial hardship. Their bargaining power is weak, as they are not allowed to confiscate assets of the municipality or force them into bankruptcy. This is though difficulty to state without further research.

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Bio-note

Stefán B. Gunnlaugsson is an associate professor at the Faculty of Business Administration, University of Akureyri, Iceland. His research interests include financial market, municipalities and resource economics. Stefan has worked in academia and in Icelandic financial institutions.

Appendix
Z-coefficient of Icelandic municipalities 2014

Municipality:	Consolida	A-part	Municipality:	Consolida	A-part
Árneshreppur	49,70	51,04	Grýtubakkahreppur	1,68	4,33
Eyja- og Miklaholtshre	26,56	26,56	Sveitarfélagið Vogar	1,60	1,18
Fljótsdalshreppur	17,79	22,94	Vopnafjarðarhreppur	1,50	0,01
Svalbarðsstrandarhrep	15,93	17,87	Strandabyggð	1,37	2,80
Svalbarðshreppur	15,54	15,54	Garðabær	1,31	1,33
Akrahreppur	10,93	10,93	Hrunamannahreppur	1,30	1,65
Kaldrananeshreppur	10,90	12,44	Seyðisfjarðarkaupstað	1,17	1,31
Hvalfjarðarsveit	7,49	7,34	Þingeyjarsveit	1,12	1,84
Ásahreppur	6,64	6,68	Akueyrarkaupstaður	1,08	0,79
Tjörneshreppur	6,16	6,16	Djúpavogshreppur	1,08	-1,38
Súðavíkurhreppur	6,08	9,56	Rangárþing ytra	1,06	1,60
Grindavíkurbær	5,84	6,88	Reykjavíkurborg	1,04	1,42
Sveitarfélagið Garður	5,50	5,51	Akraneskaupstaður	0,90	1,37
Borgarfjarðarhreppur	5,29	30,89	Stykkishólmsbær	0,83	1,67
Skeiða- og Gnúpverjah	5,21	6,96	Fjarðabyggð	0,75	-0,66
Sveitarfélagið Skagast	5,13	8,28	Grundarfjarðarbær	0,69	0,38
Húnavatnshreppur	5,12	5,30	Hveragerðisbær	0,68	0,41
Flóahreppur	4,96	11,85	Grímsnes-og Grafnings	0,67	2,95
Seltjarnarneskaupstað	4,62	4,99	Sandgerðisbær	0,55	0,98
Kjósahreppur	4,39	4,39	Skútustaðahreppur	0,48	0,30
Reykhólahreppur	3,77	4,99	Vesturbyggð	0,42	0,90
Skagabyggð	3,32	7,98	Reykjanesbær	0,33	-1,19
Helgafellssveit	3,28	3,28	Langanesbyggð	0,33	-1,35
Eyjafjarðarsveit	3,14	4,79	Blönduósbær	0,31	1,34
Skaftárhreppur	3,10	3,54	Kópavogsbær	0,31	0,26
Rangárþing eystra	2,87	4,51	Sveitarfélagið Árborg	0,28	-0,22
Sveitarfélagið Hornarf	2,86	3,15	Ísafjarðarbær	0,25	0,99
Húnaþing vestra	2,82	6,13	Borgarbyggð	0,11	0,28
Vestmanneyjabær	2,80	4,56	Fljótsdalshérað	0,05	-0,22
Hörgársveit	2,49	2,77	Mosfellsbær	-0,08	-0,44
Bláskógabyggð	2,21	2,21	Norðurþing	-0,11	-0,44
Snæfellsbær	2,17	1,98	Bolungarvíkurkaupsta	-0,13	0,03
Dalabyggð	2,01	2,53	Sveitarfélagið Skagafj	-0,15	-0,25
Fjallabyggð	1,93	2,00	Hafnarfjarðarkaupstað	-0,50	-0,84
Dalvíkurbyggð	1,88	1,83	Breiðdalshreppur	-1,23	-2,08
Sveitarfélagið Ölfus	1,83	1,39			
Tálknafjarðarhreppur	1,77	0,95	Average	3,93	4,86
Mýrdalshreppur	1,69	3,33	Median	1,77	2,00
			Standard deviation	7,13	8,23

DETERMINANTS OF THE PERCEIVED IMAGE OF NIGERIAN TOURISM INDUSTRY

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Abstract: *The image of a country's tourism has become a strong source of economic and social power for the nation's survival hence the need for its constant measure. This study examines the perceived image of the Nigerian Tourism Industry (NTI) among foreign tourists and residents in Nigeria and the demographic variables that influence perception of the industry. A convenience sampling method was adopted to select total 150 respondents. A questionnaire with twelve key evaluative factors was used in measuring the image of NTI. Exploratory Factor Analysis (EFA), T-Test for equality of means and multiple regression techniques were applied in the analysis of data. The results show that the mean index obtained for the perception of the tourism industry was fairly positive. NTI was perceived to be most reputable in the areas of hospitality under culture and heritage dimension and weakest in political stability under infrastructure dimension. Respondents' demographic characteristics were not significant in explaining the overall perception of NTI. In the circumstance, we recommend that, to effectively reposition the NTI in the international arena, the Nigerian government needs to be more diligent in conducting its elections in order to ensure fairness and stability. The friendliness of the Nigerian people could be used to mitigate the negative effects of insecurity in the country. Nigeria's rich cultural heritage and friendly weather should be emphasized in the promotion of NTI.*

Keywords: Foreigners, Hospitality, Nigeria, Perception, Tourism image dimension, Cultural heritage.

JEL classification: Z32.

1. Introduction

Tourism serves as a vehicle for promoting cultural exchange, international visibility, understanding and goodwill among the diverse peoples of the world. It could also be a catalyst for enhancing employment opportunities, foreign exchange and infrastructural facilities. Tourism in Africa can be used strategically to enhance economic growth and development (Kester, 2003) as well as showcase the image of the continent to the outside world (Gbadel, 2007). About 2.5% of the GDP in Africa is attributed to the tourism industry which also generates 5.5% of the employment in the region (Karreen, 2008).

As noted by Aliyu, Abdul Kadir and Aliyu (2013), tourism is having enormous economic impact on all sphere of the society and is fast becoming one of the fattest growing industries globally. This is particularly true as most countries are now turning to tourism as an

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alternative revenue sources because of its multiplier effect on other sectors of the economy, creating large volume of job for both skilled and unskilled labor (Ayeni and Eboho, 2012)
According to World Economic Forum (2015), the Travel and Tourism (T&T) sector has continued to grow over past years. The United Nations World Tourism Organization (UNWTO) observed that international tourist arrivals recorded 1.14 billion in 2014, 51 million more than in 2013. The World Travel and Tourism Council (WTTC) estimates that the T&T sector now accounts for 9.5% of global GDP, a total of US$ 7 trillion, and 5.4% of world exports. As indicated by the analyst in World Economic Forum (2015), encouraging the development of the T&T sector has become more important because of its key role as a driver of growth and job creation, growing at 4% in 2014 and providing 266 million jobs, directly and indirectly (Roberto and Tiffany, 2015).
Nigeria is richly endowed with warm, sundry climates, over 800 kilometres of fascinating beaches and evergreen vegetation in the south, while in the North, alluring land forms overshadow savannah grasslands (Eja, Ukwanyi and Ojong, 2012). Nigeria earned the name ‘Giant of Africa’ partly for her richness in interesting natural sceneries, features such as waterfalls, springs, hills, mountainous areas with temperate climate and special tropical wildlife. What is more, Nigerian’s socio-cultural heritage, over 140 million people and hospitality bequeath her with a unique and enviable pride of place amongst competing tourist destinations in the world (Aniah, 2005). Statistics by Olayinka (2017) shows that Nigeria as one of the top ten vacation destinations in Africa is blessed with 2000 amazing natural attractions.
In spite of Nigeria’s huge natural endowment and tourism potentials, some states in the country witness low inflow of tourists. The report of the World Travel and Tourism Council (2012) shows that Nigeria is yet to realize its vision as the tourism industry accounts for only 0.6% of the Nigeria’s GDP. Awaritefe (2007) remarked that local patronage from domestic tourism is insignificant, partly due to low level of awareness and low income level of an average Nigerian. The assertion on Nigeria’s readiness to actualize its tourism vision is again re-echoed by Bola (2010) when he noted business tourism to be a mainstay of domestic tourism and that “holiday taking culture” is yet to be developed in Nigeria (Bola, 2010). The Nigeria Tourism Development Council NTDC (1998) in a survey on the national awareness and patronage of tourism destinations in Nigeria found that less than 20% of Nigerians who spend their holidays out of the country had visited Yankari Game Reserve or Obudu Cattle Ranch (in Nigeria) and that more than 50% of the regular visitors to these resorts were foreigners. This situation appears not to have change much as Ndanusa, Yoshifumi and Md. Aminul (2014:286) also noted that Nigerians hardly visit any tourist destinations in the country while on vacation as they prefer to visits friends and relations during festivals, ceremony or holidays while the privileged government officials travelled overseas for vacation and medical checkups.
Notwithstanding, the low patronage from local market, Olayinka’s (2017) statistics reveal that tourists inflow to Nigeria grew from 4.8m in 2011 to 14m in 2014 exceeding those of South Africa and Morocco. The nation’s present tourism performance is far from the desired vision, as the travel and tourism competitiveness index 2015 indicated that out of 141 economies, Nigeria ranked 131 with a value of 2.79 (World Economic Forum, 2015).
Just as observed by Alexander (2010), NTDC and Oluwole (2000) earlier identified ineffective packaging and poor marketing efforts to be partially responsible for low customer patronage of Nigerian tourism destinations. Ineffective custom and immigrating laws were noted as another major challenge. The difficulties associated with the processing of visas for tourists wishing to visit Nigeria are also considered a hindrance to the Nigerian tourism industry (Nigeria High Commission, 2010; Odia, 2012). In addition, Eja, Ukwayi and Ojong (2012) found that political instability, high crime rate and terrorism have impacted negatively on the inflow of tourists into Nigeria in recent years. Security, infrastructural amenities, promotion and awareness, funding and financing, attitude and image have been noted as

the barriers that must be removed for NTI to flourish (Ndanusa, Yoshifumi and Md. Aminul, 2014).
Recognizing its profound importance, the Nigerian government selected tourism as an alternative to oil resources and as one of the strategic tools for actualizing its seven-point agenda and vision 20-20-20 (Olarewaju, 2009). In view of the importance that the Nigerian government attaches to the industry, it is crucial that a perception audit be conducted in respect of NTI to ascertain its current image so that necessary steps can be taken to reposition the sector in the minds of potential tourists both local and foreign. This study is expected to help uncover the strengths and weaknesses inherent in the tourism sector. The objective of the study is to determine the image of NTI as perceived by foreign tourists and residents who live in Nigeria as well as examine the influences of selected demographic variables (age, sex, education, and income) on the image of the Nigerian tourism industry.

2. Tourism Destination Image

The Concise Oxford Dictionary defines tourism as "the business activity connected with providing accommodation, services and entertainment for people who are visiting a place for pleasure". Tourism is often the most visibly promoted aspect of the nation brand; hence most tourist boards spend lots of money on 'selling' the country around the world (Anholt, 2007).
In the context of tourism, Lawson and Baud-Bovy (1977) defined destination image as the expression of all objective knowledge, prejudices, imagination, and emotional thoughts of an individual or group of people of a particular location. Image refers to how something is perceived (Dinnie, 2008). Tourists, immigrants and investors rely on their perception of places to make the decision process easier, faster and more efficient. For example, the clichés and stereotypes we have about a country largely determine the choice of places to go to for tourism. The image which tourists have of tourist destinations is an important element in tourism marketing (Buhalis, 2000; Chon, 1991) and it ultimately influences tourists' behavioural intention and final selection of a destination to visit (Chen and Tsai, 2007).

2.1 Determinants of Destination Image

The development of tourism image is believed to be based both on consumer's rationality and emotionality (Lin, Duarte, Kerstetter and Hou, 2007). The overall image of a destination is a combination of cognitive components, that is, attributes of its resources and attractiveness (Garlarza, Saura and Garcia, 2002; Beerli and Martin, 2004; Govers and Go, 2005) and affective components which relate to feelings and emotions evoked by the destination (Rial, Ferreira and Varela 2008; Martin and Rodriquez del Bosque, 2008). It has been noted that the cognitive component of image has a profound impact on the affective component (Ryan and Cove, 2007). Beerli and Martin (2004) observed that tourists' actual experience has an important effect on the destination image from a cognitive and emotional point of view.
Baloglu and McCleary's (1999) PATH model suggests that age, level of education and sources of information (reference group, group membership, the media, etc), are influences on cognitive and perceptual assessments while affective assessment is influenced by education and socio-psychological motivation (Walmsleys and Young, 1998). More specifically, Tasci (2007) found that age, race and previous experience are strong determinants of a destination's image.
The generic model developed by Crouch and Ritchie (1999: 146) postulates that the competiveness of a tourism destination is determined by four major components: core resources, attractors, supporting factors and resources, destination management, and qualifying determinants. To them, primary elements of the appeal of a destination include physiography, culture, history, market ties, activities, special events, and the tourism

superstructure. Physiography refers to the landscape and climate, market ties includes linkages with the residents of tourism originating regions, and the tourism superstructure is comprised primarily of accommodation, facilities and, food. The supporting factors and resources include accessibility, entrepreneurship, communications infrastructure, local transportation infrastructure, and other inputs provided by public services, institutions (financial, education, and research), and the principal factors of production. The qualifying determinants referred to by Crouch and Ritchie (1999) include safety, location, interdependencies within and between destinations, and cost (interpreted in a broad sense to include inter-destination travel, local living costs, and exchange rate effects).

In a related manner, Dinnie (2008) identified customer service level, safety and law and order, value for money, accessibility and cultural heritage/landscape as key success factors that drive the development of tourism industry. A survey conducted by the United Nation Environmental Programme and World Trade Organization (2005) showed that antiquities provided the primary source of visitors' attraction to Egypt until early the 1980's when marketing effort was targeted on the Red Sea Coast. Events and festivals, whether traditional or artificial, if well designed can be used to attract visitors in the off-peak season. The study of Brannas and Nordstom (2002) shows that festivals had a positive net effect on the patronage of tourism destinations, as visitors tended to stay longer on vacation during festival periods.

In the opinion of Krippendorf (2001), tourist product constitutes a complete experience from the time the tourist leaves home to the time he returns. For him, a package tour is a travel plan which includes most elements of vacation such as transportation, accommodation, sightseeing and entertainment. Suleiman (2010) describes the tourist product as a composite product which involves the sum total of a country's tourist attractions, transport, accommodation and entertainment. Tourist products can be entirely created by man or can be nature's creation improved upon by man.

According to Seetariah, Juwaheer, Lampert, Rojid, Sannassee and Subadar (2011), infrastructure forms an integral part of the tourism package as road infrastructure enhances accessibility of tourists to different parts of the destination country while sound airport infrastructure ensures that tourists experience a comfortable transition from the plane into the borders of the destination country and vice versa. They also stressed that communication infrastructure allows quick and cheap communication between the origin and destination country as well as provides maximum information about the destination thereby reducing uncertainty, fear and asymmetric information. Mo, Howard and Havitz (1993) found that tourists prefer to travel to countries that have the same infrastructures as in their home country. Specifically, Seetariah *et al.* (2011) found that a 10% increase in the stock of infrastructure capital yielded a 3.2% increase in tourist arrivals in the island of Mauritian. Martin and Bosque (2008) opine that tourism image is determined by factors such as: natural environment, cultural heritage, tourist infrastructures, and atmosphere.

From the foregoing, it can be deduced that the following are the key success factors influencing the image of tourism: arts/history, festivals, telecommunication and transportation infrastructures, political stability, overall country's image, climate condition, hotel facilities, landscape/cultural heritage, and safety/security.

3. Research Methods

A combination of descriptive and explanatory (correlational) research designs was adopted for this study. The study covered three out of the six geo-political zones that make up Nigeria. The zones covered are North-Central, South-West and South-South. Six state capitals were then randomly selected from the eighteen (18) state capitals in the three geo-political zones. The selected state capital cities are Abuja, Calabar, Edo, Lagos, Jos and Port Harcourt. Due to absence of accurate statistics on the population of foreigners in the selected capital cities, a sample of 150 foreign tourists/residents (twenty-five (25 each)

from a capital city) between the ages of 18 years and 65 years was chosen. The dearth of accurate statistics on foreign tourists in Nigeria had been identified by Ndanusa *et al*. (2014) as a serious problem in measuring tourism's economic impact and contribution to the nation's GDP. The required data for the study were collected with the aid of a questionnaire. By means of convenience sampling, offline mode of application of questionnaire was adopted to select respondents who were willing to fill questionnaires between January and February. Being an academic exercise, an introductory letter from my institution stating the survey purpose was attached to the questionnaire presented to the respondents. Some of the respondents were contacted at tourist centres, and hotel receptions. Others were accessed in their work places. The security challenge in the country made data collection worse as some of the foreigners were inaccessible for fear of being adducted. The issue of security challenge can be inferred from the remarks of Ndanusa *et al* (2014:288): "Virtually all parts of Nigeria is facing one form of security challenge or the other ranging from kidnapping in East, hostage taking in the South- South, armed robbery in the West and Boko Haram terrorism in the North".
Items in the first part of the questionnaire were designed to capture the respondents' demographics. The image of Nigerian tourism was measured by means of 12-item five-point Likert-type scale Frequency distributions, means, and t-test were applied to analyse data. All statistical tests were performed with the aid of SPSS and Excel at 0.05 level of significance. Cronbach's Alpha statistics was used to demonstrate the reliability of the research instrument. A substantive alpha level of .720 was obtained for the 12 item-scale.
Of the 150 questionnaires distributed, 115 (77 per cent) were retrieved, and 101 (67 per cent) were found usable. The respondents' average age and income were 34 years and N101,028.06 (about US $507) per month respectively. About two-thirds, (that is, 67.3 percent) of the respondents are male. About 83 per cent of the respondents had bachelor's degrees or higher degrees.

4. Results

4.1 Exploratory Factor Analysis (EFA) of Factors in the Perception of Nigerian Tourism Industry

The study sought to identify the dimensional factors that influence Nigerian tourism image. In order to achieve this goal, the 12 items of tourism image formation identified from the literature review were subjected to Principal Component Analysis (PCA) using SPSS version 22. The critical assumptions underlying factor analysis were examined in order to assess the suitability of the data for PCA. The Bartlett's Test of Sphericity was found to be statistically significant $\varkappa^2 = 376.832$, $p = .000$; thereby supporting the factorability of the correlation matrix. Similarly, Kaiser-Meyer-Olkin (KMO) was .742, exceeding the recommended minimum value of .60 (Kaiser, 1970, 1974) which indicates the sufficiency of the sample to support PCA and good correlations among data for factor anaysis.
The analysis of PCA resulted in the extraction of four factors with Eigen values of more than 1, explaining 67.69% of the total variance based on the data collected from the sample. According to experts, more than 50% of total variance explained is adequate for an exploratory study. The values of the factor loadings in the four extracted components after Varimax rotation range between .869 for TI6 and .636 for TI12. Following Hair, Anderson, Tathan and Black (2010), a value of .50 is an acceptable value of factor loading.
Based on the results obtained after the Varimax rotation, the first factor containing the four most important components: heritage, art/history, festival and hospitality is related to culture and heritage. The second factor which includes landscape, climate and Nigeria country image is named natural attraction. The third factor including transportation, telecommunication and political stability is related to infrastructure. Lastly, the fourth factor includes hotel service and safety is hotel services and security.

Table 1: Dimensionality of Factors in Nigerian Tourism Image: Exploratory Factor Analysis (EFA**)**

Item No.	Parameters	Culture and Heritage	Natural Attraction	Infrastructu-res	Hotel Services and Safety
TI6	Heritage	.869			
TI5	Art/History	.839			
TI4	Festival	.757			
TI1	Hospitality	.711			
TI10	Landscape		.805		
TI11	Climate		.732		
TI12	Nigeria Country Image		.636		
TI8	Transportation			.728	
TI7	Telecommunication			.711	
TI2	Political stability			.711	
TI9	Hotel facilities				.812
TI3	Safety/Security				.654
	Eigen Values	2.829	1.948	1.779	1.567
	% of Variance	23.572	16.233	14.828	13.058
	Total Variance	67.69%			
	Cronbach's Alpha	.720			
	Kaiser Meyer Olkin (KMO)	.742			
	Bartlett's Test of Sphericity	376.832			

4.2 The Image of the Nigerian Tourism Industry

Table 2 shows respondents' perception of the different aspects of Nigeria's tourism industry on a five point scale ranging from 1 to 5; the higher the mean score of the factor, the more positive the image of the tourism industry.

