



THE 11TH EDITION OF THE INTERNATIONAL CONFERENCE
**EUROPEAN INTEGRATION
REALITIES AND PERSPECTIVES**

Social Innovation and Social Economy

**Interactive Environments: Opportunities for Social
Innovation and Public Health Initiatives**

Predrag K. Nikolic¹

Abstract: How to keep people in a “good health”, longer and healthier life is more than just a phrase listed in a sustainable strategies it became crucial issue for any future social innovation initiative and community needs. New technologies and its application in everyday living surrounding are affecting a way we are interacting between each other and with services around us. As a result, we are facing huge psychological and cultural shift in human behavior and raising of new social practices. We are in need of using new approaches and models in order to provoke human behavior change which is more than ever depending on content and context users can reach in interactive environments they are approaching through their devices or in a physical space. New powerful playground for social innovations is born.

Keywords: Sustainability; Social Innovation; Well-being; Design for Health Behavior Change; Interactive Environments; Multimodal Storytelling; Digital Technology; Sustainable Development

1. Introduction

This paper refers to certain aspects of the EU Sustainable Development Strategy, supported projects and design potentials for social innovation within health care system and how to keep people in a “good health”, longer and healthier life. We are facing fast growing technological and social transformations which have induced distinction between newly developed structures, social needs and institutions. New human behavioral practices, supported with new technology and usage of various media in everyday routine, are forcing institutions to be more open to them. As a result, recent innovation tendencies are more oriented toward self-management of diseases and public health than to hospitals or more around active ageing than around pension provision. Significant attention in that process has been given to new technologies and its capacity to be easily adopted in development of desired social needs and effective services delivery. Examples include use of assistive devices for the elderly, mLearning and eLearning applications, applications and diagnostic tools for self-care, smart living environments which could increase quality of everyday life, etc. Also, very important issue in that context is to provide people with the solutions to ‘co-design’, work together to develop solutions such as online platforms where clinician and patients are connected and mutually engaged in further service development. Hence, in order to fulfill users’ need for participation and interaction between each other and stakeholders, series of methods and approaches (supported with the new technology) were used within the public sector to re-design services. We could say that health represents major

¹ Associate Professor, PhD, EDUCONS University, Serbia, Address: Vojvode Putnika 87, 21208 Sremska Kamenica, Serbia, Tel.: +381214893 604, +38121 4893 624, Corresponding author: predrag.nikolic@educons.edu.rs.

sector of the economy and as such the fastest growing in the same time. Recently, public health type of services tends to be more community-based and deploy social networks. (Murray, Caulier-Grice & Mulgan, 2010). Much of an innovation comes from the creative blending of ideas from multiple sources. For example, bringing together diagnostic computer programmes, call centers and nurses to provide new kinds of healthcare. (Murray, Caulier-Grice & Mulgan, 2010).

The tools of innovation are still under development but clearly showing needs for a mix of different elements and ideas. For example, innovators combining the funding methods used for science and venture capital with those from tendering and grant giving. Others are combining ethnography, visualization techniques from product design, user involvement ideas from social movements, and commissioning methods from the public sector. (Murray, Caulier-Grice & Mulgan, 2010)

In this paper through listed examples and responsive interactive environment experiment author has intention to widen creative mix of ideas and interactive media technologies space toward innovative solutions which will meet social needs and establish new social relationships or collaborations. More than ever design approaches are focusing on human engagement which could achieve social and public well-being. These are becoming significant for the sustainable development and as such framed within the context of social innovation. (Manzini, 2009; Emilson, Seravalli, & Hillgren, 2011).

The result of such processes and applied models could be new services just like any innovation [4](Murray, Caulier-Grice & Mulgan, 2010), but could also be an idea or social movement which affects lasting human behavior change (Bjögvinsson, Ehn, & Hillgren, 2012).¹ Use of Design for Behavior Change approach to change society and enhance society's possibilities to act upon rising public health issues in the EU and worldwide is what this paper proposes. By collecting many methods together we believe that processes of creative recombination and experimentation toward sustainable social innovations will become more efficient and human-centered.

2. Background

Nowadays social innovation has been highly positioned on every political agenda (Haxeltine, Wittmayer, Avelino, Kemp, Weaver, Backhaus & O'Riordan, 2013)², as it carries a great potentials to respond to the multiple social, economic and environmental crises that are faced by societies all over the world. In Europe, it is clear that public sector has difficulties to work on solutions for existing crises such as budget cuts, unemployment, ageing, migration, climate change etc. Business are not interested to get involved as they do not see profitability through their engagement toward solutions development for those issues. As such, civil society and individual citizens are persuaded to react and to seek new ways through social innovation and hybrid organizations or a multitude of attempts across sectors as social innovation are both good for society and enhance society's capacity to act and can emerge from any sector (TEPSIE, 2014). Essential requirement for social innovations are to engage with a social problem in a way that is "more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals" (Phills, Deiglmeier, & Miller, 2008). More explicitly, as Phills et al. (Phills, Deiglmeier, & Miller, 2008) put it, a social innovation can appear as a product, production process, or technology, but also a principle, an idea, a piece of legislation, a social movement, an intervention, or some

¹ Design Council: What's Dott? [online]. <http://www.dottcornwall.com/aboutdott/whats-dott> (2010), [accessed 27 October 2011].

² BEPA (2014). *Social Innovation. A Decade of Changes. A BEPA report. Bureau of European Policy Advisors*. Available at: http://espas.eu/orbis/sites/default/files/generated/document/en/social_innovation_decade_of_changes.pdf.

combination of them. It is very important to understand that social innovations are socially and politically constructed, and are, therefore, not value neutral (Caulier-Grice, Davies, Patrick, & Norman, 2012). It has capabilities to respond to ongoing social demands by means that affect the process of social interactions, and it is very concerned with wellbeing (Caulier-Grice, Davies, Patrick, & Norman, 2012).¹, suggesting a number of common features and core elements of social innovation, which can be visualized in the following (Fig. 1).



Figure 1. Core elements and common features of social innovation

Source: (Caulier-Grice et al., 2012)

Over the last decades many policies and actions have been done with idea to affect gradually health and health systems across Europe. The recent EU renewed social agenda recognizes health as a key issues for a well-being of the EU citizens in the 21st century. The EU's economy strategy as well as Sustainable Development Strategy clearly underline the importance of health issues within challenges in the sustainable development and growth in the EU in the upcoming years². During the period 2007-2013 more than €5 billion have been allocated for investment in health projects in particular to improve health infrastructure and services and to train professionals throughout the EU³. "Together for health"⁴ the EU health strategy supports Europe 2020 strategy which has intention to transform the European Union into sustainable society which will has continues economic growth embedded into ecological living environment and population in good health. According to those strategic tendencies the third EU health programme has started in 2014 and will last till 2020⁵. The programme has 4 overarching objectives. It seeks to: promote health, prevent diseases and foster supportive environments for healthy lifestyles taking into account the 'health in all policies' principle, protect Union citizens from serious cross-border health threats, contribute to innovative, efficient and sustainable health systems, facilitate access to better and safer healthcare for Union citizens. From other side it is clear that the health demands of the 21st century are different than those from 20th

¹ BEPA (2010). *Empowering people, driving change: Social innovation in the European Union*. Bureau of European Policy Advisors. Available at: http://ec.europa.eu/ewsi/UDRW/images/items/doc1_17731_35611801.pdf.

² <http://ec.europa.eu/environment/eussd/>.

³ http://ec.europa.eu/health/health_policies/health_in_eu_initiatives/index_en.htm.

⁴ http://ec.europa.eu/health/strategy/policy/index_en.htm.

⁵ http://ec.europa.eu/health/programme/policy/2014-2020/index_en.htm.

century and require different approaches to healthcare and construction of new services.¹ Hence, need for new models and new technologies which will successfully connect healthcare provided by the state with needs and initiative done by communities became a crucial tendency to consider within social innovation landscape. For that purpose we also need to empower patients to become more than passive recipients of care and help them to look after themselves which requires huge cultural shift too.

Digital technology could play significant role in this transformations within health sector as it is widely used in all aspects of our lives such as finding and sharing information, assisting in taking actions, educating, helping us in interaction with each other as well as using all sorts of services which we consider very important for our everyday routine. From that perspective people can use infrastructure of the existing interactive environment ecosystem to do more for themselves as professionals are no longer the only gateway to access to health information and support. For example, technology can support the patient doctor relationship such as in Buddy APP where it's possible to put together therapists and patients in joint efforts to reinforce positive behavior by detecting and mapping reasons and triggers for negative mood². The similar example of patient-doctor relationship establishment by using interactive technology is Doctor Mole, application which can help people assess the risk profile of a mole and generates automatic reminders³. The important benefit of using new technology is that it can help people identify and deal with problems in early stages, ultimately leading to less reactive and expensive treatments. The digital platform WebGP combines diagnostic tools that patients can use online to determine their health state and then, if they want, to require online consultancy before they decided to see a doctor⁴. Doc Ready is an application that helps young people with mental illness understand their condition and get the most out of their appointments with clinicians through simple preparation tools⁵. The HP Digital Hospital fully embodies the potential for technology to improve outcomes, and save money all while doing more. HP's digital hospital is a fully integrated, patient-centric information infrastructure which allows the sharing of data between doctors, nurses, patients and their loved ones⁶.

The interactive space of social media and online social interactions has been used to co-ordinate support within specialized social networking sites such as Tyze, which helps vulnerable people to connect with networks of formal and informal care⁷. It helps caregivers, professionals, friends and family to remain informed and manage their separate but related care responsibilities. Significance of social aspects are also very important to consider as part of the various gadgets and application development, promoting fitness and wellbeing by controlling physical activities and food consumption. Online interactions between individual and groups, over the various apps and platforms developed for that purpose, appear to be powerful and effective motivation for people to exercise, co-ordinate and change their lifestyle habits. As results, online health trainers became a new phenomenon where people are in position to offer services and support community in public health initiatives and

¹ Wilson, Sarah & Langford, Katharine. 10 ideas for 21st century healthcare. Available at: <http://www.innovationunit.org/sites/default/files/DIGITAL%20VERSION%20final%20.pdf>.

² Wilson, Sarah & Langford, Katharine. 10 ideas for 21st century healthcare. Available at: <http://www.innovationunit.org/sites/default/files/DIGITAL%20VERSION%20final%20.pdf>.

³ Wilson, Sarah & Langford, Katharine. 10 ideas for 21st century healthcare. Available at: <http://www.innovationunit.org/sites/default/files/DIGITAL%20VERSION%20final%20.pdf>.

⁴ Wilson, Sarah & Langford, Katharine. 10 ideas for 21st century healthcare. Available at: <http://www.innovationunit.org/sites/default/files/DIGITAL%20VERSION%20final%20.pdf>.

⁵ Wilson, Sarah & Langford, Katharine. 10 ideas for 21st century healthcare. Available at: <http://www.innovationunit.org/sites/default/files/DIGITAL%20VERSION%20final%20.pdf>.

