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The Impact of Institutional Obstacles and Facilitators on Innovative Firms in Kosovo

Albulena Kadriu

Abstract

The main aim of this study is to investigate the impact of institutional obstacles and facilitators on innovative firms in Kosovo. In addition, we explore how the European and regional cooperation schemes help innovative entrepreneurs in Kosovo gain access to missing resources, financial capacities, and develop current institutional framework.

Keywords: The Impact of Institutional Obstacles and Facilitators on Innovative Firms in Kosovo

Introduction

Theoretical and conceptual issues

Institutional theory views SMEs as entrenched in institutional arrangements (Busenitz, Gomez and Spencer, 2000). These institutional arrangements impact the activities of organizations and individuals in subtle but wide-ranging ways (Scott, 1995, 2002), which in turn affect SMEs decision making to develop and produce (Lau, Tse and Zhou, 2002; Hitt, Ahlstrom and Dacin, 2004) and strategies (Peng, Wang and Jiang, 2008).

This theory assumes that institutions are relatively stable over time and, in fact, can be difficult to change (Brint and Karabel, 1991). Thus, in much of the research for developed economies, the time frame examined may include multiple decades, but in transition economies, change can be more compacted and dynamic. Thus, the typical perception of institutions as static and unchanging is not appropriate for transition economies since they have experienced an emphasized institutional upheaval in a short time (Newman, 2000). One of the main factors for this dynamic change and deinstitutionalization is the cooperation of local firms with international partners (Scott, 2002). The process of deinstitutionalization happens due to different sets of values, practices and systems of partners who find it difficult to integrate them to a common framework without implementing additional adjustments (Parkhe, 2003). The deinstitutionalization and weakening of current institutions lead to a search for re-institutionalization of new adjustments and solutions acceptable by both partners. Although, the presence of international alliances initially weakens current institutional framework, in long term institutions improve because organizations tend to model themselves after similar organizations which are perceived to be more legitimate or successful (Powell and DiMaggio, 1991).

Previous studies have shown that network created by cooperation of firms with each other can increase the creativity and the performance of firms (Powell, Koput and Smith-Doerr, 1996). Firms use networks to gain access to missing resources (Spekman, Isabella and MacAvoy, 2000; Rothaermel and Boeker, 2008) financial capacities, research and development facilities (Premaratne, 2001) and referrals and contacts (Stuart, Hoang and Hybels, 1999). In addition, network boost the ability to compete (Pfarrmann, 1998), increase economies of scale and scope (Gomes-Casseres, 1997), collaboration, learning and opportunities (Hamel, 1991; Massa and Testa, 2008) and efficiency (Ahuja, 2000).

However, firms that are part of network or alliances have to face challenges as well. For example, they can be seized by the larger firm (Alvarez and Barney, 2001) or lose control when cooperating with them (Gomes-Casseres, 1997). In this context, alliances offer opportunities for cheating, poor investment in joint projects, and no fulfilment of responsibilities and commitments (Ahuja, 2000). Despite these network weaknesses, SMEs understand that it is crucial to build a complex network that enables different domestic and international participants to share knowledge, benefit from complementary competencies (Bullinger, Auernhammer and Gomeringer, 2004) and survive market competitiveness (Dodgson, Gann and Salter, 2006). Finally, foreign firms provide to local SMEs new ideas that help them enter market with new products (Liefner, Hennemann and Xin, 2006).

Data collection

To critically investigate the impact of institutional obstacles and facilitators on innovation and explore European and regional cooperation schemes of innovative entrepreneurs in Kosovo we will be using interviews as a qualitative method. This approach starts from the expected relationships as identified in the existing literature and involves a movement from theoretically derived propositions to the collection of data with which to test those propositions.

Considering that structured interviews reduce the opportunity to extract more information and validate the researcher's preference (Gray, 2013), I have decided to use semi-structured interviews, in which the researcher allows respondents to disclose more information on their own. Semi structured interviews aim to collect qualitative data and act as a guideline to the interviewer, while allowing a certain degree of control to the researcher. Initially, 40 interviews designed as per existing protocol in literature (Gray, 2013; Easterby-Smith, Thorpe and Jackson, 2012) are planned to be conducted. This number may change referring to that point at which we sense we have encountered the amount of repetition that gives us the confidence to write and make analytical generalisations (Baker, Edwards and Doidge, 2012).

Methodology

The approach to be adopted for data analysis will be based on the instructions generated by earlier researchers (Creswell, 2003; Denzin and Lincoln, 1998). Initially raw data obtained from the questionnaires will be coded for descriptive statistics. In addition the process will continue through following steps: reading through the data, underlining themes and making notes to get an overall sense of its meaning. Initially emerging themes will be noted and categories will be formed with respective codes attached.

The analysis of qualitative data will be compared through a matrix that has the key themes generated from theory and prior research. In the second step, the grouping and generation of concepts will be done. Mapping and interpretation will be done in the third stage, where similar cases will be grouped. In the final step, the results in narratives including quotes lifted directly from the framework matrix to support my arguments will be written up.

Research Plan

Research plan	May 2018	June 2018	July 2018	August 2018	September 2018	October 2018	November 2018	December 2018
Kick off workshop in Thessaloniki, Greece								
Literature review								
Conceptual Framework and theoretical model								
Design of Semi-structured interviews and data collection								
Data analysis								
Results								
Discussions								
Revision and submission								

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Impact of Unemployment on Economic Growth: Evidence from Western Balkans

Diellza Kukaj, MSc

Abstract

The main purpose of this paper is to investigate the relationship between unemployment and GDP growth in 7 countries of Western Balkan; precisely it studies the relationship of GDP-growth as a dependent variable with unemployment, foreign direct investment, and remittances as independent variables. The high unemployment rate in the Western Balkans is one of the main challenges those countries face, whereas unemployment together with GDP-growth represents the fundamental indicators of the level of capacity utilization and economic development. Those problems reflect economic stagnation and the inability to utilize available production capacities, causing a decline in the standard of living for the population. The paper studies the unemployment problem during 2001-2015 as a base study and the labor market of the Western Balkans, as a comparative model between these countries. The data have been processed in the STATA 12 program and these tests were applied: Effective Effect Model, Random Effects Pattern, Hausman Taylor Recording. The study also comprises secondary data gathered from official institutions of local and international statistics. Based on the empirical results it is found out that there exists a trade-off between unemployment and economic growth in Western Balkan countries, meanwhile, the model suggests that an increase by one percent point of unemployment will reduce GDP-growth by 0.5 percent points.

Keywords: unemployment, economic growth, Western Balkans, OLS method, STATA12

Introduction

The problem of economic growth and unemployment is certainly one of the most important issues in the world that constitutes an essential study sphere in the field of macroeconomics and econometric research. If the level of production drops, its effect will be sequential in some indicators ranging from rising unemployment, low level of income, low level of consumption, and consequently an additional decrease in output. Therefore, the main scope of the legislators from around the world is to keep the unemployment rate within the lowest possible limits because it represents one of the key indicators of success or failure of socio-economic policies.

For the very first time, the relationship between unemployment and GDP growth has been examined and considered by Okun(1962) suggesting that there is a negative relationship among these variables, such as real productions and level of unemployment, later on, known as Okun's law in the economy. (Fischer, 2000) Okun Law presumes that in periods when economic growth is above 2.5%, for every 1% increase in output level, it causes a drop in unemployment by 0.5%. (Guisinger, 2018) The main intention of this research is the review of the relationship between unemployment and GDP growth, and other indicators that are part of the model, besides this the results of the test show the impact of each variable to see the power of their effect on GDP on Western Balkans. To answer the research question there are submitted two hypotheses: H1-There is an inverse relationship between unemployment and economic development, reduction of unemployment rate affects economic growth and H2-There is a positive relationship between GDP, remittances, and FDI. To determine the validity of the hypotheses presented it will be implemented the method of ordinary least squares OLS respectively the regression analysis, within which hypotheses submitted will be confirmed or rejected.

Literature Review

Gross Domestic Product known as GDP is one of the main concepts of macroeconomics, that determines and measure the ultimate value of goods and services produced within a year or quarterly in a country precisely in the economy of it. (Rudiger Dornbusch) Researchers attest that in order to make a real comparison of real GDP it must be adjusted to inflation

and this indicator is also included in this research as a macroeconomic indicator in order to accomplish this alignment. The correlation between unemployment and economic growth has been documented enough, both in the local and world literature. Unemployment is known as a negative phenomenon that shows the different economic and social dimensions of a country. Many articles, scientific publications, and other publication of science character were published by various authors who tested the effects of unemployment on economic development. Literature is progressively developing over macroeconomics assumptions that unemployment respectively unemployment crisis has a negative impact on the economy, among others; numerous of the authors studies unemployment effects on society. Therefore, the economic and social dimensions resulting from unemployment make it more complex and consequently lead us to investigate some factors to understand its nature and its influence on economic growth. Theoretical analysis of unemployment represents the level of employment as a workforce associated with the degree of success, which together is linked to economic growth. (Al-Hamdi, Mohaned and Alawin, Mohammad, 2016) Unemployment is categorized as one of the most serious barriers to prevent economic progress. (Akinboyo, 1987) and (Raheem, Mufutau Iyiola, 1993) explained that besides the fact that unemployment encourages livelihood in the street, an area in which individuals are inclined to commit criminal offenses against the law, it represents a huge loss of labour force of a country; it produces poverty in the sense that the lowest the output will be, the lower the revenue and the poorer the welfare will be.

Human capital influence productivity and profitability, and it explain the scope and changes in earnings between individuals. In this way, the human capital is the one that influences the opportunity of being employed or not. Despite the opinion that countries in transition have a high level of dominance, evidence has shown that those countries are worse in terms of the quality of labor force. (Hoti, 2003)

Estimation of the impact of FDI on the unemployment rate in Malaysia during 2009, ascertained that in economic growth contribute the level of foreign direct investment. (Irpan, 2016) The author has aligned all the macroeconomic variables of which he came to the conclusion that the growth of FDI contributes on employment rate, which increases the output and so that indicates in GDP growth of a country. (Stephen, 2012) also investigated the impact of unemployment on economic growth in Nigeria during the period 1980-2008. To develop his model, the author applied the Cobb-Douglas production function, by using ordinary least squares (OLS). He found that the unemployment rate varies significantly and vice versa during economic growth. Moreover, the results showed that some macroeconomics indicators contribute on in economic growth of Nigeria whereas some of them do not. In simple terms, he has shown that money supply growth mobilizes savings, increases capital formation and consequently causes the increase on domestic production

However, the high level of unemployment and the prolongation of the unemployment crisis proved to have had a negative impact on the economy, which means that unemployment crises do not favor economic growth. World Bank in its report regarding unemployment crises for Western Balkans, conducted by regression, assessed the relationship between unemployment and economic growth, and based on empirical results came to the conclusion that an increase of 1% of GDP is associated with 0.37% decline in the unemployment rate in the Western Balkans and 0.25% in the developed countries of Europe thus, suggesting the negative relationship between economic growth and unemployment. (World Bank, 2017)

Data and Methodology

Evidence of macroeconomics indicators in Western Balkan states

Western Balkans countries are situated in the southeastern part of Europe, and consist of seven states Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, and Serbia. As a consequence of a non-stable situation, shifting from one form of government to another, respectively socialism to capitalism and democracy, aiming integration and convergence with merging states of UE, made those countries to face many difficulties during state reconstruction. (Murgasova, 2015) The early wish for the embracing of European economy made many reforms that came as basic conditions for achieving the convergence, initiated by transforming on labor economy, liberalization of prices, privatization of state and socially owned enterprises, and the construction of institutions that support the market Economy. The unstable situation in the country, many factors as political, social and cultural, made the process of transformation and integration not uniform for all states.

Those all resulted in destabilization of macroeconomic indicators, among others, the World Bank estimated that large amounts of physical capital destroyed and the Yugoslav federation's market collapsed. Most of the economies between

1991 and 1993 experienced high-level recessions, which has provided negative double-digit ratios of economic growth indicators (Murgasova, 2015), among them Albania has recorded a negative GDP rate of -28%, Serbia -11% in 1999 and Macedonia -8% in 1993, the data for other years are given in Table 1. However, the latest IMF report on the Western Balkans shows that the last decade these states have made progress, which has contributed to raising the standard of living for the residents of these countries. (Bakker, 2015). However, this increase for many global organizations, among them World Bank considered that it has been able to be as a result of global liquidity (large capital incomes entered from abroad), rather than the real progress of economic reform. Evidence for this was the consistently high double-digit unemployment rate, which the same has also been during the peak of economic expansion, indicating that the rate of productivity in those places were quite low.

Economic growth is presented of GDP often conceptualized as the increase in output or as an increase in the capacity of the economy to produce goods and services that are needed to decrease the rate of poverty. GDP is monitored by policymakers and public too, moreover, it is seen as a stable process that involves the growth of good and services in an economy. (Ahmet Manchellari, 2007) Today more than ever economic security is one of the most challenges that the Western Balkans faces. Poverty together with the continuous high unemployment rate has threatened till now everyday economics security of countries in the region. The minor number of workplaces and high rate of unemployment are main concerns almost of all Balkan countries. The socio-economic perspective of these countries with a rate of employment of 50% and a double-digit unemployment rate leads to a number of challenges that hamper growth, economic growth, and long-term EU integration goals. (IMF, 2011). The table below shows that until 2009 Albania, Croatia and Serbia marked the greatest progress of economic development. Furthermore, Albania and Kosovo were the only countries that have not felt the impact of the crisis, without having very large fluctuations in the GDP indicator due to the low exposure of Kosovo and Albanian's economy to global markets. However, this trend doesn't seem to last long, IMF considered that this process has started to serve only for personal interests and that the economic growth of Western Balkans was a result of wide global liquidation and unstable capital incomes rather than economic growth as a result of the transformation of the economy. (IMF, 2016) Besides the fact that century-old disagreements between states and transition process that all those countries have gone through caused negative changes on those countries, it is also said that the geographic position away from the EU core countries, is preventing the access to the supply chain of the German economy. (Bakker, 2015).