Table 2: The Image Index of the Nigerian Tourism Industry

Item No.	Parameters	Mean	Standard Deviation
TI6	The Nigerian cultural heritage is a complement to Tourism Industry	3.93	.795
TI5	Nigerian history/arts are attractive to tourists	3.84	.724
TI4	Festivals in Nigeria are a powerful tool for attracting tourists	4.13	.800
TI1	Nigerians are friendly, receptive and hospitable to visitors	4.15	.923
	Culture andHeritage	*4.01*	
TI10	Nigeria's landscape is beautiful	3.47	.937
TI11	Climate conditions in Nigeria are favourable for tourists	3.70	1.110
TI12	Nigeria's overall image internationally is good	3.30	1.018
	Natural Attraction	*3.49*	
TI8	Nigeria's air transportation system is effective	2.52	.838
TI7	Telecommunications services in Nigeria are efficient	3.37	.990
TI2	Nigeria is politically stable	2.39	1.122
	Infrastructure	*2.76*	
TI9	Hotel services in Nigeria are excellent	3.50	1.018
TI3	Nigeria is a safe place for tourists	2.82	1.017
	Hotel Services and Safety	*3.16*	
	Overall Image Index	3.43	

The overall image index of 3.43 implies a slightly positive image for Nigerian tourism sector. The analysis of the Nigerian tourism industry mean indices on the basis of image dimension shows that the industry is most positively perceived by foreign tourist on culture and heritage dimension (4.01), followed by natural attraction (3.49), hotel services and safety (3.16) and negatively perceived on political stability under infrastructure dimension. An interesting and notable perceptual index under culture and heritage is the mean performance of 4.15 on the friendly nature of Nigerians. This score indicates clearly that Nigerians are perceived to be welcoming, receptive and hospitable to visitors. Another noteworthy performance is the mean index of 4.13 on the magnetic attraction of Nigerian festivals. The image of the industry was more or less neutral under the hotel services and safety dimension with a mean index of 3.16 slightly above neutral. Of the two components under this dimension, safety component rated as a more discouraging factor to foreign tourists and immigrants. On infrastructure dimension, two components were rated negatively: political stability and air transportation.

4.3 Demographic Influences on the Perception of Nigerian Tourism Industry

Table 3 shows the t-test result for equality of means on the basis of respondents' sex.

Table 3: Perceptions of Tourism Industry on the Basis of Sex

Sex	N	Mean	Standard Deviation	t-value	Sig 2 tailed	Decision
Male	68	3.42	0.497	.027	.978	Not Significant
Female	33	3.42	0.497			

The t-value of .02 for equality of mean perceptions between the sexes revealed no significant difference between the male and female tourists in their perceptions of the Nigerian tourism industry (See Table 3). In other words, the males and females perceive Nigeria tourism industry equally.

The results of the multiple regression analysis showing relationship between respondents' demographics and tourism image are summarized in Table 4.

Table 4: Tourism Image and Respondents' Demographics

ANOVA	Coefficients	Standard Error	t Stat	p-value	F-value	Sig Level	R Square
Intercept	3.463	.301	11.520	.000	8.53	1.41E-06	0.09
Age	.011	.007	1.545	.127*			
Income	4.805E-7	.000	.693	.491*			
Education	-.109	.074	-1.473	.146*			

*Note**:** Not Significant at 5% Level of Significance

As can be seen in Table 4 the results of the F-test indicate that none of the demographic variables (age with p-value of .127, income (.491) and education (.146)) significantly explains respondents' perception of the NTI. In other words, foreigners' image of the NTI did not vary but same for all respondents irrespective of their demographic differences.

5. Discussion of Results

The poor rating on different aspects of the Nigerian tourism sector is a clear indication that there is room for further improvement and development of the sector. The overall image of the Nigerian tourism industry portrayed in this study tends to corroborate the result obtained by Eja (2011) that the image of NTI is moderately positive. Similarly, the finding in respect of

Nigerians' friendliness and hospitality under culture and heritage dimension supports De Mooij's (2003) assertion that people in collectivist societies like Nigeria are generally receptive to visitors.
The above average rating of telecommunication component under infrastructure dimension is consistent with the observation by NCC (2012) and Adeyinka, Ajiboye, Adu, and Wojuade (2007) that the industry is adding value to the nation's GDP. The instability in the political environment would no doubts result in poor policies on transport infrastructures. On hotel services and safety dimension, the poor performance on security corroborates the position of Adagba, Ugwu and Eme (2012) and Nwanegbo and Odigbo (2013) on security concerns in the country.

6. Conclusion
The study examined factors used by foreign tourists and residents in the evaluation of Nigerian tourism industry public image. The study found that the four most important factors are: heritage, art/history, festival and hospitality; these factors were grouped under culture and heritage. The second factor includes landscape, climate and Nigeria country image referred to as natural attraction. The third factor involves transportation, telecommunication and political stability under infrastructure dimension. The least set of factor considered by foreign tourists includes hotel service and safety. The study concludes that the image of the Nigerian tourism is most negative in terms of political stability, air transportation system and security. Notwithstanding the negative performance, Nigeria's tourism industry was found to be highly positive in the areas of hospitality, festivals, climatic condition, and cultural heritage. Overall, perception of NTI was fairly positive and constant for all respondents' of different ages, educational and income groups.

7. Policy Implication
The findings in this study have implications for different stakeholders. To effectively reposition the image of the Nigerian tourism, government and entrepreneurs in the tourism industry need to support the development of the nation's heritage, arts, festival and hospitality as the top critical factors.
Our finding shows that security is a major concern to tourists. Insecurity is inimical to the development of Nigerian tourism industry. For Nigeria to be perceived as a safe place for desiring foreign tourists, the Nigerian government must overhaul the police force through enhanced investment in state-of-art equipment. Similarly, other security agencies including military, customs and immigration need to be revamped. In the long term, ensuring that every child has access to formal education and creating job opportunities for youth can contribute immensely to improving the security situation in the country. More importantly and just as recommended by Oliveira and Martins (2009) for the Brazil tourism industry, the friendliness of the Nigerian people could be used to mitigate the negative effects of insecurity in the country.
Additionally, online marketing of Nigerian tourism products could be very helpful if websites are designed to capture attractive and beautiful sceneries of the nation's arts and cultural heritage. Tourists, especially foreigners who have had positive experiences should be made to share their experiences in the form of testimonies using different communication media. For Nigerians to remain hospitable, parents, school administrators and religious organizations should not relent in their efforts to continuously inculcate the virtues of friendliness and hospitality in the Nigerian child right from the cradle.

8. Limitation and its Implication for Further Study
Given the fact that image making and tourism are crucial to national development, it is necessary that further studies be conducted on this subject. This study appears to be limited in the area of sampling as it only involves 150 respondents. This is partially due to inaccurate

sampling frame which also influence the choice of non-probability sampling method (convenience). Notwithstanding the smallness of the sample size, it is hoped that future researchers on this subject matter would adopt probability sampling method. Investigative studies involving potential foreign tourists who are yet to have personal experience of Nigeria tourism industry could be useful insights on perception of the industry outside the country. Also, a national study, covering both the rural and urban areas would be more revealing. Another area that should interest future researchers is a comparative study of the attractiveness of the different tourist destinations in Nigeria.

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DOES DEMOCRATIC INSTITUTIONS AND FOREIGN DIRECT INVESTMENT AFFECT ECONOMIC GROWTH? EVIDENCE FROM NIGERIA

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Abstract: *A reciprocally re-enforcing relationship exists between institutions, foreign direct investment and economic growth. Sound institutional framework which supports foreign direct investment is significant for driving rapid Economic growth. An important factor that has undermined rapid and sustained economic growth is the weak institutional structure, decrepit state capacity and low level of foreign direct investment in Nigeria. Democratic structures reflected in the rule of law, effectiveness and predictability of the judiciary and enforceability of contracts proceedings is imperative for accelerating economic growth. Employing the Generalized Method of Moments (GMM) estimation techniques on annual time series data covering the period from 1981 to 2015, the relationship between these variables was empirically investigated. The empirical findings reveal that democratic institutions and foreign direct investment are significant variables influencing economic growth in Nigeria. In particular, the results, using Nigerian data, show that weak institutions have a destabilizing impact on growth. The impact of FDI on the other hand is found to be positive and significant. Therefore, sound institutional framework, as well as appropriate and consistent macroeconomic policies that encourage foreign direct investment to propel rapid economic growth in Nigeria needs to be put in place.*

Keywords: *Democratic Institutions, Foreign direct investment, Economic growth, Nigeria GMM.*

JEL Classification: F35, F43, O14, C13.

1. Introduction

The importance of democratic institutions and foreign investment for enhancing economic growth is well established and articulated in the growth literature. Sound investment policies are critical for rapid economic growth and on the other hand, aconducive institutional framework is indispensable for promoting sound policies investment (Avellanda, 2006; Diop, Dufrenot and Sanon, 2010). Thus, sound democratic institutions and investment are indispensable for propelling rapid economic growth. In particular, sound democratic structures in the context of the rule of law, effectiveness and predictability of the judiciary and the enforceability of contracts are critical for the stimulation of foreign investment and growth (Jensen, 2003; Fosu et al., 2006; Avellaneda, 2006, Diop et al, 2010).

A large body of theoretical and empirical determinants of economic growth in has shown that institutional framework is a deep determinant of growth. In particular, a large number of country-specific and cross-sectional studies have examined the determinants of growth (Barro 1998; Drazen, 2000 and Helpman 2004). Most of these studies have however been focused on the effects of physical and human capital accumulation, total factor productivity, technological innovation, the process of knowledge creation and diffusion, international trade and international economic as factors explaining growth empirics in different countries (Helpman 2004; Avellaneda, 2006, cited in Eregha, 2014). Empirical evidences have increasingly shown that strong democratic institutions and investment are indispensable to the growth process, as it could affect the incentives to accumulate, innovate and accommodate change (Kaufmann and Kraay, 2003, cited in Eregha, 2014). This position is supported by institutional development economists who argue that stable and sustained economic growth can only be guaranteed in the presence of sound institutional framework (Acemoglu et. al., 2002).

A growing number of literature stress that institutional structures which encompass the rule of law, political and economic equality, enforceability of contracts and secured property rights and foreign investment are significant to sustained economic growth and development (Kaufmann andKraay, 2000; Avellaneda, 2006). Many empirical studies have found a positive nexus between the quality of institutions as well as governance structures and economic growth (Acemoglu et al. 2002; Easterly and Levine 2002 and Rodrik, Subramanian and Trebbi, 2004; Diop et al. 2010). A broad harmony thus exist between growth and development experts as well as international policy-makers that good and quality institutions and sufficient investment are prerequisite for sustained economic growth (Kaufmann and Kraay, 2000; Knack, 2003). The earliest attempts to analyze economic and political determinants of growth were focused on the effect of political regimes on economic performance. Accordingly, studies analyzing whether democratic institutions promotes or impedes economic growth have produced three varying schools of thought (Feng 2003; Avellaneda, 2006). First is the conflict school which argues that democracy hampers economic growth, mainly in developing countries, by creating consumption pressures, fuelling distributional conflicts and inhibiting capital accumulation; second is the compatibility school that posits that democracy enhances economic growth, because the existence of fundamental liberties, political rights and institutional structures generate the social conditions that are conducive to economic development; and lastly is the skeptical school that maintains that there is no systematic linkage between democracy and economic development (Eregha, 2014).

In the light of the fact that institutions investment policies are mutually reinforcing an*d* both affects economic growth outcomes, this study becomes imperative.

Against this background, the following research questions are pertinent to this study:

(i) What is the link between institutions, foreign direct investment and economic growth in Nigeria?
(ii) Does democratic institutions and foreign direct investment significantly affect growth in Nigeria?

2. Review Of Literature

2.1. Democracy and Economic growth

Sorensen (1993), cited in Ayanwu and Erhijakpo, (2014) defines democracy as political arrangements, participation, institutions and processes that guarantee the rights and freedoms to choose and replace leaders through regular and free elections, equality of opportunity and access, and a just distribution of social benefits and burdens to all. Democracy encompasses political freedom in elections, transparency of the government and political participation and civil liberties (freedom of speech, union rights and rule of law). The rule of law is upheld by an independent and fearless judiciary. Leading to a situation where citizens have political and legal equality (equality before the law), state officials are themselves subject to the law, and individual and group liberties are respected as enshrined in the constitution. People are free to organize, demonstrate, publish, petition, and air their opinion on social and political issues. Print and electronic media are free to report and comment, and to expose wrongdoing, without fear, intimidation, harassment, proscription or outright closure (freedom of the press). Minority groups can practice their culture, faith, and beliefs without fear of victimization and harassment. There is check and balances. Property rights are protected by law and by the courts. In addition, corruption is punished and deterred by autonomous, effective means of monitoring and enforcement (Diamond, 1999, cited in Ayanwu and Erhijakpo, 2014). Strong democratic institutions which facilitate good governance and enhance capital accumulation and investment are imperative for sustained growth (Avellaneda, 2006). Acemoglu, et al. (2002) has shown that weak democratic and institutional structures largely explain the low level of economic performance in developing countries and the differential rates of growth among countries. In the light of this, countries that have experienced rapid and sustained economic growth are those with sound institutional framework, stable macroeconomic policies that sufficiently attracts investment, technological innovation, and international economic integration (Helpman 2004; Avellaneda, 2006).

2.1 Democracy, Foreign Direct investment and Economic Performance-The Nexus

Economic performance refers to the overall level of economic progress or advancement in all sectors of an economy, in terms of volume and value of output, level of employment, factor productivity and the level of other economic activities, and how these translate into improved welfare for the citizens. According to World Bank (2002, cited in Aigheyisi, 2014), per capita income is one of the most significant measures of economic performance, and the gross domestic product (GDP) is the most commonly used measure of a country's economic activities. Thus, growth rate in GDP measures the level of economic growth. However, it has been argued that impressive income or GDP does not always translate into improved welfare, hence several researchers and analysts have questioned the validity of income as a measure of economic performance. Some researchers have suggested the human development index (HDI) as a more appropriate and holistic measure of economic performance measure of welfare, encompassing not just income, but also longevity, knowledge and other critical life-sustaining indicators.

It can be inferred from the foregoing, that there is no generally accepted single measure of economic performance, as each of the aforementioned measures (GDP, real GDP or the growth rate of real GDP, and HDI) are frequently used in empirical researches as proxy for economic performance. A strong mutual relationship exists between economic growth, foreign investment and democracy. While improved economic performance depends on sound democratic structures and institutions reflected in the rule of law, effectiveness and predictability of the judiciary, enforceability of contracts proceedings, and secure property rights which enhance foreign investment needed to accelerate economic growth, a strong and virile economy reflected in positive macroeconomic performance is a key determines foreign investment (Acemoglu et al 2002).

Thus, democracy in the context of good governance and democratic institution enhances economic growth and alternatively, foreign investment is stimulated by good democratic structure, particularly with respect to the rule of law, enforceability of contracts, secure property rights and robust macroeconomic performance reflected in impressive growth rates.

2.2. Trend of Foreign Direct Investment in Nigeria

Nigeria is regarded as the largest and most attractive market in Africa given her large population of over 170 million and its economic size (measured by GDP). Its GDP at current price of $521.8 billion is the largest in Africa. FDI inflow to West Africa is mainly dominated by inflow to Nigeria which received 70% of the sub-regional total and 11% of Africa's total FDI with 90% of the FDI inflow going to Nigeria's oil sector (UNCTAD, 2006). Official data by the World Bank (2014) show that net FDI inflows into Nigeria were -$738 million in 1980. It increased sharply to $542 million in 1981 and fell to $189 million in 1984. Between 1985 and 1988, there were fluctuations in FDI inflows. In 1989, FDI increased sharply to $1.9 billion, declining to $712 million in 1991, and improving again in 1992 to $897 million. This increasing trend continued and peaked at $1.6 billion in 1996.

Although FDI inflows to Nigeria fluctuated slightly between 1997 and 2000, there was a consistent increase in 2001, 2002 and 2003 as FDI rose to $1.2 billion, $1.9 billion and $2 billion respectively. Except for the slight reduction in 2004, Nigeria experienced a remarkable improvement in FDI inflows between 2005 and 2009 as it recorded $4.9 billion in 2005, $4.6 billion in 2006, $6 billion in 2007, $82 million in 2008 and $85.5 million in 2009. In 2010 FDI inflows dropped to $6 billion, rebounded to $8.8 million in 2011and further declined to $5.6 billion in 2013.

Data from the Nigerian Economic Report (2013) show that GDP growth rate was 6.5% in 2005, 6.0% in 2006, 6.5% in 2007, 5.98% in 2008, 6.96% in 2009, 7.98% in 2010, 7.43% in 2011, 6.68% in 2012 and 6.2% in 2013. The improvement in GDP growth rate can undeniably be attributed to a robust non-oil export growth rate of 26% in 2006 and 27% in 2007, accompanied by a non-oil GDP growth rate of 8.95% in 2008, 8.3% in 2009, 8.49% in 2010, 8.8% in 2011, 7.89 in 2012 and 6.3% in 2013. Correspondingly, FDI growth rate was 163% and 172% in 2005 and 2006 respectively (CBN, 2007). However, beginning from 2005, Nigeria started experiencing decline in FDI. The dwindling FDI inflows in recent times, has become a subject of concern. The decline has been attributed to a number factors among which are poor macroeconomic policy environment, political instability, security concerns, poor bureaucratic processes, weak infrastructure and institutional framework and a pervasive rent-seeking behaviour (UNCTAD, 2015).

2.3. Empirical Review

Lim (2001) examines the link between determinants of FDI and economic growth. The empirical results show that a combination of political, democratic variables and FDI determines growth. The findings also show that political and institutional variables were significant determinants of FDI.

Bengoa and Sanchez-Robles (2003) findings also corroborated earlier results that institutions are critical determinants of FDI and growth and that FDI impacts more on growth in when accompanied by good institutional structures like rule of law, bureaucratic procedures, control of corruption, accountability, e.t.c.

Jensen (2003) examines the relationship between democratic governance, FDI and economic growth using evidence from ten African countries. Employing various econometric tools, including the Granger causality test, his findings reveal a negative and significant link between weak democratic governance structures and FDI on one hand, and a positive and significant relationship between democratic governance, FDI and growth.

Sung (2004) investigates the nexus between state failure, economic failure and predatory organized crimes in a total of 59 countries covered in the 1999 and 2000 annual economic competitiveness evaluations conducted by researchers at Harvard University and the World Economic Forum. Employing the least-squares dummy variable model, the findings of the bivariate model show that weak state capacity and institutional framework leads to slower economic development. Empirical result from the multivariate model also showed that judicial independence has a negative correlation with organized crime. However, when judicial independence and institutional stability were held constant, the expansion of political rights facilitated the growth of predatory organized crime. This unexpected result according to the study indicates that state failure is a multidimensional variable and, as such, maintains a complex relationship with predatory organized crime. He thus, recommended strong institutional framework in order to enhance economic performance.

Yuan and Khan (2004) construct a dynamic model of a kleptocratic dictatorship to explain Sub-Saharan Africa's (SSA) dismal economic performance between the early 1970s and the mid-1990s. The dictator's objective is to maximize a discounted stream of revenue generated through theft of the economy's output by choosing the optimal expropriation rate and the size of the security force employed to enforce his rule. The model is used to evaluate alternative intervention options open to developed countries such as unconditional,

conditional and selective foreign aid, financial and military assistance to rebel groups, as well as medical relief to combat the HIV/AIDs pandemic. The findings show that kleptocratic dictatorship has a significant destabilizing effect on SSA's growth through expropriation and its distorting influences via channels of physical and human capital accumulation.

Chauvet, Collier and Hoeffler (2007), cited in Elijah and Ayodele, 2013) estimate the cost of state institutional failure and weak capacity on economic growth, both for the failing state itself and for its neighbours covering a global sample of developing countries over the period 1974-2001. Employing the Ordinary Least Squares (OLS) and the Generalized Method of Moment (GMM) as techniques for estimations, the empirical results revealed that a failing state at peace significantly reduces the growth rate by 2.6 per cent relative to being at peace with adequate policies and governance, while violence and crimes induces a further loss of 1.6 percent of growth per year.