⁶ Wilson, Sarah & Langford, Katharine. 10 ideas for 21st century healthcare. Available at: <http://www.innovationunit.org/sites/default/files/DIGITAL%20VERSION%20final%20.pdf>.

⁷ Wilson, Sarah & Langford, Katharine. 10 ideas for 21st century healthcare. Available at: <http://www.innovationunit.org/sites/default/files/DIGITAL%20VERSION%20final%20.pdf>.

wellbeing.

Beside mentioned user assistance and social aspects, interactive environment space allow us to play around with gamification in healthcare. The number of pilot projects and development companies who are willing to act in that direction are increasing during last few years but still it is not clear what kind of benefits for patient health behavior change this approach could really obtain. The main future obstacle could be entertaining aspect as patients are still considering their health and wellness through consumer mentality. Interesting projects which could be selected within interactive gaming environments are the Pact mobile app where players are exposed to a risk of losing money if they don't follow through on their commitment to exercise¹. Players are obligated to set up their personal goals to eat right and exercise several times each week. Also, they must define a financial amount that they are willing to lose if they don't follow through on their promise. Dedicated players who exercise are in a position to get paid by those who don't keep their "pact," creating an online community where some users are paying others. It is obvious that The Pact application concept applied to improving health has some parallels to online gambling. However, gamification concepts and principles could be important factor in successful usage of digital technologies and interactive environments with the social innovation processes and health behavior change as people are naturally competitive and like to compare themselves to others. For example, games such as Patient Partner tries to help patients to improve their medication adherence, they are entering virtual space and learning about the various clinical outcomes that may result if they fail to adequately manage their health conditions².

Monster Manor is oriented toward young children with diabetes and tend to engage them to take their insulin and be entertained while they are doing it³. The Pain Squad iPhone app is conceptualized to help children dealing with cancer track their symptoms so their clinical care team can help them to manage their pain⁴. Through these examples we could say that gamification principles have been implemented into interactive virtual environment has a great potential to help users to improve their health by increasing their engagement and motivation to receive ongoing feedback, reminders and status updates about their progress in caring for their own health.

The presented examples demonstrate a possibilities for social innovation and health behavior change thanks to new technology and type of interactions capable to achieve in that context. Thank to technology we are connected with communities and available services around us like never before. It is easy to access the information and connect with people with common illness and professional in order to manage personal health without leaving home. Within such interactive (constantly approachable) health care ecosystem. Everybody from clinicians to people on the street are involve in public health initiatives and has opportunity to participate in social innovation processes with focus on providing health and wellbeing for themselves and people around them. If we start using most of the interactive digital resources for the purpose of education, improving engagement with the patients, self-care and change of lifestyle the future of health services could be directed toward providing more time for clinicians, more preventive care and less damage control.

¹ Kim, Joseph. Gamification in healthcare isn't just about playing games, Available at: <http://searchhealthit.techtarget.com/opinion/Gamification-in-healthcare-isnt-just-about-playing-games>.

² Kim, Joseph. Gamification in healthcare isn't just about playing games, Available at: <http://searchhealthit.techtarget.com/opinion/Gamification-in-healthcare-isnt-just-about-playing-games>.

³ Kim, Joseph. Gamification in healthcare isn't just about playing games, Available at: <http://searchhealthit.techtarget.com/opinion/Gamification-in-healthcare-isnt-just-about-playing-games>.

⁴ Kim, Joseph. Gamification in healthcare isn't just about playing games, Available at: <http://searchhealthit.techtarget.com/opinion/Gamification-in-healthcare-isnt-just-about-playing-games>.

3. Responsive Interactive Environment for Health Behavior Change

The interactive installation *InnerBody* plays with human fears which are eternal. They do not know for any limits, and they persist in humans since birth until the end of life. The strongest primordial fears obsessing the human mind are the fear of death and illness. These fears do not weaken over years, but help us survive and prevent us from making reckless decisions. The fear of death reminds us of how short life is and that we should spend it in a meaningful way, surrounded by our loved ones, doing things that fulfill us. By provoking such emotions, the installation conceptual idea has been to remind us on physiological body existence, which runs all our life processes and should be “maintained”, the same way we are taking care about our spiritual or physical body. Furthermore, through the induced awareness and feelings by using multimodal storytelling, metaphors and aesthetical environment to affect user actions toward changes of health habits and prevention of illness.

The installation was exposed in 2014, at the medieval Belgrade fort in the part which was used to be a gun storage. The entrance of the installation looked like improvised field ambulance from the middle ages with hanging white sheets, MRI scans and monitor showing video recorder from the MRI examination author has done on himself for the purpose of the installation. The video from the author’s MRI examination with all dramatic expressions which were readable on his face and intensive MRI scanner sound (which is in the background of the installation throughout all the time) were important parts of the installation and narration behind it (Figure 1.).

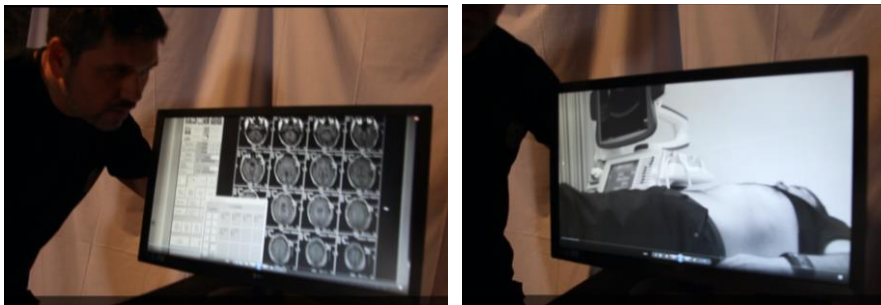


Figure 1. Video which shows author’s MRI examination.

After passing by the monitor and white sheets on the entrance the user enters the main space of the installation. The space consist of projected messages on the wall and the installation interface as main interaction point between visitors and the installation’s triggered outputs (Fig. 2.).



Figure 2. The Inner Body Heart Interface, the output occurs when user grabs it.

The installation interface is stylized model of a human heart and cardio-vascular system as input device, and the output device is wall projection. Users had to touch and grab by their hand the heart sculpture placed on the tube which was filed with the blood in same volume as in average adult body (Fig. 3.). The system reacted to human touch and triggered audio-visual respond to the user. The interaction concept was based on simulated medical examination as the system made feedback on user

gesture of grabbing the heart interface. The *InnerBody* interface manipulated with a human heart as a symbolic representation of vitality, beginning and ending, living and dying, health and sickness¹.



Figure 3. The Inner Body model of a human heart and cardio-vascular system interface

With the intensive tactile gesture performed on the model of a human heart, together with the additional colors, shapes and objects which were part of the interface, the idea was to achieve experience which will lead to desired health behavioral change. Hence, to provoke such fast and radical immersion of the users, as mentioned, we paid a lot of attention to environment where interactions were happening. So, beside white sheets, we used smell characteristic for the hospitals, played MRI scan sound and loud beats of the heart during the fake examination². People were frightened no matter they knew it was not real and that all was a part of directed performance. All of them understood the metaphors and the communication between them and the system was clear and easily understandable. What we used in this case to provoke desirable effects were deeply inherited fears in our consciousness we react on subconsciously.

The video which is recorder at the author's MRI exam represents audio-visual testimony of the traumatic experience author passed during the process of the installation design (Fig. 4.). The sound used is the one generate by MRI tube during scanning. In reality we are usually afraid of such exams as it could reveal unexpected body conditions, we had a change to prevent in case of different health related behavior and physiological body treatment (which is in focus of the installation and its narrative).



Figure 4. Video which start installation narrative and shows author's personal drama

The Inner Body heart interface invoked metaphors based on shapes and forms recognition, and on correlation with our physiological and cognitive perception of the used object. Important role in case of the heart interface was given to the ambient in which the interaction was happening, together with multimodal perception and embedded metaphors which empowered user experience significantly.

¹ Kim, Joseph. Gamification in healthcare isn't just about playing games, Available at: <http://searchhealthit.techtarget.com/opinion/Gamification-in-healthcare-isnt-just-about-playing-games>.

² Kim, Joseph. Gamification in healthcare isn't just about playing games, Available at: <http://searchhealthit.techtarget.com/opinion/Gamification-in-healthcare-isnt-just-about-playing-games>.

Upon this aesthetical foundation, the interactive installation *Inner Body* tended to induce, through interaction with the heart interface and virtual outputs projected on the wall, fear of dead and sickness. On a subconscious level the ideas of mortality and focusing on real life values (health and wellbeing) were tried to be communicated with the users ¹ (Fig.5.).



Figure 5. The Inner Body human heart interface placed in front of the wall projection

After entering the central space of the installation user/visitor has been textually introduced to the nature of a so called *Preventive Diagnosis by an Infrared Scanner* and instructed how to begin with the exam (Fig. 6.).

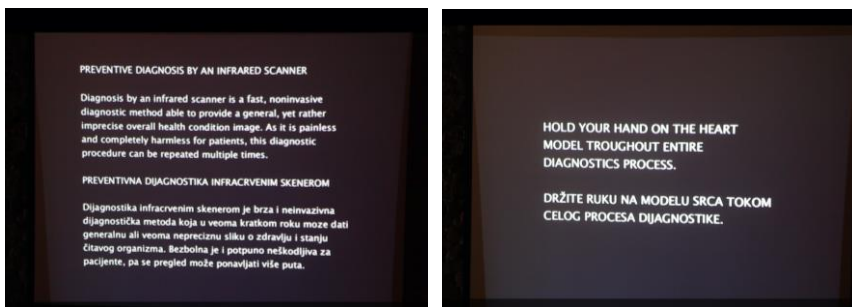


Figure 6. Text messages representing introduction to (fake) medical exam and instructions.

After grabbing the heart interface and starting exam, user has been guided through audio-visual narrative experience of fake medical exam just entered. The most dramatic moment, which supposed to heavily reflect on user experience and to trigger desired health behavioral change, has been when user start to get alerts from the system about potential found anomalies followed with the strong sound of heart beats and visual representation of a heartbeat monitor (Fig. 7.). Even the modulation of a heartbeats sound and presented body conditions are carefully directed by the author and revealed as fake in the finally projected text message, multimodal storytelling approach provided authentic reactions of the users who attributed artificial audio-visual information to their own body and health condition. The last projected message has also important persuasive role as it tries to educate us about importance of life and fearless care of our *Innerbody* (subconsciously our health condition). This reflections on user experience within the installation and afterward health considered behavioral changes were analyzed as potential opportunities of using responsive interactive environments and multimodal storytelling in a communities and living surroundings as a trigger for social innovation, health behavior change and well-being.

¹Kim, Joseph. Gamification in healthcare isn't just about playing games, Available at: <http://searchhealthit.techtarget.com/opinion/Gamification-in-healthcare-isnt-just-about-playing-games>.