As it mentioned earlier, Western Balkans constantly has been characterized by a low rate of employment and double-digit rate of unemployment. The high and continuous rate of unemployment has become an obvious feature of the labor market in the region. Regarding this, another feature of these countries is the large size of the informal sector. (WorldBank, 2017)

The World Bank in co-operation with the Vienna Institute for Economic Studies estimated that the high rate of international migration plays an important role in mitigating the unemployment problem and is considered to be an important source of incomes. However, in addition, almost the whole region is threatened by a decline in the population resulting from low birth rates and high-rate emigration. (The Vienna Institute for International Economic Studies, Labor Market Trends) According to the economic report of the Western Balkans, the regional economic growth of 2.8% in 2016 and 3.2% in 2017 has contributed to the increase in creating job places and consequently the reduction of the poverty. The World Bank report (2016), shows that the rate of poverty in these countries has fallen 2 percentage points of each state. (WorldBank, April 6, 2017) World Bank also have reported that Western Balkan countries have increased employment by creating roughly 300,000 jobs since 2010 to 2016 (from 5.5 million in 2010 to 5.8 million in 2016) which means a 6% increase on employment rate in Western Balkan in general. Evidence shows that although with the reduction in the unemployment rate, the high rate of inactivity especially among women, young people, and individuals with low education, remains a top priority concern for these countries. (WorldBank, April 6, 2017)

Table 1: Western Balkan's macroeconomic indicators through 2001-2015

country	Kosovo														
year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
gdp/cap	26.9	-0.8	5.9	2.5	6	3.7	6.4	1.8	2.5	2.5	3.7	2	2.7	1.5	4.8
unemp								47.5	45.4	46.7	45.3	30.9	30	35.3	32.9
inf			-1.1	-1	-1.4	0.6	4.3	9.3	-2.4	3.5	7.3	2.5	1.8	0.4	-0.5
fdi				1.5	3.6	9.1	12.5	9.4	7.2	8.3	8.2	4.5	4.9	2.7	5.6

rem				17	18.8	18.9	19	18.3	18.7	17.1	16.8	16.3	15.9	16.1	16.7
country	Albania														
year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
gdp/cap	9	4.5	6.2	6.2	6.3	6.1	6.7	8.4	4	4.2	2.8	1.6	1.2	1.9	3
unemp	22.7	13.4	12.7	12.6	12.5	12.4	13.5	13	13.8	14.2	14	13.9	16	16.1	
inf	3.1	7.8	0.5	2.2	2.4	2.4	2.9	3.3	2.3	3.6	3.4	2	1.9	1.6	1.9
fdi	5.1	3	3.1	4.7	3.2	3.6	6.1	9.6	11.2	9.1	8.1	7.5	9.8	8.7	8.7
rem	17.2	16.5	15.5	15.9	15.8	15.1	13.7	11.6	10.9	9.7	8.7	8.3	8.55	8.6	9.2
country	Bosnia														
year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
gdp/cap	4.2	-5.1	3.8	5.9	8.5	5.2	5.7	5.5	-2.8	0.8	1	-0.8	2.5	1.2	3.2
unemp	27.6	24.6	26	28.3	26	31.8	29.7	23.9	24.1	27.2	27.6	28.1	27.4	27.9	
inf						6.1	1.5	7.4	-0.4	2.2	3.7	2	-0.1	-0.9	
fdi	2.1	4	4.6	8.9	5.6	6.6	11.7	5.3	0.8	2.6	2.5	2.3	1.7	2.8	1.8
rem	26.1	22.5	20.8	20.5	18.1	16.7	17	14.2	12.1	10.6	10.5	10.7	10.8	11.4	11.1
country	Croatia														
year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
gdp/cap	3.1	5.2	5.6	4.1	4.1	4.8	5.2	2.1	-7.3	-1.4	2.9	-1.9	-0.8	0	2
unemp	20.5	15.1	13.9	13.7	12.6	11.1	9.6	8.4	9.1	11.8	13.4	15.8	17.3	16.7	
inf	3.8	1.7	1.8	2	3.3	3.2	2.9	6.1	2.4	1	2.3	3.4	2.2	-0.2	-0.5
fdi	4.2	3.5	5.3	3.1	4	6.5	7.6	7.4	5.1	2.4	2.3	2.6	1.6	6.9	0.3
rem	4	4.1	3.8	3.7	3.4	3.1	3.1	2.9	3	3.2	3.4	3.7	3.8	3.8	4.3
country	Macedonia														
year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
gdp/cap	-3.5	1.1	2	4.4	4.5	4.9	6.3	5.3	-0.5	3.2	2.2	-0.6	2.8	3.4	3.5
unemp	30.5	31.9	36.7	37.2	37.3	36	34.9	33.8	32.2	32	31.4	31	29	27.9	
inf	5.2	2.3	1.1	0.9	0.2	3.2	2.2	8.3	-0.7	1.5	3.9	3.3	2.8	-0.3	-0.3
fdi	12.7	2.8	2.4	5.4	2.3	6.2	8.8	6.2	2.8	3.2	4.8	3.5	3.7	0.5	2.9
rem	2	2.6	3.5	3.7	3.6	3.8	4.1	4.1	4	4.1	4.1	4	3.5	3.2	3
country	Montenegro														
year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
gdp/cap	0.7	1.5	2.1	4.2	4	8.4	10.5	6.7	-5.9	2.3	3.1	-2.8	3.4	1.7	3.1
unemp	21	21	21.1	19.3	19.5	18.2	19.4	16.8	19.1	19.7	19.7	19.6	19.5	19.1	
inf						2.9	4.3	8.7	3.5	0.6	3.4	4.1	2.2	-0.7	1.5
fdi		5.6	2.9	3.2	22.2	23.1	25.6	21.6	37.4	18.3	12.3	15.1	10	10.8	17.6
rem							5.3	6.6	7.3	7.3	7.6	8.1	9.5	9.4	9.6
country	Serbia														
year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
gdp/cap	5.2	7.2	4.6	9.3	5.9	5.3	6.3	5.8	-2.7	1	2.2	-0.5	3.1	-1.4	1.2
unemp	12.8	13.8	15.2	18.5	20.8	20.8	18.1	13.6	16.6	19.2	23	23.9	22.1	22.2	

inf	95	19.5	9.9	11	16.1	11.7	6.4	12.4	8.1	6.1	11.1	7.3	7.7	2.1	1.4
fdi	1.4	3	6.9	3.9	6	13.9	11	8.2	6.9	4.3	10.6	3.1	4.5	4.5	6.3
rem						9.3	7.2	10.9	10.4	8.5	8.7	8.8	8.3	9.1	

Source: World Bank national accounts data, and OECD National Accounts data files-
<https://data.worldbank.org/indicator/NY.GDP.PCAP.KD.ZG>

Methodology

The ratio between these variables was calculated by Stata 12 a software program that does the econometric analysis. The study includes the quantitative approach to testing hypotheses and theories; while the research structure incorporates: Data collection - the data used for this study were obtained from International Monetary Fund (IMF) and the World Bank for the period 2001-2015. The research was conducted by calculating the regression respectively the method of Ordinary Least Squares, as one of the most powerful methods for calculating the regression analysis. In order, the analysis to be more meaningful and more fulfilled, in the study were involved three other important and influential indicators in economic development such as inflation, foreign direct investment, and remittances. The study includes a total of 7 Western Balkan countries over the period 2001 -2015. The countries participating in the analysis are Kosovo, Albania, Bosnia, Croatia, Montenegro, Macedonia, and Serbia. First, there is tested the unemployment effect on GDP separated from other parameters through linear regression, meanwhile, in the second part, used models of evaluation: Random and Fixed, in context of the dependent variable analysis it is GDP, while independent variables are unemployment, foreign direct investment, and remittances.

Regression terminology

On the left side of the equation, there are submitted dependent variable, predicted or the clarified variable, whereas, on the right side of the equation the independent variable is represented or explanatory. In our case the dependent variable is GDP/cap, meanwhile, dependent variables are indicators such as unemployment, inflation, foreign direct investments, and remittances.

$$Y = \beta_1 + \beta_2 X + u$$

y- Is variable by random selection or random two components

Deterministic: $E(Y) = \beta_1 + \beta_2 X$ (known as **y** average)

Random: $u = Y - E(Y) \Rightarrow u = Y - \beta_1 - \beta_2 X$ (known as the stochastic error and shows that there are other factors too that affect the dependent variable, in our case GDP is affected by other indicators besides unemployment rate).

To test the variables there are applied some of the statistical tests are applied such as Fixed effect model, random effects model, and Hausman Taylor regression. The purpose of the tests is to compare the results that are approximately the same. And finally, based on the outcome, it is specified which model is best and should be used for research.

4. Empirical Results and Interpretations

The following equation shows the estimated results that are presented further in tabular form. Regression analysis made it possible to check the validity of the hypothesis: H1-There is an inverse relationship between unemployment and economic development, reduction of unemployment rate affects economic growth and H2-There is a positive relationship between GDP, unemployment, remittances, and FDI submitted at the beginning of the paper. Since transformed coefficients in a logarithm can easily be interpreted, variables have been converted into a logarithm form. Results from the linear regression that initially have been estimated through statistics program are presented below.

Figure1. Regression of GDP/cap and unemployment

. regress lngdp lnppap

Source	SS	df	MS	Number of obs = 76		
Model	1.93062514	1	1.93062514	F(1, 74) =	5.24	
Residual	27.2749728	74	.368580714	Prob > F =	0.0250	
				R-squared =	0.0661	
				Adj R-squared =	0.0535	
Total	29.205598	75	.389407973	Root MSE =	.60711	

lngdp	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
lnppap	-.3897828	.1703099	-2.29	0.025	-.7291327	-.0504328
_cons	2.446342	.5233767	4.67	0.000	1.403491	3.489193

$\ln GDP_{cap} = B_1 + B_2 \ln(\text{unemployment}) + u$

y- Represent GDP/cap, B₁- constant coefficient, B₂ – partial coefficient of estimation and u – standard error. The result in the form of equation can be written as:

$\ln GDP_{cap} = 2.446342 - 0.3897826 \text{ unemployment}$

Table2. Impact of unemployment on economic growth in Western Balkans.

Linear Regression - GDP/cap , Unemployment	
Number of obs	76
F(1, 74)	5.24
Prob > F	0.025
R-squared	0.0661
B1	B2
2.446342	-0.3897826
p> t	p> t
0	0.025

Note: In the model of dynamic panel - one step difference GMM tests the relationship between GDP/cap, unemployment, FDI and remittances.

In this part was calculated only the effect of unemployment in the GDP in Western Balkan. Referring to (Table2.) prob > F = 0.0250 represents the value of P model. From the gained result (P<0.05), can be concluded that there exists a relationship statistically significant between unemployment and economic growth. R-square= 0.061, shows that 6% of variation is explained by unemployment having in consideration that in the level of GDP affect a large number of other macroeconomic factors who do not participate in the model, so that the low degree of explanation of variation in the model is due to the lack of other key factors.

The result of empiric research suggests that unemployment has a negative impact on economic growth in Western Balkan countries, which implies that the increase in the unemployment rate affects the decline in the level of gross domestic product. Hence in figures, an eventual increase in unemployment of 1% will cause a decrease in the level of GDP/cap for 0.38978 %. Whereas, the constant B₁ =2.446342 shows the level of the GDP/cap when the other parameters, in our case unemployment, is at zero level.

From the regression result it is found that the coefficient p>|t| = 0.02 being below the level 0.05, conclude that the model has large significance so that we drop the zero hypothesis and admit submitted hypothesis H₁; which admit that there is an inverse relationship among unemployment and economic development, reducing the unemployment rate affects economic growth. This implies that a healthy economy requires the creation of new jobs to meet the growing economy,

always paying close attention to inflation risk. Further on in the second model, since more models are included, the model represents the most realistic state of the Western Balkan economy.

Table3. Random and Fixed effect tests results (Impact of unemployment, foreign direct investment, and remittances on Western Balkans economy).

	Random Effect		Fixed Effect
	Model (1)		Model (2)
GDP/cap	1.738	(0.03)	-0.9205 (0.4)
FDI	1.796	(0.1)	0.3776 (0.002)
UNEMPLOYMENT	-0.318	(0.06)	-0.5794 (0.001)
REM	0.082	(0.4)	1.5523 (0.000)

Note: In the model of dynamic panel - one step difference GMM tests the relationship between GDP/cap, unemployment, FDI and remittances.

Referring to (Table3.) the Dynamic panel – one step difference GMM model tested the relationship between GDP/cap, unemployment, FDI, and remittances.

Figure2. Fixed-effects (within regression).

```
. xtreg lngdp lnihd lninp lnrem, fe
Fixed-effects (within) regression      Number of obs   =       65
Group variable: code                  Number of groups =        7
R-sq:  within = 0.3896                 Obs per group:  min =        6
      between = 0.0316                   avg =       9.3
      overall  = 0.0348                   max =       14
corr(u_i, Xb) = -0.9309                 F(3, 55)        =      11.70
                                          Prob > F         =      0.0000
```

	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
lnihd	.377648	.1175028	3.21	0.002	.1421671 .6131289
lninp	-.579413	.4014156	-1.44	0.155	-1.383668 .225042
lnrem	1.852312	.2972669	5.22	0.000	.9565759 2.148048
_cons	-.9205191	1.310542	-0.70	0.485	-3.546905 1.705867
sigma_u	1.063902				
sigma_e	.48435846				
rho	.82831706				(fraction of variance due to u_i)

```
F test that all u_i=0:      F(6, 55) =      5.23      Prob > F = 0.0003
. estimate store fixed
```

As (Figure2.) shows the model's proof that these three variables represent a small part of the general level of GDP; nevertheless, as the macroeconomic theory explains, the model shows that there exists significance between the three parameters. Hausman test attests which hypothesis stands, so that based on the results the coefficient chi (2) = -43.74 indicate that fixed model is more appropriate than random one which is also shown both on the regression model in the appendix. The Fixed model made also presented on the appendix, explain precisely the relation between GDP, unemployment, FDI and as such confirms the hypothesis presented in the beginning H2/1 which imply a positive relationship between GDP, remittances, and FDI that is also in compliance with the theory and so that we drop zero hypothesis.

Referring (Table3.) respectively model 2, B2 coefficient shows that for every increase for 1% of FDI, GDP/cap will increase on average from 0.037% (B2) presuming that there is a positive relationship between GDP and FDI in the Western Balkan countries. Results show that in the Western Balkans foreign direct investments are a contributor to economic growth, by

expanding productivity growth; it is therefore suggested to create favorable conditions for the promotion of foreign direct investments. Countries with faster economic growth increase demand for foreign direct investment also create space for more profits, also resulting in the increase of jobs places.

The coefficient $B_3 = -.579413$ shows that every increase of unemployment level of 1%, will cause averagely 0.5% the decrease of GDP/cap. And the last one, $B_4=1.5523$ shows that every increase of 1% in the remittance level affect approximately 1.5% on the GDP growth, which implies that there is a positive relationship between remittances and unemployment. As Table 1. shows that the remittance rates in the Western Balkan countries are not in a low rate, also the regression analysis suggests that the growth rate of remittances increases consumption and as a result affects the GDP growth rate. However, the Western Balkans regular economic report shows that high remittance rates may also have an impact on the growth of individuals' incomes that may cause lack of motivation to work; therefore, there should be a mature caution for the damage which may occur in the labor market.

Conclusion

The purpose of every economy is to build strong macroeconomic policies aimed at full employment, price stability, and usage of capacity of production that will generate a high level of economic growth. Regarding the relationship between unemployment and economic growth, precisely, the relationship between unemployment per capita in the Western Balkans results of testing found out that there is a statistically significant relationship between unemployment and economic growth. The result of the empirical research suggests that unemployment has a negative impact on the economic growth. From the research is it found that six Western Balkan countries face many difficulties in trying to preserve the macroeconomic stability of the country and the model suggests that an increase by one percentage point of unemployment will reduce GDP-growth by 0.5 percent points. However, because the model strength and variables interaction are greater if the study includes more components, there was also analyzed the effects of remittances and foreign direct investment in GDP/cap. The results show that for any 1% increase of FDI, the GDP ratio will increase on average by 0.037%, which means that there is a positive relationship between GDP and foreign direct investment. Results have also shown that every increase of 1% in the remittance level affect approximately 1.5% in the GDP growth, which implies that there is a positive relationship between remittances and unemployment.