Knutsen (2010) investigates the impact of democracy and dictatorship on economic growth in Sub-Saharan Africa, and whether the effect of democracy on growth depends on level of state capacity and institutional structures. Importantly, the, the study focused on the adverse economic effects of dictatorial regimes in countries with weak state institutions. In such context, leaders pursue policies that are macro economically inefficient, but which enhance their survival in office and increase their personal wealth. The empirical analysis shows that democracy most likely contributes to higher growth rates in Sub-Saharan Africa, and that democracy has a larger positive effect on growth in Africa than globally. Moreover, the empirical findings using African and global evidences show that democracy has a particularly positive effect in countries with weak state institutions. The interaction between weak state capacity and dictatorship is found to be a vital factor underlying Africa's many economic development disasters. Against the background of these empirical findings, the author suggests the building of strong institutions, particularly state capacity to enhance growth in Africa.

Nurt-tegin and Czap (2012) employs the ordinary least squares estimation technique to investigate the relationship between stable democracy and economic growth, and unstable democracy and economic growth in selected countries in the period 2000 – 2009. The findings reveal that less democratic societies are likely to experience less growth than stable democratic regimes.

Ogundiya (2010) investigates the impact of corruption on democratic stability. The author finds that political corruption and bureaucratic corruption have significant effects on democratic stability. This according to the findings may have destabilizing effects on growth.

Ernest and Young (2013) have shown that a country's institutional framework is a critical determinant of FDI and, that institutional structures and FDI are positive and significant determinants of growth. According to the findings, issues like rule of law, control of corruption and bureaucratic procedures are considered critical determinants of FDI and economic growth

Eregha (2014) empirically investigates the impact of weak institutions and governance on economic performance in ECOWAS countries. Employing panel data analysis, the findings show that accountability is a sin-quo-non for increased per capita GDP growth in the region. The results further show that the channel through which institution affects growth is investment. Weak institutional framework and poor governance is found to account for the low per capita GDP growth in the region. Consequently, the author recommended that strengthening the region's institutions and offering good governance system will put the region on the path of growth and development.

3. Empirical Methodology
3.1 Model Specification
Growth Equation

In line with Mankiw, Romer and Weil (1992), a growth model which is an extension of the Solow (1956) neoclassical growth model augmented with investment is specified. One important assumption in this specification is that institutions are considered to affect growth through two main channels: the total factor productivity and the investment channels. To investigate the effect of democracy and foreign direct investment on economic growth a stylized growth-cum institutions and foreign direct investment model of the form:

$\Delta y_t = \alpha_0 + \alpha_1 X_i + ut$ (1)

Where:
Δyt = growth of income- a proxy for economic growth;
X_i = an index of democratic institutional development variables, foreign direct investment and other control variables such as state effectiveness

Extending equation (1) in its empirical form, the model is specified as:

$RGDPG = \alpha_0 + \alpha_1 FDI + \alpha_2 RULE + \alpha_3 ACCOUNT + \alpha_4 POL + \alpha_5 GOVEFF + \alpha_6 CORRUPT + \mu$..... (2)

Where RGDPG = Growth Rate of Real Gross Domestic Product (a measure of economic performance);
FDI= foreign direct investment
RULE = rule of law;
Account=accountability;
POL=political stability;
GOVEFF=government effectiveness;
REGQ=regulatory quality;
CORRUPT =Control of corruption and ε =stochastic error term.
α_1- α_6, are parameters or coefficients of the explanatory variables to be estimated.

The rule of law (Rule of Law) includes several measure of the degree of confidence of the citizenry in accordance with the laws and rules of society. These include perceptions of the incidence of crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts proceedings. Accountability measures the ability of a country's citizens and political office holders to be accountable and responsible to the government in terms of actions and policies. The Rule of law is based on a number of indicators measuring supremacy of the law, equality before the law, civil liberties and human rights. Political Stability measures the stability of the political system (political stability) and absence of violence which measures the likelihood that the government in power will be destabilized or overthrown by unconstitutional means and or violence or threatened by the armed conflict such as terrorism. Government effectiveness measures quality and availability of public service, the bureaucracy, the competence of civil servants, the independence of the administration of political pressure and the credibility and transparency of the government's reform commitments and policies. Control of corruption measures the extent of corruption, defined as the use of public power for personal interests, private profit and personal aggrandizement in terms of wealth and illegal resource appropriation. It includes government commitment and transparency to fighting corruption and the extent to which those found culpable are brought to face the law.

3.2. Data Sources and Estimation Technique

The data used for the study are annual time series data covering the period 1981-2015 and were obtained from various sources to include, World Bank World Development Indicators and Central Bank of Nigeria Statistical Bulletin. The study employs the Generalized Method of Moments (GMM) approach in the estimation of the model in order to overcome the problem of joint endogeneity in the estimation and, thus to control for the biases resulting from simultaneous or reverse causation. All data are in log form.

4. Empirical Analysis

Table 1: Results from Generalized Method of Moments (GMM)
Dependent Variable: RGDP

Variables	Estimated Coefficient	t-statistics
C	0.2114	1.4015
LnFDI	0.1125	3.1724***
LnRULE	-0.1014	-2.104**
LnACCOUNT	-0.0196	-1.7912*
LnPOL	-0.0871	-1.4217
LnGOVEFF	0.2213	2.1233**
LnCORRUPT	-0.2172	-1.7126*

*** Statistical significance at the 1%leve
** Statistical significance at the 5 % level
* Statistical significance at the 10% level

An examination of the results reported in Table 1 show that all variables have the correct signs. Since all the data are in log form, the coefficients are elasticities. The coefficient of FDI is positive in line with theoretical expectation and highly significant at the 1 percent level. This implies that increased foreign direct investment inflow will invariably steer economic growth in Nigeria, especially, through the introduction of productive capital, technological and managerial expertise through the channels of innovation, transfer of advanced technology and domestic capital accumulation. In particular, FDI through its positive spill-overs on human capital, technological innovation and managerial enterprise will induce growth in Nigeria (Teka, 2012). In line with the estimates, the elasticity of economic growth with respect to FDI is 0.11. Thus, a 10 percent increase in FDI will on the average trigger economic growth in Nigeria by 1.1 percent. The coefficient of the rule of law (supremacy of the law and equality before the law) variable is negative and significant in influencing growth. This fact underscores the highhandedness of some political class and few privilege Nigerians regarded as ' untouchables or sacred cows' who violated the law in time past with so much impunity and abused public office without been held accountable . This implies that as public officers are held accountable to the law, only then will the rule of law in Nigeria be growth-inducing, otherwise it will hamper growth. The coefficient of accountability is negative and significant at the 10 percent level in affecting growth. This finding may be attributable to the lack of accountability and transparency that has dominated public service in Nigeria in the years past, and has had a destabilizing effect on growth. The findings thus imply that the more accountable or answerable government institutions to the public in their policies, actions and spending, the more economic growth would be enhanced Accountability should therefore be accounted for in investment, government expenditure and policies in order to bring the much needed growth. The elasticity coefficients show that a 10 percent rise in weak democratic institutions of rule of law and accountability will hamper growth by 1.0 percent and 0. 2 percent, respectively. The coefficient of political stability is negatively signed (though insignificant). This implies that rising political instability has a destabilizing impact on growth, although the impact is weak, particularly in the face of effective state capacity, which may reduce the destabilizing effects on growth. It can therefore be deduced sustained economic growth cannot take place in an atmosphere of political and economic instability, but only when the environment is stable and institutions are right. Accordingly, its elasticity coefficient shows that a 10 percent rise in political instability will reduce economic growth in Nigeria by 0.9 percent approximately. The coefficient of government effectiveness is negatively signed and significant at the 5 percent level. This implies that the quality and availability of public service, the bureaucracy, the competence of civil servants, the independence of the administration of political pressure and the credibility and transparency of the government's reform commitments and policies have negatively affected growth in Nigeria. Thus, a greater level of government effectiveness in terms of quality and availability of public service, public bureaucracy, competence of civil servants, the independence of the judiciary, effective administration, absence of undue political pressure and credibility and transparency of the government's reform commitments and policies are imperative to significantly drive economic growth in Nigeria. The control of corruption variable is negatively signed and significant at the 10 percent level. Invariably, corruption has a destabilizing impact on growth in Nigeria, since it crowds out resources meant for growth, weakens the productive system and discourages the incentive to invest. The intuition of this finding is that the fight against corruption in Nigeria is yet to yield significant positive effects on the economy, as corruption has been endemic over the years. Thus, it should be vigorously continued. In particular, it should be relentlessly pursued with greater vigour devoid of political colouration and sacred cows, if it must yield the desired positive effects on growth. The elasticity coefficient of corruption shows that a 10 percent rise in corruption will decelerate economic growth by 2.2 percent.

5. Conclusion

This study has examined the effect of democratic institutions and foreign direct investment on real GDP growth in Nigeria over the period 1981-2015, using GMM estimation approach. The empirical findings revealed that democratic institutions and foreign direct investment are critical variables that influence economic growth in Nigeria. In particular, the empirical findings show that the FDI, rule of law, accountability, government effectiveness and control of corruption affect growth in Nigeria. This was shown by the negative and significant coefficients of rule of law, accountability, government effectiveness and corruption, which combine to undermine growth. The effect of political instability and control of corruption variables were found to hamper growth, an indication that the fight against corruption in the Nigeria must be holistic and transparent in order to have the desired positive effect on growth. Similarly, a stable political environment devoid of uncertainty and conducive to foreign direct investment inflow and growth must be created. Consequently, government needs to strengthen the institutional framework in order to provide the needed enviroment for rapid economic growth. The combination of strong democratic institutions embedded in the rule of law, effectiveness and predictability of the judiciary, enforceability of contracts, secured property rights, strong bureaucratic institutions, control of corruption and, importantly, sound macroeconomic policy environment that enhances foreign direct investment will help to steer the economy towards the path of sustained economic growth.

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CONTEMPORARY CHALLENGES FOR SUSTAINABLE TOURISM – A REGIONAL PERSPECTIVE

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Abstract: *Sustainable tourism has become a new method of practicing tourism. It has emerged in the last part of the 20th century, from the efforts of academia as a response to the increasing negative effects of mass tourism, noticeable all over the world. At the same time, sustainable tourism is considered by some a utopia, a narrow niche of the tourism market, with limited perspectives. From a theoretical standpoint, it is highly debated with no consensus regarding its definition, features and principles. In recent years, although significant steps have been taken especially by international organizations, like UNEP (The United Nations Environment Programme) and UNWTO (The World Tourism Organization), sustainable tourism still faces numerous challenges. In the present paper, we have collected information from several authors and organizations and have presented some contemporary challenges for sustainable tourism. For our research, we have tried to identify several common challenges for six selected countries in Central and Eastern Europe – The Czech Republic, Poland, Hungary, Slovakia, Bulgaria and Romania, and also go into a more detailed look in the case of Romania. Finally, we consider that if we can identify specific regional challenges, we might find regional solutions and answers. Considering the numerous similarities between the six countries, there might be common solutions for the benefit of the entire region.*

Keywords: sustainable tourism; regional; local community; Central and Eastern Europe.

JEL classification: Z32.

1. Introduction

Since the early 90s, the term “sustainable tourism” has been used more and more in academic circles, but unfortunately, only to a lesser extent, among entrepreneurs in the tourism industry. Even if some incipient forms of the concept were used earlier, we consider that the starting point for the emergence of the concept of “sustainable tourism” was the publication of the first issue of the Journal of Sustainable Tourism in 1993 (Weaver, 2006: 10; Hunter, 2002: 3; Dodds and Butler, 2009: 43).

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According to some authors, this emergent form of practicing tourism implied – from the supply side – small companies or entrepreneurs, with the declared purpose to: support the community, environmental conservation and protection of the local culture (Petrovic-Randelovic, 2012: 85). One of the most important spokespersons of this alternative form of tourism, David Weaver, from the Griffith Business School, considered that "the main difference between old and new forms of tourism is moving the focus from the well-being of the tourists to the host community” (Weaver, 1998: 31).
During the 1990s, the concept was highly debated, being received with hostility by the tourism industry, dissatisfied by putting any limits to growth. It considered sustainable tourism an "ivory tower", with no relation to the market. Sustainable tourism was also considered "intellectually arrogant, expensive, elitist and useless" (Lane, 2009: 20).
This attitude was not confined only to the tourism industry. Governments and local authorities have not taken seriously the concept either, as classic tourism brought them numerous benefits: jobs, incomes from taxes, investment opportunities etc. Mass-media did not give much attention to the concept of sustainable tourism, mainly because it is much easier to denigrate, than to explain. And academic researchers have found that sustainable tourism was "an impossible dream" (Lane, 2009: 21). This was best explained by Wheeler:

> “We have, on the one hand, a problem of mass tourism growing globally, out of control, at an alarming rate. And what is our answer? Small-scale, slow, steady, controlled development. They just do not add up” (Wheeler, cited by Miller and Twining-Ward, 2005: 32).

In the last years, the general attitude towards sustainable tourism has changed, but it is still far from being fully accepted (Badulescu et al, 2014: 1114). It still faces several challenges that range from theoretical debates in academic circles to acceptance in the offices of hospitality companies.

2. Research methodology

The main objective of our paper is to analyze from a theoretical point of view the challenges faced by sustainable tourism in six Central and Eastern European countries, according to authors and researchers, and available data.
According to the World Tourism Organization, Romania is part of Central and Eastern Europe region, along with the other countries, such as: Armenia, Azerbaijan, Bulgaria, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kirghizstan, Latvia, Lithuania, Poland, Russian Federation, Slovakia, Ukraine and Uzbekistan. We can notice that this region is highly heterogeneous and large in terms of total area and there are significant cultural differences between countries.
In 2015, the region recorded 126.5 million tourists and around 50 billion USD in receipts (UNWTO, 2016). In percentages, the region represents almost 11% of the global tourism market and 20% of the European market (UNWTO, 2016).
For our analysis we have chosen only the countries that are EU members, and have similar profiles, in order to have a more homogenous study group: The Czech Republic, Poland, Hungary, Slovakia, Bulgaria and Romania. The criteria for choosing these countries can be split into five categories. Firstly, from a geographical point of view, all six states are located in the western part of Central and Eastern Europe and each country has various landforms and the climate is relatively similar – temperate continental climate.
Secondly, regarding the political situation, all countries are EU members in different stages of integration (Schengen countries: Poland, Slovakia and Hungary; Eurozone members: Slovakia). All countries are members of NATO (www.nato.int / structure / countries.htm) and all countries are emergent of the former Soviet Bloc.
Thirdly, from a cultural perspective, all six countries were in contact with several empires (Austro-Hungarian Empire, Ottoman Empire, Russian Empire, the Prussian Empire), which

left their mark on the local culture and the prevailing religion is Christianity (Orthodoxy in Romania and Bulgaria, Catholicism in the Czech Republic, Slovakia, Poland and Hungary) (https://www.cia.gov/library/publications/the-world-factbook/index.html).

Table 1: Overview of tourism indicators in 2015

Country	Population (Million)	International tourist arrivals (Million)	International tourism receipts (Billion US$)
Bulgaria	7.1	7.8	3.1
Hungary	9.8	14.3	5.3
Poland	37.9	16.7	9.7
Romania	19.7	2.2	1.7
Slovakia	5.4	7.4	2.3
Czech Republic	10.5	11.1	6.1

Source: UNWTO (2016); Eurostat (2015a).

Fourthly, all six countries have gone through a transition from a planned economy to market economy, after the political changes they made in 1989.
Lastly, from a general tourism perspective, all countries have significant natural and man-made tourism resources, and their capitals (Budapest, Prague) have been major attractions for foreigners (Table 1).

3. Results and findings

International tourism represented an important factor in the region even during the communist regime. Foreign capital brought in by international tourists was used to help “the generation of convertible currency and provide a positive image of the country and region” (Hall, 2002: 112). In recent years, many countries from this region have established themselves as important tourism destinations.
There are many challenges for the sustainable development of tourism in Central and Eastern Europe, in general and in Romania in particular. We have split our findings in two parts. In the first part we have presented a general overview of the challenges common in the region, and in the second part we have shifted our focus on Romania and its specific challenges.

3.1. Regional perspective

Central and Eastern European societies have numerous and diverse cultures that present a wide range of opportunities for new generations of high income tourists.
Firstly, although participation and community involvement in tourism development are important, Hall (2000: 449) identified three factors that hinder its development:
1. The legacy of almost half a century of centralized top-down administration, which allowed few opportunities to experience the real bottom-up development and real involvement in decision-making about the community;
2. The absence of collective action with their own initiative during the communist regimes;
3. The well-known ambivalence of the concept of "community", which had a spatial and social interaction value, but without taking into account the aspirations and values of the people living together.
Secondly, ecological restrictions that have been tried to be implemented in the post-communist period encountered resistance from the local population. It took considerable effort to involve local people in: the conversion of land in protected areas or nature reserves and the concept of sustainable tourism. Especially in the early years of market-economy, protected areas were destroyed or affected by the use of illegal materials (Knorn, et al, 2012: 209: Kroumova, 2011: 39).

Thirdly, sustainable tourism promoters choose packages in less developed regions with poor infrastructure, presenting them as unspoiled and virgin regions to the people interested in sustainable tourism (Badulescu et al., 2015: 73). In many cases, residents will support this kind of travel packages, considering that tourism will lead to improvement of infrastructure and local economy (Ivy and Copp, 1999: 439).
Fourthly, debates on the implementation of small projects, local control that respects tradition and local culture, rarely take into account gender issues. Attempts to involve women in the development process of tourism business were hit by two obstacles: the legacy of a half century in which the woman had a condition of subordination, and Central and Eastern European societies centered on men (Mertus, 1998: 476-478).
Fifthly, private tourism companies in Central and Eastern Europe face significant competition from multinationals which, although important for the integration of these countries into the global economy, "represent possible threats to the integrity and sovereignty, economic, cultural and politics, a time when governments want to reduce their responsibilities "(Hall, 2000: 450).
Sixthly, research in Romania and other Eastern European countries lags due to the fact that they have joined the EU in later years and many processes in the field of environment protection are still in development (Orlikowska, 2016: 223)
Seventhly, according to available data (Figure 1), we can notice that in the case of the selected countries, the surface are of protected areas is higher than in the rest of the EU. This could represent an advantage for ecotourism and rural tourism, as protected areas are an important resource for attracting visitors. The only problem arises from the “protection” component and the way it is put into practice.

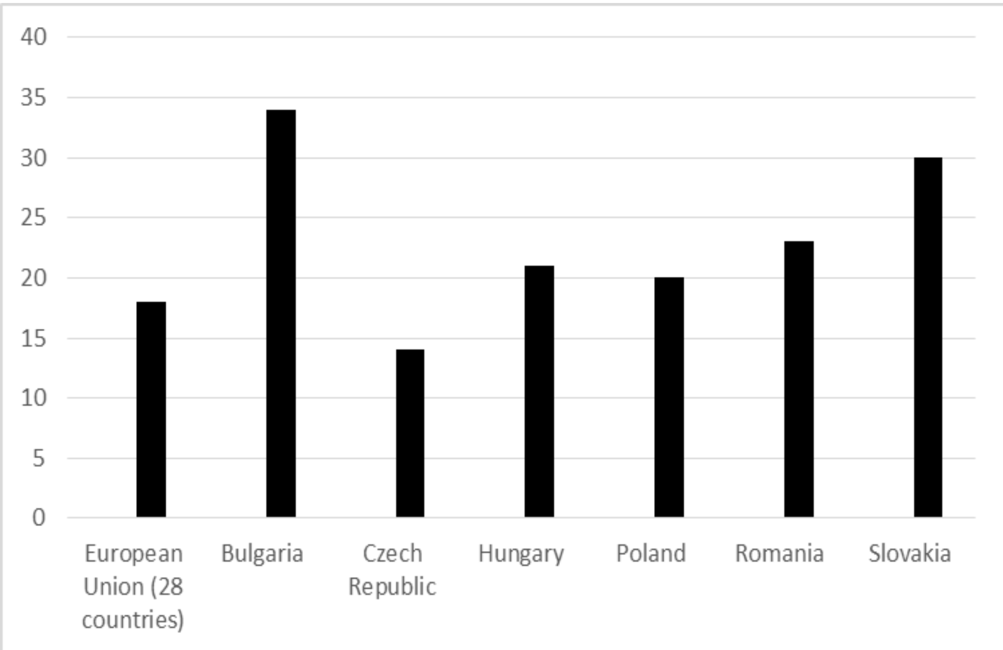

Figure 1: Protected areas as % of the total area of the country
Source: Eurostat (2015b).

3.2. National perspective: the case of Romania

From a national perspective, The National Council for Research in Tourism (INCDT 2009) identified a series of concerns about ecotourism, which can be extrapolated to sustainable tourism in general, issues that are the responsibility of national and / or local authorities.