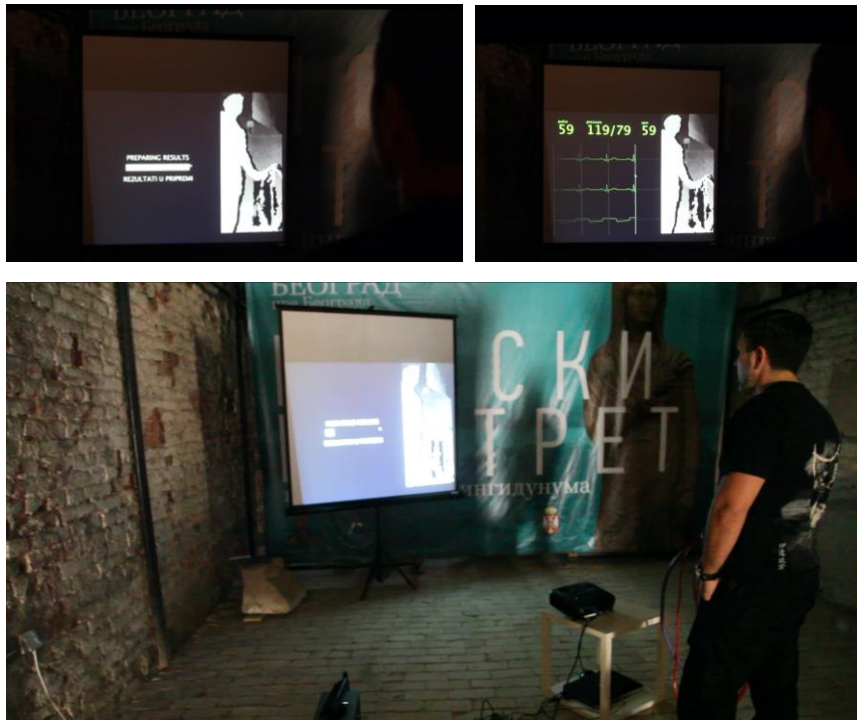


Figure 7. Animation with different phases of the exam and alerts on found anomalies.

The data in the experiment were collected from the following sources:

- Personal observation – the data was collected on the spot, while the users were interacting with the installation, before entering, and after leaving the installation; and
- User interview – this method was conducted after users' interaction with the installation.

Two groups of users participated in the *InnerBody* interface. The first group consisted of participants who were introduced to the installation narrative prior entering it. They were told about the idea, the purpose, and they knew what to expect. The second group included the participants who did not know anything about the purpose and the functioning of the installation prior entering and, hence, did not know what to expect as an outcome. Total number of 32 participants were personally observed while interacting with the installation – 6 of them were told about the purpose of the installation, while 26 were not. The participants understood the metaphors used in the installation, since the communication between them and the system was clear, easily understandable, and interactive. However, the interactive environment was so powerful and influencing, especially in a way of attacking human senses, that it created substantial amount of fear and managed to change the behaviour of the participants who had been introduced with the installation narrative in the first place. We actually used deeply inherited fears in our consciousness we react on subconsciously, in order to provoke desirable effects. We concluded that despite the fact our participants had been absolutely aware that it was fake examination, they started being afraid of their deepest fears. Based on that, we found interactive media art and multimodal storytelling as potential environments for design of health behaviour change.

4. Conclusion and Future Directions

Digital technology and various interactive environments could become crucial factors in future EU Health Programme fulfillment of the 4 overarching objectives. Especially we should follow its contribution to innovative, efficient and sustainable health systems where people would be able to do more for themselves because the professionals will not anymore act as the only gateway to access to health information and support. In that context we could conceptualize social innovations on new models and new technologies capable of connecting individuals and community health initiatives with health care provided by the state. Crucial behavior change in that sense would be to transform people from passive recipients of care to active participants in “good health” not only for themselves but also for the people around. For that we would need not only technological but also cultural and mental shift which could be supported by enriching living surrounding with responsive interactive environments capable of education us, triggering our emotions and health prevention, such as InnerBody example.

Through listed examples author of this paper tends to present variety of options for social innovations in health sector new service development and wellbeing. Focus is on type of the interactions supported with the solutions (social, online tools, online assistance, interactions with physical space) and different approaches to achieve user engagement (gamification, multisensory storytelling, networking and content distribution). Future use of those technologies, methods and approaches and directions how to adjust them to human social needs in order to provide more preventive care toward healthier communities and wellbeing could become leading factor in social innovation within the EU health care system.

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How Crowdfunding Works in Romania?

Mădălina Bălău¹

Abstract: Crowdfunding is increasingly becoming a good solution for entrepreneurial ventures to obtain funds, being facilitated by internet and social networks, and it is also spreading in Romania as well. The current paper aims to explore this alternative for financing in Romania in order to understand better its evolution until now, whether if it is viewed as suitable for business as well, and to compare the advices offered for entrepreneurs in Romania versus those on famous crowdfunding sites such as Kickstarter and Indiegogo. In order to achieve this we explored websites offering crowdfunding in Romania and the information they offer entrepreneurs, we identified the types of most successful campaigns and we compared advices offered to those existing on international websites, renowned for their success. The marketing strategy and the planning of the campaign seem to be essential for its success and this paper highlights in its conclusion some lessons Romanian entrepreneurs could learn from international crowdfunding campaigns and the growing scientific literature available on this subject.

Keywords: Crowdfunding; social networks; marketing and business plan.

JEL Classification: M13

1. Introduction

Crowdfunding represents a unique category of fundraising, facilitated by the Internet, but since this field is just emerging it can be found in a state of evolutionary flux. Thus, crowdfunding is “an open call for the provision of financial resources in form of donation or in exchange for some form of reward” (Schwienbacher & Larralde, 2010) but it can also refer to peer-to-peer lending (Lin & Viswanathan, 2013) and fundraising initiated by fans of a music group (Burkett, 2011). Crowdfunding refers to the efforts made by entrepreneurs or groups of individuals who want to fund their start-ups, by collecting relatively small contributions from a relatively large number of individuals using the internet, avoiding the usual financial intermediaries.

In Romania, crowdfunding is at its beginning, so the aim of the paper is to find an answer to several questions related to this kind of solution for obtaining funds: (1) What types of projects are successful in crowdfunding in Romania? (2) What advices are offered to entrepreneurs for a successful crowdfunding campaign on each website? (3) Is there a focus on the business perspective in the initiatives or is the not-for-profit perspective prevailing? (4) What are the recommendations for entrepreneurial ventures offered by international crowdfunding websites and what additional recommendations are offered?

¹Senior Lecturer, PhD, Department of Economics, Danubius University of Galati, Romania, Address: 3 Galati Blvd., Galati 800654, Romania, Tel.: +40372361102, Corresponding author: madalina.balau@univ-danubius.ro.

In order to provide answers to these questions we identified several Romanian platforms dedicated to crowdfunding. We decided to choose those with most numerous projects available, which lead us to a study of four websites, among which three are located in Bucharest and one in Baia Mare.

The sections of the paper will initially highlight some essential ideas and perspectives on crowdfunding, identifies in the literature on the subject. The third section will present the comparison between websites, highlighting the solutions offered to entrepreneurs. The conclusions emphasize the managerial implications of crowdfunding and lessons to be learnt by comparing crowdfunding in Romania and what's happening at international level, in order to increase the quality of crowdfunding projects in Romania.

2. Essentials about Crowdfunding

Crowdfunding is a new tool available to entrepreneurs as well as to representatives of non-governmental organizations that aim mostly for charitable causes. The essential part in a crowdfunding initiative is that it should be structured as a project which calls for participants – funders – outside the traditional financial intermediaries for business, such as the financial and credit institutions. The variety of crowdfunding projects is immense, ranging from small artistic projects to entrepreneurs wishing to develop innovative products of hundreds of thousands of dollars (Mollick, 2014; Schwienbacher & Larralde, 2010). Crowdfunding is in a way related to concepts such as micro-finance (Morduch, 1999) and crowdsourcing (Poetz & Schreier, 2012), but it stands as a separate category for financing an initiative. Its popularity grew as the number of websites dedicated to this aim has grown in recent years (Mollick, 2014).

Online platforms designed for crowdfunding are becoming intermediaries individuals or organizations that launch an innovative project (founders of the initiative) and those who decide de fund that project, the backers. There are several crowdfunding platforms available, some of which are exclusively dedicated to not-for-profit initiatives (Agrawal, Catalini, & Goldfarb, 2010), but most popular have sections dedicated to product development and business start-ups.

One important issue, specific to crowdfunding is that the main goal of backers in crowdfunding is not that of obtaining profit. Usually, funders on crowdfunding platforms are rewarded with the direct output presented by the campaign, depending on the amount of contribution offered by the backer. An important factor that influences the choice of the backer to support the cause is the exclusiveness of the product given as a reward, especially since it will be offered to the market only after being provided to the backers and usually, it reaches the market at a higher price.

The context and the nature of the crowdfunding project influences the relationship between project initiators and funders (Belleflamme, Lambert, & Schwienbacher, 2012), allowing the backers to achieve different types of goals, sometimes even several goals simultaneously. In the case of art or humanitarian projects, the backers follow a philanthropic goal, as in the lending model, funders might be interested in the rate of return on capital. Finally in micro-financed loans, lenders might want to promote a social good. Yet, the most frequent goal in crowdfunding is the reward obtained.

3. Comparing Crowdfunding Policies of Dedicated Websites

In order to answer the research questions we studied five crowdfunding websites in Romania (crestemidei.ro, wearehere.ro, sprijina.ro, multifinantare.ro, potsieu.ro), among which four were based

in Bucharest and one in Baia Mare. We also analyzed the advices offered for starting a campaign in two renowned international crowdfunding websites (kickstarter.com and indiegogo.com) in order to identify differences in advices offered to Romanian entrepreneurs. We suspect that the existence of such differences might be linked with the degree of success in crowdfunding campaigns, but this study is mainly an exploratory one, aiming to identify first features of crowdfunding in Romania, for further testing in future studies.

Three of the Romanian websites were more active, while two of them proposed initiatives rather old for the moment of this study. We conducted this research in March 2016, and at this time there was the following situation of successful projects (funded) reported on the websites.

At a first glance, after analysing Table 1, the crowdfunding activity seems to differ quite much from one website to another, but also we notice that the current active campaigns are rather few, with a maximum of 8 active projects. Concerning the successful projects until now, in three websites we found around 30 projects successfully funded, while two websites seemed less active. Usually, the number of unsuccessful projects is almost comparable with those successful, except for one case. Multifinantare.ro seems to be quite a special website, since only 6 projects were successful and 49 unsuccessful. When analysing the average funded sum and compare it with what are current projects aiming at, for some websites we find some persistence, as in the care of wearehere.ro, or increases in the objective (compared with the past). Two special cases deserve being mentioned, first there is the care of multifinantare.ro where projects demand very diverse amounts of funding and very few are successful, and secondly, sprijina.ro who finances all projects, even those that didn't reach their target, and the pressure on setting an achievable objective is lower (in spite of their affirmation on website that they encourage realistic objectives).