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Appendix

. hausman random fixed

	Coefficients		(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
	(b) random	(B) fixed		
lnihd	.1796837	.377648	-.1979643	.
lnpap	-.3180261	-.579413	.2613869	.
lnrem	.0820759	1.552312	-1.470236	.

b = consistent under Ho and Ha; obtained from xtreg
 B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B)
 = -43.74 chi2<0 ==> model fitted on these
 data fails to meet the asymptotic
 assumptions of the Hausman test;
 see [suest](#) for a generalized test

Social Enterprises like the Right Step for Economic Development for Kosovo

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Abstract

Over the last few years, social enterprises have created a new social and developmental concept with a rapid growth seen by Kosovar society as a new form of doing business, but rather well organized and contributing to economic and social development, as one of the most fair forms for society in equitable capital use that provides opportunities to all individuals, groups and communities regardless of their needs and capabilities. How we should conceptualize social enterprises, they are enterprises that combine social purpose with the spirit of the entrepreneur. Social enterprises are enterprises that provide profits, but entrepreneurs make this profit and re-invest in products and services they provide to achieve a wider social impact in the community they serve and act. The activity of social enterprises is diverse, contributing to the social inclusion of the marginalized groups of the society in order to increase employment and increase the incomes. Therefore in Kosovo, the development of social enterprises is still in its initial stage of development. The first social enterprises have started their activities recently with the help of donor organizations. In the absence of a law on social enterprises, they operate with a non-profit, less lucrative status. For the promotion and creation of social enterprises, especially at this stage, we aim at sustainable economic and social development, where as part of this it can play the role of supplier in the in Kosovo's internal market. The purpose of this paper is to shape the theories and best practices of social enterprises as one of the main goals of development and creation of a better economic environment for the disadvantaged society for employment in these social enterprises. In Kosovo, as in many countries in Southeast Europe, there is an increase in the involvement of non-profit organizations in economic activities, which aim at integrating disabled persons as well as providing services to the benefit of society.

Keywords: Social Enterprises, Economic Development, Market, Employment, Kosovo

Introduction

Social enterprises development has come day by day, and now in Kosovo are more familiar with these initiatives, originating from several years ago, by fruitful cooperation with European and world institutions. The Law on social enterprises in Kosovo has been done to promote the employment of these categories based on the practices of the Croatian state as well as Scandinavian countries that financially supports the European Union. The adoption of the Law on Social enterprises will reduce unemployment in the country. It will have a direct impact on "Fighting Poverty and Women's Employment" as it has affected even some other countries through this Law.¹

Responsible institutions such as universities, research institutes should initiate social initiatives as much as possible, and express concern about the creation of appropriate legislation in this area in Kosovo. Therefore, the academy has the task not only to focus on contributing to scientific knowledge, but to identify tools to apply to concrete initiatives in the market.

¹ Koncept dokument për ndërmarrjet Sociale - http://www.kryeministri-ks.net/repository/docs/KD_rregullimi_i_fushes_per_ndermarrjet_sociale_-_MPMS.pdf (02.04.2018).

And, the better we are in the business sector, the more we give the spirit of economic development. The development of social enterprises in Kosovo is seen as a potential for job creation for disadvantaged groups, so this initiative aims to provide a very good opportunity for the development of social enterprises in our country as well as their impact on social development and economic, identify the characteristics that bring development and assessment of the capacities of these vulnerable groups, given that Kosovo is still in the development phase and suffers from the high number of unemployed in the country.

One of the opportunities that may be in social enterprises is that of the Creative Economy, generally from young people or women, girls with craftsmanship or other creative ideas, made by themselves. Social enterprises in Kosovo are seen as a stimulating mechanism for employment of marginalized groups, those with disabilities, individuals in remote rural areas, women, girls with no problems.

1. A general concept of social entrepreneurship development

Social economy and especially social enterprises as part of it have an important function as suppliers in the market. They contribute to the reallocation of resources and to the favorable transformation of the social welfare system. Moreover, social enterprises help to fight social exclusion and support local economic development. This sector is recognized in Europe as one of the important sectors that provide employment. In Europe there are over 160,000 social cooperatives with about 5.4 million employees (European Commission, 2013). The creation of new jobs by social enterprises provides in the first place the integration of different groups of society into society and, secondly, diversified services.

The concept of social enterprises in Europe first appeared in Italy in the early 1990s, represented by co-operatives, roughly at the same time in the United States (USA) (Defourny & Nyssens, 2008, Dees, 1998a, Dees, 1998b) and the United Kingdom (Leadbeater, 1997). The creation of social enterprises was driven by the gap that existed between the business sector that increased assets and reduced income, reduced productivity and social sector reputation (Drayton, 2002). Today, no state is attributed to the exclusivity of social enterprise creation, as they are scattered all over the world (Mair & Marti, 2006). Social enterprises are seen as hybrid entities combining non-profit purpose and social values with business practices related to the management and use of economic resources (Austin et al., 2006). This dualism was created by Dees (1998a) as "double reality". Social enterprises face two types of organizational, non-for-profit and profitable forms. These forms are conditioned by social entrepreneur motivation and institutional ambiguity over what determines the appropriate organizational form (Townsend & Hart, 2008).

There are two schools of thought on the concept of social enterprises, also defined by geographical boundaries. The European School defines social enterprises as hybrid types, combining income earned from mission-related services, philanthropic donations, and volunteering (Defourny & Nyssens, 2008). The American School sees socially-owned enterprises as exclusively non-profitable and under the conditions of limited funding sources become innovative in their revenue-generating efforts by being involved in a revenue-generating strategy.

The legal form of social enterprises may vary and is not important in its activity. As Townsend and Hart concluded (2008), socially-organized social enterprises conducted the same activities as non-for-profit activities. The legal form is only a social entrepreneur's decision based on the convention that a given institutional form provides for the fulfillment of the social purpose. Among academics and practitioners' discussions about what social enterprises are, the European Commission (2011) offers a description based on principles rather than a single, inclusive definition. According to this description social enterprises are enterprises:

for which the social or social objective for the common good is the reason for the exercise of lucrative activity, often in the form of high level social innovation,

which reinvest the profit with the goal of achieving the social objective,

and where the method of organization or ownership system reflects their mission, using democratic principles and participation or focusing on social justice.¹

¹ Austin, J., Stevenson, H., & Wei-Skillern, J. (2006). Social and commercial entrepreneurship: Same, different, or both? *Entrepreneurship Theory and Practice*, 30(1), 1–22

Within this framework of principles, the European Commission (2011) considers social enterprises "businesses that provide social and / or good services and services to vulnerable groups ... and / or ... businesses with a production method of goods and services with a specific objective ... but whose activity may be outside the sphere of provision of goods or social services".¹

2. Social Entrepreneurship Development in Kosovo

Generating jobs especially for certain categories that are often cost-per-country, it is difficult to fully secure from private businesses that originate from profit-making purposes. Non-profit organizations will remain limited in their role as promoters of social activity and the promotion of new ideas, as they essentially do not rely on economic activity and are often created to help the society by means and other forms. Precisely the promotion of the social economy and social enterprises is considered a necessary step for human integration and the growth of the quality of life of individuals or society. Establishing the legal and institutional framework for social enterprises can first enable this new entity to develop alongside existing entities such as businesses, NGOs or cooperatives.²

In Kosovo, the concept of social enterprise development is still in its initial stage of development. The first social enterprises have started their activities in recent years. Socially-owned enterprises that are operating today have the no-profitable, less lucrative status. Although there is no legal framework for their functioning, in recent years there are several initiatives to promote and promote the development of social enterprises.

Although there is no legal framework that specifically regulates the establishment and functioning of social enterprises, several initiatives have been undertaken in recent years to promote and promote their development. The object of society is sustainable economic and social development through the promotion of a sustainable, balanced and cohesive social business development at the national level. In the concept paper adopted by the Government of Kosovo on 23.04.2015 - nr.08/2015³, the concept of social enterprises is defined as a business that addresses a social and environmental problem where the realized profit is not distributed but reinvested in the improvement of activity within the social business or in other social businesses. Addressing social problems such as unemployment, social inclusion and the provision of various services in favor of society is a major challenge for developing countries. Currently, Kosovo suffers from high unemployment. The estimated unemployment rate in Kosovo was about 30.9% in 2014.⁴

Consequently, the promotion of private entrepreneurship is considered as a necessity for increasing employment and social welfare in the country. Kosovo does not yet have a specific arrangement for social enterprises and no institution dedicated to this issue. However, the various sectoral policies related to the integration of disabled persons or the provision of social goods and services to different categories have developed continuously. Kosovo has supported free enterprise and small and medium enterprises that contribute to different sectors of the economy have developed in the country.

To date, NGOs in Kosovo are based on social enterprises that have aimed at human development and social integration of citizens through the management of social activities and the general interest addressed not only to members or adherents, but to all citizens. Some of the principles that social businesses must fulfill to provide support from the Society are as follows:

The business objective is not maximizing profit, but addressing a social and environmental problem.

Social business is characterized by financial and economic sustainability.

Investors do not receive dividends, but only their investment amount in the social business.

¹ Social enterprise Concept – European Commission, 2011 - http://ec.europa.eu/internal_market/social_business/docs/conference/defoumy_en.pdf (02.04.2018).

² Regulation of the Field and Social Entrepreneurship in Kosovo - <http://mpms.rks-gov.net/Lajmet/Publikimilajmeve/tabid/116/articleType/ArticleView/articleId/4656/language/hr-HR/Mirepritet-Projektligji-per-Ndermarjet-Sociale.aspx> (02.04.2018).

³ Miratimi i vendimit për concept-dokumentin për ndërmarrje sociale - http://www.kryeministri-ks.net/repository/docs/KD_rregullimi_i_fushes_per_ndermarjet_sociale_-_MPMS.pdf (02.04.2018).

⁴ Koncept dokumenti për rregullimin e fushës për ndërmarrjet sociale, 2015, Zyra e Kryeministrit - http://www.kryeministri-ks.net/repository/docs/KD_rregullimi_i_fushes_per_ndermarjet_sociale_-_MPMS.pdf (15.04.2018)

Profits earned by social business remain for the expansion and improvement of activity within this business or other social businesses.¹

Civil society organizations will play an important role in encouraging and public education on social enterprises.

2.1. Factors of sustainability and success of social enterprises²

The condition that a business needs to meet to be called social enterprise is to generate revenue to cover costs, so the business is not dependent on donations, that it is not necessary to inject liquidity from time to time, but to achieve fit. The reason for the sustainability of social enterprises, even in the conditions of a global recession, is largely related to the values that govern them, regardless of the choice of what and what people will be worked on, as well as the following factors that give priority to social enterprises vis-à-vis other private enterprises:

Reinvestment of benefits: Even when social enterprises operate under a "lucrative" legal form, they tend to invest much of their benefits back into the business. This gives them an edge compared to other companies that have to pay dividends to shareholders.

Motivated workforce: Because of the priority given to social objectives and because of the prevalence of the values of equality and justice, employees and volunteers of social enterprises are more motivated and loyal.

Loyal Customers: Because of the social objectives and added value of goods and services produced by social enterprises, they create a loyal customer base that is less affected by price-based competition.

Added resources: As socially-owned enterprises distribute benefits, this can be "sold" as an added value to funders and granting organizations. More recently, new opportunities for favorable financing have been created through social investors. Social objectives also attract a wide range of volunteers who are willing to give away their time and skills as a contribution to a cause, including the provision of a cheaper and more open government through the Volunteer Board of Directors. Communities and agencies, also based on social objectives, would gladly donate resources such as free equipment or facilities, and would be willing to contribute to raising funds for social enterprises.

Supporting networks and cooperation: Through the creation of networks between social enterprises, preconditions for their best development for the competitive market can be created. They contribute to many areas apart from choosing unemployment, they often have no job competition and the willingness of employees to control the community. Integrating people and enhancing the quality of life and services to society's benefit will be facilitated by the creation of social entrepreneurship. Social enterprises can also benefit from powerful regional and global networks that support third sector organizations.³ Social enterprises can be developed in all municipalities of Kosovo and their activity can be extended to many sectors of education, environmental protection, social assistance and the promotion of human values in general.

2.2. Creating jobs

A major achievement of social enterprises has been the creation of jobs paid to those people who are usually unable to hire or undertake an income-generating activity. As noted in the foregoing section, this is partly attributed to the focus of all social enterprises on social accountability, which includes social inclusion and social justice, as well as the specific focus that most social enterprises have in creating jobs for people who would otherwise be excluded from the labor market. Over the last 20 years, governments in Europe have recognized the importance and value of social firms and cooperatives and have drafted legal frameworks to support this model.

Until today in Italy, Greece, Poland and other countries have developed very comprehensive legal frameworks that support and regulate the activity of social cooperatives. Germany and Finland have special laws that define social firms and regulate their support by the state. In Europe there are a variety of social enterprise models with different approaches to income

¹ Development of Socially Owned Enterprises - http://partnersalbania.org/wp-content/uploads/2016/01/zhvillimi_ndermarrjeve_sociale.pdf (15.04.2018).

² Bostman, R., & Rogers, R. (2011). *What's Mine Is Yours: How Collaborative Consumption is Changing the Way We Live*. London: Collins. 2011. Britania e Madhe. Cabinet Office paper. (2013) Social Enterprise: Market Trends.

³ These reasons for success have been put forward by Social Enterprise Europe in a series of conferences around the world this decade and last in 2012 at the Sheffield University Summer School "Cooperatives and Social Enterprises".

generation, integration and professional qualifications of disadvantaged workforce, the use of public support and funding by the government, as well as various models of ownership, decision-making and management.¹

Social enterprises use a wide range of business and organizational models and it is important to understand that they can thus develop a range of employment pathways, often specifically for large groups of excluded individuals. These paths to employment are part of three main categories:

Enterprises such as social firms and social cooperatives who directly employ a particular group;

Organizations that support and help people find their own job, through direct support and training, or by providing opportunities for volunteering;

Supporting disadvantaged persons for self-employment and entrepreneurship. Social firms and cooperatives are very powerful models for job creation, empowerment of disadvantaged groups and social inclusion, but other models such as "labor market mediation" and, in particular, "self-employment supported" are thriving strongly.²

The development of social enterprises in the last 5 years has been considered as one of the key factors in responding to social, economic, cultural and environmental needs throughout the world. They are effective and innovative models for the challenges that societies face today. Acting in the public interest, social enterprises create employment opportunities, provide innovative products and services, and promote social inclusion and local economic development. In recent years, the development of social enterprises has been seen with great interest in our country as well.

Recognizing the role of social enterprises in employment and the economic development of many countries, the undertaking of this study aims to shed light on the potential of social enterprise development in Kosovo and specifically in rural areas in order to increase employment opportunities especially of groups of disadvantaged and between them women and girls. Kosovo and its elites need a greater orientation in promoting the activity of social enterprises and increasing knowledge of state institutions, businesses, NGOs and the public in general about the activity and role of social entrepreneurship in order to recognize them, increasing trust and interaction with them.

Therefore, the development of government programs, international institutions, donors and civil society organizations to strengthen social entrepreneurship capacities as well as the creation of opportunities to become familiar with business development models and in particular the success practices of social enterprises in local and international level. This would serve as a model for social entrepreneurship development and advocacy for a more enabling environment for them.³

Conclusion

Social enterprises are associations, foundations, organizations that work for the creation of jobs for vulnerable groups, based on non-for-profit principles. Worldwide, but especially in Europe, their main achievement has been the creation of jobs paid to those people who are usually unable to hire or undertake an income-generating activity. In Kosovo, small and medium-sized enterprises are a developing reality in Kosovo in recent years. SMEs operate in different fields, yet they face some business development barriers, which are cultural, infrastructural, operational, regulatory, and internal barriers.