The administration is not yet organized in many natural and national parks, which is responsible with the effective management of these areas. There are many conflicts between local communities, the park administration and local authorities on the regulation of activities that can take place in the protected park. Also, the parks are facing serious problems of under-funding, which has as a direct consequence an inefficient number of rangers with a low "vigilance". Also regarding financing, we can mention difficult access to refundable and / or non-refundable funds for the initiation of business or investment in infrastructure (Săseanu et al., 2010: 467, Bordanc and Turnock, 1997: 3).

The approach to inspections by state authorities, bureaucracy and fees for issuing permits forces much of the rural small businesses to work illegally. For the issue of classification of tourist accommodation, several criteria must be met and documentation must be made at first seems relatively simple. The problem comes when each item from the list requires documentation in turn. Unfortunately, in Romania, neither the ministry nor city-halls provide entrepreneurs an advisory office that will help those who want to invest in tourism.

Unfortunately, there are many tourists who believe that if you choose a particular destination they are practicing ecotourism, without taking into account related activities such as:

• actions to preserve the environment and biodiversity;
• activities to minimize impacts on the environment;
• limit over-exploitation of tourism resources;
• increasing environmental responsibility through information and knowledge;
• choice of accommodation units of type hostels, cottages, camping (Mihai, 2009: 493).

In addition, in Romania there is no official system of certification of ecotourism destinations. In this regard, the Association of Ecotourism of Romania (2016) created an ecotourism certification system, which will be applied at the national level in the shortest time (Barna et al, 2011: 92). This certification is extremely important because the rural population does not have the ability to get the European Ecolabel. In general, the attitude of entrepreneurs is quite reluctant towards eco-labels, and they are not encouraged, neither the authorities nor by the market, to take steps in this direction.

Sustainable tourism faces a number of challenges at a local level: from tourism resources which are not protected adequately to the mindset of tourists and local people. From the perspective of tourism resources, the major challenges are: inappropriate or excessive grazing, illegal logging, poaching, and last but not least uncontrolled tourism etc. (Susanu, 2007: 1220; Blaj and Stanciu, 2009: 513; Ioja et al, 2010:2475; Badulescu, 2004: 23).

The main challenges observed in protected areas are:

• violation of rules of access - the movement of tourists on unmarked trails in unauthorized places;
• camping and fireplaces in unauthorized places;
• collection or destruction of certain species of spontaneous flora;
• cutting of wood for fuel;
• abandonment of large quantities of waste along communication routes around points of interest;
• maladministration of existing tourist facilities within protected natural areas, generating large amounts of waste;
• vandalizing of signs or information panels, boards and poles on walking trails;
• destruction of geologic and geomorphologic elements;
• degradation of natural or man-made landmarks with inscriptions or drawings;
• degradation through erosion of the waking trails in high traffic areas;
• disturbing the fauna (INCDT, 2009: 1011).

A modern problem is endangering the natural areas by ATV (all-terrain vehicle) and off-road motorcycles, driven in higher numbers especially in mountain regions. In 2008, the Romanian Senate legislated the ban on access to motorcycles, ATVs or motor sledges in protected natural areas, driven off access and forestry roads. The only question remains: who will implement the law, as there are very few rangers in the parks to verify or to stop the extreme sports enthusiasts.
Also in these regions there is an increasing logging activity, and improper disposal of sawdust on the streams - that can lead to environmental degradation in many parks. Lastly, we must take into account the risk of urbanization of the rural population, with direct implications in the loss of the cultural heritage. One cause may be low awareness of local communities on what constitutes national and local natural heritage and its importance for the present but especially for the future.
From the point of view of tourism services suppliers, one can notice a poor education level of tour guides and staff that manages the guest-house, as there is a void in the training system suitable for staff working in tourism, specialized in sustainable tourism (Tane and Thierheimer, 2009: 906).
There are many organizations or institutions dealing with rural and / or sustainable tourism, but few local associations, involving the local community. The aim of these associations is to help the collaboration, cooperation and decision making process that affect the lives of local people (Roberts and Simpson 1999: 321).
The rural infrastructure is not up to the standards that provide pleasant experiences to Romanian and foreign tourists. The main shortcomings are given by: the absence of water, sewer, gas, garbage collection systems and snow removal in winter.

5. Conclusions

We can conclude that sustainable tourism still faces numerous challenges. They have changed during the years, but they still raise problems. Due to the similarities between the selected countries we can argue that sustainable tourism faces several common challenges in the region.
Due to the geographical situation, both climate change and migration – two of the most important challenges faced by the contemporary society – influence all six selected countries. So, solutions should be found and implemented at regional level, not a national one. We consider that there is no miracle solution, but we can still formulate some general directions for the future development of sustainable tourism.
It should all start with education. We include here both specific information about environmental protection, recycling, social equity taught – or explained – in schools and organizing study-camps and trips for pupils and students, which will allow them to experience sustainable tourism first-hand. At the same time, in rural areas, education issues need to be addressed for school children and adults alike in order for them to be prepared for the negative effects of the social, technological and environmental changes that influence their quality of life.
The implication of the government is second, but it is strongly intertwined with education. The government needs to exercise its right to model and chisel the traits of individuals, so urgent and drastic measure need to be taken for the protection of the environment.
The paper has several shortcomings, due to several factors:
- the lack of data on sustainable tourism at national levels. Countries – and European ones make no exception - still consider tourism a source of income and disregard the negative effects it might generate. At the same time the UNWTO is still trying to create a framework for collecting data about sustainable tourism;
- the emergence of global-scale challenges – immigration, terrorist attacks, climate change etc. – which attracted the focus of public opinion and the mass-media.

Based on the findings of this paper, we will try to collect more statistical data in order to analyze and further our research in this field. The main focus points for our future research should be:

- country comparison on the topic of legislation and specific measure to help tourism become more sustainable;
- how does EU membership influence the sustainable development and sustainable tourism at a national level;
- success stories and failures of public and private initiatives in the field of sustainable tourism.

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GROSS DOMESTIC SAVINGS AND GROSS CAPITAL: WHAT MATTERS TO THEIR FORMATION IN AN ERA OF ECONOMIC RECESSION IN NIGERIA?

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Abstract: *The objective of this study is to empirically investigate the long run and short run dynamic impact of interest rate and output on gross domestic savings and gross capital formation in Nigeria. Literatures, both theoretical and empirical, suggest that the rate of interest and output are the key factors influencing savings and investments. A review of factors influencing interest rates and output in Nigeria is necessitated by the recent economic downturns in Nigeria that has resulted in tight monetary policy which some commentators regard as inimical to growth. Employing Ordinary Least Squares, Co-integration, Error Correction Mechanism and Granger Causality econometric techniques on a data spanning 1981 to 2014 of the Nigerian economy sourced from the World Development Index, it was found that changes in output explains the long run and short run dynamic behaviour of gross domestic savings and gross capital formation which were used as proxies for savings and investment respectively. Whereas, a bi-causality was established between output and investment, causality flowed from output to savings in Nigeria. The research also found that interest rate is not a significant determinant of savings and investment in Nigeria in both long run and short run. It is therefore recommended that to enhance investment in a period of economic downturn in Nigeria, aggregate demand should be boosted to enhance output through vigorous pursuit of fiscal policy while implementing contractionary monetary policy to address inflationary pressures created by the increase in demand. Domestic savings will improve and gross capital formation will be sustained.*

Keywords: Gross Capital Formation, Gross Domestic Savings, Error Correction Model.

JEL classification: A1; C22; E10.

1. Introduction

Savings and investment have been described as very important in enhancing the level of growth especially of developing economies. The importance of these variables for economic development warrants a persistent and cursory research on its determinants in a dynamic world. A study of the core determinants of these variables is therefore important. In economic theory, these determinants are output and the rate of interest (Iyoha, 2007). Interest rate is defined as the price of capital that equilibrates desired savings and investment in the long run (Anyanwu, 1993). In national income accounting, a key component of output is investment (Iyoha, Oyefusi and Oriakhi, 2003). The accelerator principle of investment explains that the core determinant of investment in changes in output (Appienti, Ofori and Damptey, 2016). To Nkah (1997), savings is seen as the amount of income per time that is not consumed by economic units. Domestic savings is an important

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component of a country's total savings and includes government or public sector savings and private domestic savings (Okere and Ndugbu, 2015). Investment is the creation of net additions to the stock of physical capital necessary for growth (Iyoha et al, 2003). Keynes (1936) in his liquidity preference theory established the relationship between interest rate, savings and investment. According to him, at higher interest rate, people would prefer to hold their wealth in the form of interest bearing assets. One of these assets is the savings account in financial institutions. An increase in interest rate therefore is expected to stimulate savings mobilization thereby enhancing the availability of investible funds and ultimately economic growth. This however is dependent on the strength and level of development of the financial system in an economy (McKinnon, 1973). For most developing economies like Nigeria, characterised by weak financial sector and the continuous growth of general prices of goods and services, people prefer to leave their monies outside the banking system. Therefore, Acha and Acha (2011) posited that saving may not be responsive to interest rates due to lack of confidence in the banking system, low income and preference for cash in developing countries like Nigeria. The Nigerian financial system was deregulated in the second half of 1980s so as to increase savings and its corresponding investment to achieve economic growth. This notwithstanding, the Nigerian economy has continued to experience low levels of economic growth and the aggregate supply of loanable fund has continued to diminish due to growing inflation rate (Olayemi and Michael, 2013). Recently, there have been policies by the monetary and fiscal authorities in Nigeria aimed at stabilising the economy and bringing it back to the path of growth. These policies directly or indirectly affect the rate of interest and output. In July 2016, the Central Bank of Nigeria (CBN) increased the monetary policy rate by 200 basis points to 14 percent from 12 percent. This was necessitated by the high level of inflation and a dwindling currency. There have been different reactions about the effects of these policies on the overall economy by stakeholders and economic commentators but there hasn't been to the best of the researcher's knowledge any recent work simultaneously x-raying the long run and short run dynamic responsiveness of investments and savings to the changes in interest rate and output which are the intermediate and ultimate targets of these policies respectively. This is the gap this research intends to fill.
The objective of this study is to investigate the long run and short run dynamic relationship between interest rate and output on gross domestic savings and gross capital formation in Nigeria. This work therefore hypothesises the significant impact of interest rate and income on investment in both short run and long run on one hand and the significant impact of interest rate and income on savings in both short run and long run on the other hand. The first section of this research work introduces the research. Review of related literature on the subject matter of interest is carried out in section two. Section three entails methodology and models employed by the study. The presentation and analysis of empirical results is in section four while the last section deals with summary of findings, policy implications and recommendations.

2. Review of related literature
Researchers in various fields have empirically investigated the relationships between income, interest rates, savings and investment. Their works are discussed in section 2.1 below. In section 2.2, brief theoretical underpinnings for this research will be considered.

2.1 Empirical review
Adelakun (2015), in an investigation of the determinants of savings and investment in Nigeria, found that only income (GDP) has significant impact on savings and that it is the main factor influencing both savings and investment in Nigeria. Uche (2012) investigated the effect of interest rate on savings and investment in Nigeria using the multiple regression

model and found that it has a positive significant impact on aggregate saving and a negative significant impact on aggregate investment in Nigeria. Jain and Baliyan (2014) in an extensive empirical review of literatures found economic growth (output) to be a main driver of both savings and investments in India. Larsen (2004), in a study of the effect of mortgage interest rate on real estate investment in the United States of America found that low mortgage interest rate make direct real estate investment attractive to the suppliers of real estate units. Bader and Malawi (2010) investigated the impact of interest rate on investment in Jordan over the period of 1990-2005 using the Johansen Cointegration test technique. They found that interest rate has a negative impact on investment. Bayai and Nyangara (2013) utilising multiple regression analysis, found investment to be positively affected by income but negatively affected by the rate of interest in Zimbabwe. Appienyi, Ofori and Damptey (2016) in a research of the key determinants of investment in Ghana, employing co-integration and causality tests found a bi-causal relationship between investment and output. A uni-causal effect was however found to flow from interest rate to investment. Employing Error Correction mechanism (ECM) and Ordinary Least Squares (OLS) techniques to investigate the dynamic short run and long run determinants of private investment in Argentina, Acosta and Loza (2005) found that only shocks in returns and aggregate demand explained short run variation in investment whereas development of the capital and credit markets and fiscal sustainability determined investments in the long run. Linus (2013) did not find interest rate as a determinant of investment in Nigeria in the long run using OLS regression technique. Adopting both OLS and ECM regression techniques, Duruechi and Ojiegbe (2015) did not find any significant relationship between interest rate and investment in Nigeria from 1990 to 2013. From the review above, output is found to be a main determinant of investment. However, there is conflicting results about the effect of interest rate on investment.

Nasir and Khalid (2004) employing multiple regression technique found that GDP growth rate positively and significantly affect savings. They also observed that savings was insensitive to the rate of interest in Pakistan. Olayemi and Michael (2013) assessed the impact of real interest rate on savings mobilization in Nigeria using the Vector Auto Regression (VAR) technique and time series data spanning from 1980-2008. The study revealed that interest rate has negatively impacted savings mobilization in Nigeria. Udude (2015) examined the impact interest rate has on savings in the Nigerian economy from 1981 to 2013 adopting the VAR technique. Results showed that a 1 percent increase in a period lagged interest rate on deposit, on the average will cause a 0.1% increase in savings. Epaphra (2014) empirically investigated the determinants of Tanzania's national savings using OLS, Co-integration and Error Correction Model techniques. He found that economic growth granger causes national savings and not the other way round. According to the findings of Ogbokor and Samahiya (2014) in a time series analysis of the determinants of savings in Namibia and employing ECM and Co-integration techniques, whereas income and inflation rate significantly enhances savings, interest rate is not significant in explaining savings in Namibia. Again, from the review above, a positive and significant relationship is found between income and savings most of the time but this cannot be confirmed for the relationship between interest rate and savings.

2.2. Theoretical considerations

To the classicals, at any particular level of income, the amount saved will increase with any rise in the rate of interest (Okere and Ndugbu, 2015). McKinnon (1973) and Shaw (1973) substantiated this by opining that for an economy that is developing, there exist a positive relationship between interest rate and savings. This is no doubt intuitively appealing since a greater part of savings by household, in a developing economy characterised by inefficient market for stocks and bonds is made up of cash balances and quasi-monetary assets. Keynes (1936) identified the major determinant of investment and savings as the country's national income. According to him, the higher the income level, the higher the level of saving and investment. The accelerator theory states that investment is a function of change in output. McKinnon (1973) and Shaw (1973) both in their financial liberalization model postulated when financially repressed developing countries characterized by interest rate ceilings embrace financial liberalization, savings will improve. Increased savings will enhance the supply of credits, improve investments and ultimately stimulate economic growth.

2.3. Gross Capital Formation and Gross Domestic Savings in Nigeria

Gross Capital formation (GCF) is used as a proxy for investment in this study**.** GCF of Nigeria has not been impressive compared to the regional statistics. The index of investment decreased from an average figure of USD10.13billion in the period 1981-1985 to USD2.74billion in the period 1986-1990. Although there had been records of growth of GCF to USD75.51billion in the period 2011-2014, it still fell below the averages of Lower Middle Income (LMI) countries and Sub-Saharan African (SSA) countries of USD338.21billion and USD1507.51billion respectively in the same period. This is revealed in Figure 1 below.

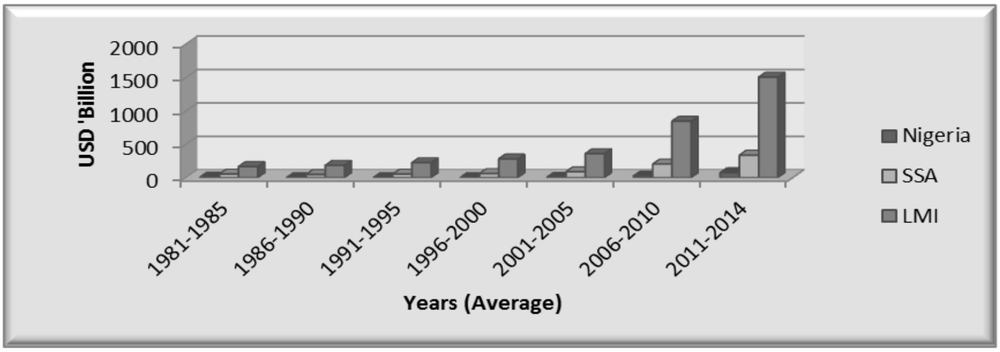

Figure 1: Gross Capital formation in Nigeria, SSA and LMI
Source: Author, using data from WDI (2016)

Figure 2 is a reflection of the figure above. Gross domestic savings is least in Nigeria compared to SSA and LMI. From an average value of USD10.54billion in the period 1981-1995, it declined to USD7.17 billion in 1996-2000. It has increased since then to USD121.99billion. However, it was behind the GDS statistics of SSA and LMI average figures.

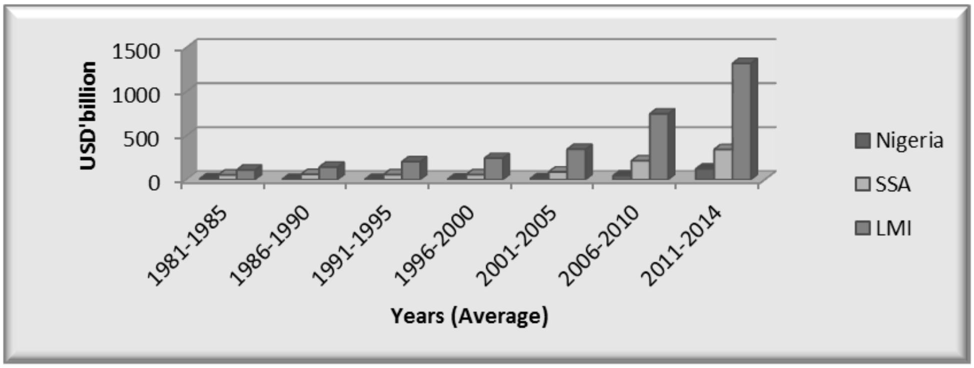

Figure 2: Gross Domestic Capital in Nigeria, SSA and LMI
Source: Author, using data from WDI (2016)

3. Methodology and the models

This work adopts the OLS and ECM estimation techniques to analyze the time series data of *GCF, GDS, GDP*, Prime lending rate and inflation rate, spanning 1980 to 2014 in Nigeria. The data was obtained from World Development Index (WDI). The unit root and cointegration pre-estimation tests are carried out to test for stationarity and the existence of long run relationship between the variables respectively. Two models are specified in this research. The first is the model that explains the relationship between *GDP, PLR, INFL* and Gross Capital formation while the second model explains the relationship between *GDP, PLR, INFL* and Gross Domestic savings. For each model, the specifications of the OLS and ECM models are presented below.

3.1 The OLS model specification of Model 1

$$LGCF = \alpha + \beta_1 LGDP + \beta_2 LPLR + \beta_3 LINFL + \mu \qquad 1$$

LGCF represents the natural log of Gross Capital Formation and is the explained variable, a proxy for investment in Nigeria. *LGDP* is the natural log of *GDP*, a proxy for output in Nigeria. *LPLR* is the natural log of prime lending rate and captures interest rate while *LINFL* is the natural log of inflation in Nigeria. α is the constant term while β_1, β_2 and β_3 are the coefficients of the explanatory variables. μ is the stochastic error term. It is expected from economic theory that β_1 is positive while β_2 and β_3 are negative.

3.2 The Error Correction Model specification of Model 1

$$\Delta LGCF = \alpha_t + \beta_{t1}\Delta LGDP + \beta_{t2}\Delta LPLR + \beta_{t3}\Delta LINFL + \eta ecm(-1) + \mu_t \qquad 2$$

Δ is lag operator, $ecm(-1)$ is one period lag of the residual from equation 1. It is the equilibrating factor. α_t is the constant term, β_{t1}, β_{t2} and β_{t3} are the coefficients of one period lagged log of explanatory variables (*LGDP, LPLR, LINFL*). η is the coefficient of the one period lagged residual and μ_t is the error term. It is expected from economic theory that β_{t1} is positive while β_{t2} and β_{t3} are negative. η is expected to be significant and negative.

3.3 The OLS model specification of the Model 2

$$LGDS = \tau + \delta_1 LGDP + \delta_2 LPLR + \delta_3 LINFL + \ell \qquad 3$$

LGDS is the log of Gross Domestic Savings, the explained variable which is proxy for savings in Nigeria. *LGDP* is the natural log of *GDP* which represents output in Nigeria. *LPLR* is the natural log of prime lending rate and *LINFL* is the log of inflation in Nigeria. τ is the constant term while δ_1, δ_2 and δ_3 are the coefficients of the explanatory variables *(LGDP LPLR LINFL)* respectively. ℓ is the stochastic error term. δ_1 and δ_2 are expected to be greater than zero while δ_3 is expected to be less than zero from empirical literature and economic theory.