Table 1. Funded projects in Romania

	Potsieu.ro	Crestemidei.ro	Multifinantare.ro	Wearehere.ro	Sprijina.ro
Successful projects (funded)	4 projects	31 projects	6 projects	31 projects	30 projects ¹
Unsuccessful projects	6 projects	31 projects	49 projects	38 projects	42 projects
Current active projects	0 projects	6 projects	1 project	2 projects	8 projects
Average funded sum in successful projects	6668,25 lei	9038,19 lei	Not relevant ²	1672,13 euro	36080,43 lei
Amount (average) aimed by current projects	Not the case	19071,33 lei	500000 lei	1500 euro	111824,33 lei ³

In order to understand what categories of projects are mostly proposed for crowdfunding initiatives, we analysed the categories available on four of the above platforms, namely: crestemidei.ro, multifinantare.ro, wearehere.ro and sprijina.ro. Potsieu.ro offered information about only few projects, so the analysis doesn't seem relevant for this case. Projects dedicated to the 'Community' category were the most numerous and also this category was present on all the platforms. Other categories important are 'Education', 'Sports', 'Publishing' and 'Music'. As such, most crowdfunding projects are situated in areas not strongly connected to business purposes and initiatives, even though there are

¹ The website doesn't offer information whether the objective of the campaign was reached or not in the crowdfunding initiative. In addition, the website funds all projects even if they didn't reach their objective. As a consequence we counted only projects that gathered more than 1000 lei (approx. 220 euros).

² Of the six successful projects one was funded 3500000 lei, while another one was funded with 360 lei.

³ In this case, average also seems irrelevant as there are big differences in the objectives established, and in our average we excluded two projects we considered outliers, aiming for 10.000.000 lei and 1.000.000 lei, the other one.

a few cases on such projects. The only platform with investment projects is *multifinantare.ro*, however, we can suspect that not all funding is gathered through the online platform since the two successful initiatives in investment gathered important amounts of funds from a very limited number of funders.

If we could describe the crowdfunding platforms based on types of projects, then *wearhere.ro* is mainly dedicated to artistic performances and art, while *crestemidei.ro* and *sprijina.ro* are highly dedicated to community, education, sports and writing /publishing. In conclusion we can say that for now crowdfunding is used in Romania in order to fund innovative ideas which don't take a business approach, at best they are, in few cases, social enterprises. The charitable aspect is emphasized much more, and this can be also observed in the types of rewards offered, where offering a "thanks" on Facebook, on the official website or on a panel at the location of the initiative are some of the most featured.

When considering the projects that were successful in achieving their goal, the type of funding options offered by the crowdfunding platform seemed to play an important role. On this issue, platforms might offer flexible funding or fixed funding, the latter functioning on the "all or nothing" principle, meaning that if the goal of the crowdfunding projects isn't reached, the funders aren't charged the amount of money they agreed to give the project. Among the platforms in Romania, *crestemidei.ro* and *multifinantare.ro* were using the "all or nothing" approach, while *wearhere.ro* offers the two options, while for *sprijina.ro* all funding is flexible, the only consequence when a project doesn't reach its goal is a higher fee paid to the platform. Thus, *sprijina.ro* has a higher number of projects proposed, however as a general observation the quality of the projects proposed is lower, meaning that the description is less detailed and justified as for the video usually required in the presentation, again is lower in quality. Definitely, all or nothing approach is offering stronger incentives for initiators to propose good projects.

Based on the findings of Mollick (2014), the quality of a project is strongly linked to its success in achieving the target funding. This quality can be assessed by some very simple features for now, when the crowdfunding phenomenon is still reduced in size, and these are: providing a video, offering updates soon after launching the campaign and making a project description without spelling or language mistakes. When it comes to the projects available on the Romanian platforms we observed that almost none of them provided updates. The only exception is *crestemidei.ro* for which only the successfully funded projects offer some updates.

Concerning the advices offered by the websites to project initiators these refer to tips about creating a presentation video, concrete advices on how to set the objective of the campaign, how to create rewards as well as on how to communicate with backers. The most comprehensive set of advices can be found on *sprijina.ro*, but all these advices can be found on the other platforms as well, in a shortened version. However, no advice is given about updates. Since *multifinantare.ro* is the only platform to propose investment projects as well, it features dedicated information for businesses and it also specifically asks for a business plan. Indeed, most of the projects in the investment category provided a business plan and a financial prediction.

Recommendations available on the two international crowdfunding websites we compared with the Romanian sites were in some ways similar, more detailed and with more examples from successful projects. Here we will only emphasize the differences in order to highlight the issues on which more knowledge about planning and budgeting could be of help for Romanian entrepreneurs as well. Thus, an important issue relates to the budget of the project, for which you can get detailed advice and

recommendations on Kickstarter and Indiegogo, a subject which is almost inexistent in Romanian crowdfunding sites (the only exception are investment projects in *multifinantare.ro*) and this could enhance project's credibility and realistic side. For now, we can only find basic rules of thumb on how to set the goal for the campaign, but this has nothing to do with business planning. Second, international platforms also advise for providing a time-line for the project, another essential aspect for the credibility and feasibility of the proposed initiative. Unfortunately, this subject lack completely from advices found in Romanian. Finally, updates are warmly advised.

4. Conclusions

Crowdfunding is a new method of funding social businesses, community and education projects and artistic initiatives that is gaining grounds at global level as well as at national level, in Romania already existing at least five crowdfunding platforms with different focus, each. The crowdfunding activity has been supported increasingly by social networks which directly linked to the success of a project in achieving its target. As well, this novel financing solution is more and more important in an economic context in which companies have difficulties in accessing credits but also in a social context in which young people would easily spread the news about initiatives representative for them.

In this paper we wanted provide an initial exploration of the crowdfunding phenomenon in Romania and to compare the existent knowledge available in Romanian on how to create a crowdfunding campaign with what exists on renowned international crowdfunding platforms. Answering to our first question about the projects that are successful in Romania, we can say that most of them relate to categories like community, education, sports and publishing and the average financial goals achieved through a crowdfunding campaign is between 1600-2000 euros.

Concerning the focus on business versus charity and non-profit perspective, right now the second one is definitely prevalent. This can possibly be due to the focus of the advices offered by the website, only one offering recommendations for investors, while the rest of them don't seem to be concerned with aspects vital for business and financial sustainability, such as provision of a budget, time-line and regular updates on how the team is working towards implementing the project crowdfunded.

In conclusion, Romanian crowdfunding websites emphasize more the project features of the initiative, not offering many advices important from a business perspective, and thus providing insufficient knowledge for entrepreneurs in really creating a business plan and especially a marketing and communication plan. This part of the recommendations is what differentiates the international platforms from the Romanian ones in terms of advices, and there is potential for adapting that knowledge to the particular needs of Romanian entrepreneurs aiming to fund their business through crowdfunding.

This paper has only been an initial research on crowdfunding in Romania, and it is quite limited in the findings provided for entrepreneurs and the managerial implications. In fact, further studies should elaborate more on the managerial impact of crowdfunding in the current Romanian business environment and also in understanding the challenges in implementing business and marketing planning recommendations by entrepreneurs.

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THE 11TH EDITION OF THE INTERNATIONAL CONFERENCE
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REALITIES AND PERSPECTIVES**

Claw-back Tax - a Fang of Romanian Health or a Moral Duty?

Viorica Puscaciu¹, Florin-Dan Pușcaciuc², Rose-Marie Pușcaciuc³

Abstract: This study belongs to the scientific field of economics, more precisely to finance area. The scientific challenges to which this approach tries to find answers are the so controversial claw-back tax. It is a fee that even if is applied to different fields of the economy, it succeeded to set up only the national health system from our country, and that is why, this approach try to clarify it. The obtained results of this work intends to bring more light in this dispute between the manufacturers of drugs and the state authority; in this matter, one part considers this claw-back tax as being a moral one, and the others think that it is something abusing their profits. The aim of this study is to clarify this matter, by objectively analyzing the problem from both sides, with their arguments, and with the scientific instruments. So, these are our objectives, treated with the qualitative scientific methods, trying to reach the results and getting the conclusions of this research.

Keywords: claw-back tax; health system; money; manufacturers of medicines; taxpayer

JEL Classification: G32, G34; J33; M41; M52; M55

1. Introduction

The choice of this theme came from its importance and topicality of the subject. The scientific frame of this paper is circumscribed to the most present theme from time to time in our economic life. The scientific work is circumscribed economic area, specifically financial one, whose events and changes never ceases to amaze us, causing us to constantly seek new answers to other questions that always gives this area of research. The theme is both a challenge, and also a desire to add some more clarification to this matter. The research hypothesis is chosen from this multitude of taxes, and the reason is that this claw-back tax which affects the sanitary system in our country, the problem is: if this claw-back tax is a legal in sense of moral one, or not? This theme is important to be clarified, even if for its topicality, in our days, and of course for its implications in our life. As for the research methodology used in our work it is about a qualitative analysis. The paper proposes a theoretical and doctrine clarifying of the areas. The intuitive method used is because of the lack of data and qualitative approach to areas further research which implies a balanced approach and in terms of quantity. It is also used a prospect method of the impact of claw-back tax on the main undertakings involved: producers, consumers and the state.

Our paper begins with the clarifying the theoretical concept of claw-back fee, by iterating both the best respectful sources as international dictionaries, and also continuing with a pleiade of illustrious authors which have researched this area. After this starting presentation of the subject, this paper continues with the explanation of the topic applied from the theory into practice: that is in the medical system, with special mention to our country. It is fully explained the background of this fiscal measure in the

¹ Professor, PhD, University of South-East Europe Lumina, Romania, Address: 64B Sos. Colentina, Bucharest, Romania, Tel.: +4 021 240 30 22/+4 021 240 30 33, E-mail: viorica.puscaciu@lumina.org.

² Professor, PhD, Department of Economics, Danubius University of Galati, Romania, Address: 3 Galati Blvd., Galati 800654, Romania, Tel.: +40372361102, E-mail: fdpuscaciuc@univ-danubius.ro.

³ Senior Lecturer, PhD, Department of Economics, Danubius University of Galati, Romania, Address: 3 Galati Blvd., Galati 800654, Romania, Tel.: +40372361102, Corresponding author: rosemarie.puscaciuc@univ-danubius.ro.

Romanian sanitary system, and also the short “history” of this applying of the claw-back tax. It is also analyzed with details the impact of this fee on the health system, and on the public budget as well. Our study further presents the position both of the supporters of this claw-back fee, and also the critics of it. The final part of this paper shows the consequences of applying this tax for all the implied factors. As normally used, this approach ends with the conclusions of our research.

2. General Presentation

Accordingly to the basic definition, type claw-back fee is actually a financial penalty applied to companies that have violated certain provisions. In this case, however, it represents a surcharge revenues obtained from pharmaceutical companies that make sales over the state budget for medicines. First of all, we shall have a look to the different approaches of this topic in literature.

In the British & World English dictionary, the Claw-back tax is defined as two acceptors, as follows: “Money or benefits that are distributed and then taken back as a result of special circumstances, and the second acceptor is: a retraction of stock prices or of the market in general”. (British & World English Dictionary, 2015)

Oxford Advanced Learner's Dictionary explains claw-back as: “the act of getting money back from people it has been paid to; the money that is paid back”¹.