Lack of managerial skills, bureaucracy, lack of trust, lack of capital for new businesses and the information economy are the main obstacles to SME development. Consequently, the Kosovo Government has not yet established social inclusion as an issue that can be supported and developed within the existing business framework in Kosovo and as optional development regardless of the importance they have.

To date, NGOs in Kosovo are based on social enterprises that have aimed at human development and social integration of citizens through the management of social activities and the general interest addressed not only to members or adherents, but to all citizens. Social enterprises for Kosovo will be considered as a major achievement of creating job

¹ Development of Socially Owned Enterprises - http://partnersalbania.org/wp-content/uploads/2016/01/zhvillimi_ndermarrjeve_sociale.pdf (02.04.2018).

² Harding's, R. (2008). Social Entrepreneurship in the U.K Report. Delta Economics.

³ Anica Zeyen & Markus Beckmann - *Social Entrepreneurship and Institutional Logics* - http://www2.leuphana.de/umangement/csm/content/nama/downloads/download_publicationen/Zeyen_Beckmann_Social_Entrepreneurship_and_Institutional_Logics.pdf (15.04.2018).

opportunities for young people, which is also a challenge to the economic development that has been and will be one of the main conditions for Kosovo's membership in the European family. Kosovo has a suitable ground for social entrepreneurial development, as there are many needs in the labor market. The role of social enterprises in socio-economic development is enormous.

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Mongolian Tax Policy for Development SMEs

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Abstract

A strategic development of small and medium enterprises (SMEs) by providing an intensive support is becoming a main priority of the world's economy. Development of SMEs plays an important role not only in eradicating poverty and unemployment but also in increasing economic growth. In addition, SMEs development contributes significantly to lower inequality, support social stability and provide development of the private sector. Today, SMEs businesses are ran by middle class people, and is becoming the basis of sustainable economic development of many countries. 70-90 percent of total production in the developed countries accounts for small and medium enterprises (SMEs). In this paper the following will be discussed; What is the role of SMEs in the country's economy? How to support SMEs through tax policies? as well as analyzing the current state of taxation policy and its activities based on a number of policy studies of Germany and Italy under the Industry 4.0, which have been widely discussed in recent years, as well as quantitative studies on Mongolian SMEs and importance of SMEs support to achieve SMEs growth and sustainable development goals.

Keywords: *Economy, small and medium enterprises, tax system*

Introduction

SMEs play an important role in promoting market competition and accelerating economic growth. Developing into a bigger and more prosperous business while being able to compete in the world market are the proven advantages for essential economic development of small and medium-sized enterprises.

Small and medium enterprises are the key sectors that need to be developed, not only in Mongolia, but also in other countries. The development of small and medium sized enterprises has many advantages, such as raising the country's GDP, increasing employment, creating market competition and eliminating monopolies and stabilizing inflation. Particularly in countries with a large share of imported consumer goods, such as Mongolia, with a relatively low financial capital, low population (3.2 mln), unemployment (rate 9.7 / 2017) and poverty stricken (poverty level 29.6 / 2016) the development of small and medium enterprises are crucial to economic security. In recent years, Mongolia's economic and financial situation has been improving significantly compared to previous years in regards to a new policy of promoting small and medium-sized enterprises by the government in a multilateral way. Furthermore, it is planned by the government to adopt a multilateral policy such as to develop small and medium enterprises, creating local technology-friendly centers, to build national databases, to empower small and medium enterprises, to fully meet the needs of domestic markets, to export to foreign markets, and provide investment support and credit guarantee for businesses and individuals who are unable to access the loan due to lack of capital.

Taking a look at other countries, the main example is to choose one product to specialize and producing competitive commodity in the world market which in turn will help diversify the development of various small and medium sized businesses (Viral.M, 2012).

The issue of spatial diversification and concentration of small and medium enterprises has been raised today. The purpose of this study is to examine the current state of tax policy, its current state of policy support for SMEs, and to identify ways in which the sector will be able to maximize the effectiveness of the sector.

The research was done on the basis of philosophy, economics, general theory of management, market, financial and tax theory, observations, abstractions, induction, deduction and comparison methods were used.

The history and development of small and medium enterprises and their role in social economy

A small business is generally a revenue-producing or income-generating business within the law to improve living standards. Small businesses may be based on any form of ownership depending on the specifics of the country; the number of employees, and the capital amount. The government develops a policy that legalized criteria of income generation and categorizes them accordingly enabling a small business to operate.

It's also a compact in terms of the size of industry and workforce but also capable to recover its cost in a short amount of time. It's a form of low-cost, highly productive industry with flexible technology and ability to compete in the market.

According to the OECD, a medium-sized industry is limited in employees, with an independent and maximum frequency of 250 employees. Small enterprises generally have less than 50 employees, while micro-enterprises have at most 10 employees (OECD, 2005).

Although OECD has described the small business as above mentioned, each country has defined different levels based on their economic development, market size, state participation in business, employment status, and budgeting (Table 1). For example:

Table 1. Number of developed countries and SMEs and employees in Mongolia

Name of country	Micro	Small	Medium
European union	1-9	10-49	50-249
United Kingdom	1-24	25-99	200
France	1-9	10-50	51-200
Germany	1-9	10-49	50-499
Italy	1-19	20-99	100-499
Japan	1-10	11-50	51-500
USA	1-24	25-99	100-499
Mongolia	1-9	10-50	51-199

Source: <http://fxclubmongolia.blog.gogo.mn>

The new definitions of the European Union have been applied since January 1, 2005, with a medium-sized enterprise (with 50-249 employees) not exceeding 50.0 million euros, small enterprises (10-49 employees) not exceeding 10.0 million euros and micro-enterprises (with less than 10 employees) not exceeding 2 million Euros (OECD, 2005).

Since the transition to a free-market economy in the 1990s, Mongolia started to change from a centrally-planned economic system to a social-economic relationship, with private sector enterprises emerging as a result of privatization of the industrial structure. Since then, small and medium enterprises in light industry manufacturing have emerged, such as retail and public services, food production, sewing and knitting shops.

The "Law on Small and Medium Enterprises" of Mongolia specified a medium enterprise and individuals as an entity with no more than 199 employees having USD 1.5 million¹ income from production and trading business; a small business entities and individuals are defined as those with no more than 49 employees with business income of USD 1.0 million¹; a micro enterprise and individuals are defined as entities with no more than 9 employees and generating USD 0.250 million¹ income from production, trade and service.²

But the manufacture of tobacco and alcohol; paid quizzes, gambling games, lottery draws; banking, non-bank financial activities and insurance services; a business entity or an individual engaged in exploration and mining activities are excluded from the small and medium sized enterprises.³

The Government of Mongolia established SMEs policies and guidelines, developing "Law on Small and Medium Enterprises" in 2007 and establishing a Government Implementing Agency on "Small and Medium Enterprises" in 2008 and Small and Medium Enterprise Development Fund" in 2009. In addition, amendments to tax laws were made to exempt equipment's bought for small and medium-sized industries from customs and VAT, in 2015 "Law on Promotion of Industry", "Sustainable Development Concept-2030" and small and medium enterprise's projects were added. As a researcher, I determine the following phases of legal environment for small and medium enterprises have been established: 2007 was the first phase; the legal environment has been improving since 2012 and is still in the second phase of the sector development. Furthermore, in the future small and medium enterprises should be substantially developed.

As of 2017, 90270 small and medium-sized enterprises in Mongolia account for 69.0 per cent of total businesses, of which 92.8 per cent are micro enterprises.⁴

In regards of location, 66.5 percent are in Ulaanbaatar (capital city of Mongolia), and 33.5 percent are in rural areas.

In this sector, 800.0 thousand people are employed of which 88.6 percent are working in places with 1-9 employees, 9.6 percent with 10-50 employees, and 1.8 percent with 51-200 employees; making up 67.0 percent of the job market in total. All of these are accounted for 17.0 percent of total GDP and 40.0 percent of exports (Davaabayar.Ch 2018).

¹ converted to USD in 2007 at the rate of the Mongol Bank.

² Law on Small and Medium Enterprises of Mongolia, 2007, Article 5

³ Law on Small and Medium Enterprises of Mongolia, 2007, Article 8

⁴ Statistic data on the General Tax Authority of Mongolia, 2018

Mongolian researchers have concluded that small and medium enterprises should be trained to produce pure ecological products that meet international standards, increasing the type and quantity of export products, and making a space for Mongolia in the world market will be the key to develop the country.

Mongolian tax policy for SMEs

Recently, the general tax policy of the country is aimed at balancing the societal and economic structure and balancing many factors related to taxes. The views and opinions of F.Ramsey, J.E.Stiglitz, M.Friedman, T.Atkinson, and T.Utkina in the development of modern tax sciences are central. (Altanzaya.G, 2003)

Since the establishment of a tax system of Mongolia the taxation of the state's financial resources, Mongolian scientists and researchers have been studying theories since the centrally planned economy and market social transition period began.

When we examine how our tax legislation is supporting SMEs; crop and livestock production and related support activities; food production; manufacture of textile and apparel; the production of construction materials, and 90% discount on the operating income tax for only 4 sectors are reflecting that not all SMEs are covered entirely. In addition, in the three years that from the starting point of the Innovation law provides for the release of revenues from newly created innovation products, jobs and services, manufacturing and selling of small and medium-sized industrial equipment and spare parts; the reality is since the date of registration of production, and registration of sales in the state registry, economic benefits are not met and there are currently no other tax policy that supports SMEs.

Surveys shows that small and medium enterprises increased by almost 2.5% between 2007 and 2017, but on the other hand, taxes in 2017 were 9.1% of PIT, 10.9% of VAT and 3.8% of CIT payments by small and medium enterprises, showcases the level of development of this sector.⁵

Taxes such as Personal Income Tax, Value-Added Tax, and Corporate Income Tax are relatively small compared to other countries, but the same tax rate for all taxpayers does not support the development of SMEs.

In 2009, 2014 and 2017, Laws on VAT and VAT exemption for equipment and spare parts imported for the purpose of increasing the workplace and supporting small and medium enterprises and producing export-oriented products were approved. In 2009-2016, a total of 2899 small and medium-sized enterprises imported over 7000 equipment and spare

parts of 3201 different kinds of which all were included in the exemptions of value-added tax exemptions of 18.8 million USD and 40.0 million USD respectively however it is still considered to be on an insufficient level.⁶

In view of this, Mongolia's small and medium-sized industry sector policies and its poor implementation of mechanisms, social and political uncertainty, the environment of macroeconomics, inadequate tax policies, stagnation of investment and bad production levels are adversely affecting sector development .

⁵ Statistic data of the General Tax Authority of Mongolia, 2018

⁶ Statistic data of the Mongolian Customs General Administration, 2017

Today's world's policy tendency to support a manufacture is to have a private sector be a predominant, liberalizing all sectors of the economy, improving market regulation, and rapid expansion of small and medium enterprises.

A key factor in the development of small and medium enterprises in developed countries is the active support of the state and the government becomes a unique tool for the creation of enterprises in the market, establishing and controlling the legal environment, promoting market activity, activating, protecting and managing market activities.

To do this, it is aimed at developing and implementing government programs, providing financial incentives, consulting, innovation-technological incubators, and providing more support for the younger people and women to be more involved in this business.

For the Government of Mongolia, the Law on Small and Medium Enterprises will require annual sales revenues of US \$ 2.5 million⁷, Corporate Income Tax rates should be reduced to 1 percent regardless of sector, simplified tax returns per year, to allocate funds equal to at least 10 percent of total investment to the sector, and micro enterprises can get a direct loan from the SME Development Fund. While this is a good news, but by learning about the experiences of some foreign countries that have developed small and medium enterprises, need to incorporate comprehensive tax exemptions into the tax code.

As countries around the world consider the "Industry IV" as a policy priority, our country has been paying special attention to this issue and has adopted this year "Three pillars of development policy" to create a foundation for the "Industrial IV" by the year 2020.

Factors and effects of Germany and Italy's "Industry IV"

Despite talking about the "Industry IV" revolution in the world, let's look at the history of previous revolutions. These include:

In the XVIII century, the industrial progression began in England, as F. Encels called the "revolution of the industry" as its industrial revolution. The *1st Industrial revolution*, which began in the late XVIII century into the early twentieth century, was introduced by the steam engine and into the production, and at that time the parodia (steam carts), paradox (steam-powered boats) were created, and strongly influenced the development of railways. As a result, rapid population change (urbanization), and many new occupations have led to dramatic changes in human society.

The *Second Industrial revolution*, which began in the early 20th century, is linked to the introduction of electrification and production into conveyors. As a result of this revolution, labor productivity has dramatically increased and the process of management has changed remarkably.

The *3rd Industrial revolution* is associated with electronic, industrial automation and information technology, and is basically started in the 70s-80s of the 20th century.

Today, however, the 3rd Industrial revolution is not yet complete, experts note that the signs of the *4th Industrial revolution* are manifesting increasingly.

⁷ converted to USD in 2007 at the rate of the Mongol Bank.

Germany has initiated the new industrial revolution since January 2011, Professor K. Shab⁸ says that these changes are not the continuation of 3rd Industrial revolution, but the beginning of the "Industry IV". The professor notes that the beginning of the 4th Industrial revolution is defined by the following three: First, *the speed of change*; Secondly, *their amplitude*; Third, *the consequences of these changes*. The "Industry IV" can be called digital or the era of the electronic revolution.

Speed of change: These changes are not linear, but increase growth. Everything in the world with globalization and interdependence is rapidly developing.

Their amplitude: The revolutions cover all sectors of the biosphere, genetics, energy and transport sectors, not limiting to a single sector.

Consequences or systemic effects of these changes: This will cover all systems to fully transform countries, companies, industries and societies, along with the unprecedented changes affecting the economy, politics and society.

One of the characteristics of the "Industry IV" is the recognition of development change for the first time before the end of the revolution.

In addition, in Germany, the project is managed by the government at "top" which is said to be a slow process. currently three major participants represent the revolution. These include:

The Federal Government, the Ministry of Education and Research (BMBF) and the Ministry of Economics and Technology (BMWi) of Germany leading in this team.

The research team is led by the Fraunhofer-Gesellschaft Society.

Business and industry team, representatives of Germany VDMA and ZVEI trade unions.

Just like any process, it took over two years to work on developing a number of agreements, working groups, and developing plans and recommendations.

The foundation of the project is to identifying those who are interested, combining, communicating, and creating public opinion.

This revolution is technologically advanced, and the number of network devices is expected to surpass the world population by 2020, one source say 26 billion and another other source estimates that it will reach 50 billion.

The first economic outcome is that the technological industry has been growing by 20 percent annually and reached 4 billion euros in 2015 and is expected to reach 7.1 billion euros in 2018.

According to these technological advances the value added will be expected to reach 153.0 billion euros in 2015-2020 and € 425.0 billion in 2025.

The German Academy of Sciences is expecting industrialisation to increase by 30% in Germany and 20% in other countries. (Ranger Gleath and Bernhard Digner, 2018)

The economic impact of the "Industry IV" is dependent on the following factors:

⁸ Swiss scientist, Founder of the World Economic Forum, the initiator of "Industry IV"

Production Optimization: One product ("Losgröße 1" or 1 product flow) is combined with the advantages of mass production based on customer needs.

The new business model: The processes, components of the resource chain, even the products themselves create information, sharing information, i.e. the products and machines will become "smart" and use "Big data" analysis, artificial intelligence will play an important role.