3.4 The Error Correction Model specification of Model 2

$$\Delta LGDS = \tau_t + \delta_{t1}\Delta LGDP + \delta_{t2}\Delta LPLR + \delta_{t3}\Delta LINFL + \theta ecm(-1) + \ell_t \qquad 4$$

Δ is lag operator, $ecm(-1)$ is one period lag of the residual from equation 3. τ_t is the constant term, δ_{t1}, δ_{t2} and δ_{t3} are the coefficients of the one period lagged log $\Delta LGDP$, $\Delta LPLR$ and $\Delta LINFL$. Θ is the coefficient of the one period lagged residual while ℓ is the error term. δ_1 and δ_2 are expected to be greater than zero while δ_3 is expected to be less than zero from empirical literature and economic theory. Also, Θ is expected to be negative and significant.

4. Empirical results

Table 1: Augmented Dickey Fuller Unit Root test of variables

Variable	Intercept only	Intercept & Trend	Remark
LGCF	-4.007	-5.175	I(1)
	(-3.654)	(-4.273)	
LGDS	-8.011	-5.406	I(1)
	(-3.654)	(-4.297)	
LGDP	-5.298	-6.668	I(1)
	(-3.654)	(-4.273)	
LPLR	-4.179	-4.574	I(1)
	(-3.662)	(-4.285)	
LINFL	-5.658	-5.599	I(1)
	(-3.654)	(-4.273)	

Source: Author's computation using e-views 7.0
Figure in parenthesis are the critical values at 1% significance

The unit root test result of the variables is presented in table 1 above. The result reveals that all the variables (LGCF, LGDS, LGDP, LPLR and LINFL) are stationary after first differencing. This implies that they are integrated of order one [I(1)].

Table 2: Ordinary Least Squares Regression result of Model 1

Variable	Coefficient	t-statistics	Probability
C	-3.954	-1.301	0.204
LGDP	-1.05	9.68	0.000
LPLR	0.236	0.839	0.409
LINF	-0.106	-1.822	0.079
R-squared	0.973		
F-stat	248.49		
D-W stat	1.95		

Source: Author's computation using e-views 7.0.

Table 2 shows the Ordinary Least Squares result of the relationship between LGCF, LGDP, LPLR and INFL in Nigeria. It explains the long run relationship between the explanatory variables and LGCF. The result shows some robustness. With R^2 value of 0.973, 97.3% variation in the dependent variable is explained by the model. The F-stat value of 248.49 implies that taken together, all the explanatory variables (LGDP, LPLR and LINF) are significant in explaining variations in LGCF. The D-W statistic of 1.95 reflects an absence of first order serial correlation. These statistics makes the reliance on the results of the OLS possible. LGDP is significant in explaining changes in LGCF. The t-statistic of 9.68 clearly affirms this significance at the 1 percent level. This is also buttressed by the probability value of 0.000. From the table, the coefficient of LGDP has a value of 1.05 implying that a percentage increase in Gross Domestic Product will result in 1.05 percent increase in Gross Capital Formation in Nigeria. Inflation significantly affects GCF at the 10 percent level. An increase in inflation in by 1 percent will result in a 0.1 percent decline in GCF. Prime lending rate did not show any significant relationship with GCF although with a positive co-efficient. This is evident in its t-statistic of 0.839 and probability of 0.4088.

Table 3: Engle and Granger Co-integration result of Model 1

Variable	ADF Lag	ADF Test Statistic	99% Critical ADF	Remark
Residuals	0	-5.377	-3.654	Stationary

Source: Author's computation using e-views 7.0.

The Engle and Granger Co-integration result shown in table 3 above satisfactorily reveals that the residuals of the OLS results in table 2 above does not have a unit root and hence stationary at levels at the 1percent level of significance. This is evident by the ADF test statistic of -5.377 which is above the 99 percent ADF critical value of -3.654. The implication of this is that a long run relationship actually exists between gross domestic product, inflation, prime lending rate and gross capital formation in Nigeria. This further confirms the OLS result. The Error Correction model stated in table 4 below shows the short run dynamic behavior of LGCF. The robustness of the model is reflected by the coefficient of determination of 72.87 percent, the F-statistic of 11.19 and the D-W statistic of 1.85, implying that 72.87 percent of the systematic variation in LGCF is explained by the model, all the variables together significantly explain this variation in the absence of autocorrelation in the short run respectively. From the result, LGDP significantly explains variation in LGCF in the short run. This is evident in the t-statistic and probability of 5.635 and 0.000 respectively at the 1 percent level. A one period lagged LGDP also significantly influence LGCF at the 5 percent level. LINFL significantly affect LGCF at the 10 percent level with t-statistic of -1.887 and 0.071 respectively. LPLR did not show any significant relationship with LGCF in the short run. This is evident in its t-statistic of 1.454 and probability of 0.158 respectively. The coefficient of the error correction term [ECM(-1)] with t-statistic and probabilities of -2.854 and 0.009 respectively is significant at the 1 percent level. It is also negative as expected. With a coefficient of 109% it however reveals an overshooting in the next period in the event of dis-equilibrium in the current period.

Table 4: Error Correction Model result of Model 1

Variable	Coefficient	t-statistics	Probability
C	-0.0005	-0.011	0.991
DLGDP	0.8972	5.635	0.000
DLPLR	0.3864	1.454	0.158
DLINF	-0.1021	-1.887	0.071
DLGDP(-1)	-0.8817	-2.146	0.041
ECM(-1)	-1.0986	-2.854	0.009
R-squared	0.7287		
F-stat	11.1919		
D-W stat	1.8597		

Source: Author's computation using e-views 7.0.

Table 5 shows the long run relationship between gross domestic savings, gross domestic product, prime lending rate and inflation in Nigeria employing the ordinary least squares regression technique. The coefficient of determination reflects goodness of fit of the model. With a value of 0.994, it implies that 99.4 percent of the systematic variation in LGDS is explained by the model. The F-statistics is significant at the 1 percent level nullifying the hypothesis that taken together, the variables in the model (LGDP, LPLR and LINFL) do not significantly influence LGDS. The t-statistics and probability reveals that LGDP, LINF and LPLR are significant in determining LGDS at the 1 percent, 5 percent and 10 percent levels respectively. With a t-statistics of 11.623 and probability of 0.001 and coefficient of 1.64, a percentage change in GDP will significantly result in a 1.64 percent change in gross domestic savings in Nigeria at the 1 percent significant level. This confirms a positive relationship between output and savings in Nigeria. A percentage increase in interest rate (PLR) will also increase savings by 4.25 percent although at the 10 percent level of significance. This implies that the savings behaviour of Nigerians is less likely to be affected by interest rates in the long run.

Table 5: Ordinary Least Squares Regression result of Model 2

Variable	Coefficient	t-statistics	Probability
C	-31.594	-3.853	0.031
LGDP	1.640	11.623	0.001
LPLR	4.257	2.502	0.088
LINF	1.201	3.723	0.034
R-squared	0.994		
F-stat	97.94		
D-W stat	1.32		

Source: Author's computation using e-views 7.0.

Surprisingly, inflation, with a t-statistic of 3.723 also positively enhances savings in Nigeria at the 5 percent level of significance. This negates a-priori expectation. This may be explained by aversion of Nigerians to spending during periods of rising prices which could stir up output downturns.

Table 6: Engle and Granger Co-integration result of Model 2

Variable	ADF Lag	ADF Test Statistic	99% Critical ADF	Remark
Residuals	0	-3.654	-5.571	Stationary

Source: Author's computation using e-views 7.0.

The Engle and Granger co-integration result presented above confirms the long run co-integrating relationship between LGDS, LGDP, LPLR and LINFL in Nigeria. The Augmented Dickey Fuller 99 percent critical value of -5.571 is greater that the test statistic of -3.654 of the unit root test of the residuals implying that at the 1percent significance level, the variables in the model are co-integrated.

Table 7: Error Correction Model result of Model 2

Variable	Coefficient	t-statistics	Probability
C	-0.042	-0.403	0.690
DLGDP	1.355	2.847	0.009
DLPLR	0.530	0.790	0.437
DLINF	-0.011	-0.070	0.945
ECM(-1)	-0.762	-3.680	0.001
R-squared	0.624		
F-stat	8.618		
D-W stat	2.149		

Source: Author's computation using e-views 7.0.

From the results of the Error Correction Model presented in Table 7 above, the error correction term is correctly negatively signed and significant. This enhances the reliability of the ECM result. With a coefficient of -0.762, it shows that 76.20 percent of the disequilibrium in the current period will be corrected in the next period. The result also reveals that the short run dynamic behaviour of LGDS is significantly explained by LGDP. A percentage increase in output (LGDP) in the short run will lead to 1.35 percent increase in savings (LGDS). Though not significant, LPLR and LINF positively and negatively influence LGDS in the short run respectively.

Table 8: Granger Causality test results

Null Hypothesis:	F-statistic	Probability	Decision	Causality
LGDP does not Granger Cause LGCF LGCF does not Granger Cause LGDP	10.54 3.704	0.000 0.038	Reject Reject	Feedback
LGDP does not Granger Cause LGDS LGDS does not Granger Cause LGDP	6.621 1.539	0.005 0.233	Reject Accept	Uni-directional
LPLR does not Granger Cause LGCF LGCF does not Granger Cause LPLR	1.003 1.015	0.380 0.376	Reject Reject	No Causality
LPLR does not Granger Cause LGDS LGDS does not Granger Cause LPLR	0.588 0.175	0.562 0.840	Reject Reject	No Causality

Source: Author's computations
Note: The test of significance is based on 5% level

The Granger causality tests conducted shows a feedback relationship between LGDP and LGDF in Nigeria at the 5% level of significance. This means that both variables have a causal relationship between them. A unidirectional causal relationship was found between LGDS and LGDP. Whereas, LGDP granger causes LGDS at the 1% significance level, there is no evidence to reject the null hypothesis that LGDS does not granger cause LGDP in Nigeria. Causality therefore flows from LGDP to LGDS in Nigeria. No causal relationship was however found between LPLR, LGDS and LGCF in Nigeria as could be seen in Table 8 above.

5. Summary, Policy implications of results and Recommendation

The purpose of this study was to empirically investigate the long run and short run dynamic impact of interest rate and output on gross domestic savings and gross capital formation in Nigeria. The results as presented in the preceding section reveal that output significantly affect Gross Domestic Savings and Gross Capital Formation in Nigeria in both the short run and long run. This supports the findings of Jain and Baliyan (2014), Linus (2013) and Adelakun (2015). The short run dynamic behaviour of both domestic investment and savings in Nigeria has been found to be mainly directly explained by Gross Domestic Product in conformity to the findings of Bayai and Nyangara (2013). By implication the recession currently experienced has a capacity to undermine the acceleration principle of investment by first inhibiting savings in the economy. In terms of causality, a bidirectional relationship was also found to exist between GDP and GCF. However, causality flows from GDP to GDS in Nigeria. This is in line with the findings of Appienti et al (2016) and Epaphra (2014).
Gross Domestic Savings and Gross Capital Formation were found to be relatively irresponsive to interest rate in Nigeria, supporting the results of Nasir and Khalid, 2014. No significant relationship was found between Prime lending rate and Gross Capital formation in Nigeria in both short run and long run corroborating the results of Kudaisi (2013), Duruechi and Ojiegbe (2015). Although a slightly significant relationship was found between PLR and GDS in the long run, no significant relationship was established in the short run dynamic behaviour of GDS with respect to changes in interest rate. This confirms the research findings of Ogbokor and Samahiya (2014). The results therefore suggest that the short run

dynamic qualities of GCF and GDS are not explained by interest rates in Nigeria. This implies that in the short run contractionary monetary policy may not affect investments and ultimately outputs in the economy via interest rates after-all. The current recession may not be worsened by a contractionary monetary policy since the policy target is not affected by the proximate target adequately via the intermediate target (interest rate). Inflation was found to significantly affect GCF negatively in both long run and short run which was expected. However, in relation to GDS, though negative as expected in the short run, there appears not to be a significant relationship. A significant positive relationship was found to exist in the long run between inflation and GDS. This may be caused by the aversion for spending during periods of inflation in Nigeria.
Based on the empirical results, it is recommended that to enhance investment in a period of economic downturn in Nigeria, aggregate demand should be boosted to enhance output through vigorous pursuit of fiscal policy while implementing contractionary monetary policy to address inflationary pressures created by the increase in demand. Gross Domestic Savings will improve and Gross Capital Formation will be sustained thereby. A comparative analysis of the relative importance of both fiscal and monetary policy in influencing savings and investments in addressing the fundamental challenges of recession in Nigeria is therefore recommended for future research.

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DISTRIBUTION CHANNEL INTENSITY AMONG TABLE WATER PRODUCERS IN NIGERIA

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Abstract: *Planning for and making reasonable decisions regarding reaching the target market with an organization's product is a critical task on the part of management, which involves a careful evaluation and selection of its channel structure and intensity.This study therefore examines distribution channel intensity among table water producers in Edo State, Nigeria. The focus of the study is to ascertain the variables that significantly predict distribution intensity among the firms in the table water industry in Edo State. The study seeks to proffer answer to fundamental question of why brands within a single category of a given consumer good differ significantly in their distribution intensity. Using a survey research design, the data used for this study were obtained by taking a sample of 110 table water firms within the three senatorial districts in the State. The data obtained were presented and analyzed using different statistical tools such as mean and multiple regression through Statistical Packages for Social Sciences (SPSS) version 22 software. Findings revealed that manufacturers' target focus, manufacturers' support program, brand quality and level of firm's technological advancement were significant predictors of distribution channel intensity among the industrial players in table water industry in the State. Based on the findings, the study recommended that table water firms within the State can secure a competitive edge over their fellow counterpart in the industry by designing an optimal distribution intensity that will meet up their marketing objectives. It is also recommended that the adoption of modern technology in form of online sales is an efficient way of sales and distribution which could be used to enhance their distribution techniques if there is a need to cut down on middle men due to increased cost. The study concluded that optimal distribution intensity could be achieved not by mere imitation of competitors but through a careful definition and analyses of target focus, support programs, quality of their brand as well as the level of technological advancement of the firms.*

Keywords: channel, distribution, producers, support program, target focus, water.

JEL Classification: M3, M31, M310.

1. Introduction

Marketing managers of modern day organizations are faced with variety of challenges one of which is the decision about the distribution of the organization's product (Hamid and Seydeh, 2014). Planning for and making reasonable decisions regarding reaching the target market with an organization's product is a critical task on the part of management, which involves a careful evaluation and selection of its channel structure and intensity. Getting the right product produced, with the right market price, and backed up with an effective promotional strategy are quite necessary for sustainable competitive advantage. However, these do not

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guarantee maximum customer satisfaction without these products being delivered optimally and timely to the customer at the right location (Jobber, 2009). Thus, the central role of distribution within the marketing mix cannot be overemphasized since the inability to get the product to the desired destination will result in loss of customer retention. Given this as the case, the competitive dynamics in emerging and existing markets has moved organizations to direct their focus on the management of their distribution channels as a means of competitive edge (Cônsoli and Neves, 2008).
Within a broad range of consumer goods, producers vary significantly in their approach to distribution of their brands through intermediaries. In other words, for manufacturers of consumer goods within the same product line, the level of intensity used by a producer for his brand differs significantly from one producer to another, irrespective of the fact that the same channel structure may be adopted. While several studies have elaborated on distribution decision of established domestic and multinational companies, as well as the dynamics and causes of multichannel conflicts (Gaski, 1996; Li, 2003), there is only very limited knowledge on what factors determine the level and differences in distribution intensity among producers, in distributing their products. In other words, why are brands within a single category of a given consumer good differ significantly in their distribution intensity? This portrays a significant research gap in the literature indicating the little attention which has been given to channel intensity in academic research. To fill this gap, this study centers on empirically testing a set of antecedents based on previous studies that predicts the degree of distribution channel intensity among selected manufacturers of a product line of consumer goods intensively distributing their brands in a geographical area. Empirical studies in existing literature proposed variables such as target focus, support programs, and coordination effort of manufacturers; as well as the quality and sales volume of the brand as likely determinants (Frazier and Lassar, 1996). The essence of this paper is to empirically ascertain the extent to which the aforementioned variables influence the level of distribution channel intensity among producers of table water in Edo State.

2. Review of Related Literature

Water is a universal liquid of life that is needed by all living organisms. Naturally, water is available everywhere under the ground. However, not all is good for drinking in their natural forms as it contains some contaminants that are harmful to the body system. In Nigeria, table water production and consumption has gained much attention. According to Alika, Ikuemonisan and Kalu (2016), “table water consumption is the daily requirements for both the rich and the poor in Nigeria”. It is in line with this that table water firms are established in different parts of the country to produce drinkable water for meeting the needs of the people.

2.1. Concept of Distribution Channel Intensity

Different scholars have defined the concepts of distribution and distribution channel intensity in various ways. Jobber (2009) opined that all products whether they are consumer goods, industrial goods or services require a channel of distribution. According to Webster (1991), distribution is defined “as the process through which goods produced are moved from the manufacturers to the consumers”. Being an element of the marketing mix which is represented as *place* in most marketing literature, it has been clarified that the central function of distribution management is having the product placed in the hands of the desired target consumers at the right location and in a timely fashion (Roosta and Abdul, 2009). Agbonifoh, Ogwo, Nnolim and Nkamnebe (2007) opined that distribution planning involves activities such as “production planning and materials procurement, inventory management and the related problems of receiving, in-bound transportation, and order processing, packaging, in-plant warehousing, shipping, out-bound transportation, field warehousing, and retail-outlet planning, operations and control”. Rosenbloom (2007) described distribution

channel as the external contractual organization that management operates to achieve its distribution objectives. According to Richard (1976) cited in Ilesanmi (2011), channel of distribution is “a combination of middlemen that a company uses to move its products to the ultimate purchaser”. Irrespective of the definitional approach, channels of distribution always incorporate both the producer and the final customer for the product in its present form as well as any middlemen such as retailers and wholesalers (Ilesanmi, 2011).
Distribution channel intensity has been simply defined by Stem, El-Ansary and Coughlan (1996) as the number of intermediaries used by a manufacturer within its trade area. Frazier and Lassar (1996) defined it as “the extent to which a manufacturer relied on numerous retailers in each trade area to carry its brand”. Ideal distribution intensity would make a brand available widely enough to satisfy target customers' needs, because oversaturation increases marketing costs without providing benefits (McCarthy and Perreault, 1984). In other words, the use of too few intermediaries can limit a brand's level of exposure in the marketplace. However, using too many intermediaries can be detrimental to the brand's image and its competitive position. Distribution intensity is relatively low when manufacturers are highly selective in their choice of associated retailers and put strict limits on the number of retailers allowed to carry their brands in each trade area, nevertheless a high level of distribution intensity is sought for a majority of consumer non-durable goods (Frazier and Lassar, 1996).

2.2. Determinants of Distribution Channel Intensity

Few studies have identified different factors determining distribution intensity among producers in an industry (Jain, 1993; Li, 2003; Mallen, 1996; Webster, 1991). In this study, six (6) antecedents of distribution channel intensity namely: manufacturers target focus, manufacturers support programs, manufacturers coordination effort, brand quality, brand sales volume and technological advancement are discussed.

Manufacturer Target Focus: This refers to the degree to which a producer focuses attention on a specific or broad section of the entire market. Some producers may choose to concentrate on a wider spectrum of the market with its brand, and as such will be required to face the challenge of reaching various individual and class of customers with different buying habit and characteristic for the brand (Frazier and Lassar, 1996). According to Levy and Barton (1992), “an intensive distribution approach is likely necessary in such cases to ensure adequate availability of the brand”.

> *Hypothesis One: Manufacturer’s target focus does not significantly influence distribution channel intensity.*

Manufacturers Support Program: This refers to incentive offered by producers to assist associated intermediaries carrying their brand. This may include promotional allowance, credit grants, accounting support and dealer hotline (Frazier and Lassar, 1996). There are marked variation among producers in their use and dependence on support programs (Hunt and Nevin, 1974; Lusch, 1976). Provision of support program by manufacturers in their channel is usually aimed at encouraging channel members interest in their brand and assist them in their distribution effort. Thus intermediaries in the channel mechanism can be well motivated by these incentives (Gaski and Nevin, 1985; Shipley, 1984).
The availability of support incentives to intermediaries or retail outlets tends to reduce the task inherent in distribution. Challenges relating to carriage, selling and brand servicing will be minimized thus resulting in decreased cost and risk possibility for retailers. Therefore, increase in support programs by producers are likely to result in the attraction of more intermediaries in the channel mechanism thereby increasing the channel intensity. Nevertheless, a limitation on this is the possibility of producers cost of rendering support

programs being far higher than the marginal benefit obtained from the activities of attracted retailers (Frazier and Lassar, 1996).