Cambridge Dictionary precised: “A claw-back refers to the recovery of money which has been already paid to a person or company, typically because that payment should not have been made for legal (or occasionally moral) reasons. It can also refer to the recovered money itself. Claw-back provisions in a contract may entitle a party (e.g. the company’s shareholders or creditors) to claw-back (= recover) excessive salaries or bonuses paid to the company’s directors, for example, if it can be shown that those payments damaged the company’s ability to fulfill its commitments to that party. As the news headlines below suggest, the expression is usually used in a compound noun (e.g. claw-back provisions, claw-back clause) or as a phrasal verb (to claw something back)”².

Investopedia explains “claw-back” both in two ways, like this: the first acceptor is: “purchasing certain investments provides taxable benefits contingent upon holding periods. When you sell these investments before they have reached maturity, the benefits must be returned; and the second acceptor is: in layman's terms, a fall in a stock's price right after an increase is called a claw-back of the price”³.

Farlex Financial Dictionary defines claw-back as: “a drop in a security's price after a previous rise, and the second acceptor is: “money that must be refunded or given back for some reason or other. The term especially applies to tax advantages extended to a taxpayer subject to certain conditions that the Eurostat taxpayer did not fulfill”⁴.

Webster's New World Finance and Investment Dictionary describes claw-back tax as follows: “a word used in the venture capital industry to describe a common term found in partnership agreements. A claw-back requires venture capitalists to refund fees to their investors if it turns out that the venture capitalists received more than their 20% share of a fund’s overall profits. Claw-backs became common in 2002, occurring when a venture capitalist took its 20% share of a fund’s early investment success, but the fund later lost money. Claw-backs also are used in other financing contexts, such as private equity”⁵. This matter was studied and deeply analyzed by some important researchers, among which we remind the followings: the adoption of a claw-back is followed by higher proportions of equity based pay and long-term pay. Firms with a greater proportion of equity based pay are more likely to suffer from managerial actions such as earnings manipulation (Burns and Kedia, 2006). They find that

¹ Oxford Advanced Learner's Dictionary, published by Oxford University Press, 2015.

² Cambridge Dictionary, printed by Cambridge University Press, 2015.

³ <http://www.investopedia.com>.

⁴ Farlex Financial Dictionary. © 2012 Farlex, Inc.

⁵ Webster's New World Finance and Investment Dictionary - Copyright © 2010 by Wiley Publishing, Inc., Indianapolis, Indiana. Used by arrangement with John Wiley & Sons, Inc.

executives are more likely to manage earnings when they receive higher levels of equity-based pay. Efendi, Srivastava, and Swanson (2007) find that firms where the CEO has significant holdings of in-the-money options are more likely to restate earnings.

Levine and Smith (2010) theoretically explore the incentive properties of mechanisms that can retract previously awarded cash bonuses, but provide no empirical analysis. Chen, Greene, and Owers (2012) also develop a model of claw-back incentives.

Brown, Davis-Friday and Guler (2011) examine 252 claw-backs over 2005-2009 (Corporate Library data) and find that adopting firms are larger, have less influential CEOs, and have higher M&A bonuses and goodwill impairments.

Paquita Y. Davis-Friday, Abraham N. Fried and Abraham N. Fried (2011) examine whether the adoption of claw-back provisions in executive compensation contracts improves the informativeness of accounting information. Contrary to conventional wisdom, they find that claw-backs do not lead to improved financial reporting. Specifically, they also document a significant decline in the market's response to earnings surprises after the adoption of both fraud and performance based claw-back provisions. Their results provide a cautionary tale of how some types of claw-backs may produce an unintended consequence in terms of deteriorating the established relation between reported earnings and stock price.

Fried and Shilon (2011) provide information on usage rates for firms in 2010 in the S&P 500.

Some of the contemporaneous research on claw-back adoption often focuses on policies triggered by one specific event, such as accounting restatements (e.g., Chen, Green, and Owers (2012)).

This is consistent with the notion that a primary reason for adopting a recovery policy is concern over accounting or stock price manipulation by executives to increase bonus payments or increase the likelihood of clearing the performance hurdles defined in performance-based vesting provisions (Bettis, Bizjak, Coles and Kalpathy, 2012).

Ilona Babenko Benjamin Bennettb John M. Bizjakc Jeffrey L. Colesd, in their work named *Claw-back Provisions* (2012), contrary to some prior studies, they do not find that claw-back adoption lowers the incidence of financial restatements (Chan, Chen, Chen, and Yu, 2012) or reduces shareholder litigation or discretionary accruals. Nonetheless, on average the market reaction to report of a clawback policy prior to Dodd-Frank¹ is positive and significant, on the order of 0.5%.

3. From Theory to Practice: Applying Claw-Back Fee

Claw-back is a tax applied in the pharmaceutical industry and assumed that all drug manufacturers to help fund public health system with an amount of money ranging between 5% and 11% of the income made by selling the products. The contribution shall be paid quarterly until the 25th of the month following the quarter in which delivery took place drugs in a special account opened at the Treasury on behalf of the Ministry of Health.

Claw-back tax, paid by drug manufacturers that have products on the list of compensated and free, was first introduced in 2009, but since then until now has suffered a series of changes. Given that GEO 104/2009 contained quite a lot of doubt about the calculation algorithm and the time you have paid this fee additions were made by WHO 928/2010. The new order brings certain clarifications regarding previous interpretations of the provisions relating to the declaration, calculation and payment of "claw-back". The most important changes concern:

- date on which the contribution ("claw-back" tax) becomes chargeable - only after receiving a fully revenues from sales related to a quarter;
- the date on which contributions must be paid - date of payment "claw-back" is set by the House

¹The Dodd-Frank Act: *Significant Impact on Public Companies*, Skadden, Arps, Slate, Meagher & Flom. Retrieved July 25, 2010.

National Health Insurance by notification addressed to each payer;

- introduction of additional statements containing the details of the consideration medicines collected on a certain quarter;
- replacing “2010” by “year...” in the Annexes 1 to 5 of the Order 928/2010.

The Order of the Health Ministry no. 351/2011 changes the rules for calculation, declaration and payment of the claw-back fee. This becomes due only after receiving entirely by payers of income related to a quarter. Accordingly to the Order no. 928/591/2010, quarterly total revenue is the amount resulting from the sale in Romania by tax payers, as follows: medications included in national health programs that benefit the insured in outpatient treatment, with or without personal contribution, based on prescription, health insurance system, and medicinal insured persons in hospital treatment. Under the rules issued earlier, the persons liable to pay the tax declared National House Health Insurance drug sales by suppliers of drugs used in the outpatient treatment or medical units with beds, using the forms 2a, respectively 2b. The rules introduced by WHO 351/2011 is inserted and the obligation to declare, via new forms 2a1 and 2b1, full collection of these revenues corresponding quarterly sales previously reported. The new statements are submitted in the first 5 days of the month following the month in which they were fully collected revenues of a quarter.

As for the calculation of tax, Order no. 351/2011 clarifies the fact that the established percentage based on the total revenues from sales of medicines for outpatient and hospital use related to each quarter is applied to the proceeds from the sales of drugs for treatment outpatient and hospital use same quarter related (such as GEO 104/2009 also provides that introduced this contribution). Under the new provisions, and succession procedures for determining tax “claw-back” would take place as follows:

- in the first 5 days of the end of each quarter is still mandatory submission to the National Health Insurance House of the Declaration on the list of medicines sold in one quarter, for suppliers of drugs used in outpatient treatment (Form 2) and/or the Declaration on the list of medicines sold in one quarter for health facilities with beds (Form 2b). Maintain the health facilities with beds for compulsory transmission of health insurance houses lists of medicines purchased in that quarter;
- in the first 15 days of the end of each quarter is maintained for the National Health Insurance House mandatory transmission centralizer drugs purchased by the medical bed in the quarter;
- In the first 5 days of the month following the month in which they were entirely related revenues collected in a quarter (where income for that quarter were previously reported by Form 2a and/or 2b). Persons liable to pay tax are obliged to submit to the National House of Health Insurance, if applicable, the Declaration on the list of drugs used in outpatient treatment related to a quarter of the value of the services was collected (Form 2a1), and/or Declaration on drugs list used by health facilities with beds, relating to a quarter of the value of the services was collected (Form 2B1);
- within 15 days of filing Form and Form 2a1 2b1: National House of Health Insurance contribution due notice according to data reported;
- by the date specified in the notification received from the National House of Health Insurance, the persons liable to pay tax must make its remittance to the date specified in the notification (before payment is made until the 25th of the month following each quarter).

GEO 77/2011 was tried improvement and tax regulation “claw-back”, amid countless controversies and complaints that sparked a claw-back the old regulation, namely, GEO 104/2009, as amended and supplemented.

According to GEO 77/2011, quarterly contribution is calculated by applying a percentage “p” on the value of consumption of medicines, supported the National Fund for Health Insurance and the Ministry of Health budget, consumption related sales contribution of each payer. This percentage “p” is calculated by CNAS and communicates the marketing authorization holders of medicines following the expiration until the end of the quarter.

In turn, GEO 77/2011 has undergone some significant changes by GEO 110/2011 which again change the formula for calculating the contribution and the Ordinance 17/2012 regulating certain fiscal measures which came into force on August 24, 2012 which focuses on the following aspects:

- cancellation “delay penalties” for people who owe tax claw-back for the period between fourth quarter 2009 and third quarter 2011 are fulfilled cumulatively the following two conditions:

(1) people who owe claw-back declare and fully pay tax within 30 days from the date of entry into force of GO 17/2012

and

(2) pay the legal deadline for payment of interest due for principal obligations;

- the obligation of submission to the National Health Insurance House's updated list of drugs for which the claw-back tax is due until the 15th of the month following the quarter for which the tax is due;

- remove the value added tax (VAT) of the formula for calculating state budget incurred related to drugs, but only since the fourth quarter of 2012.

On 5 February 2013, the Constitutional Court decided that the inclusion of value-added tax (VAT) in the formula for calculating the claw-back (for the period prior to the fourth quarter of 2012) is unconstitutional. Therefore, even if the GO 17/2012 removed VAT from the calculation formula claw-back just starting the fourth quarter of 2012, according to the decision of the Constitutional Court, VAT not to be taken into account even before the appearance of Ordinance 17/2012.

Conclusively, the calculation of “claw-back” is a laborious present case involves a close relationship between the taxpayer and the CNAS, preparing statements provided by the legislation listed above for each period they were in force, the calculation and payment contribution/tax coming as a consequently their data and communicate directly to the taxpayer by CNAS (market authorization holders of medicines).

Not least the calculation of “claw-back” involves taking certain decisions of the entity's legal representative on the interpretation and implementation of the legal framework applicable.

The latest version, which will come into force on October 1st 2011 brings the news eliminating value-added tax (VAT) of the calculation formula and increased the amount reference value of 1.42 billion lei 1,51 billion lei (without VAT). This reference amount is paid quarterly approved budget for medicinal National Unique Fund Health Insurance (FNUASS) and from the Ministry of Health (MOH). Generic Drugs Manufacturers Representatives Association of Romania (APMGR) argue that while the government eliminated the formula for calculating VAT, pharmaceutical companies are still required to pay a fee for the entire chain of distribution revenues, which include the additives applied by distributors and pharmacists. Moreover, the amount of reference, although it was raised, not the actual consumption of drugs in 2011. “Returning to the calculation formula of GEO 77/2011 which was widely criticized including by the IMF because of unfair character - similar charge applied to all producers, regardless of drug sales growth recorded by each company - and unpredictable (percentage “p” is calculated on the basis of erroneous non-transparent manner provided by CNAS and companies can not in any way anticipate the amount thereof)”, reads a release of APMGR.