Business modules based on digital platforms: Increase the number of users (for example, Amazon) to offer a large number of platforms to the market, which will be in the near future.

Italy has developed "Impresa 4.0" National plan for the new industrial revolution and the following amendments to the 2017 Budget Law have been implemented by January 1, 2017. These include:

Hyper and super depreciation: Supporting and offering incentives to companies that invest in new capital goods, tangible assets and intangible assets (software and IT systems) for the technological and digital transformation of their production processes

Nuova Sabatini: Supporting businesses requesting bank loans to invest in new capital goods, machinery, plant, factory equipment for use in production and digital technologies (hardware and software)

Tax credit for R&D: Encouraging private investment in Research and Development for product and process innovation to ensure the competitiveness of enterprises in the future

Patent box: Making Italian market more attractive to long-term domestic and international investors by offering a special rate of taxation for incomes deriving from the use intellectual property

Innovative startups and SMEs: Supporting innovative enterprises at all stages of their life cycle, sustaining the development of Italy's startup ecosystem

Guarantee fund for SMEs: Supporting businesses and professionals who have difficulty accessing bank loans because they do not have sufficient guarantees

ACE – Allowance for corporate equity: Offering an incentive for strengthening the equity structure of Italian enterprises through financing with own capital, in order to achieve a better balance between source and uses of expenditures and risk capital and debt, that will make them more competitive

IRES Corporate income tax, enterprise income tax (IRI) and cash accounting: Reducing fiscal pressure for companies that invest in the future by keeping profits in the company –

Productivity wages: Foster industrial policy targets, with particular regard to the National Plan Impresa 4.0 and increase the competitiveness and productivity of the national economy

Although these are defined in a general sense, these measures are regulated by tax policy. (Ministry of Economic Development, 2016)

The results of the new industrial revolution in 2017 show:

Macroeconomic trends: GDP +4.3%, Industrial production +8.0%, employment +953,000;

Finance for growth: 302.700 limited companies used tax credit in 2015, totaling 18.9bn euro (claimable ACE); 728 registered innovative SMEs; 435 agreements, of which 431 in 2017, tax incentive applied on 320.0 bn euro, for 620 firms; in 2017, the refinancing of the Guarantee Fund for 1 bn euro allowed to issue guarantees towards SMEs for 17.5 bn euro;⁹

The experiences and developments in these developed countries have attracted the current attention of many countries.

Discussion and conclusion

It is a good idea to provide a large number of discounts and exemptions to support small and medium enterprises with tax policies, however it is also important for policy makers and researchers to discuss a way to find the source of revenue that is adequate.

In addition to supporting tax policy in small and medium-sized enterprises, the development of a comprehensive legal framework for small and medium enterprises and a comprehensive government policy aimed at creating favorable financial, loan and investment conditions will be a step towards greater results.

At the World Economic Forum in Davos 2016, Marc Benioff director of "Salesforce" said that "...there should be a minister in charge of the future matters" (Adiyasuren.B, 2016) taking into account the structural changes of the state will also contribute to the development of the sector.

The Mongolian National Development Agency aims to create a diversified, centralized production development through the creation of a logistical principle based on the Big Data data creating spatial planning based on logistics principles of Mongolia's small and medium enterprises, with the financial support of German GIZ. The Government has developed a "Three pillars of development policy" for the purpose of promoting the development of small and medium enterprises in the agricultural sector. According to statistics of 2017, 65 million heads of livestock are counted and over 20 heads of livestock per person. In particular, tax policy support for employees in agriculture is particularly challenging.

At the end of the survey, the adoption of a comprehensive tax policy supporting small and medium enterprises is expected to bring the sector's development to a new level. These include:

- Long-term socio-economic stability will form.
- Increasing employment and reducing unemployment.
- Establish the foundations for a major national manufacturer.
- External trade balance improves as imports decrease and exports increase.
- Increased production in GDP and economic growth.

⁹ ISTAT, analysis: MISE

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Investigating the Nexus between Financial Development and Economic Growth in SEE 10 Economies

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Abstract

In a continuous challenge for increasing economic growth pace, Southeastern Europe economies need to explore all contributing channels to this process. Previous researches do not find a significant relation between financial development and economic growth in SEE countries but up-to-date analyses are missing in this front. This paper aims to investigate the finance-growth links in a representative group of ten SEE economies through empirically analyzing with panel data techniques the latest data available, and try to understand if implementation of financial regulatory frameworks and economic reforms during the last decade has contributed in making financial sector development significant for growth. In this context, obtained results show that credit to private sector, is the only financial development indicator that has become significantly important in short-run in positively affecting economic growth. While Liquid liabilities and Assets ratio have no significance, seems that financial sector reforms need to continue in order to enhance the causal relation between finance and growth.

Keywords: financial institutions, financial development, economic growth Jel classification: G2, O16

Introduction

This paper aims to empirically investigate the causal effect that financial development has in influencing economic growth in a group of ten developing and emerging Southeastern Europe economies in a time horizon from 2002 until 2014. Financial sector development is often described as the process of continuous improvement in “quantitative” and “qualitative” terms of financial services and intermediation activity delivered by financial institutions mainly those performing intermediary functions in efficiently optimizing financial resources allocation towards higher returns market opportunities and lower risks. This research work seeks to find answers in understanding the extent to which financial sector development is related or plays a role in determining output growth trends for the countries of SEE Region. Main purpose behind paying a dedicated attention to the finance-growth nexus in this context is the effort to fill an existing gap in regional topical related economic literature caused from lack of recent similar studies containing updated, wide and inclusive analysis of this relationship in SEE countries.

The pace of economic development dynamics and specific characteristics that financial markets in these economies manifest, some of which relatively young market economies in the context of political and economic EU integration process, have raised interest among academics and policy-makers. Earlier research focusing on the region, Mehl et al (2005), do not find significant empirical evidences for a causal relation between finance and growth, however they suggest that implementation of proper legal and financial sector reforms would create a necessary enabling environment and pave the way for financial development to start positively impact growth. In the same theoretical line of thought also Levine et. al. (2000) stress out that application of the “best practices” on legal and accounting standards in financial sector would enhance the financial development impulse in boosting economic growth. Following the prolonged process of economic and financial reforms that countries in analysis have been going through in the last decade, emerges the research interest to understand the reforms’ effects to bring in closer links development in financial sector and growth.

In a vacuum of empirical analyses exploring the latest data on finance-growth causal relation in the SEE economies, this research work aims to provide an empirical investigation of whether financial sector has started to positively influence growth and implementation of legal and financial sector reforms during recent years, has played a role in making financial development “matter” in supporting growth in a regional context of ten developing and emerging economies. Applying panel data techniques and building the empirical analyses over the same economic variables used in Levine et. al. (2000), as

representative to a wide range of economic studies analyzing the same nexus, and basing on the most recent annual data available for ten countries of the sample, this study tends to investigate the “new stance” of finance and growth relationship.

The aim contribution of this work consists in creating a continuance of empirical studies on Southeastern Europe economies focusing primarily on financial development-economic growth causal relationship and trying to bring the most updated, to the extent of author's knowledge, and inclusive analyses having in focus this region, in a time perspective when no civil conflicts have taken place allowing thus a consistent process of financial development. A novelty is the inclusion of Kosovo, as the newest country in SEE, and the reason behind this is its economic interrelation with other countries in a regional context and the relative ease in gathering the data taking advantage from its presence in all major economic databases.

The paper will be following this structure: in the first part will be offered a theoretical overview of economic benefits stemming from well-developed financial markets and intermediaries; further an extensive literature review will be made to summarize some of the most influential and referred works focusing on finance-growth relation starting from theoretical papers, general empirical studies and to finalize this part with SEE focused ones; third section will be describing data and methodology used for the empirical analyses followed by the obtained results and the final part will consist in drawing conclusions and recommendations for further researches.

Defining financial development

In financial economics literature where finance and economics are analyzed in joint interaction, financial development is perceived as a process of growth in financial markets, where development is defined through the combination of a complexity of qualitative and quantitative indicators describing financial access, performance of financial intermediaries as well as other financial institutions and the legal - regulatory framework serving as operational base for the functioning of financial institutions. Referring to the World Bank sources where also some of the data of this research project have been taken from, financial development comes as a complex formation of financial system characteristics standing for: financial depth – a description of financial markets and institutions size; *financial access* – ease of accessing financing sources; *efficiency* – as a measurement of financial institutions performance; and *stability* of financial system. Depending from the data availability on economies of the Southeastern Europe, for the empirical analysis are chosen five indicators to broadly and mainly quantitatively define financial sector development dynamics in the sample economies.

Economic importance of financial development

In a functioning market economy, financial intermediation process has a structural importance in creating the needed ground for facilitating and fostering proper market economy development as well as broadening growth perspectives for the private sector. In this light, has been many the theoretical and empirical research works that have continuously confirmed such importance and deepened over time analysis on the main channels via which financial sector development impacts the business environment and positively influences growth in economy as a whole.

Some of the principal theoretic aspects that would help to explain the economic importance of financial intermediaries as part of the financial sector and how their sound-solid development benefits to market economies and economic agents while contributing to economic growth are:

Financial intermediary institutions play a vital role in crediting the private sector and the economy by applying interest rates that reflect the competitiveness and the completeness of respective financial markets. In these conditions, a higher and fairer competition in the financial sector would be reflected in lower financing costs for the economy.

By exercising their structural crucial role of pooling savings and allocating resources in the economy towards financially reliable economic agents less risky and promising for higher productive economic activities, the qualitative development of financial intermediaries further than guaranteeing households savings, becomes also decisive for the efficient operation of financial markets and thus serving to increased productivity of investment, the later being also a main leading force behind incentivizing continuous technological optimization of processes. In addition to streaming financial resources towards higher returns, optimal operational management is qualitatively bolstered by financial services industry aims for higher productivity of human and physical capital.

Well developed, professional and ethic financial institutions are essentially important to prevent incremental risks that derive from the asymmetry of information and may result to be costly for the private sector among which moral-hazard and the

adverse selection risk. Providing the private sector with highly qualified expertise, financial intermediaries contribute in reducing risks coming from asymmetry of information in the economy.

Channeling and facilitating the access to financing resources for the whole range of individual and institutional customers, intermediaries play a vital role in the economy to create a stimulating environment for exploiting economic opportunities, creating more jobs and thus enhancing social welfare.

By crediting the private sector, financial intermediaries allow diversification of financing sources optimizing their financial performance through advantages of financial leverage and in this path creating necessary conditions for sustainable business activity by diminishing the operative drawbacks that would be caused from lack of liquidity, symptoms present in cases when firms use solely self-financing capital.

Formalizing the economy and playing often the role of fiscal agents, financial intermediaries are crucial in contributing to reduce the tax evasion phenomenon, as the main concern for public finances in developing economies, and optimize the mechanisms for efficient controlling frameworks on private sector operations.

Due to the economy of scale and free market competitiveness, banks but also other financial institutions become instrumental in reducing transactions costs for the economy and creating a more enabling environment for the business development in long term.

Serving as financial channels for sending and receiving easily and cost-efficiently capital transfers often in the form of remittances is another very important function played by financial intermediaries in developing economies, with a direct impact on households' budgets, general consumption and private investments.

Financial assistance, advising and monitoring are some of the main services provided and delivered to economic agents from financial services institutions always under the supervision of state regulatory bodies that pave the way for better risk management attitudes in business environment and safer well-functioning financial markets.

In conclusion, sound development of well-functioning financial intermediaries as part of a solid and regulated financial sector is of a paramount importance to maximize the economic benefits coming from qualitative financial development while protecting markets from liquidity risks and diversifying investment risks through the wide range of economic sectors credited.

Literature Review

The relationship between financial sector development and economic growth has always been in focus of economists' theoretical and empirical research analyses, in the form of contributing efforts trying to better understand and effectively utilize compounding effects and mechanisms of this economic phenomenon in favor of growth. Financial development process in itself has evolved on time as a result of more efficient and productive financial markets and their incremental influence on growth. Many research projects have taken place from time to time, shedding light on the importance of financial intermediation in fostering economic growth and vice –versa. Some of them are theoretical persuasions with significant influence in further understanding the finance-growth nexus and in other cases theoretical points of views are tested through empirical analyses in order to understand whether theory is sustained by robust evidences in different samples of choice. This literature review, aims to bring a perspective of the main influential research works done in this field in a structured way. In the first subsection will be made a mosaic of theoretical papers emphasizing their specific contribution in analyzing the financial development-growth relation, afterwards will be brought in the reader's attention empirical results that different authors have obtained by testing the finance-growth nexus hypothesis in general groups of countries and finally, given the dedicated aim that this paper has in analyzing and understanding the phenomenon in a group of Southeastern Europe economies will be made a summary on the papers and empirical results of research delivered until present day on the region.

3.1 Theoretical arguments in understanding financial development– growth nexus.

Influential works from Bagehot (1873) and Schumpeter (1912) unveil the early theoretical deductions that development of financial intermediaries in support of entrepreneurial initiatives positively impacts the economic growth by channeling the sources of funding towards the most efficient innovative ideas in the market, destined to succeed and eventually impulse growth in economy. For Schumpeter, entrepreneurs are at the epicenter of creating and raising to success the "new

combinations”, innovations in the markets that through the credit provided by intermediaries’ mechanisms of credit shape a growing competitive business environment of firms that exponentially serve as engines for the economic growth. In his view, the economic development is a genuine process fostered by innovations as well as optimal management of the firms by entrepreneurs and should be financial intermediaries to finance successful market initiatives in order to increase profits and benefit to the economy.

Robinson (1952) focuses his theoretical work on analyzing the importance of capital management for maximizing profits and the utility of production functions for economic agents and economy as a whole, through optimizing determination of production factors. Loans provided by intermediaries are considered essential to finance efficient productive processes that eventually generate surplus in firms’ financial state. Inventions that are feasible in production terms are seen as positively supportive to efficient growth of production firms. The study concludes that to a certain extent, financial development is a structural consequence of population growth and technical progress. Boyd and Prescott (1985) emphasize the endogeneity in the growth environment of “intermediaries’ coalitions”. Accepting the asymmetry of information in the market and looking intermediaries as instrumental in smoothing the information frictions between different market agents, in equilibrium intermediaries appear in the form of coalitions that make possible to indicate a feasible Pareto optimal allocation of resources in the market that can create stable equilibrium conditions for maximizing agents utility.

Robert Lucas in his influential work of (1988) brings a deep analysis of processes and important factors that affect or stand behind the explanations of mechanics of economic development and growth. He focuses in improving the neo-classical growth model adding to the conceptual framework two valuable extensions, the first explores the interaction between physical and human capital accumulation and the second one the way how specialization of human capital impacts international trade and economic development, on a general aim of putting human capital in a central stance in the “mechanics” of the growth model. Lucas manifests a skeptical belief on the real importance that financial sector development has in fostering economic growth. In his economic judgment, research professionals and non-professionals in favor of this proclaimed relation simply “over-stress” the relevance of financial intermediation in inducing faster pace of growth. Despite being an empirical paper in itself, his views on the relation of financial development and growth are not empirically tested or sustained, thus here they are considered to be theoretical. For Greenwood and Jovanovic (1990) the economic growth creates the needed stimulus for the “financial superstructure” to maximize profits and further consolidate while in turn, financial development paves the way for further growth. Economic development is described as a joint causality between financial intermediaries expansion and positive economic growth, accompanied by a declining income inequality while the economy reaches the “maturity stage”. Their contribution consists in introducing a system of rules in which financial intermediation and economic growth are endogenous by determination and emphasizing the crucial importance of banks, insurance companies and other financial intermediaries in providing to economic agents their expertise for properly analyzing the market information in order to optimize the allocation of funds towards higher returns and minimize risks. The model they pose consisting in a binary choice to invest the capital between a safe low yield technology and a risky high return one, takes into account two primary influencing ways via which intermediaries enhance the economic activity, by facilitating increased returns to agents based on a well-diversified investing activity and pooling risks given their extensive outreach in financial market. The economic logic behind the model is that individual agents channeling their funds through financial intermediaries can benefit from higher returns as result of increased productivity of investments. Greenwood and Jovanovic show that there exists a competitive equilibrium in the market that in case reached through the specified model of economic agents and financial intermediaries, the resources allocation is Pareto-optimal.