Hypothesis Two: Manufacturers support program does not significantly influence distribution channel intensity.

Manufacturers Coordination Efforts: This shows the degree of producers' trial in influencing the actions and decisions of their middlemen (Skinner and Guiltinan, 1985). Reasonable amount of time and energy are usually expended but most producers in coordinating the relationship and activities of their market intermediaries while for some, the cost associated in doing this has constituted a hindrance (Stem, *et al.,* 1996). The desire to closely coordinate channel relationship on the parts of most producers, will require them to reduce the number of intermediaries used in a given territory (Rosenbloom, 2007).

Hypothesis Three: Manufacturers coordination efforts do not significantly influence distribution channel intensity.

Brand Quality: A brand's positioning on quality reflects the extent to which a manufacturer attempts to convey to consumers that the brand has superior ability to meet their expectation with respect to performance (Kotler and Armstrong, 2004; Zeithaml, 1988). It would be highly productive for producers whose brand are placed on the lower end of quality to depend on large number of middlemen in each trade territory for effective promotion of the brand given reasonable pricing policy. Conversely, for producers with positive remarks on their brands with respect to quality, they are likely to exert more diligence and care in selecting prospective intermediaries since the brand's reputation could be affected by the kind of retailer selected (Lusch, 1976).

Hypothesis Four: Brand quality does not significantly influence distribution channel intensity.

Brand Sales Volume: Previous studies in the literature tend to examine the relationship of the sales volume of a brand with its distribution intensity (Frazier and Lassar, 1996; Stem,*et al.,* 1996). Sales volume of a brand defines the rate of the brand turnover within a specified time period which in most cases is subjected to monetary measurement. Sales volume of a brand is proposed to be reciprocally related to its distribution intensity (Frazier and Lassar, 1996). The implication of this is that brands that are frequently remarkable as generating higher sales to the perception of both its producers and consumers are likely to capture the patronage of higher number of retail outlets and intermediaries thus increasing the channel intensity level. Invariably higher distribution intensity for the brand can possibly result in higher volume of sales (Stem, *et al.,* 1996).

Hypothesis Five: Brand sales volume does not significantly influence distribution channel intensity.

Technological Advancement: Advancement of modern technology has significantly influenced virtually all aspect of human endeavor. One of such relevant area is on the aspect of marketing. Modern day manufacturers have considered the internet a great help to facilitating their operation particularly in the aspect of product display and online shopping. The internet which is a clear indication of technological advancement improves product commercialization, as well as facilitates information circulation on product availability (Jain, 1993). Thus, the full exploitation of modern technology which is well pronounced in the widespread use of the internet by manufacturers may likely rather reduce their tendency to use higher number of marketing intermediaries or distribution intensity since the difficulty encountered in the coordination of these middle men could be even out through maximum use of technological provisions in the environment while still achieving the same objective of product display, awareness, and customer patronage.

Hypothesis Six: Technological advancement does not significantly influence distribution channel intensity.

3. Methodology

This study adopted the survey approach. The study entailed a cross-sectional design of table water producers operating in Edo State. The study population covered all table water producers operating within Edo State. The population of table water producers in the State based on government records as at the time of this study was one hundred and fifty eight.

Table 1: Population of registered table water producers in Edo State

S/N	Senatorial Districts in Edo State	Number of Producers
1	Edo Central	45
2	Edo North	35
3	Edo South	78
Total Population		158

Source: Researchers' field work (2016)

The total sample size for the study was statistically determined by Taro Yamane's (1967) formula given as: $n_T = \frac{N}{1+N(e)^2}$

Where: N = Aggregate population of all registered table water factories in Edo state.
n_T= Total sample of registered table water producers in Edo state.
e = Level of significance.
1 = Constant

Through substitution of values into the above formula,

$$n_T = \frac{N}{1+N(e)^2} = \frac{158}{1+158\,(0.05)^2} = 113.2616 \cong 113 \text{ (Approximately)}$$

The generated sample size derived through the Yamane's formula is one hundred and thirteen. The researchers considered this number to be a sizable representation of the entire population under study. The study adopted a primary source of data collection. This involves administering questionnaires to respondents who are majorly table water producers or their representatives in the firms. Using a convenience sampling technique, the one hundred and thirteen copies of the questionnaire were distributed to table water firms.

The questionnaire was structured into different parts namely the introductory letter, and the classification sections divided into Sections A and B. Basically, the letter helps to enhance the response rate of the questionnaire by assuring the respondents that the information provided by them shall be used strictly for academic purpose. Section A elicits information on company profile such as length of establishment and senatorial location of firms. Section B addresses the other variables such as manufacturers' target focus, manufacturers' support programs, coordination effort, brand sales volume, brand quality, and technological advancement.

The model for the study is specified as:

$$DCI_i = \beta_0 + \beta_1 \mathrm{MTF}_i + \beta_2 \mathrm{MSP}_i + \beta_3 \mathrm{MCE}_i + \beta_4 \mathrm{BRQ}_i + \beta_5 \mathrm{BSV}_i + \beta_6 \mathrm{TCA}_i + \varepsilon_i \ \ldots\ldots\ldots\ldots (1)$$

Where:
DCI = distribution channel intensity
MTF = manufacturers target focus
MSP = manufacturers support programmes.
MCE = manufacturers coordination effort
BRQ = brand quality
BSV = brand sales volume
TCA = technological advancement

ε = Stochastic error term
i = Cross sectional data; β_0= Constant; $\beta_1 \dots \beta_6$ = Coefficients of the independent variables
Based on the study objectives, ordinary least square (OLS) technique was used to estimate the relationship between distribution channel intensity and the independent variables (manufacturers' target focus, support programs, coordination effort, brand quality, brand sales volume, and technological advancement). The data obtained were presented and analyzed using different statistical tools such as mean and multiple regression through Statistical Packages for Social Sciences (SPSS) version 22 software.

4. Results and Discussions

4.1. Description of Company Profile

One hundred and thirteen (113) copies of the questionnaire were distributed to table water producers or their official representatives in Edo State. Of this number, 110 copies of the questionnaire were completed, retrieved and found usable. This represents a response rate of 97 percent. The response rate was satisfactory because the copies of questionnaires that were properly filled were the only ones used by the researchers. Table 2 presents the company profile of the selected table water firms.

Table 2: Company Profile

S/N	Variables	Categories	Frequency	Percentage (%)
1	Length of firm establishment	Below 5 years	41	37.27
		6-11 years	34	30.91
		12-17 years	19	17.27
		18-23 years	2	1.82
		24 years and above	14	12.73
		Total	**110**	**100**
2	Senatorial location of firms	Edo Central	29	36.36
		Edo North	24	21.82
		Edo South	57	51.82
		Total	**110**	**100**

Source: Researchers' field work (2016)

Length of Firm Establishment: Table 2 shows that 37.27% of the table water firms examined in this study were established in less than 5years. 34 of them representing 30.91% fall within 6-11years of establishment, 19 of the firms representing 17.27% were established between 12-17years. Only 14.55% of the firms have operated for 18years and above.

Senatorial Location of Firm: Each state in Nigeria is divided into three senatorial districts with different Local Government Areas (LGAs). Edo State is divided into Edo Central (Esan Central, Esan North-East, Esan South-East, Esan West and Igueben [LGAs]), Edo North (Akoko-Edo, Etsako Central, Etsako East, Etsako West, Owan East and Owan West [LGAs]) and Edo South (Egor, Ikpoba-Okha, Oredo, Orhionmwon, Ovia North West, Ovia North West and Uhunmwonde [LGAs]). Table 2 showed that Edo South accounts for 57 representing 51.82% of the total responding firms. This is followed by Edo Central which accounts for (29) firms representing 26.36% and lastly Edo North (24) representing 21.82% of the total responding firms. Thus, this shows that Edo South accounted for the highest number of responding firms in Edo State.

4.2. Description of Dependent and Independent Variables

Each item in the variables presented in Table 3 was structured in 5-point Likert scale of 5, 4, 3, 2, 1 for Strongly Agree, Agree, Neutral, Disagree and Strongly Disagree respectively. The weighted mean score was calculated by multiplying the frequency of each point by the weight and later divided by the total number of respondents. The implication of this is that, the higher the mean, the more the level of "agreement" with respect to the variable and vice versa. The results for the variables are shown below:

Table 3: Description of Variables

S/N	Variables	Mean Score ($\bar{X}$)
Dependent Variable		
1	Distribution channel intensity	4.77
Independent Variables		
1	Manufacturer target focus	4.46
2	Manufacturer support program	4.35
3	Manufacturer coordination effort	3.62
4	Brand quality	4.45
5	Brand sales volume	3.56
6	Technological advancement	3.28

Source: Researchers' field work (2016)

The mean score of 4.77 revealed that majority of the respondents highly agreed with the items used in measuring distribution channel intensity. Similarly, the mean scores of the independent variables shown in Table 3 revealed that majority of the respondents agreed with the items used in measuring them as the values are greater than the mid-point of 3.

4.3. Model Estimation and Interpretation

This section statistically establishes the relationship between distribution channel intensity and the independent variables (target focus, support programs, coordination effort, brand quality, brand sales volume, and technological advancement). The regression results are shown in Tables 4, 5 and 6.

Table 4: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin- Watson
0.512[a]	0.262	0.219	0.637	2.131

a. Predictors: (Constant), MTF, MSP, MCE, BRQ, BSV, TCA
Source: Researchers' field work (2016)

Table 4 shows that when the independent variables were regressed on distribution channel intensity, a coefficient of determination (R^2) value of 0.262 is obtained. This indicates that the independent variables jointly explained 26.2% of the variation in the dependent variable. Based on the Durbin-Watson statistics of 2.131, there is no presence of auto-correlation in the model.

Table 5: ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	14.815	6	2.469	6.093	0.000[b]
Residual	41.739	103	0.405		
Total	56.555	109			

a. Dependent Variable: DCI
b. Predictors: (Constant), MTF, MSP, MCE, BRQ, BSV, TCA
Source: Researchers' field work (2016)

Table 5 shows that the F-statistic of 6.093 is significant at $p<0.05$. This means that there is a statistical significant relationship between the independent variables and the dependent variable as a whole.

Table 6: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	10.878	0.967		11.246	0.000
MTF	0.89	0.044	0.193	2.025	0.045
MSP	0.138	0.048	0.255	2.855	0.005
MCE	0.012	0.020	0.050	0.582	0.562
BRQ	0.083	0.037	0.211	2.218	0.029
BSV	-0.028	0.019	-0.133	-1.499	0.137
TCA	-0.095	0.044	-0.193	-2.169	0.032

a. Dependent Variable: DCI
Source: Researchers' field work (2016)

Table 6 reveals that MTF, MSP, BRQ and TCA significantly influence DCI at $p<0.05$. However, MCE and BSV are not significant at 5%. The sign of the coefficients of the variables are all positive signs except for BSV and TCA that have negative relationships with DCI.

4.4. Discussion of Findings

Firstly, this study found that there is very high distribution channel intensity ($\bar{X}$=4.77) among table water producers in Edo State. This suggests that table water firms in the State prefer to use larger number of intermediaries in the distribution mechanism of their products. Manufacturers target focus (MTF) of most table water firms in Edo State was shown to be high ($\bar{X}$=4.46), and also a significant predictor of distribution channel intensity. The result indicated that the target focus of manufacturers is positively related to their distribution intensity. The implication of this is that as table water producers concentrate on a broader spectrum of the market, the more number of intermediaries they use in the channel mechanism, while focusing on a narrow spectrum of the market will invariably result in the use of few retailers in the channel. This finding corroborates the findings of Frazier and Lassar (1996).

Secondly, manufacturers support programs (MSP) was shown to be high ($\bar{X}$=4.35) and constitute another significant predictor of distribution channel intensity. This means that table water firms in the State offer sufficient support incentives to the retailers carrying their brand. The result further showed that manufacturers' support program is the most significant predictor of the distribution channel intensity of table water producers in Edo State. In addition, manufacturers' support program is found to be positively related with distribution channel intensity. Therefore, the channel intensity of these table water firms increases as more support programs are offered to retailers in the channel. While the reduction or complete withdrawal of support incentives by producers may results in loss of retailers in the channel mechanism.

Thirdly, manufacturers' coordination effort (MCE) was found to be insignificant in predicting the variability in distribution channel intensity among table water brands in Edo State. This implies that producers' effort in terms of the time and energy to be expended in influencing the action and decision of their middlemen does not significantly determine the number of retailer used in the channel mechanism. Furthermore**,** brand quality was found to be high ($\bar{X}$=4.45) and constitute another significant predictor of distribution channel intensity. This suggests that most table water brands in the State are positioned on the higher end of the quality continuum by their manufacturers. Brand quality was also found to have a positive relationship with distribution channel intensity. This implies that the more a table water brand is perceived to be of high quality, the higher the intensity of its channel of distribution by its producers. Brand sales volume was found not to be a significant predictor of distribution channel intensity. This suggests that the volume of table water sales by firms in Edo State does not significantly determine the number of middlemen used in the channel mechanism. Finally, technological advancement was found to be a significant predictor of distribution channel intensity. The analyses revealed that firms in the table water industry in Edo State are technologically advanced particularly in terms of online sale and distribution of their products. Technological advancement was found to have an inverse relationship with the level of distribution channel intensity among table water producers in Edo State. This suggests that table water firms in the state tend to cut down on the use of the number of middlemen in their channel as they advance more towards online marketing of their brands.

5. Conclusion and Recommendations

This study was carried out to examine the distribution channel intensity among table water producers within Edo state. The study provided empirical evidence on the reasons behind the differences in distribution intensity among table water producers in the State. Based on the results obtained, it was concluded that the key predictors in distribution channel intensity among producers of table water are the manufacturers' target focus, manufacturers' support programs, brand quality and technological advancement of the given firm in terms of internet marketing and online sale and display.

Based on the analyses and findings from this study, the following recommendations are made:

- Table water firms within the State can secure a competitive edge over their counterparts in the industry by designing an optimal distribution intensity that will meet up their marketing objectives.
- They should ensure that their target focus are appropriately determined before determining the number of retailers to use in other to prevent over saturation of the market with the brand and increase cost over returns due to excessive use of retailers in the channel.
- Adoption of modern technology in form of online sales is an efficient way of sales and distribution which could be used to enhance their distribution techniques if there is a need to cut down on middle men due to increased cost.
- For new firms in the industry, more retail outlet could be attracted to carry their brands through systematic and objective use of support program and incentives
- Finally, the study was restricted to Edo State and further streamlined to table water factories within the State. It is therefore recommended that future studies of this kind should be undertaken in other states of the Federation thereby giving deeper insights into the subject matter.

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Bio-note

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THE DYNAMICS OF ASSOCIATIONS AND FOUNDATIONS IN ROMANIA. ECONOMETRIC ANALYSIS

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Abstract: *This article highlights the evolutionary trend of the associations and foundations in Romania in 1997 – 2015 period of time. We know that the NPO's activities come to cover the people's needs which cannot be supported by the state or by the private sector. More precisely, the major roles of the NPO sector are: supporting disadvantaged groups and the social causes, sustaining the role of "watchdog", and promoting the advocacy and public policy expertise. For this reason, we propose an econometric model that will be applied to establish the link between the number of the association and foundations, poverty rate, unemployment rate and the average monthly expenditure per household. We consider that the last three factors are relevant to the country's social economy and, at the same time, they represent the main objectives of the EUROPE 2020 Strategy - a strategy for smart, sustainable and inclusive growth. The study is based on numerical data collected over a period of 12 years from 2003 to 2014. For the econometric model, we use IBM SPSS 22 software, in analyzing the collected data. After processing the data we will find a positive and significant relation between the number of associations and foundations (AF), the average monthly expenditure per household and the poverty rate. At the same time, we will find an insignificant relation between the number of associations and foundations and the unemployment rate.*

Keywords: NPO, unemployment, poverty, expenditure per household, dynamic, econometric.

JEL classification: C22, C58, G01, M20.

1. Introduction

The evolution of the social economy has prompted the rethinking of the economic and social models in Europe, and has reinvented the social enterprises, forcing them to adapt to the new changes. This progress included transformations both in terms of the number of member organizations, which has grown significantly in the recent years, including a variety of areas, and in terms of the public and academic political debate (Barna, 2014:5).
For standing up, a civil society requires a healthy construction of the economy. Civil society is the "aggregate of non-governmental organizations and institutions that manifest interests and will of citizens" and also it refers to "individuals and organizations in a society which are independent of the government" (Dictionary.com's 21st Century Lexicon). ''Civil society" refers to associational activities involving family, non-governmental organizations, pressure groups, charities, community groups, social movements and campaigning organizations. (Cohen and Arato, 1994; Keane, 1988). Civil society organizations can also play important roles in policy advocacy and in constraining state power in nontransitional states and countries where full democratization is unlikely (Alagappa, M., 2004:6). Furthermore, the civil society develops complementary activities in the state and not in opposition to it. In this context, the market economy can solve social problems requiring social cohesion and

solidarity, and not least, sustain the civil society, but it is not enough. There is a clear need for the involvement of social organizations to sustain, voluntarely and financely of this endevour. Romania has joined other developed contries in this process of discovering, rethinking and developing the social economy, as evidenced by various organizations and covered areas, although the current dynamics of the sector and its size are not comparable with European countries (Barna, 2014:5).

The social economy appeared as a reaction of the civil society to the social and economic problems caused by contemporary economic and socio-political reality. For this reason, issues such as unemployment, education and well-being are the key points for the social economy (Giddens, 2000).

The concept of social economy designates the multitude of collective social-purposed initiatives that take place between the public and private business boundaries. The social goal of economic activities does not refer exclusively to the provision of social services, as the term could indicate, but refers to the social purpose of a variety of activities aimed at satisfying individual needs of mutual or general interest (Constantinescu, 2011:4).

The social economy has established itself as a mechanism of mutual assistance between different groups with similar activities, formed as cooperatives, or groups with similar needs such as mutual societies or mutual aid houses, and groups with similar aspirations, such as associations and foundations. These are, in fact, forms of manifestation of the social economy that have diversified over time and have taken significant dimensions across the community (Vîrjan, 2012:86).

CIRIEC defined the social economy as being "formed of private enterprises, formally organized, with decision-making autonomy and freedom of association, designed to meet the needs of members via the market, by producing goods and providing services, insurance and financing. Any distribution of profits or surpluses between members is not directly related to the capital contribution or contributions paid by members, each of them having one vote (CIRIEC, 2007:20)."

The concept of civil society refers to institutionalized or informal collective activities which have as main function representing and promoting the interests of members. The social economy approach only concerns institutionalized entities (with legal personality) and distinguishes between representation activities and those with a pronounced economic character, such as providing goods or services of mutual or general interest. In this context, the social economy is what could be called the economic sub-sector of the non-governmental or civil society sector (Constantinescu, 2011:7).

The non-profit organizations support their activity, on one hand, on voluntary and paid work, and on the other hand, on a combination of financial resources generated by selling goods and services, public funding and private donations.Thus, the non-profit organizations have a significant contribution to the social cohesion, innovative services sectors, but also in solving social problems affecting a large number of social categories (Cace, Nicolăescu, Anton and Rotaru, 2011:7).

This paper aims to conduct statistical and dynamic analysis of the social economy sector, focused on associations and foundations.

Organized in an autonomous form, in terms of decision-making and freedom of association, the associations and foundations are private entities created for providing free services for beneficiaries and whose surplus, if any, cannot be self-taken by those who create, control or finance them. The non-profit organizations meet the needs of an association in terms of self-management or autonomy in relation to public authorities, contributing to crystallizing and highlighting the civil society, providing, for the local and professional community, opportunities for offering services focused on public good (Badrus, 2001).

The non-profit organizations, mainly make their contribution in supporting the activities at local, regional or international levels. Internastionally known organizations have lobby power, and influence in the political or economic environment or at least they attract the attention and the public interest on some situations or projects. A local or regional level concerns primarily in supporting the local community, creating opportunities for strengthening community spirit or most often conducting charitable activities. Thus, an organization can perform various tasks and bring many benefits. Through the communication methods, the staff of such organizations manages to raise funds and to participate in various projects to gain various national and international financial resources. The funds are used to improve the services, to organize thematic competition and to create an appropriate communication environment, through the web and blog pages. (Cace, Nicolăescu, Anton and Rotaru, 2011:79).