Claw-back was adopted since October 2011 and now has begun to create problems for patients with serious diseases. The amount of an industry amounted to 400 million lei in the first three months of this year, i.e. 33.6% of the entire value of compensated drugs consumed during this period. The claw-back applies Romanian pharmaceutical industry for drug manufacturers to help fund public health system with a variable amount of money depending on the income. Although modified in order to be more friendly for the taxpayers, it remains rather controversial and the new project on claw-back public discussion launched by the authorities does not include requests from industry. But, four years after the introduction of this tax has not solved the health budget deficit, moreover, is, in the opinion of industry representatives, a brake on the development of generic drug companies by reducing local production, delaying investments in development and even reduction personal.

Although, for many seem like a visually impaired claw-back tax can be understood by a single word: claw. The main actors in health care - the state, manufacturers and retailers of medicines - are fighting to seize a larger part of the money those Romanians who contribute to National Health Insurance Fund. And as the stakes consistency, claw-back tax has become one of the most disputed legislative provisions of the last three years.

The underfunding of the health system threatens to impede the access of Romanians to new pharmaceutical treatments to eliminate from the market affordable medicines and the pharmaceutical industry to cancel investments in production and development.

Romanian authorities ask drug makers a review of the method of financing the deficit in the health system. Claw-back tax on producers to cover the difference between the state budget and actual consumption generated by drug treatment needs of patients Romanian, recorded in the last quarter of 2013 a significant increase of 30% compared to other quarters and reached a unsustainable level for the pharmaceutical industry.

Grand drug manufacturers complain that the fee claw-back corresponding first quarter of this year, in Romania represents about 30% of the sales of most drug manufacturers compensated. Curiously, small producers argue that the actual percentage is only 11%. Great producers of medicines, namely multinational companies, seeking annulment of the tax claw-back current form and asked the government to amend the law involved and the need for proper budgeting at national pharmaceutical, real consumption from 2013.

“Claw-back amount of the fee cannot be supported by the industry, it represents more than 400 million euro per year (calculated for 2011), averaging 33.6% of total sales of pharmaceutical manufacturers compensated over any company related taxes trade in this form unique in Europe”, reads a release of the Romanian Association member companies of International Medicine Manufacturers (EFPIA) and the Association of Generic Medicines Producers in Romania (APMGR). But what the medicines producers forget to say is that drugs manufacturers claw-back exists in all European Union countries and is designed to curb abusive consumption of drugs. Furthermore, fee has designed to help small producers in their fight with drug multinationals. The truth is that claw-back is good for small fee. It penalizes the major manufacturers offering huge discounts to pharmacies. Basically fee is charged to the final price at which the drug reaches the consumer. How multinationals offering 75% discounts at pharmacies, and they sell to the consumer medicines are now obliged to pay this tax and discounts. And this is not convenient. What they forget to say is that the major manufacturers in the European Union tax discounts offered to pharmacies are of 90%”, as declared a Romanian producer of drugs.

Romanian health system is among the most poorly funded in the European Union, as Romania is among the last countries in Europe in terms of percentage of GDP allocated to health, with only 3.9% compared to the European average of 9%. Expenditure on drugs are only about 80€/year/capita, while even in neighbor countries - they start from 150€/year/capita.

The Romanian state has huge debts to suppliers of medicines, debt accumulated in recent years. One of the priority requirements of the International Monetary Fund was paying these debts (arrears) whose size threatens medical system crashes. In August 2010, the government allocated 1.9 billion lei to pay debts to suppliers of medicines, but after making payments, the IMF staff found that the absolute amount of arrears decreased by only 600 million lei. How was that possible? It seems that pharmacies have not submitted all the bills health insurance houses because they knew that the funds allocated were insufficient to compensate drugs. When new money appeared, the bills were reported. And as a story of bottomless pitcher began to rise incessantly new and new arrears. This situation was triggered in the 2008 election year, when the Health Ministry has eliminated the ceilings of pharmacies, which were kept under control with medication expenses compensated. To private reaction it was a natural one: both higher sales to make profits as large. In Romania, the main business partner pharmaceutical industry is the state, which totally or partially compensates for the price of a number of drugs.

As statistics reveal, only in 2012-2013 period, 2 of 10 patients were treated exclusively Romanian contributions from the pharmaceutical industry through claw-back. Manufacturers of drugs and APMGR gathered together in ARPIM associations point out that, under a budget well below the European average, as is currently updating the list in terms of compensated drugs, deficit financing exclusively to producers through claw-back it is impossible. In the last two years they have funded health system 2.8 billion lei, and the situation seems to change in 2014 as the authorities have allocated only 6.6 billion lei, while consumption amounted to 8 billion lei, without taking into account the updating of the list of free and subsidized medication. The amount of the claw-back tax reached 25.23% of the sales of subsidized drugs that manufacturers have had in the fourth quarter of 2014 showed Generic Medicines Industry Association in Romania (APMGR), which states that the National Insurance data health (CNAS) which was calculated based on the rate of duty are wrong.

4. Technical Explanation of Claw-Back Tax

Currently, all pharmaceutical companies pay to the State a claw-back fee amounting to about 14% of turnover (i.e. 14% of total company sales). The tax is paid only by the drug companies, but is calculated including distribution and pharmacy margins that you do not receive the drug companies. According to the Emergency Ordinance no. 77/2011, quarterly contribution (claw-back) is calculated by applying a percentage “p” on the value of drug consumption FNUASS budget support and that of MS, related sales contribution payer in each hand.

$$p = ((CTT - BAT) / CTT) * 100$$

in which CTT is total consumption of medicines paid from fund quarterly national unique health insurance and the Ministry of Health budget.

(CTT means total consumption of medicines paid quarterly budgets FNUASS and MS BAT quarterly approved budget for the drugs covered FNUASS and MS budgets, calculated by dividing the annual budget initially approved in April by state law).

The coefficient “p” shows APMGR in a statement, it rose to 25.23% in Q4 2014 compared to just 20.92% in quarter 3. Increased percentage “p” in calculating the claw-back tax to 26.1% in the 1st quarter of 2015, from 25.23% in Q4 2014 is a direct consequence of increased consumption of innovative medicines whose price was maintained at a very high level in recent years through violation of the laws on drug pricing. APMGR reiterates that the only solution that could make things normal, saving the insolvency generic manufacturers is the immediate implementation of a differentiated calculation of the tax claw-back for generics, based on the introduction of a maximum proportion of 65% in calculating the variable “p” the claw-back formula, thus correlating with the fiscal burden in the drug pricing policy.

In 2014 was published Government Emergency Ordinance no. 69/2014 on the establishment of financial measures in health and amending certain acts. GEO 69/2014 brings a number of changes and, especially, additions to the quarterly contribution regime (claw-back tax) regulated by Government Emergency Ordinance no. 77/2011 on the establishment of contributions to fund health spending, as amended, that have been instituted other financial measures applicable in regional or research and development. Quarterly total consumption value of drugs (CTT) used to determine the percentage “p” will be reported CNAS by health insurance funds on the basis of data recorded in the informatics platform of social health insurance; in turn, the value related to consumption of drugs centralized notified each taxpayer (tax base) will draw all the data recorded in the said platform, as follows:

- taxpayers, that authorization holders for medicines (“MAH”), Romanian legal persons and foreign legal representatives MAH will submit quarterly CNAS updated list of medicines for which the tax due according to a methodology and a format approved by order of the President of CNAS;
- tax payers will determine and calculate VAT excluding tax due from the volume of quarterly consumption of medicines notified by CNAS (in fact, regulation of current practice);

- appeals against consumption values will be notified by CNAS to see only the data for the first quarter for which they were communicated.

GEO no. 69/2014 supplements 77/2011, by establishing a separate tax regime for those drugs, as a result of the health technology assessment procedures, receiving conditional inclusion decisions DCI list. In short, the new rules thus established are:

For mentioned products may conclude price-volume/cost-volume-outcome (“CV Contracts”) with the funds obtained from the exclusion and/or compensation percentage change of medications included in the DCI list, as well as the implementation of policies pharmaceuticals (MAH interested potential elements apparently unknown); failure to conclude such contracts will attract unable to include relevant medicines DCI list.

CV contracts are qualifying as mechanisms to ensure the financial sustainability and predictability of costs in the public health system by which local MAH MAH foreign or local representative undertakes to supply medicinal products included conditioning DCI list under the rules of GEO no. 69/2014, for a certain category of patients and for a certain period of time;

Initiate contract negotiations CV is according to prioritization criteria and model contract expressly provided and methodology of the negotiation, conclusion and monitoring of the implementation of such contracts shall be determined by the Minister of Health and CNAS president;

Claw-back tax payable by taxpayers is determined by applying the CV based contracts provided these contracts to the value of consumption in individual quarterly statement of CNAS.

Consumption value is calculated by multiplying the quarterly retail price excluding VAT/wholesale price with the volume of medicines consumed quarterly volume limit set by contracts CV; and the percentage claw-back tax consists of the percentage value “p” for the previous quarter Contract conclusion CV, calculated according to the formula set out in art. 3 paragraph (2) of the Emergency Ordinance no. 77/2011 (the common percentage applicable fee unconditionally compensated medicines), plus between 5 and 30 percentage points in the proportion the number of patients for each therapy to shrink the number of eligible patients (percentage found in the relevant contract CV). If the cumulative excess volumes of drugs consumed volumes determined by contracts CV, taxpayers bear the full amount of the related drug consumption exceeded, excluding VAT; this value is not included in the calculation exceeded quarterly total consumption of drugs (CTT). Within 15 days of the issuance of conditional listing decision DCI list, foreign MAH must appoint a legal representative, Romanian legal person to negotiate and conclude contracts CV or to declare and pay claw-back payable; also, within 30 days from the date of conclusion CV MAH local or foreign legal representatives must register for tax purposes at the National Tax Administration Agency as contributors to claw-back.

Note that the rules on the submission of quarterly by CNAS, challenging them and the applicable payment terms relating to medicinal products included conditioning DCI list, although regulated distinct, are identical/similar to those for subsidized drugs without restrictions in the health insurance system, which is due to determine claw-back according to article 3 of GEO no. 77/2011. It also established the obligation of all foreigners holding MAH drugs included in the list DCI (including new products) that have not yet designated a legal representative, within 30 days of the entry into force of the ordinance, communicate CNAS data Identification of that representative, whilst tax recorded in the same period.