Bencivenga and Smith (1991) aim at shaping an equilibrium model by structuring the channels through which competitive financial intermediaries’ (*banks*) development influences an optimal resources allocation in economy that positively affects for higher real economic growth rates. They follow quite an interesting approach in arguing theoretically that the competitive development of banks has a positive impact in economic growth through the effects of “spillover externalities” resulting from increasing rates of return on capital investments and consequently growing productivity, considering that competitive financial intermediaries as deposit money banks, tend to allocate resources to the most profitable investment opportunities favouring in this way the creation of an enabling environment in support of incremental rates of return on capital. But on the other hand, the rush of economic agents towards higher rates causes the reduction of savings in economy, less resources accumulation in intermediaries and as result a potential drop in financing power of deposit money banks eventually causing a slow-down in the growth pace, if this continues in long run. Making an overview of the theoretical and empirical research works on finance-growth relation, Pagano (1993) brings in evidence unresolved issues so far relating with this phenomenon. He emphasizes that despite the fact that usually is seen a positive finance-growth relation in the literature, part of the

researchers attention need to be also the cases when financial development affects negatively the savings rate and as consequence of lower resources channeled through intermediaries growth slows. In addition, still remain unclear the reasons why in some economies, the fast growth of financial development is companied by standard monotonous rates of economic growth. In conclusion for obtaining better understanding on specific financial market-growth causality is needed to focus primarily on specific markets of interest given the fact that different economies manifest different characteristics conditioning thus the relation in focus of this study.

3.2 Empirical research on general groups of countries

The extensive theoretical work done over time in investigating the economic relation between financial development and economic growth has opened horizons for further and more accurate elaboration of econometric methodologies in testing this phenomenon. Paying a dedicated attention to the empirical analysis of finance-growth relation, Goldsmith (1969) offers significant proof of positive relationship between the financial sector development and economic growth in a wide group of developed and developing economies. King and Levine in their much referred paper of (1993) aim to investigate if higher financial sector development is causal for higher present or future rates of economic growth or as posed by them, empirically test whether Schumpeter was right in his views on the paramount importance of intermediaries to foster growth. Their study is based on a wide sample of 80 countries in different development stages for a period of time from 1960 to 1989. Trying to reach a broader definition of growth, authors set three growth variables that in addition to economic growth rate feature also productivity improvement and capital accumulation while on the other side, explanatory variables defining financial development are chosen four, broadly used financial depth measures of liquid liabilities over GDP and financing of financial and private non-financial firms over total credit and GDP. To understand the relative importance of deposit money banks in crediting the economy King and Levine use the ration of commercial banks assets volume over the sum of commercial and central bank assets in respective economies. Empirically they find a significant positive relationship between the financial sector development and economic growth in the wide sample of developed and developing economies, going further in concluding that in the development of financial sector lays also the key to predict future rates of growth in coming 10 to 30 years given this robust positive relationship. Still King and Levine study finance-growth relation only in one and not in both ways.

Rajan and Zingales (1996) aim to go deeper in analyzing the relationship between financial development and economic growth by focusing on the external funding interest rate. Following the logic that industry sectors and firms whose business activity depends on external funding, should be better functioning in markets where financial development is at higher quantitative-qualitative stages since in principle these markets feature lower external funding interest rates being more open and competitive than less developed ones, authors consider it a proper economic indicator in trying to understand if higher development in financial markets tends to low external funding interest rates for certain sectors and thus creates an enabling environment for the later to faster develop while positively contributing to growth in economy. Their sample on which empirical tests are run consists in 43 countries for a time period from 1980-1990. Robust results support the hypothesis that financial development stimulates economic growth through lowering external funding interest rates that are essential for expansion of industries dependent on external funding. Rousseau and Wachtel (1998) try to put the relationship between financial intermediation and economic performance in a historical context and deepen the analysis by running tests on a large historical sample of data, 1870-1929, for five world major economies U.K., U.S., Canada, Norway and Sweden obtaining results that support evidences for the positive impact that development of financial intermediation has played in the fast industrialization of these countries. From a different perspective, Levine and Zervos (1998) in their empirical investigation of the causal significance of banking and stock market development indicators over the short and long run economic growth indicators, focus on a group of 47 countries where good quality stock markets data are available in a period of time from 1976 and 1993. Results of cross-sectional analysis in sample data show for a robust correlation between stock market liquidity and banking development with present and future rates of economic growth as well as two other growth related indicators, productivity and capital accumulation. Interpreting the results, it is evident that financial development has a significant impact in supporting growth, but as explained by the authors, well developed banks and stock markets supply economic agents with complementary services jointly contributing in financial development and economic growth.

Levine, Loayza and Beck (2000) make a significant contribution in the economic literature focused on investigating the determinants and role of financial intermediaries' development on growth. Aiming to find alternative theoretical and empirical ways to understand this phenomenon with the ones evidenced by other authors so far, in addition to testing the financial

development-economic growth relation, they extend the focus of analysis on the influence that exogenous factors determining financial development have on the economic growth. So in their analytical viewpoint they try to understand and empirically test if legal frameworks and accounting standards exogenously determine the quality of financial intermediaries' development and consequently account for affecting economic growth. Authors test empirically their hypothesis on a sample composed by 74 countries of different development stages for a period of time from 1960 to 1995 using the same variables used by King and Levine (1993) to test the finance-growth nexus with a slight difference in choosing the private sector credit provided by financial institutions and not the general domestic credit, aiming to pay more attention to banks and other intermediaries by keeping out of the analyses the credit provided from state monetary authorities. Dynamic panel data tests provide robust results in support of a positive relationship between the exogenous factors of financial intermediaries' development and economic growth. Authors conclude that enforcement of legal and accounting frameworks by implementing "best practices" contributes exogenously in the consolidation of a sound development of financial intermediary sector, favour the creation of a business enabling environment and positively supports economic growth.

Amid two mainstream theoretical viewpoints in economic literature regarding the economic effect of financial intermediaries liberalization on growth, on one side is the study that increased financial depth paves the way for continuous financial development which is followed by economic growth and on the other side economists think that un-controlled prolonged liberalization may become the cause of eventual banking crises, Loayza and Rancuere (2005) try to position themselves in the economists debate by supporting their views on the obtained results from an empirical analysis run for a sample of 75 countries, annual data over a period of 40 years from 1960 to 2000. They find that in long run, increased financial depth and further financial sector liberalization contribute in financial development that stands in a positive relationship with economic growth, while in short-run for troubled economies, typically after post crisis, financial intermediation liberalization and depth do not contribute in impacting growth. Greenwood et. al. (2012) in the first part of their work deliver a firm level analysis putting an accent in the importance of information for the well-functioning, financial performance and efficiency of intermediaries' activity, the earlier seen related to the technological stance as well as human and physical capital accumulation in the financial system. In the second part they focus on economies, taking the example of US as a well-developed financial intermediaries' market, and basing on it developing a sort of benchmark parameters on the "best financial practices" that are applied to a cross-sectional analysis of 45 countries of different development stage. Greenwood et. al. conclude in an impressive result that in case the sample countries would implement the "best financial practices" for developing their financial sector, the world output is projected to significantly grow by 53 percent, under the assumption that financial markets enhanced by higher productive intermediation channels would boost economic growth.

3.3 Financial regulation importance for qualitative financial development

In order to focus more on the soundness of financial systems and the quality of intermediaries' market development as essential for making a positive impact of economic growth, this subsection will be dedicated to the role that financial regulation has in financial sector consolidation. Financial regulation stands at the forefront of the sustainable and solid development of financial sector and in this light it is relevant to make part of this literature review a general overview of research papers mainly addressing this issue in developing countries or other economic contexts that share similar features with Southeastern Europe economies that are basic for the analysis aimed by this paper.

In this perspective, Rojas-Suarez (2004) studies a wide sample of developing economies and reaches the conclusion that financial regulations implemented in these economies need to respond in a proper manner to all their financial markets specifics in order to achieve the regulators' expected effectiveness. Alici and Ozgoker (2006) focusing on a comparative analyses of the prudential regulatory framework implemented in Turkish financial system, conclude that developing economies in order to achieve sound financial development need tailored financial sector reforms targeting precisely and efficiently the characteristics that differ them from developed ones. De Serres et. al. (2006) find significant explanatory links between financial regulation and economic growth stating further that policymakers should aim to design and tailor regulatory frameworks that allow vibrant completion in financial intermediation sector without increasing systemic risks. Following the 2008 financial crises, among regulators was reopened the debate whether de-regulation was good for financial markets and in line with this, a predominant idea brought by Chowdhury (2010) is that "re-regulation" is needed to take place in order to protect and immunize the financial systems especially in developing economies from eventual systemic failures and furthermore, allow financial sector development to positively contribute in economic growth. Sinha et. al. (2011) make a deep analysis of the positive and important effects that continues financial regulation has in consolidating and further developing the banking sector and the financial sector as a whole by bringing vast evidences in support of this

widely accepted economic study and emphasizing the positive impact that soundness of financial sector has on economic growth.

Overall, economists consider that good financial regulation basing on international generally accepted regulatory standards of financial sector, is an essential requirement for achieving sound financial development that is positively related to economic growth.

3.4 Summary of empirical studies focusing on developing and SEE economies

Having in consideration that the analysis of this paper is focused on ten economies in the Southeastern Europe, it is of topical interest to dedicate some specific attention to the research works made so far in investigating the financial development – economic growth relationship in developing countries given the fact that they manifest similar characteristics with our sample. It is accurate to highlight that in developing economies, empirical economic researches on the finance-growth nexus find comparable results to those highlighted in papers based in developed countries regarding a main general positive relation between financial development and growth but not surprisingly there are also studies that bring evidences on how in developing economies scarce financial development in qualitative terms does not positively impact growth. The following provided summary aims to offer a diverse mosaic of findings in this frame.

3.4.1 Developing economies literature

A relevant paper on this finance-growth relation prepared by Al Yusif (2002) focusing on a sample of 48 developing economies presents the obtained empirical robust results that show for a two-sided causality between financial development and growth concluding that the development of financial sector in these economies contributes in fostering economic growth and vice-versa.

Christopoulos and Tsionas (2004) going through 10 developing economies bolster similar results on the positive impact of financial depth on growth in long run testing through panel unit root and cointegration econometric techniques, while in short run the results obtained are ambiguous and according to their views the implementation of financial sector reforms should be expected to impact growth only in long-term perspective. In addition to financial development indicators, in the paper of Ahmad and Malik (2009) domestic capital accumulation affecting workers productivity is seen as a significant factor in contributing to promote economic growth more than foreign capital while the later being a follower of domestic capital. Trade openness is also found to be positively significant in enhancing economic growth in panel of 35 developing economies for the years 1970-2003. In the same line of findings follow also the research work by Estrada et. al. (2010) who analyze through panel data techniques a sample of 116 Asian developing economies from 1987 to 2008. Results reveal that financial deepness counts more for supporting growth in the countries of the sample than the structure of financial system. They put an accent also on the instrumental role of financial openness as a positive relevant factor for growth, which according to authors in some cases even more significant than financial development. Seetanaha et. al. (2010) investigate the relation of stock markets, banking sector development and growth in a sample of 27 developing countries, finding that stock markets and banking sector are closely joint in a “complementary” development process while development of each is positively related to economic growth. Developed financial markets are crucial in helping developing economies exploit their economic growth potential and a positive relation between them is proved empirically in long-run but going further in analyzing a group of 168 low and middle income countries in a time frame 1980-2007, Hassan et. al. (2011) find that only financial sector optimization in itself cannot boost output unless a wide range of facilitating preconditions for growth are met,

3.4.2 Southeastern Europe focused research

There is an incremental attention from the side of European policymakers and global financial institutions as World Bank and IMF towards the better understanding of financial development and growth paths of the Southeastern Europe economies. And in this context some research works have been exploring the ways how finance and growth representative economic indicators stand to each-other in a causal relationship in this region and a condensed summary of their results will follow.

Mehl, Vespro and Winkler (2005) testing the finance-growth relation focus their study on a sample of nine SEE economies namely Albania, Bosnia Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Romania, Serbia and Montenegro for the period from 1993 until 2001. They do not find empirical evidences for a positive relation between financial development and

economic growth, explaining it with the poor economic environment consisting in deficiencies in legal, regulatory and supervisory frameworks, lack of human capital and a reminiscence of “socialist legacy” that the region witnessed during '90-es. Further the authors introduce the conceptual differences between quantitative and qualitative financial development, noticing that the lack of quality in the financial deepening process in the SEE economies impedes a positive finance-growth relation. They emphasize the importance of economic reforms implementation in Southeastern Europe economies as a precondition for creating an enabling environment that would in long-run lead to a positive causal relationship between financial development and economic growth. Caporale et. al. (2009) analyzing the group of 10 newest countries joining European Union, of which Romania and Bulgaria considered in SEE, find a positive causal effect that financial development has on growth but not any sign of vice-versa, despite the still underdeveloped financial sectors in these economies. Haiss et. al. (2007) find empirical evidences that the finance-growth positive causal relation widely seen in developed economies, stands true also for a sample of four SEE countries, namely Bulgaria, Romania, Croatia and Turkey, but an interesting finding of this study is that different scale of economic development in SEE countries determines different pace of financial market consolidation and as a result different impact on economic growth.

Using quarterly data for 11 years for the Albanian economy, Dushku (2009) investigates the causal relationship between financial development and growth in Albania, finding that in long run empirical results confirm a positive relation between the two while in short-run the results remain ambiguous. Koczan (2015) highlights that Western Balkans economies continue to be vulnerable in different sectors because of being depended from the economic development of their neighbor economic and trade partners, while high public deficits and debt levels still remain a public finances challenge for the region.

4. Data and Methodology

4.1 The data

Southeastern Europe as a region, consists in a group of developing and emerging economies some of which have already joined EU and others aiming to be part of the European common market while undergoing a prolonged integration process form years under a candidate country or potential candidate status. For this reason, understanding better the mechanics of economic growth in the SEE region while analyzing the relationship and the contribution of financial development towards growth is relevant to policymakers, scholars and academics involved in designing and implementing economic reforms in these countries. Not many studies have been focusing on the financial development-economic growth relationship, or the research works done have lost their relevance because of the politico-economic environment continuous change. This contribution aims to provide a wide inclusive analysis of investigating the finance-growth nexus on a group of ten Southeastern Europe economies for a period of time covering years from 2002 until 2014.