2. The dynamics of associations and foundations

It is a known fact that, over time, the companies have been divided into two sectors, namely the private sector, represented by all companies and organizations carrying out activities to obtain profit, and the public sector, represented by the state bodies, which are organized and function for and on behalf of citizens. As time went on, along with the development of the modern society, the private sector began a reform splitting itself into two private sectors, differentiated by their purpose and by their intention of obtaining profit: the first sector whose activities are aimed to obtaining profit, and the second, aimed at obtaining resources which are later redistributed to the members of society. The latter has been called "the third sector" or "social economy" (Micșunica-Drețcanu and Iorga, 2012).

The emergence of the non-profit sector supported the conclusion that neither the public, nor the private sector cannot cover all the needs that exist within society (Brinkerhoff and Brinkerhoff, 2002:4). Lately, it has been found that confidence in the government decresed more and more in terms of solving society's problems so there is a strengthening of the role of "the third sector" in the detriment of the two other sectors. This means that initiatives from citizens who are directly concerned, e.g. "bottom-up", are more effective in solving certain problems of the society, despite the public sector, and of the economy, leading to strengthening the influence of the citizens and civil sector.

The non-profit organizations are treated as non-governmental entities established “as a form of charity which doesn’t seek profit for owners and whose principal purpose is the provision of public services or the defense of a cause. Therefore, they are considered to be private organizations, but aimed to fulfill public or quasipublic goals” (Vlăsceanu, 1996:19).

The NPOs can be defined as an intermediate structure, located between the public and the private sectors. They are designed to orientate their activity in a certain sense through interactions, horizontally, between the structures of the third sector, and vertically, with the institutions of the two other sectors, involved in solving society's problems. The Romanian economy needs a dynamic social economy, by linking the social and economic issues, by establishing public-private partnerships for the development and cohesion with the real economy. The main driver of the social economy is not the profit, but the action in the public service. Social enterprises achieve a surplus from the work they perform and, in addition to traditional private enterprises, support the growth of the area in which they operate.

The association is based on an agreement between three or more persons who have common knowledge, who input labor in the development of activities of general interest, in community, or, where appropriate, in the interests of their personal prerogatives. This establishment of the associations is made by the free expression of people that allow members to speak on matters of public interest or community members (Ordinance no. 26, 2000).

The foundation is formed by one or more persons who establish a patrimony which must include material goods or cash, whose value must be equal to 100 minimum wages. Its heritage is permanent and irrevocably meets an objective of general or community interest. (Ordinance no. 26, 2000).

The fundamental difference between the two types of entities is that, while the association is a sum of wills oriented to achieving an objective, the foundation is an endowment oriented to achieving a goal, with all the consequences thereof, namely the existence of the members (if association) and different requirements for the establishment, required by government bodies. Moreover, there are specific requirments regarding management, and conditions of dissolution and liquidation.
Because of the social economy, at the national level, each type of organization may meet the growth trends and positive developments. For this to be feasible it must perfectly harmonize the important relationships of NPOs with all the means of the social economy sector.
Analyzing the situation in Romania, the specific activities involving NPOs are still shy, but there is a tendency of increased development and assimilation of concepts, strategies and processes undertaken by these organizations.
According to the National Statistics Institute, both associations and foundations have experienced significant growth during the 1997 - 2015 period of time, leading in 2014 to a total of 56.356 associations and foundations.
Analyzing annual records, a high level of registration of NPOs is shown in 2008. We note that after 2008 there was a decrease in the number of NPOs, but later it was restored and the sector continued to influence the social economy and meet the public support.
The following figure highlights the evolution of NPOs. The sharp decline observed in 2009, due to unfavorable economic conditions, was slightly oscillating, with a slight lag in 2010 as well, and then increased relatively slowly in 2011-2015.

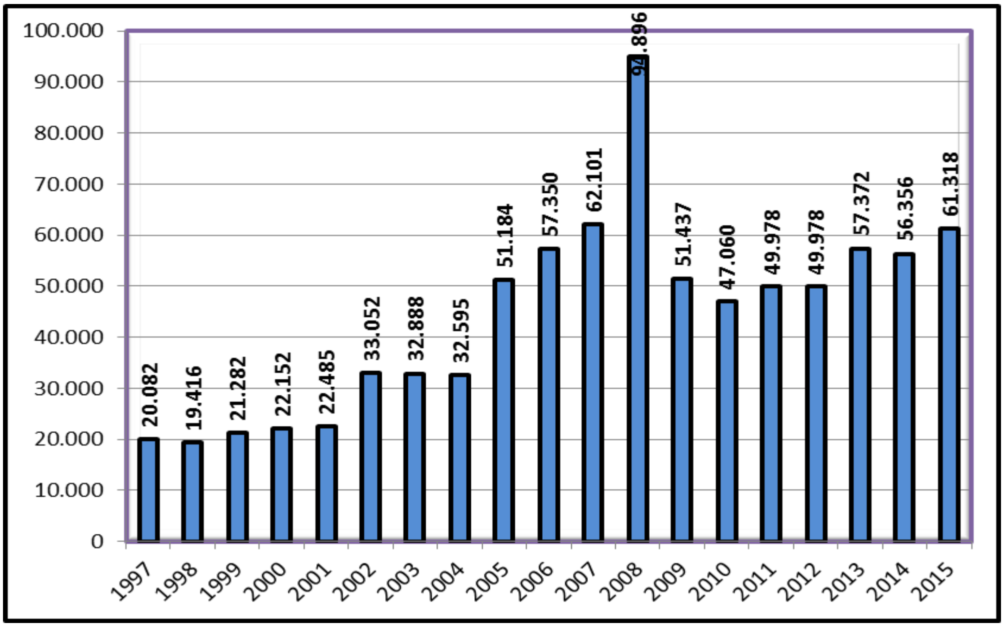

Figure 1: The increasing trend of associations (cultural and sport) and foundations in 1997-2015 period of time
Source: own processing based on data retrieved from NSI – National Institute of Statistics website

The NPO sector is mostly supported by donations, sponsorships, contributions and other non-profit revenues, but lately, their support is possible by developing economic activities which make possible the increase of their contribution to total revenue of the NPO's sector. For more than a third of NPO's, European funds or grants from international organizations are the most important sources of revenues (Lambru and Vameșu, 2010).

The weaknesses of non-profit organizations that do not allow highlighting and developing a market, refer to the lack of cooperation between them, and to their individualism. Improving the communication between the different types of non-profit organizations and community-oriented partnerships, identifying community needs, developing projects designed to help local development, would bring an added value to the sector level and would enhance the credibility among community members.
The privations of the Romanian state are strongly felt at the level of the health system and at the social service level. This precarious situation, generated by the lack of interest, and investment in this direction, creates a favorable framework affirmation for the non-profit organization. The NPOs invested and helped identifying solutions, suitable to support areas such as health, social services, and the economic development. Although they cannot solve these problems in their entirety, the non-profit organizations are investing further in this direction, constantly adapting to the occurring changes in the social plan.

3. Econometric analysis of the influence of Europe 2020 on the number of associations and foundations

After the Second World War, a period of economic growth followed, with a focus on welfare, and so, the social economy had a very limited role on the market. In the last 20 years, the social economy has begun to gain contour and greater significance, due to the worsening social problems not only at European level, but at the global level: increasing unemployment rate, increasing poverty rate and social marginalization, increasing aging phenomenon of the population, reducing skills and social exclusion, etc. The welfare, which until then had the capacity and resources to provide adequate and diversified social services, has been suddenly confronted with a number of important challenges and overcome by the magnitude of economic and social events. All of these put a particular strain on statist social protection systems and, in this context, the social economy has become a solution for addressing social and even environmental issues (Vîrjan, 2012:86).
From the above figure, a positive trend in the number of associations and foundations from year to year can be seen, except 1998, 2000, 2004 and 2010 when they met a regression but not with high values. As stated above, the increase in the number of associations and foundations took place again from 2011. Starting from the idea that non-profit organizations are considered to cover the needs which neither the private sector nor the public sector can solve and the idea that social protection is found in the Europe 2020 strategy, the following working hypothesis was formulated:

H1: Increasing values of poverty, unemployment and population expenditure lead to an increase in the number of associations and foundations.

According to the above hypothesis, we have constructed the next economic model:

Number AF = f (Cost, Poverty, Unemployment) **(1)**

According to the above hypothesis, the economic model and the selection of measures for dependent and independent variables, our econometric model is:

$$N_t = \beta_0 + \beta_1 C_t + \beta_2 R_{sar_t} + \beta_3 R_{som_t} + u \qquad (2)$$

Where,

$\mathrm{N_t}$ *is number of associations and foundations*
C_t *is average monthly expenditure per household in year t*
R_{sar_t} *is the poverty rate in year t*
$\mathrm{R_{som_t}}$ *is unemployment rate in year t*
$\mathbf{U}$ is *error term or disturbance*

The constants $\beta_0, \beta_1, \beta_2, \beta_3$ are the *parameters* of the econometric model, and they describe the direction and the strengths of the relationship between *number of associations and foundations* and the factors used to determine *number of associations and foundations* in the model.
To obtain the data needed to construct the model, we used the statistic analysis published by the National Statistics Institute in conjunction with the Ministry of Justice, for the 2003 – 2014 period of time. We mention that when writing this paper, the data for 2015 were unpublished.

Table 1: Dependent and independent variable values of the model

Year	AF annual records	AF cumulative records	Poverty rate	Unemployment rate	Average monthly expenditure per household
2003	2990	44878	17.30%	7.40%	781.45
2004	2823	47701	17.90%	6.30%	1049.94
2005	3432	51133	18.20%	5.90%	1149.33
2006	4132	55265	18.20%	5.20%	1304.66
2007	4297	59562	24.60%	4.00%	1541.96
2008	3360	62922	23.60%	4.40%	1915.19
2009	4354	67276	22.10%	7.80%	2047.33
2010	4664	71940	21.60%	7.00%	2062.95
2011	4934	76874	22.20%	5.20%	2183.76
2012	4881	81755	22.60%	5.40%	2244.47
2013	5103	86858	22.40%	5.70%	2317.40
2014	4774	91632	25.40%	5.50%	2269.25

Source: NSI 2003-2014, Ministry of Justice; own processing

Given the fact that in our table both annual and cumulative records were presented, we choose to continue our analysis based on annual records, as dependent variable, because it reflects the real trend of the number of associations and foundations compared to the cumulative records which show an increasing trend despite the actual number of organizations that were established each year.
The first step in testing our model consisted in a statistical description of the selected indicators. For all these indicators number of cases are equal to twelve. The results provided by SPSS show that AF annual records occur between 2823 and 5103 with a standard deviation of 798,876, the poverty rate is between 17.30% - 25.40% with a standard deviation of 2.76651%, the unemployment rate between 4.00% to 7.80% with a standard deviation of 1.14561% and average monthly household expenditure indicator was established a range between 781.45 and 2317.40 with a standard deviation from 544.9745.

Table 2: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
AF annual records	12	2823	5103	4145.33	798.876
Poverty rate	12	17.30%	25.40%	21.3417%	2.76651%
Unemployment rate	12	4.00%	7.80%	5.8167%	1.14561%
Average monthly expenditure per household	12	781.45	2317.40	1738.9742	544.97450
Valid N (listwise)	12				

Source**:** own processing in SPSS

In order to obtain first results, we used a quantitative analysis that has as dependent variable for our model which is annual records of associations and foundations.
Table 3 describes the Pearson correlation coefficient between the dependent variable (AF annual records) and independent variables (poverty rate, unemployment rate and average monthly expenditure per household).

Table 3: Correlations

		AF annual records	**R_{sar}**	**R_{som}**	**C_t**
AF annual records	*Pearson Correlation*	1	.645*	-,175	.860**
	Sig. (2-tailed)		.023	.587	.000
	N	12	12	12	12
R_{sar}	*Pearson Correlation*	.645*	1	-.463	.803**
	Sig. (2-tailed)	.023		.129	.002
	N	12	12	12	12
R_{som}	*Pearson Correlation*	-.175	-.463	1	-.182
	Sig. (2-tailed)	.587	.129		.572
	N	12	12	12	12
C_t	*Pearson Correlation*	.860**	.803**	-.182	1
	Sig. (2-tailed)	.000	.002	.572	
	N	12	12	12	12

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).
Source: own processing in SPSS

It can be seen that between the dependent variable and independent variable unemployment rate is not a direct connection, registering negative Pearson coefficient, and the significance is well above the accepted maximum of 0.05 (Sig. = 0.587). We believe that this is due to declining values of recorded unemployment rate. This is not because the employment rate in public and private companies in our country has increased, but due to the high values of the rate of people leaving the country, values which were published by INSSE for emigrants (19,056 people in 2013). On the other hand, between the dependent variable AF Records annual and independent variables poverty rate and average monthly expenditure per household is a direct and close relation. In the first case, the Pearson coefficient value is 0.645 at a significance level of Sig. = 0.023, in the second case the Pearson coefficient = 0.860 Sig. = 0. This is due to the constant increase in average monthly expenditure per household levels, which were higher than income growth, which leads to an increase in the poverty rate in the population. The increasing poverty rate automatically leads to an increase of certain needs of the population that can no longer be covered by the private or the public secto. In this case, associations and foundations are intervening.
In order to obtain more relevant data regarding the degree of influence of the independent variables *Poverty rate* and *Average monthly expenditure per household* on the dependent variable *AF annual records*, we used a regression test through F (Table 4). Through research we obtained an F = 8.007 significant at Sig.= 0.009 less than the maximum permitted threshold of 0.05 which allows us to say with a high confidence level that the records *of associations and foundations* is strongly influenced by changes in the level of *Average monthly expenses household* and *Poverty rate.*

Table 4: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5266263.662	3	1755421.221	8.007	.009[b]
	Residual	1753975.005	8	219246.876		
	Total	7020238.667	11			

a. Dependent Variable: AF Number
b. Predictors: (Constant), Average monthly expenditure per household, poverty rate
Source: own processing in SPSS

The results from Table 5 – Coefficients, allow testing the regression model parameters utilizing Sig t. It can be seen that the parameter *Average monthly expenditure per household,* complies the condition Sig t<0.05. On the other hand, the Sig t values for *Constant* and for the *Poverty rate* are higher than 0.05 in both cases. In conclusion, with a 95% probability, we consider that only the *Average monthly expenditure per household* parameter is statistically significant in the model.

Table 5: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2476.297	1245.213		1.989	.078
	Poverty rate	-36.680	81.507	-.127	-.450	.663
	Average monthly expenditure per household	1.410	.414	.962	3.408	.008

[a]Dependent Variable: AF annual records
Source: own processing in SPSS

4. In conclusion

The new social economy is emerging in the European Union as a pole of social utility in a pluralist economic system, alongside the public sector and the private for profit sector. Also it must meet the challenge of facing the dangers of dilution or vulgarization of its characteristics, which confer specific social utility.
To this end, social economy actors must better understand their common core values that make reference to the use of all the social and cultural levers, considering these values in order to reaffirm their own institutional profile and get a multiplier effect of their economic and social potential.
In this econometric study, we tried to analyze the influence of three factors: the average monthly expenditure per household, the unemployment rate and the poverty rate on the number of the associations and foundations in Romania. The necessary data for the 2003-2014 period of time were obtained from the website of the Ministry of Justice and from the National Institute of Statistics. After testing the econometric model, we discovered a direct and significant correlation between the dependent variable, the number of associations and foundations and the independent variables, the poverty rate and the average monthly expenditure per household. We have not found any connection between the dependent variable and the independent variable, the unemployment rate. In this case, to be used, the model can be rewritten either by removing the independent variable which does not have any influence, or by replacing it. Also, it is indicated to replace the poverty rate variable too, as the regression results show us.

But there are other indicators that can help analyzing the dynamics of the number of associations and foundations. In our model, we were optimistic and we have started from the premise that associations and foundations are established to cover the needs that neither the state nor the private sector can cover. But it has been mentioned the fact that we cannot say, with a high degree of confidence, that all non-profit organizations are set up to support disadvantaged persons. For this reason, we believe that we should analyze the dynamics of the non-profit sector in terms of subsidies to this sector, of revenues received by it and in terms of average wage received by an employee from the non-profit sector.

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Bio-note

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CULTURAL EMPLOYMENT BY LEVEL OF EDUCATION

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Abstract: *The sector of the creative economy brings benefits to the economy, more exactly, through the cultural sector, due to the unlimited resources needed to develop – the human resources represented by their mind or talent. The industrial development and innovation lead towards many changes in the cultural industries mostly due to the digitization effect, an irreversible change in the creation of various cultural goods and services, resulting even new cultural domains and also new regulation in the cultural field. The goods and services produced by the new cultural sector "encompass artistic, aesthetic, symbolic and spiritual values (…) their system of valorisation, which includes a characteristic irreproducible, is linked to its appreciation or pleasure" makes them different from other goods and services as Throsby mentioned (UNESCO, 2009:22). This paper aims to show some positive impacts of the creative economy, highlighting social and economic aspects, such as cultural diversity, tolerance, freedom of expression of the cultural identity and by the other hand, new jobs for artists, earnings' increases, creative clusters, cultural employment etc. We will also show more clearly the activities and the occupations which concern the cultural employment and figures regarding cultural employment in Europe.*

Keywords: cultural industries, cultural occupations, cultural employment, level of education.

JEL classification: J21, J24, O14.

1. Introduction

The significance of the culture cannot be denied, but it is difficult to assess. Although, history showed us that those nations with a well-established culture (i.e. the Romans, the Greeks) enjoyed a higher standard of living. The foundation of a society is represented by culture, as it is recognised that "culture is a thousand facets process through which the elementary and naïve activity of the human race becomes reflexive knowledge and, at its highest level, reaches science and philosophy and finally, pure sense. The external shape the culture takes, reporting to the state and religion, is the society" Burckhardt (Boudon, 1997:524). This aspect is present in our days, also. Nowadays, culture can be approached by the economic science through the eye of the creative economy, a new economic trend which regards economic development exploring talent and intellectual capital.
According to the definition given by UNCTAD, the creative economy represents:

> "the interface between creativity, culture, economics and technology as expressed in the ability to create and circulate intellectual capital, with the potential to generate

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> income, jobs and export earnings while at the same time promoting social inclusion, cultural diversity and human development" (Newbigin, 2010: 24).

Regarding the economic development, we could say, as Newbigin (2010: 24) has pointed out,

> "excellence in artistic expression, abundance of talent, and openness to new influences and experimentation are not the privileges of rich countries (…) these sources of creativity can open up new opportunities for developing countries".

The emergence of this new economic sector doesn't significantly influence only the human resources involved, but it has an economic and a social impact because

> "the real significance of the creative industries lies not only in their economic value, or even in their wider social and cultural impact, but in that they provide a template for the way in which other economic sectors need to change if they are to survive and prosper in the digital age" (Newbigin, 2010: 28).

2. Social and economic implications of the creative economy

The role of the creative economy regards sustainable economic development, social development of communities and exploitation of artistic and intellectual capital available to the national economies (Badulescu, 2007; Badulescu and Badulescu, 2014; Badulescu and Vancea, 2013; Mester et al, 2008), both as human resources and as well, as cultural heritage. Besides its specific characteristics, the creative economy presents also several positive effects on the social and economic life; according to UNESCO the most important positive effects concerning economics (Creative Economy Report 2013: 128-129) are the following:

- Local production of cultural goods and services;
- New jobs available for artists and creative workers;
- Increases of the creative workers' incomes;
- Increases of the total exports due to the export of cultural goods and services;
- Entrepreneurship development: increases in the number of SMEs and start-up companies;
- The emergence of creative clusters;
- Investments in certain regions because of their cultural attractiveness;

The implications mentioned above will be reflected in the rising living standards of the region where the creative sector is growing, but aspects of a better life are felt also socially due to the following effects (Creative Economy Report 2013: 129):

- Social cohesion and cultural diversity;
- Security, tolerance and openness for social interaction;
- Freedom of expression of cultural identity;
- Increases in the number of people involved in the artistic skills formation as recreational or extracurricular activity.

3. Culture – the tool for shaping the society

Nowadays, despite that terrorism, poverty, global hunger, limited resources and crime organization are the major problems that our world faces, culture cannot be forgotten. All these problems are directly related to culture, often the money – hunger being hidden behind the mask of the culture, i.e. terrorist attacks. Culture dictates various social practices within a specific group representing "the values of individuals, their own aesthetic and philosophical representations and, at a more collective level, all the ways of understanding a people's identity" (ESSnet Report, 2012: 41).