In essence, the new law establishes two tax regimes and determination of tax applicable claw-back drugs that are currently granted state social insurance system, i.e. new drugs conditioning included in the list comprising international common names for medicinal products for insured persons in the system health insurance or national health programs (“DCI List”). The Association states that the already high level of claw-back tax forced drug manufacturers only generics in Romania last year to lay off more than 300 employees and a decrease in production for the domestic market by 10% , and delay major investments in local production facilities. In addition, since 2011, when claw-back tax

was introduced, there have disappeared from the market more than 1,300 medications. GEO 69/2014¹ brings a number of changes and, especially, additions to the quarterly contribution regime (claw-back tax) regulated by Government Emergency Ordinance no. 77/2011 on the establishment of contributions to fund health spending, as amended, that have been instituted other financial measures applicable in regional or research and development.

In essence, the new law establishes two tax regimes and determination of claw-back tax applicable to drugs that are currently granted state social insurance system, i.e. new drugs conditioning included in the list comprising international common names for medicinal products for insured persons in the system health insurance or national health programs (“DCI List”). We note the following changes in applicable tax claw-back already compensated medicines in the public: quarterly total consumption value of drugs (CTT) used to determine the percentage “p” will be reported CNAS by health insurance funds on the basis of data recorded in the informatics platform of social health insurance; in turn, the value related to consumption of drugs centralized notified each taxpayer (tax base) will draw all the data recorded in the said platform.

The Association states that the already high level of tax claw-back forced drug manufacturers only generics in Romania last year to lay off more than 300 employees and a decrease in production for the domestic market by 10% and delay major investments in local production facilities. In addition, since 2011, when it was introduced claw-back, they have disappeared from the market more than 1,300 medications.

Generic Drugs Manufacturers Association of Romania (APMGR), the representative body of generic drug companies in Romania, announces that the claw-back tax on the 1st quarter of this year reached a new historic high of over 26% of sales to the public sector which will lead to the disappearance of several drugs and cheapest on the market and the collapse of the local pharmaceutical industry.

The tax is paid only by the drug companies, but is calculated including distribution and pharmacy margins that you do not receive the drug companies. And the producers of drugs accused that: Claw-back tax level in the fourth quarter of 2013 reached a level of 20% of the sales of medicines, it means that we pay, in addition to the flat 16%-20% of turnover. We are talking about higher taxation, somewhere at 40%. We have to stop all investments in 2014 until a solution is found for this claw-back tax.

Manufacturers, distributors and pharmacies selling drugs offset the debt: the state debt promptly honoring promises and citizen expect to receive subsidized drugs in payments that you make monthly to the National Health Insurance Fund, under the quiet approval of the State. If a manufacturer/importer of drugs cannot pay the quarterly fee (calculated based on a formula that takes into account the market share and sales growth), when products are withdrawn from the list of compensated and free of charge ones.

In this dispute, in Romania there are two different parties: one sustaining the claw-back tax, and another one rejecting and criticizing it, as follows: the Proponents of the tax say that, in Romania, the consumption of drugs crazy. They are right; CNAS spends a quarter of its funds with medicines, one of the highest percentages in Europe. 20 most prescribed medicines in Romania are new and expensive pharmaceuticals, which is unusual in Europe. Most often, they are part of national health programs - which recorded the largest increase in funding in recent years - and are usually prescribed total cleared and especially in poor districts and universities (according to World Bank experts). Manufacturers of generic drugs are required to pay for additions distributors and pharmacists as claw-back is calculated at retail price of drugs, which includes over producer prices and trade margins.

Maintaining reporting errors reported by member companies APMGR the National Health Insurance Fund (NHIF) and the total lack of transparency regarding the calculation of tax claw-back. Keeping the basis for calculating the tax claw-back of drugs purchased in hospitals are reimbursed twice by CNAS hospitals are funded under the DRG system. The existence of proven fraud and counterfeit

¹ GEO – Government’s Emergency Ordinance.

medicines into the system, resulting in artificially raising the claw-back tax. Keeping prices above those of the rest of the EU for most settled 50 drugs, resulting in increased tax claw-back.

In the National Health Programs are recorded fact and the largest state debts to the pharmaceutical industry. Sometimes, even certain segments of state encourage such reckless spending. Process the lists of compensated drugs - entering the prerogative of the Ministry of Health committees - is "nontransparent, inconsistent and too little based on practical data" (IMF staff report). Thus, it follows that, in Romania, to compensate for treatment with extracts of ginkgo biloba, for example. In addition, sales of drugs on large international manufacturers which no longer have patent (so called generics) are not encouraged, their volume decreasing in recent years. When you asked last time the pharmacy "aspirin cheapest, not the most expensive"? As the opponents say that tax, in Romania, the consumption of drugs is much lower than in the rest of Europe. And they are right. Romania's per capita expenditure on drugs are the smallest, only 172 euro compared with the European average of EUR 376 maximum or registered in Greece (584 euro). As a percentage of GDP, expenditure on medicines Romania is 1.4%, below 1.7%, as is the European average (Eurostat)¹.

Then the drugs trade is already overburdened in Romania, offset VAT on medicines being 9% compared to zero in the UK or Sweden.

Romania is one of the European countries and origin of parallel trade, given the low price imposed by the Romanian producers. Parallel, trade occurs when a dealer buys drugs from manufacturers in countries with cheap medicines (Romania being one of the European countries with the cheapest drugs when put on the market) and exports them to countries with higher prices where they are sold directly pharmacies. This practice legal but immoral lowers the Romans access to certain drugs. The full truth is that the Romanian state invests far too little money in medication use compared with other European countries (Romania allocate health under 5% of GDP last place in the EU), and this consumption is not modeled in favor of the patient, but rather in favor the interests of the pharmaceutical industry.

It is a good measure taken by the government but whose application would be unfair for some players in the system that it encompasses manufacturers, distributors and pharmacies. Of these, only producers will bear the burden, because the difference will be charged (50 million in the example above) contains the profit margins of pharmacies and distributors. Romania is a special case here: the producer price of the drug enter the market, add distributor and the pharmacy margin, which grow (with VAT) acquisition final price to the patient. This price is settled by CNAS and taken as reference in calculating the claw-back, and distributors and pharmacies in Romania have among the highest margins in the European Union (Scrip Report).

Manufacturers of drugs warn that this claw-back tax increase is not supported by market developments. In addition, they fear that the growth trend will continue and even accelerate in coming quarters while the indicative budget for the calculation of the claw-back is as low medicine consumption in 2011.

The underfunding of the health system threatens to impede the access of Romanians to new pharmaceutical treatments to eliminate from the market affordable medicines and the pharmaceutical industry to cancel investments in production and development.

Romanian authorities ask drug makers a review of the method of financing the deficit in the health system. Claw-back tax on producers to cover the difference between the state budget and actual consumption generated by drug treatment needs of patients Romanian, recorded in the last quarter of 2013 – as example - a significant increase of 30% compared to other quarters and reached a unsustainable level for the pharmaceutical industry.

Every year, drug manufacturers cover the claw-back, the entire difference between the state budget and actual consumption generated by drug treatment needs of patients Romanian. In other words, the claw-back was transformed from a budget control measure in a tax burden which resulted in the creation of a business environment lacking transparency and predictability. The burden is even greater

¹ www.eurostat.

as the list of compensated and free drugs has not been updated for six years, which means a negative economically and socially strong impact. As a consequence, they say that about a thousand of drugs will disappear from the market. Manufacturers of drugs warn that this claw-back tax increase is not supported by market developments. In addition, they fear that the growth trend will continue and even accelerate in coming quarters while the indicative budget for the calculation of the claw-back is as low medicine consumption in 2011. Keeping that tax in its present form, it can have serious economic and social consequences, primarily for population by the total disappearance from the market of medicines and inability to introduce new drugs and for drug companies, which will have to postpone or cancel investments in local production capacities.

In recent years, they say that the market disappeared almost 1.000 types of medicines in all therapeutic areas, both because of the claw-back, but also to the calculation. Head APMGR says that currently, there are 120 active trials of pharmaceutical companies on the claw-back, won at first instance, and if they will be won definitively, National Health Insurance must return differences and budgetary effort will be a huge one.

5. Conclusions

The truth is that claw-back tax is good for small producers. It penalizes the major manufacturers offering huge discounts to pharmacies. Basically fee is charged to the final price at which the drug reaches the consumer. How multinationals offering 75% discounts at pharmacies, and they sell to the consumer medicines are now obliged to pay this tax and discounts. And this is not convenient. What they forget to say is that the major manufacturers in the European Union tax discounts offered to pharmacies is 90%. Note that if a manufacturer/importer of drugs cannot pay this quarterly fee (calculated based on a formula that takes into account the market share and sales growth), when products are withdrawn from the list of compensated and free.

But this claw-back tax is not a panacea for the Romanian medical system. If it is not matched by few essential measures such as rebuilding a new list of compensated drugs and the introduction of clear criteria for their therapeutic efficiency and economical, the claw-back will only be placed in a claw-back producers, that will improve the Balance Sheet State but not human health. That is why there are some problems that were pointed out by the Association of the manufacturers of the drugs in relation to claw-back: manufacturers of generic drugs are required to pay for additions distributors and pharmacists as claw-back is calculated at retail price of drugs, which includes over producer prices and trade margins; maintaining reporting errors reported by member companies APMGR the National Health Insurance Fund (NHIF) and the total lack of transparency regarding the calculation of tax claw-back; keeping the basis for calculating the tax claw-back of drugs purchased in hospitals are reimbursed twice by CNAS hospitals are funded under the DRG system; the existence of proven fraud and counterfeit medicines into the system, resulting in artificially raising the claw-back tax; keeping prices above those of the rest of the EU for most settled 50 drugs, resulting in an increased claw-back tax.

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THE 11TH EDITION OF THE INTERNATIONAL CONFERENCE
**EUROPEAN INTEGRATION
REALITIES AND PERSPECTIVES**

The European Projects in the Support of Albanian's VET

Ermira Sela¹

Abstract: The main objectives of Albanian society are economic development and integration into the European Union. These aspirations need the acceleration of structural reforms that will allow to Albania to be adapted to modern societies. In this contest, the improvement on the role played by education, especially by VET system, is very important for the economic and social development of the country. Generally, VET is seen as a key factor in the economic growth because he equips people with the skills needed to be protagonists in the labor market. This system in Albania has undergone toward many changes in structure and content, with the aim of improving his approach to the requirements of the labor market. However, to provide a vocational education of high quality it's important to invest more in it, but the Albanian investments in this sector are among the lowest. In these conditions, the partnership with EU offers a great opportunity for the country to develop the VET system. This paper tries to show how has Albania used the opportunities that derive from integration process. The method used is qualitative. In consideration are taken the reports, studies and statistics get into the sector of vocational education.