4.1.1 Indicators description

As described earlier in the literature review, researchers and academics have followed different paths in trying to better understand and interpret the financial development-growth relation and on these grounds they have also worked in defining the most significant indicators to properly investigate this economic phenomenon. The selection of representative variables for defining financial development is made by following the work done from influential economists who have worked in this field extensively during years. At the epicenter of understanding financial development stands the analysis of financial intermediaries' activity. As mentioned above, the quality of financial development and its impact on economic growth depends on the efficiency of intermediaries' role in increasing savings, pool a wide range of risks and search the market for increasing profitable opportunities to allocate resources. On these grounds five are the main variables used in this analysis to define financial sector development and intermediaries' position.

The first variable is Liquid Liabilities in the financial system over the Gross Domestic Product, a financial depth measure used by different authors such as Goldsmith (1969), King and Levine(1993) , Levine, Loayza and Beck (2000), to identify the size of financial market. Calculated as the ratio of Broad Money on GDP¹, this variable describes the size of financial system but a main concern regarding its accuracy is that does provide information on the quality of intermediaries' development. This indicator from now and on will appear as Liquid Liabilities in the analysis and under the acronym BM in Appendixes or related working files.

¹ where liquid liabilities consist in the sum of currency outside the banking system, time, savings and foreign currency deposits in the system from residents, securities and demand deposits other than from central government

Aiming to identify further the degree of financial development and the credit expansion in the sample economies, a second indicator to be included in analysis is the Domestic Credit to Private Sector over GDP, measuring financing from private financial intermediaries excluding the Monetary Authorities towards the private sector. The economic logic behind this variable is that private sector plays a crucial role in growth process by creating more jobs and boosting consumption in the economy. Introduced as an improved measure of financial development in finance-growth literature from Levine, Loayza and Beck(2000), further than being a size indicator it represents financing of the leading sector in the growth of an economy, the private one. Given the fact that in Southeastern Europe countries the private lending providers specter includes also other financial institutions such as microfinance institutions mainly focused in microcredit or non-bank financial institutions, this indicator is significant for the analysis in trying to understand better the dynamics of financial development. This variable will appear as Private Credit and the acronym in Appendixes is DCPS standing for Domestic Credit Private Sector.

A third financial depth indicator is the one constructed as a ratio of the Commercial or Deposit Money Banks assets over the sum of Commercial Banks Assets and Central Bank assets. This independent variable is expected to represent a relative significance that second level banks have in delivering financial intermediation and providing financing for agents in 10 SEE economies where deposit money banks seem to be main and foremost important financial intermediaries in the financial market. Despite not being a precise indicator of the size or quality of financial intermediation in financial systems, it is valued by King and Levine (1993) as valuable variable representing the importance of financial intermediaries in finding market profitable opportunities to raise returns and optimize resource allocation. This measure will be identified Assets Ratio while the acronym will be CBAR standing for Commercial Bank Assets Ratio.

Following the main three variables in use to determine the financial development in financial system as a whole, on the purpose of understanding the significance that intermediaries role has in influencing growth in the sample countries, two related financial indicators that measure specifically the scale of financial intermediaries, in this case banks, are included in the analysis as Bank Deposits to GDP and Private Credit from Banks to GDP with respective acronyms DEP and BANK shown in the empirical tests part.

The indicator which is used to identify the economic growth in the analyses is the Rate of real GDP growth per capita as a good representative determinant of economic growth not only for the SEE region economies.

In addition to the main finance and growth indicators, following Levine, Loayza and Beck (2000) work, a “conditioning set” consisting of independent variables reflecting policy factors commonly used in literature to explain economic growth is built.¹

4.1.2 The dataset

Given the dedicated focus of this study which is to investigate the financial development-growth relationship in the Southeastern Europe, the group of countries in analyses is composed by Albania, Bulgaria, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Romania, Serbia and Turkey. All these countries are part or aim to join European Union, and different studies bring in evidence an economic convergence process between some of these economies due to similarities they share as transition economies, Tanku (2012). Despite the fact that Bulgaria, Romania and recently Croatia are “new-members” of the European Union, with full membership rights, these economies show similarities with other neighbor countries of the SEE Region. Same logic applies also to the inclusion of Turkey in the dataset, part of a number of previous economic studies on the region, which keeps the EU candidate status country and appears in most of researches of Southeastern Europe. The novelty is the inclusion of Kosovo, the newest country in the Region, aiming to give to the main focus of analysis a more holistic approach basing on comparative similarities among financial markets in the selected countries sample.

In an annual frequency, the data are collected for 13 years period of time starting from 2002 until 2014. This applies to the data on Growth, Liquid Liabilities, Credit and the variables of the conditioning set mainly collected via the World Bank databank. For the Assets Ratio variable the data collected through the Global Financial Development database are available only from 2002-2011 for all the sample countries. The two other variables representing financial intermediaries' activity, Private credit from banks and bank deposits over GDP data are respectively included in the dataset covering

¹ Indicators included in the conditioning set are Income per capita, Government size, Inflation, Trade Openness and Average Secondary schooling years. Data are annual for a period from 2002 – 2014.

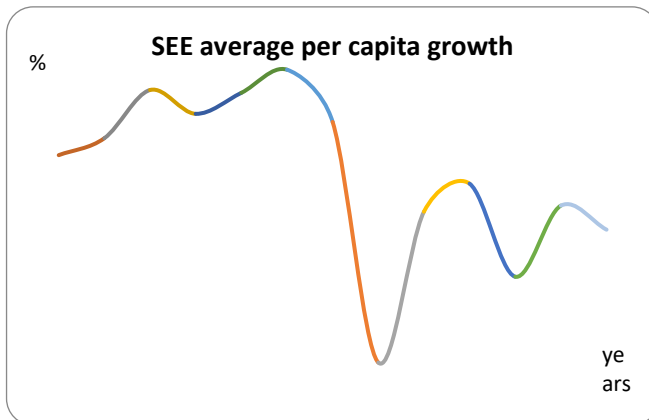
periods 2002-2014 and 2002-2013 depending on availability. Main sources of data utilized to create the dataset are the two databases of the World Bank, World Development Indicators and Global Financial Development Indicators, Central Banks Statistical Offices, International Financial Statistics of IMF (Financial Access Survey), World Economic Outlook, UN Comtrade, Federal Reserve database and National Institutes of Statistics sources.¹ The frequency of data is annual.

	<i>Liquid Liabilities Broad Money % GDP</i>	<i>Credit to Private Sector % GDP</i>	<i>Comercial - Central Bank Assets Ratio</i>	<i>Credit from provate banks % GDP</i>	<i>Bank Deposits % GDP</i>
Mean	49.0	41.0	92.6	39.7	41.0
Median	48.5	39.6	98.4	38.4	41.2
Maximum	84.7	87.0	100.0	86.9	71.2
Minimum	11.3	3.0	56.3	3.0	11.1
Std. Dev	17.7	19.3	11.4	18.7	14.4
Observations	130	130	100	130	120

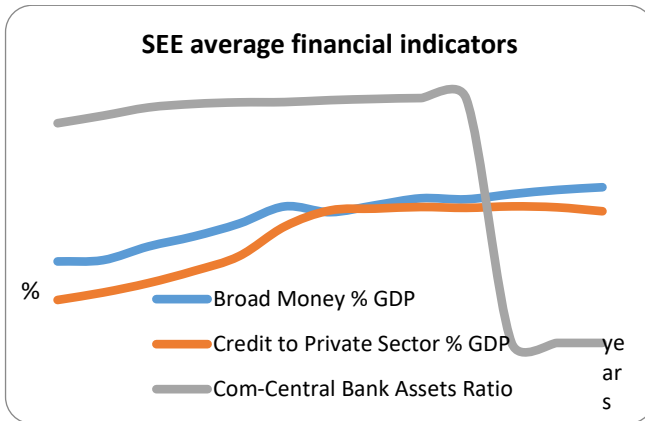
Table 1: Main indicators' data description

Referring to the above average SEE indicators graphs is possible to notice that from 2008, year when the financial crisis hit world markets, and onwards, the average private credit in economy has had a plateau trend around 52% of GDP while liquid liabilities have seen a light increase during the same period and in the same path has been also the upward movement of commercial to central bank assets ratio.

Graph 1: SEE financial development indicators and growth averages trends



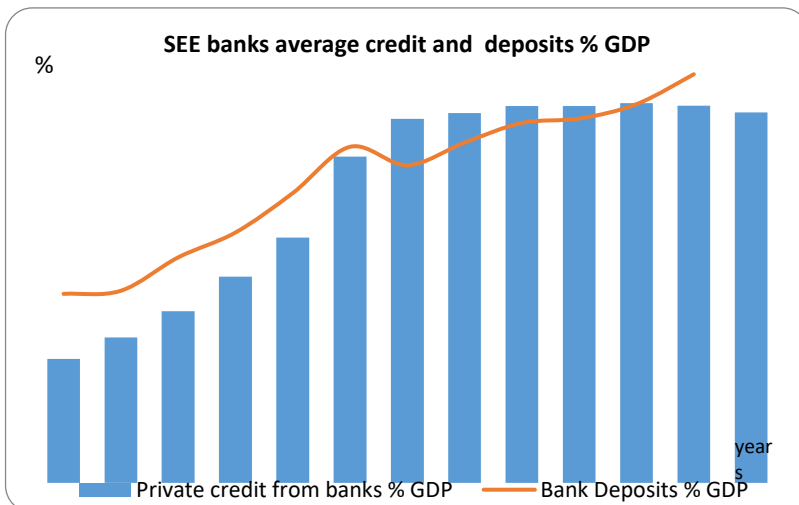
¹ Trade Openness is calculated from UN Comtrade data following the broad definition of TO (imports+exports volumes) over GDP. In some cases, like the Assets Ratio for Kosovo, time series are calculated by the author basing on the data collected from the Central Bank of Kosovo regarding Commercial Banks and Central Bank Balance Sheets.



Source: World Bank databank and Central Banks Statistics. Author's graph

In the other graph, average per capita real GDP growth in Southeastern European countries has plummeted in 2009 due to crises effects (well described in the Panagiotou 2012) and is also possible to see in graph the decline in growth rate during 2012, year when the sovereign debt crises reached its peak in Greece and Italy, main trading partners for most of the countries in the SEE negatively affecting growth. Graph 2 illustrates the average trends of private credit disbursed by banks in SEE countries and banks' deposits as percent of GDP. While private credit from banks in the sample follows the same path as total credit to private sector, bank deposits have kept growing from 2008 onwards. This phenomenon in Albanian economy analyzed from the Bank of Albania was a result of capital transfers of Albanian legal emigrants from Greece and Italy in crises towards Albanian banks in the form of bank deposits¹.

Graph 2: SEE banks credit to private sector and bank deposits (percent of GDP)



Source: World Bank databank, IMF, Central Banks Statistics and author's calculations

¹ Bank of Albania Economic Bulletins 2013

For a detailed description of indicators and data sources and descriptive statistics of conditioning set factors please see Table 3 and 4 in Appendices.

4.2 Methodology

The empirical investigation of the financial development and economic growth relation in Southeastern Europe treated in this study is made by utilizing as main econometric tools of panel data techniques. Real per capita growth rate and financial development indicators, together with the conditioning set factors, for the sample of ten economies are regressed by using pooled OLS, fixed and random effects econometric tests. Being depended on short annual data time series for the sample under study and the limited number of countries, dynamic panel data techniques such as GMM methods are not seen adequate to properly investigate this relation under the present data limitations. Following the economic logic and variables behind the Levine, Loayza and Beck (2000) analysis, the representative regression of the model would be:

$$R.GROWTH_{it} = \alpha + \beta FIN.DEV_{it} + \lambda\{CONDITIONING SET\}_{it} + \varepsilon_{it}$$

where i indexes the cross-section in this case countries and t the time

In order to avoid the risk of co-linearity between the financial development indicators, they are included in the equation one by one, otherwise expressed if the depended variable is real GDP growth per capita, independent variables are either Liquid Liabilities, Credit, Assets Ratio, Private Credit or Bank Deposits and the conditioning set consisting in explanatory variables commonly used in relation to growth such as Initial per Capita income, Government size, Trade openness, Inflation and Average secondary schooling years. Being conditioned on the availability of data on deposit money-central bank assets ratio, regressions are run over the period 2002-2011 testing for the relationship with per capita growth, while tests for Liquid Liabilities, Private Credit and Banks Credit impact on growth are run over 2002-2014 period. Deposits over GDP as a financial depth indicator enters the analysis for the period 2002-2013.

In order to catch the 2009 crises negative impact on SEE economies and the contagion effect of sovereign debt crises in Greece and Italy over the sample economies, two dummy variables are added in the econometric analyses indicating years 2009 and 2012. In the case of Assets ratio, given the length of time series empirical tests are performed using only the crises dummy. Apart from the rate of GDP growth per capita and average years of schooling other variables enter regressions in a log-linear form¹. In order to create conditions for more representative empirical results, regressions are run over balanced panel data, on an annual frequency, in the time horizons aforementioned.²

Results

Empirical results obtained from panel data techniques investigating the relationship between financial development and economic in 10 SEE countries for the time horizon 2002-2014 unveil the importance of domestic credit to private sector as an indicator of financial development in positively contributing in the economic growth in these economies. Indicators identifying private credit issued from financial institutions in general and banks in specific are found empirically significant in the analysis as result of econometric tests, while does not happen the same with other variables Liquid liabilities, Assets ratio and Bank deposits over GDP that despite the positive coefficients do not manifest a strong explanatory significance on rate of growth.

As possible to see the econometric results of tests run assembled in Table 2, domestic credit to private sector from financial institutions indicating the total volume of financing towards private sector from banks, microfinance institutions and other financial institutions, and the other variable indicating solely the commercial banks credit to private sector, manifest a significant empirical positive relationship between private credit and growth in these economies. These referring results have been obtained from fixed effects regressions over 2002-2014.

Hausman test results show that for analyzing the finance-growth nexus in the context of these two finance indicators it is more effective to rely on fixed effects estimation rather than random effects. Hausman test value is significant at 10% confidence interval.

¹ Inflation enters the regression as $\log(3+\text{variable})$ in order to skip missing data that would result in negative values.

² All the data used in this paper, organized in long format are supplied in electronic form together with the Do File describing all steps followed to properly run the empirical tests.

Table 2: Panel data analyses results

Regressors	(1) random	(2) fixed	(3) fixed	(4)fixed	(5) fixed
Constant	2.650	1.020	2.740	2.750	2.470
(p-value)	0.008	0.310	0.007	0.007	0.015
Logarithm Income per capita	-2.720	-3.410	-4.260	-4.330	-3.030
(p-value)	0.007	0.001	0.000	0.000	0.003
Government size*	-0.910	-0.760	-1.710	-1.690	-0.360
(p-value)	0.364	0.451	0.090	0.094	0.719
Trade Openess*	0.880	3.350	1.230	1.350	0.260
(p-value)	0.379	0.001	0.222	0.180	0.011
Inflation*a	2.010	-2.050	0.020	0.030	-1.270
(p-value)	0.044	0.044	0.981	0.979	0.207
Secondary education years	-0.530	1.270	0.630	0.730	0.940
(p-value)	0.594	0.207	0.530	0.467	0.348
Liquid Liabilities*	0.890				
(p-value)	0.375				
Assets Ratio*		0.280			
(p-value)		0.780			
Private Credit in Economy*			2.810		
(p-value)			0.006		
Credit by banks*				2.910	
(p-value)				0.004	
Banks Deposits*					0.510
(p-value)					0.610
Dummy 1	-7.330	-7.240	-7.200	-7.170	-7.210
(p-value)	0.000	0.000	0.000	0.000	0.000
Dummy 2	-4.690		-4.800	-4.810	-4.970
(p-value)	0.000		0.000	0.000	0.000
Hausman Test (p-value)	0.292	0.005	0.067	0.066	0.030

*variable is included in regression in a log-linear form

^a inflation enters the regressions as $\log(3+\text{variable})$ for linearization purposes

Results from pooled OLS and random effects tests can be found in the Do File provided. A further look on the data on private credit shows that deposit money banks are the principal creditors financing private sector and delivering financial services in the Southeastern Europe economies.