For centuries culture showed the level of civilization and the social behaviour of a society, considering its definition, culture has the same roots as the word civilization and both encompass ”sciences, beliefs, arts, morals, laws, habits and all the others skills acquired by a human as a member of a society” Tylor (Boudon, 1997:531). Society dictates all the formal and informal trends, as well, starting with the compulsory rules and ending with fashion, music, slang and daily habits. Most of them represent a social inheritance, inherited from the previous generations, as culture.
Nowadays, through culture can be seen the status of society and its social life, as well, dictating the ruling habits summed up as all the ”knowledge, attitudes and behavioural common models a society's member have and transmit” (Linton, in Boudon, 1997:532). But the economic and social power of the culture can be manifested as (UNESCO, 2009: 11-12):

- Ownership of the local community of cultural assets able to sustain local development produced by the local cultural industries;
- Gender equality due to the inclusion of young people and women, as knowledge transmitters, in the work field of the cultural sector;
- Local development through family or small businesses.

Culture is the long-term runner for development. Also culture can be seen both as cause and as effect of the economic development; as cause of the economic development – it is the source of generating employment and revenues and as effect - due to peoples' habits of spending on culture when the incomes are higher.

4. Creative economy through cultural industries

The term of *cultural industries* regards the cultural production and consumption, those industries whose main aim is to manufacture and trade products and services with symbolic or expressive role, ”which, at the time they are considered as a specific attribute, use or purpose, embody or convey cultural expressions, irrespective of the commercial value they may have” (UNESCO, 2005).
If we want to assess the value of the cultural industries, we have to know exactly what these cultural industries are and what they do. These industries encompass cultural and artistic values, are represented by cultural activities which ”include market or non-market oriented activities, with or without a commercial meaning and carried out by any kind of organisation (individuals, businesses, groups, institutions, amateurs or professionals)” (ESSnet - CULTURE European Statistical System Network on Culture – Final Report, 2012:20).
In the academic literature and not only, there are many classifications of the cultural industries, as part of the creative economy, but the common features of them regard (ESSnet - CULTURE European Statistical System Network on Culture – Final Report, 2012: 41-42):

- Creativity;
- Intellectual property: trademarks, patents, industrial designs and copyrights;
- Method of production (concerns reproducibility, the hazard of meeting demand on the market or not);
- Use value (intrinsic or symbolic value).

Mainly, the cultural industries focus on film and video, video games, music, TV and radio, books and publishing (O'Connor, 2010:58), specific activities with specific goods and services.

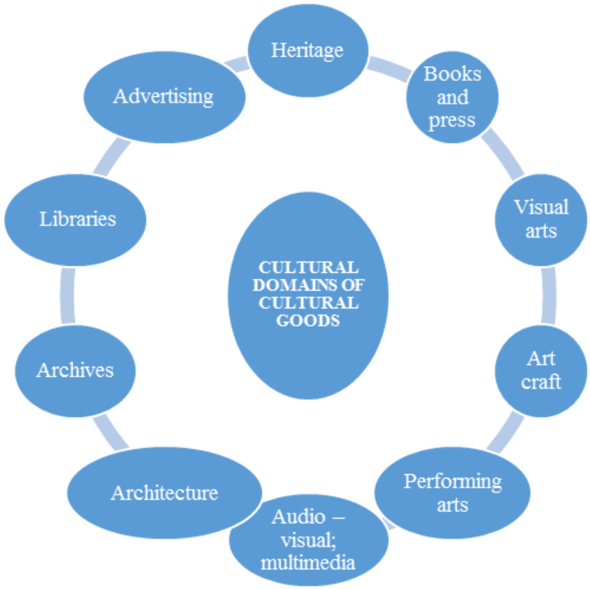

Figure 1: Cultural domains producing cultural goods
Source: realised by the author using data from http://ec.europa.eu/eurostat/cache/metadata/en/cult_trd_esms.htm accessed on 28.03.2017

A cultural domain "consists of a set of practices, activities or cultural products centred around a group of expressions recognized as artistic ones" (ESSnet - CULTURE European Statistical System Network on Culture – Final Report, 2012: 55). The up-mentioned domains are producers of cultural goods identified and ranked by the amount of artistic creation and also, by their artistic, symbolic, aesthetic and spiritual expression. The groups of cultural goods used in the statistics regard "antiques and collectors' pieces; works of art; photography; musical instruments; fabrics (tapestries, embroidery and knitted and crocheted fabrics); books; newspapers, journals and periodicals; maps; developed films and video games; recorded media; architecture plans and drawings" (EUROSTAT, online). These cultural activities of the ten cultural domains are also mapped by six different functions:

- **Creation**: regards activities related to the elaboration of artistic ideas, contents and original cultural products;
- **Production**/**Publishing**: activities, which help turn an original work into an available work;
- **Dissemination/Trade**: making available artistic creations to consumers by broadcasting, exhibitions, etc.;
- **Preservation:** protecting and conserving cultural heritage;
- **Education:** cultural education through formal and informal transferring skills activities;
- **Management**/**Regulation**: concerns the means and environments specific to the cultural activities made available by different institutions and organisations.

5. The cultural employment

The cultural employment regards all those persons with a cultural occupation, conducting creative and artistic activities included in the economic cycle as "creation, production, dissemination and trade, preservation, education, management and regulation, as well as

heritage collection and preservation" (ESSnet - CULTURE European Statistical System Network on Culture – Final Report, 2012: 144).
According to the literature of specialty, cultural employment is met in three different situations (ESSnet - CULTURE European Statistical System Network on Culture – Final Report, 2012: 141):

- Employees developing a certain cultural activity in the cultural sector, such as musicians;
- Employees conducting a certain cultural activity but in a different sector;
- Employees conducting non-cultural activities in the cultural sector.

Being employed in the cultural sector means that the tasks needed to be accomplished have a purpose of artistic expression, create, develop or preserve cultural significances or produce cultural goods and services protected by copyrights.
For a better understanding of the cultural occupations, we should consider the following table with a synthesis of the cultural classes.

Table 1: Synthesis of the cultural occupations

Cultural	**occupations**
Advertising and public relations department managers	Sociologists, anthropologists
Sport, recreation and cultural centre managers	Journalists, authors and related writers
Building and landscape architects	Translators, interpreters and other linguists
Product and garment designers	Visual arts
Town and traffic planners	Musician, singers and composers
Graphic and multimedia designers	Dancers and choreographers
Primary, secondary, vocational, university and higher education teachers	Film, stage and related directors and producers, actors
Archivists and curators	Announcers on radio, TV and other media, broadcasting and audio-visual technicians
Librarians and relation information professionals	Photographers
Interior designers and decorators	Gallery, museum and library technicians
Musical instruments makers and tuners	Jewellery and precious-metal workers
Travel guide	Potters, glass makers, cutters, grinders and finishers
Sign writers, decorative engravers and etchers	Handicraft workers in wood, basketry, textile, leather and related materials

Source: ESSnet – CULTURE European Statistical System Network on Culture – Final Report, 2012: 158

6. The cultural employment in Europe

Taking into consideration only an aspect of the development of the creative economy through the cultural activities, we shall show some figures regarding cultural employment in Europe. Some of the chosen countries have economies similar to the economy of Romania, meanwhile other countries play the role model. The analysed period of time starts with 2008 and ends in 2014.
The following table concerns the total amount of people employed in the cultural sector. As it can be noticed the most important economies of Europe have also the highest figures in cultural employment and also these countries met during the period of analysis a constant

growth. It is important to consider that these years followed the beginning of the economic crisis, and the relevant aspect is that the powerful economies bloomed in these years, whereas the developing economies of Europe decreased in this sector. The reason could be the low demand for the cultural products and services during harder times for those economies where the disposable income is much lower than in the developed economies, and as it is known the cultural products and services satisfy superior needs which are not pretty compatible with the situation of an economic crisis.

Table 2: Cultural employment in Europe (percentage)

Country / year	2008	2009	2010	2011	2012	2013	2014
EU	2.27	2.28	2.31	2.57	2.60	2.61	2.64
Bulgaria	2.32	2.24	2.04	1.89	1.92	1.89	1.93
Germany	2.46	2.50	2.61	3.08	2.93	2.89	2.89
Hungary	2.43	2.20	2.31	2.60	2.65	2.70	2.51
Ireland	2.43	2.23	2.35	2.3	2.24	2.32	2.45
Italy	2.21	2.04	2.11	2.44	2.51	2.43	2.40
Netherlands	2.99	3.04	3.25	3.44	3.54	3.71	3.71
Norway	2.75	3.00	3.08	3.5	3.72	3.64	3.36
Romania	1.21	1.11	1.01	1.05	1.15	0.97	1.11
U.K.	2.71	3.04	3.02	2.99	3.16	3,3	3.37

Source: EUROSTAT (2016)

What is interesting to notice is that these figures represent mostly people with high formal education, confirming that ”culture keeps its full unitary character: culture belongs to the upper classes” (Boudon, 1997:541) and it takes willingness to be acquired. The figure below highlights the necessity of higher education in order to perform in the cultural sector.

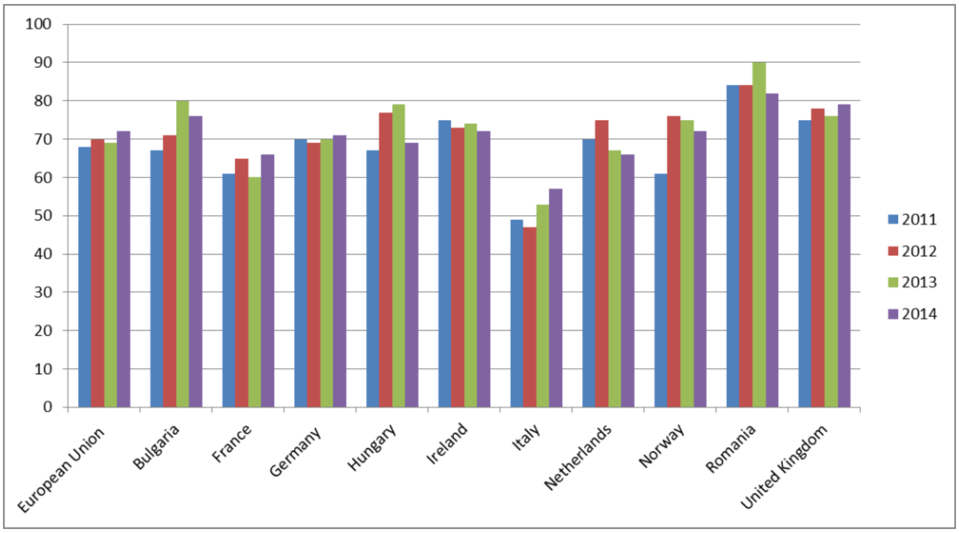

Figure 2: Individuals with high formal education employed as creative and performing artists (percentage)
Source: EUROSTAT (2016)

What is more interesting is that the highest percentages of higher education graduates belong to those European countries which have the lowest number of cultural workers. This fact could be related to the different educational systems but also could be seen as a necessity of higher education in the developing countries.

7. Conclusion

Tradition, habits and attitudes are related to cultural values through which a person belonging to a social group differs from another, whereas the identity of a group is given by its intrinsic values and a mixture of them frames the culture of group.
Culture frames the higher levels of societies and nowadays the developed economies.
Behind all these social aspects of the culture, culture through the creative economy makes some differences in economic terms, such as the employment.
As mentioned in the academic literature (ESSnet Report, 2012: 42), the activities included in the cultural sector have some particularities given by the cultural expressions, theirs roots in creation and communication through symbols and also, intellectual property rights, represent a useful way of protection for the authors of the cultural goods and services. The cultural sector employs mostly persons with creativity and artistic skills and not only, we should consider the people working in the support activities, as well.
As it was noticed, in several European countries the number of the cultural sector's employees depends on how rich is a country's economy and this also impacts the fluctuation of the cultural employment during the analysed period of time.
But culture is vast, emotional and pretty unknown, too complicated to be fully measured as economic significance.

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HERITAGE AFFECTATION CONSIDERATIONS

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Abstract*: The present work intends to analyse the institution of affected heritage in the light of the rules and regulations of the civil code and the special laws. The constitution of an affected patrimony intended for the exercise of a profession or of the operation of an enterprise, constitutes a useful tool for legal professionals and separation from the rest, marks the separation from the rest of the assets and liabilities that constitute the guarantee of the general creditors of the person undertaking the physical authorized holder or individual members of the family enterprise.*

Keywords: professional patrimony, patrimony of affection, Civil Code, professional.

JEL classification: K15, K11, K40.

1. Introduction

The notion of patrimony of affection was enshrined in Romanian civil law and before the adoption of the New Civil Code (Law nr.287/2009, The Civil Code). Thus, the special normative acts regulating the liberal professions contain provisions regarding the special destination which can be obtained from the patrimony of these persons, as an estate patrimony, goods used for the exercise of the profession and for the satisfaction of creditors whose claims were born within the exercise of the profession (Bârsan, 2013:13). For example, art. Article 64 letter h of Law no.95/14.04.2006 on healthcare reform, as amended, defines the occupational property patrimony as the totality of the property, rights and obligations of the physician affected for the purpose of exercising his profession, constituted as a distinct fraction of the physician's patrimony, separated from the general pledge of its creditors.

Based on these premises that were already in the legislation, the civil code entered into force on 01.0.2011 regulates the legal status of the affected heritage in a new vision, only at the level of a principle, having already enshrined the concept of patrimony of affection through special laws.

Under the Civil Code, all who exploit an enterprise are considered to be professionals. Exploitation of an enterprise means the systematic pursuit by one or more persons of an organized activity consisting in the production, management or disposal of goods or the provision of services, whether or not it has a lucrative purpose.

Thus, by a professional is meant both the legal person carrying out activities of the type mentioned above and the natural person classified into the following categories:

a) entrepreneur, trader or economic operator, a person carrying out an activity authorized by law - these persons are registered in the Trade Register and their activity is regulated by O.U.G. no.44 (2008) on the carrying out of economic activities by authorized natural persons, individual enterprises and family enterprises;

b) the person who independently carries out a liberal profession authorized by law, a profession which has its own regulation in a special law. This category includes persons carrying out professions such as notaries, lawyers, bailiffs, financial auditors, architects,

physicians, insolvency practitioners, accountants, etc., who carry out their profession either independently or in the careers, but in both cases legal personality.
A person may carry out an economic activity as the holder of an authorized individual under O.U.G. no.44 (2008) on the carrying out of economic activities by authorized natural persons, individual enterprises and family enterprises (Cărpenaru, 2012:38). According to this ordinance, the subjects of law under it have a property patrimony consisting of the totality of the goods, rights and obligations, affected by the purpose of exercising an economic capacity which are intended, constituted as a distinct fraction of the natural person's authorized patrimony, of the holder of the individual enterprise members of the family business.
According to art. 31 Civil Code (2009), any natural or legal person is the owner of a patrimony that includes all the rights and liabilities that can be valued in money and belong to it. Therefore, the natural or legal person has only one patrimony, regardless of whether it is the subject of a division or an affair (Stoica V., 2013: 14).

2. The legal regime of the patrimony of affection

The patrimony of affection is not an original patrimony, but a patrimony created by the general patrimony, by the will of its owner, in cases authorized by law. It results thus, that the general patrimony is the creation of the law, while patrimonial affection is the creation of the owner of the general patrimony (Tuleașcă, 2017). Starting from this idea, the doctrine expressed the opinion that the patrimony of affection is not an attribute of personality, because a person can decide whether or not to constitute a patrimony of affection.
The patrimony of affection, as a fraction of universality, is a juridical universality which contains rights and obligations linked to the purpose of their affection, created by the exclusive will of the owner of the general patrimony and recognized by the law.
The entrepreneur has a general patrimony in which one or more distinct patrimonial masses can be formed, termed patriots of affection, for the purpose of achieving a certain purpose. In this situation, the general heritage (gender concept) is divided into patrimony of affection and personal patrimony (species), both of which are included in the general patrimony of the entrepreneur. The establishment of the patrimonial mass necessary for the defrauding of the entrepreneur's activity shall be established by the act concluded by the holder, in compliance with the conditions of form and publicity stipulated by the law. Subsequent to the creation of this patrimony of affection, it is possible to increase or decrease it, which can also take place through a unilateral legal act. A single restriction is foreseen in the same situation, namely not to prejudice the rights of creditors on each patrimonial estate.
The general rule is that creditors whose debts were born in connection with a particular patrimony division authorized by law must first pursue the property which is the subject of such property, and if they are not sufficient to satisfy the claim they will could track the other assets of the debtor. The rule applies to the persons listed in letter a above.
By way of exception, persons who carry out independently a liberal profession authorized by law (the letter b) will be limited in the sense that the assets belonging to the patrimonial property will be traced only to the creditors whose debts were born in relation to that profession. These creditors will not be able to track the other assets of the debtor even when their claim is not covered by the execution of the assets that are part of this patrimonial mass (Șchiau, Ionaș-Sălăgean, 2016:17).
Thus, the personal creditors of a professional whose claim was not born in connection with the expulsion of his undertaking or in connection with the pursuit of the profession authorized will not be able to pursue, in order to satisfy his claim, those goods which are included in the patrimony of affection. This principle is enshrined in art.2324 paragraph 4 of the Civil Code regarding the situation of the authorized professionals who constitute their patrimony. If the professional is not a property patrimony, goods affected by the exercise of the profession or

occupation of the individual debtor may be subject to enforced prosecution only if there are no traceable assets, and only for maintenance obligations or other privileged claims on movable property.

3. National Register of Patrimonial Masses (RNPMP)

At the level of the National Union of Notaries Public, the National Register of Patrimonial Matters for the Occupation of the Occupation (RNPMP) was set up relatively recently. The administration of this Register belongs to the National Center for the Administration of Notarial National Records- Infonot (CNARNN-INFONOT). This register has the object of opposing third parties in establishing the patrimony of affection.
Thus, the acts by which professionals constitute their patrimony, as well as those by which changes are made either in the sense of enlargement or in the sense of diminution, shall be entered in this register.
If the professional started his activity after the new Civil Code entered into force, it is obligatory to draw up the constitutive act of the patrimony of affection. It is possible, however, to enrol in this register and the professional who started his activity before the entry into force of the Civil Code.
In conclusion, any person who carries out an authorized profession, individually or in association, will be able to request, at any time of the start of the activity, the registration in the RNPMP. The act by which the patrimony is constituted or modified will be a pre-constituted means of proof, to which any subsequent action against the professional may be reported. As a result, its creditors will not be directed to other assets belonging to them, but are not included in this table.
Instead, if the occupational patrimony does not appear high, creditors will be able to claim that it includes all the assets belonging to the debtor. The following documents are required to enter the RNPMP:
- evidence of the exercise of the profession, individually or in the association;
- the attestation that the professional appears in the records of the professional body to which he belongs;
- the constitutive act, the amendment act or at least an inventory where the asset and liability items are highlighted.

The act of incorporation of the patrimony of affection can take the form of the document under private signature, not being the authentic form for enrolment in the RNMPP.

4. The transfer of ownership of an asset in the affected heritage assets

The transfer of the property right over a property in the patrimonial mass affected by the patrimony does not constitute an alienation (according to art. 32 of the Civil Code) as it will not leave the natural person's patrimony but will pass from one patrimony to another.
The authorized individual, the individual enterprise or the family enterprise do not have legal personality within the meaning of the Civil Code. In this regulatory context, the authorized person is a form of economic activity organized under the law by a natural person who can not be part of a sale-purchase contract.

5. Conclusion

In conclusion, if the authorized person purchases a real estate, for example, and the price of the property is paid out of the natural person's property, a party to the sale-purchase contract will be the natural person and the notary will make a mention in the contract sale-purchase that the asset is part of the physical patrimony of the individual.

Regarding the registration in the land book, it is ordered the registration of the property right in favor of the natural person, together with the marking of the property belonging to the patrimony of affection related to the exercise of an authorized profession - authorized individual/individual enterprise/family enterprise, under art.33 par.1 Civil Code (The National Union of Notaries Public from Romania 2017, p.156). In this regard, we mention the provisions of Article 171 point 4 of Order 700 (2014) regarding the approval of the Regulation for the approval, reception and registration in the cadastre and land registry documents issued by the National Agency for Cadastre and Real Estate Advertising, according to which the transfer of a real estate right from a patrimony to a patrimonial mass belonging to authorized natural persons, to individual enterprises, family enterprises or other similar entities without legal personality, shall be made in the table for the titular physical person and shall mention the membership in this mass heritage.

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