Keywords: vocational education; unemployment; labor market; European Union

JEL Classification: I2; I29

1. Introduction

The development of globalization and changes in technology has transformed the world of work. In order to be competitive in the global market a country needs qualified workforce. So, more and more the emphasis is placed on the importance that human capital has on the economic growth. For these reasons, it is given greater significance to vocational education. He represents a field of education, which includes all those programs that are related to the development of specific skills for work. (Billet, 2011, p. 6). Precisely this is his main purpose the identification of the necessary knowledge, which increases effectiveness in a particular profession. Numerous studies have shown its positive effects. Within the socioeconomic dimension the benefits that vocational education brings to society are associated with: reducing unemployment, improving labor market, improving social cohesion, increasing productivity, improving the quality of life, etc.²

VET help in the sustainable youth employment, because in comparison with other education and training systems, is closest to the labor market, something that facilitates the transition of young people at work. So, it is seen as a tool to mitigate youth unemployment, which constitutes one of the main problems of the current societies. The latest data onto the European level indicate that, graduates

¹ Student, University of Tirana, Albania, Address: Bulevardi Zogu I, Tiranë, Albania, Tel.: 00355 69 3377371, Corresponding author: ermirasela@hotmail.com.

²Cedefop. (2011). Research paper no 10, The benefits of vocational education and training. pg.7 file:///C:/Documents%20and%20Settings/Internet/My%20Documents/Downloads/5510_en.pdf.

from vocational education are more successful in finding a job and better paid than candidates coming from general education¹.

Also, for Albania the reformation of VET system has a great importance for economic growth and social development of the country. However, the system in Albania is problematic and fails to play the proper role in the current developments in the labor market. With the aim of improving it in recent years they have been carried out some changes in its structure and contents. Changes are set to reach some targets; to create a system that will allow young people to gain a basic profession, to provide the possibility for further training and education and also to establish a large and continuous contact with the world of work. To achieve these goals, vocational education should optimally utilize financial, human and infrastructural, resources. In this circumstance, the cooperation with the European Union is a great opportunity to increase the quality offered.

2. Actual Problems of Vocational Education in Albania

Youth unemployment is a concern for Albania. This problem is often associated with unprepared individuals in comparison to the needs of the labor market. Youth (15-29 years old) unemployment rate in 2014 was 32.5%, (35.6% for males and 27.4% for females). Compared to the previous year, youth unemployment rate was increased by 5.3 percentage points². So it is important to develop the labor market with the aim to reduce the unemployment rate.

One of the solutions is to improve vocational education schools, which aim to prepare technicians and skilled workers. But, contrary to the rest of Europe the data show that vocational education in Albania faces many difficulties. This is worrisome if we consider that qualified human resources are indispensable factors to face the challenges of an increasingly competitive world. In fact, Albania's competitiveness in the regional arena is still very low and is based mainly on the factors of production costs. As we said above, the collaboration with the EU is a great opportunity to fill the gaps that VET has, in order to enhance the quality of education and training offered.

The vocational education system in Albania has undergone toward many changes in structure and content, with the aim of improving his approach to the requirements of the labor market. However, it should be noted that it continues to face a number of shortcomings which affect its quality level.

If we make a comparison with other European countries the percentage of students attending vocational schools continues to be very low. The statistics for 2007-2008 show that the percentage of students in secondary vocational schools in Albania were 19% and at European level was 62.7%³. Suffice it to recall that for the 2009-2010, students graduated from vocational schools were only 4839 compared with 29 984 students graduated from general schools⁴.

Researchers have shown that there are significant differences in the level of infrastructure construction, environment and teaching tools. The quality of specialist teachers remains a problem for many schools. Another problem of vocational education in Albania is the lack of basic criteria in determining student admission. Usually students enrolled in vocational education have very low scores school.

¹ Commission Staff Working Document. (2012). (*Vocational education and training for better skills, growth and jobs*). pg.2 <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52012SC0375&from=EN>.

² INSTAT, <http://www.instat.gov.al>.

³ *Strategjia Kombetare e Arsimit Parauniversitar 2009-2013/ National Education Strategy 2009-2013*. <http://planipolis.iiep.unesco.org/upload/Albania/Albania-Strategy-Pre-university-2009-2013-alb.pdf>.

⁴ Source, INSTAT, <http://www.instat.gov.al>.

About 69% of the students attending VET are boys, with a decrease in the number of girls. In fact, vocational education serves as a very simple way to get access to University for at least 50% of its graduates. In most cases are girls who use VET as a path to higher education, while boys mainly enter the labor market.

Investments in this sector are lower than in other countries. Mostly its financing is done from the state budget for education, while schools, economic activities or business sponsorships are negligible. The majority of the cost of education is taken by primary schools with 61% and vocational education has the lowest with only 5.9% of spending¹. Most of the vocational education funds are used to pay staff, leaving limited resources for the improvement of work equipment.

And also it should be noted that the fragmentation of the labor market is an obstacle to the development of VET system. The private sector in the country is dominated by the economic activities of small and medium size (99.2%), of which approximately 95.7% of them have from 1 to 9 employees². These businesses are less cooperative with vocational education schools, e.g. about students' practices. This position does not help vocational education to improve the quality of their programs so that they would be important to the labor market. In fact, VET in Albania is not oriented toward labor market demands, 1/3 of his pupils attend programs for which there does not exist a suitable employment market. As stated above, obviously it affects the quality of the labor force in terms of qualifications and skills.

Various surveys of business climate have shown that a significant proportion of firms admit that the lack of a skilled work force constitutes a major obstacle to business development. There are discrepancies between the skills required by businesses and graduate fields of study. For more qualifications there is little or no training, while other courses are followed up and graduates have difficulty finding work. These are the main issues to be resolved.

3. European Assistance on VET

As we noted above, integration into the EU is one of the goals of the Albanian society. In this way, the main achievement has been receiving candidate status in June of 2014. On the whole the process carries a set of criteria and conditions that must be met to become a full member. One of them is to bring Albanian legislation with the EU. Now, this condition is reflected on the new rules of the IPA (Instrument for Pre-Accession) adopted in March 2014.

A new base law is set for financial assistance instruments, in order to make sure that “assistance for pre-accession will be closely linked to the priorities of enlargement, and will be based on a more strategic approach oriented towards results of key reforms in the countries that are candidates for expansion³”. Their main demand is “decentralized management” or more accurately the full responsibility of the candidate countries for funds management. Another characteristic is that funds can be spent only in areas that have been designated by the EU as appropriate with European accession strategy. The more a candidate country approaches to the membership, the more the focus should be on projects related to areas belonging to the European acquit. Among other things, social

¹ Final Report, (2014). *Baseline Survey of Public VET Providers in Albania*.

http://www.sociale.gov.al/files/documents_files/ALB-Report-Survey-Public-VET-Provider_20_06_14_FINAL.pdf.

² Source, INSTAT, <http://www.instat.gov.al>.

³ Koeth, Wolfgang. (2014). *The new Instrument for Pre-Accession Assistance (IPA II): less accession, more assistance? p. 4*, http://www.eipa.eu/files/repository/product/20140507143645_WorkingPaper_2014_W_01.pdf.

welfare services, vocational education and training and the labor market, are priority areas to be financed by IPA funds.

In the EU-Albania partnership documents are always stated that the Albanian government should improve the education system and create a modern vocational education system. According to the Stabilization and Association Agreement (2009), in the chapter on education and training, is determined that the parties should cooperate in order to raise the level of education and training in Albania, also improve policies on youth employment.

As we have shown in this paper, youth employment is a major challenge for the country. Young people should be helped to be ready for the labor market, possessing the skills required from him. In this way, vocational education is the instrument to face this challenge and partnership with the EU is a great opportunity. The investment in construction and rehabilitation of schools is the first step to transform and improve the structure of VET. At this point, donor projects have had an important role.

Major European projects until 2008 included technical assistance for the reform in the VET system and the reconstruction of vocational schools. During this period the European Union has provided support to complete the legislation of VET and Albanian Qualifications Framework. The Albanian Qualification Framework is fully in line with European framework and giving in this way the possibility of education system in Albania to be compared with most education systems in Europe.

Various European agencies, in particular the European Training Foundation (ETF) has supported initiatives in Albania in VET sector through qualifications, guides for career, support initiatives aimed at developing human resources, etc. While through IPA funds is made possible the reconstruction and rehabilitation of many vocational schools equipped with the necessary infrastructure.

To be mentioned, during 2008 they were reconstructed 5 schools and in 2011 were rehabilitated 3 other schools in Lezha, Fier and Cerik. At a cost of 2.2 million Euros, the goal was to improve learning conditions for the students of these schools. Another IPA project in 2010 has provided technical support for the reform in the vocational education system, particularly in the preparation of national strategy in VET and the strengthening of services provided by the national employment service. This project was implemented with ILO's assistance¹. The overall IPA support over the period 2007-2013 amounts to over 24 million Euro². Other donors assisting the sector are Germany, Austria, Italy and Switzerland.

For the years 2014-2020 European assistance to Albania will focus on seven priority sectors: democracy and governance; rule of law and fundamental rights; environment; transportation; competition and innovation; education, employment and social policies; agriculture and rural development. Strategy for Albania, confirmed that IPA funds will continue to co-finance projects in strategic sectors and the negotiating chapters of membership. For example; participation in EaSI program (Program for Employment and Social Innovation) – will support government initiatives and strategies to modernize the labor market and social security, to increase the proportion of employment and social inclusion, in particular for the younger generation.

¹ European Commission, (2012). *National Programme for Albania under the IPA - Transition Assistance and Institution Building component for the year 2011*. http://ec.europa.eu/enlargement/pdf/albania/ipa/2011/1_en_annexe_part1_v3.pdf.

²Instrument for Pre-Accession Assistance (IPA II) (Indicative Strategy Paper for Albania 2014-2020). http://ec.europa.eu/enlargement/pdf/key_documents/2014/20140919-csp-albania.pdf, p. 30.

The effective implementation of European programs is provided through service contracts, TAIEX or may be implemented in combination with other donors' funding¹. The aim is to support the management capacities of Albanian institutions in order to benefit as much as possible from European initiatives.

4. Conclusions

Albania's aspiration to be part of the European family is generally based on the approximation approach to European standards; one of the most important aspects is the education. To be developed economically, to be competitive and to attract foreign investment, Albania needs a population equipped with the knowledge and skills required by the labor market. The Reformation of the vocational education system has a huge impact on economic growth and social development of the country. However, from the above, the VET system in Albania continues to be problematic.

It should be noted that VET schools do not offer an attractive environment to the students because they do not possess the necessary resources both material and human. In the vocational schools are mainly enrolled students who have not been enrolled in other high schools, as a result the quality of this sector is weak. The lack of qualified teacher and administrators has negatively affected the quality of VET. Financial dependency, has become an obstacle for proper implementation of professional practices. The relationship between vocational schools and the business is weak, etc.

Researches done in this area show that the VET system needs changes to increase its quality. This requires close cooperation between the various levels of the education system and society. Objectives are clear: we need to invest in human resources, improving vocational policies, investing in construction and rehabilitation of schools, etc. In this context, cooperation with the European Union is an important factor for the development of rapid and sustainable VET.

As we said above, despite the progress made, the challenges in this sector are numerous. In order to improve access and quality of education and training for young people is necessary that the objectives set in VET system must be linked with economic and regional development goals.

In this work we have tried to show what Albania has benefited from European investments in this sector. We have made a brief description of the main European projects, but obviously this paper is not exhaustive. Other works are needed to be carried out in order to assess the results achieved and recognize other issues that require solutions.

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