As partly possible to notice in the results table¹, empirical tests performed with pooled, fixed effects and random effects panel data techniques do not find significant robust statistical evidence of a causal relationship between financial development and economic growth for the full set of financial depth indicators. Liquid liabilities, Assets ratio and Banks deposits entering regressions in log-linear form have positive coefficients but not statistically significant to be taken in consideration while analyzing for the importance of finance on growth in the sample economies. However considering the reason behind inclusion of Assets ratio as a financial development indicator, a positive sign of the coefficient follows expectancies regarding the positive role that financial intermediaries play in allocating resources and pooling risks in these

¹ Please notice that the full set of econometric tests results are provided in the Do file.

economies. The obtained results are conditioned from financial development indicators time series length, tests are run in the respective periods Liquid liabilities 2002-2014, Assets ratio 2002-2011 and Banks deposits 2002-2013.

Paying attention to obtained coefficients of policy factors included in the conditioning set is possible to notice that trade openness positively contributes to growth, while government size stands firmly in a negative relation. Inflation and education appears ambiguous in their significance to growth in the contexts of the present empirical set. Dummy variables indicating the 2009 financial crises and 2012 sovereign debt crises of the main trading partners for SEE countries are significantly important showing for a negative impact that these crises have had on the economic growth of Southeastern Europe economies. However, is needed to be taken in consideration when reading these results the quality and the frequency of data that do not favour a further optimization of econometric analysis.

Discussion and Conclusions

This paper analyzed the extent and the significance of causal relationship between development of financial system and economic growth in the Southeastern Europe countries in the period from 2002 until 2014. The empirical investigation aim was to test if financial development contributes in the growth of 10 developing and emerging SEE economies that compose the study sample in order to understand the dynamics of finance-growth nexus in this region by comparing results with earlier studies. Conditioned from availability of data, the research was performed using panel data methodologies such as pooled OLS, fixed effects and random effects models. Empirical results obtained show that financial sector size, represented from Liquid liabilities, is not statistically significant in relation to economic growth. The same applies to Assets ratio and Banks deposits indicators that theoretically measure structural functions of intermediaries in financial system to serve in pooling risks and accumulate savings. In contrast with these findings, statistically important in positively affecting growth appears to be the impact of Private credit being measured and included in regressions independently under two indicators, domestic credit to private credit from all financial institutions and private sector financing from banks. Interpreting empirical results in this point is possible to emphasize that financing private sector productive activities is an effective channel via which financial sector contributes in fostering economic growth in short-run SEE economies. In addition, is observed that crediting to private sector is primarily performed from deposit money banks. Interpreting the obtained empirical results is possible to state that financial sector expansion in SEE is not fully reflected in the economic growth process, but despite this fact, signs of a positive relationship between financial development and growth in this region have started to emerge significantly.

Considering the results obtained from this paper analysis in line with the conclusions of Mehl, Vespro and Winkler (2005) regarding the main legal and regulatory issues that impede qualitative development of financial sector in these economies, seems like the implemented reforms in the financial sector during the last decade have started to qualitatively impact financial environment in SEE paving the way for creating proper conditions under which financial development would stand in a positive relation with economic growth. A representative sign on financial environment improvement is the significant explanatory link between private credit and growth obtained from empirical tests, while the remaining gap in the finance-growth nexus is manifested through the absence of such correlation in the case of Liquid liabilities and Assets ratio.

In conclusion, financial development relationship with economic growth in Southeastern Europe has started to become significant in a positive context, dynamically evolving due to quantitative and qualitative changes in countries' financial systems. In order to enhance this process, policymakers in the region need to efficiently continue to implement the needed reforms aiming for the adoption of the "best financial practices" for increasing efficiency and further consolidate financial sector soundness in compliance with regulatory frameworks, thus creating the preconditions for facilitating the enhancing effect of financial development to be reflected in economic growth.

6.1 For further research

Some issues to be considered for further research on finance-growth nexus in Southeastern Europe would be: investigation of business cycles off-setting effects on economic growth that for the time being in all sample economies is not possible due to data limitation ; focus in understanding issues of exogeneity in causal factors between financial development and growth could be in focus of research projects for more accurate results in investigating this phenomenon; a sectorial analysis aiming to identify the main economic private activities through which finance affects growth and that depend on external financing sources would help to understand whether better financial development would affect the increase of

productivity in SEE. Also remains to be investigated if the positive relation between private credit and economic growth is due to the absorption led growth model followed by the economies of the Region.

Still being a concern for these countries, the availability of data to form the fundament for performing more reliable empirical tests is an issue in need of a solution. The relation between financial development and economic growth in short as well as long-run needs to remain in researchers' attention in order to bring in full efficiency the potential of financial sector development in supporting economic growth in the Southeastern Europe.

Appendix 1

Table 3 : Summary statistics on Real GDP per capita growth rate and Conditioning set

Variable	Mean	Std. Dev.	Min	Max	Observations
GDP overall	3.43012	3.418986	-7.270106	10.50517	N = 130
between	.8137848	1.758868	4.525972		n = 10
within	3.329989	-7.028118	10.92897		T = 13
INC overall	5755.24	3236.732	1458.328	15887.42	N = 130
between	2783.854	2923.884	12059.16		n = 10
within	1856.746	-250.2035	9583.5		T = 13
GOV overall	37.45995	7.71189	14.032	51.618	N = 130
between	7.635825	24.26585	47.87931		n = 10
within	2.567339	27.2261	45.43479		T = 13
TO overall	81.47955	27.73901	25.85435	141.9924	N = 130
between	24.97952	46.00116	110.3574		n = 10
within	14.26606	42.13308	113.1146		T = 13
INF overall	7.957454	5.749884	.59	48.134	N = 130
between	3.564105	5.019308	15.50577		n = 10
within	4.641118	1.071916	40.58568		T = 13
EDU overall	7.8	.5193914	6	8	N = 130
between	.4660746	6.538462	8		n = 10
within	.2697201	6.876923	9.261538		T = 13

Appendix 2

Table 4 : Summary of indicators description and data sources

Indicator	Acronym	Description	Source
Growth Rate	GDP	Real GDP per capita growth rate	World Bank Global Development Indicators
Liquid Liabilities	BM	Broad Money % of GDP	World Bank Global Development Indicators
Private Credit	DCPS	Domestic Credit to the Private Sector from financial institutions % GDP	World Bank Global Development Indicators Central Banks Statistics
Assets Ratio	CBAR	Commercial Bank Assets over the sum of Commercial Bank Assets with Central Bank Assets	World Bank Global Financial Development Central Banks Statistics
Banks Credit	BANK	Domestic Credit to private sector from banks % GDP	World Bank Global Development Indicators Central Banks Statistics
Bank Deposits	DEP	Total volume of deposits in the banking system % GDP	World Bank Global Development Indicators Central Banks Statistics
Income per capita	INC	Initial income per capita	World Bank Global Development Indicators IMF World Economic Outlook database
Government Size	GOV	General Government Total Expenditures % GDP	IMF World Economic Outlook database
Trade Openness	TO	Share of total volume of imports and exports over GDP	IMF World Economic Outlook database UN COMTRADE, Central Banks
Inflation	INF	Consumer Price Index (percent change)	IMF World Economic Outlook database
Average secondary schooling years	EDU	number of years in secondary school	World Bank Global Development Indicators

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Human Resource Motivation, a Necessity Dictated by the Actual Condition of the Market and the Future: A study Performed in the Albanian Banking Sector

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Abstract

The human resource management is a basic function which affects the objectives achievement not only on business field, but also on the other spheres of the human activity. The purpose of this paper is to study the involvement and motivation of employees in the organization environment. In order to realize the purpose of this paper, we have analyzed the actual evaluation system of employees in the banking sector and the link among the motivation programs and the satisfaction in the work place. We have raised two hypotheses: H1: Employees of different hierarchical levels are satisfied with their current motivation programs, and H2: Both female and male employees think that the organization helps them balance their private life with their work life. The primary data are collected through a questionnaire. Hypotheses are tested using the Kolmogrov-Smirnoff test. We used SPSS for data analyzing. From the analyses it results that for some employees the immediate monetary rewards are more important, while for some others the relationship with colleagues and leaders, the work conditions, the work challenge and the opportunities for career growth are more important. We concluded that only male employees manage to balance their work live with private life. As a conclusion we can say that nowadays we need new motivation techniques, mainly for female employees, in order to create a balance among their personal life and their work life. We recommended new programs that can be implemented in business organizations, such as cultural activities, flexible working hours, entertainment activities during trainings and seminars, programs for how employees can better balance their personal life with their job, employee involvement in decision making, and motivation through improving communication and presentation skills.

Keywords: Motive, satisfaction, monetary rewards, non-monetary rewards

1. Introduction

Nowadays, when there is a significant tendency toward globalization, motivation has become a dominant element in the context of economic and social development, and the clear identification of what we consider as "knowledge society" introduces new challenges toward businesses and their management. In order to increase the chances of success through effective feedback, it is important to stress that everybody and especially the managers of each sector should work more in order to understand better these challenges. Tony Hsieh, CEO of Zappo company, when tries to highlight the importance of the employees, adds that: "If I am very effective, I can have an innovative idea per day; if I listen to employees I will have 1000 ideas per day". The explanation of the question "why do people work" serves as a way to stimulate the career discussion. The professional career includes an evolution of job activities and positions that people try and experience through their job performance over time, and the attitudes, knowledge and skills they develop throughout their life (Ferrari, 2010). The people's career development helps us to understand better their job context and to determine the most appropriate routes to reward them by including the economic and social status of employees. As a result, the individual perception of employees in relation to development of their career paths can influence their job satisfaction and performance. The findings of another study show us that the employees perform their job effectively if they work to achieve their clear objectives and if the rewards include salaries, promotions, and social recognition (Sekkiou, L et Blondin, L, 1995). The degree of job satisfaction is important for people if the desire for nice and effective job conditions is not only a personal desire, but also a desire to win the respect of the other people within the organization (Pereti, 2004-2005). Informing the employees, team work and getting employees feedback are some of the practices that can help in the creation of an

environment that guarantees the chance of participation and motivation. All these elements help the organization to structure better the human resource practices and to motivate employees to have a higher performance.

1.1 Job satisfaction

Different researchers have defined the job satisfaction in different ways. The phrase "job satisfaction" was brought to the attention by Hoppock (1935) who explored 32 studies on job satisfaction conducted before 1933, and observed that job satisfaction is a physiological combination and depends on the environmental circumstances affecting employees to conclude whether or not they are satisfied with their job (Hoppock, 1935). This demonstrates that there is a variety of variables which affects job satisfaction, as monetary and non-monetary reward. The job satisfaction is a desirable condition or a positive emotional that results from somebody's job evaluation or from experiences in the work places (Tom Lupton, Dan Gowler, 1989). In other words, job satisfaction explains what makes people love their job, what elements of their duties makes them happy, or what makes them not to abandon their employment. Job satisfaction is attributed not only to one factor, but to a lot of factors and it changes under the effect of the importance that each factor has at different people. (Jonson, November 1969,). Researchers have also argued that rewards offered by the organizations can have a strong impact on employees' attitudes toward their job and on the organization too (Armstrong, 2002). Based on two theories rewards are either internal or not, and influence the level of employees' satisfaction with their job (Brunero, Volume XXXIII, No. 4, 2002). Different employers have different expectations regarding their salary and job rewards (Daniel Ilgen, Jack Fedelman, 1993). A lot of companies use different techniques, such as polls, in order to find out which are employees expectations and perceptions about their jobs (Ferrari, 2010). Job satisfaction is positively related to salary itself, but it is also positively related to the average salary of all the other employees, within the same sector or department (Wright, 2004).

One of the most demanding dimensions of job satisfaction is "Job Descriptive Index" (JDI). JDI is a questionnaire which measures itself five basic aspects of job satisfaction (Gregson, 1991) which are; job in itself, the second aspect has to do with the supervisor, the third with collaborators, the fourth with the salary, and the final aspect is the promotion.

1.2 Work motivation and types of reward

Motivation is the element that is closely related to employee's job satisfaction. These two elements are positively correlated with each-other. Motivation is an individual phenomenon and the purpose of motivation theories is to predict behavior. It is associated with action, with internal and external factors which influence certain actions (Mitchell, T.R. & Lason, J.R., 1987). Motivation is not the behavior itself and of course it is not performance. Related to this, Mitchell proposed his definition of motivation. According to him motivation is the degree to which an individual desires and chooses to engage in a certain behavior. It is important for managers to know the elements that motivate their employees in order to use these elements effectively and to create a win-win situation for parties, meaning employees and organizations. Reward in a broader sense relates to employees salaries for the work done as well as other benefits they receive from the organizations. Actually the word reward reflects a more flexible treatment. In today perspective the reward includes not only all the above mentioned, but also non-financial aspects of motivation applied in a contemporary human resource context. It is often assumed that motivation in the work place is closely related to the salary. Salaries are not the only motive and sometimes do not act at all as such. The managers should motivate the employees by taking into consideration both the employee and organization needs. Such rewarding forms indicate that the employer is appreciating the employees. Reward is usually among the first factors that employees take into consideration when they start a new job. It is important to consider the rewarding way of the organization, because employees more than their salary see if they are valued for what they have done or do. Salary is an important element in motivating employees and this is mainly true for countries with conditions and economy like Albania. Studies in the field of human resources show that employees are most likely to overestimate the importance of the salary. This explains why salary is an important source of motivation. However, it should be noted that salary is not equally important in all situations. If studies are conducted by analyzing different variables, such as the impact of financial rewards on productivity, salary do not rank among the first elements. The salary ranks sixth and after that comes security and appreciation (P.Latham, 2006).

2. Methodology

The purpose of this paper is to study the involvement and motivation of employees in the work environment. As its objectives we mention analyzing the current programs for the involvement of different employees and identifying new motivating techniques for employees. In order to realize the purpose of this paper we have raised two hypotheses, as follows:

H1. Employees of different hierarchical levels are satisfied with their current motivation programs.

H2. Both female and male employees think that the organization helps them balance their private life with their work life.

Hypotheses are tested using the Kolmogorov-Smirnov test with a confidence level of 95%. In this work, we used both descriptive and exploring methods. The study is carried out through a questionnaire designed specifically for it. The questionnaire contains 16 questions divided into three sections. To carry out this research, the questionnaires were distributed to 170 employees of various financial institutions of different hierarchical levels, 125 of them have been filled. It should be emphasized that the statistical program SPSS was used for the data analyses.

3. Analysis of the Human Resource Management in the Albania Banking Sector

Training and development is one of the strategic factors in creating qualified staff whose level of expertise and professionalism contributes to a higher financial performance for the organization. For this reason, second level banks in Albania offer training packages and staff training courses, based on a preliminary agreement between the employee, the supervisor and the human resources department. Banks rely on the principle that a dedicated and motivated staff is a competitive advantage. Such an advantage cannot be easily copied and without it the majority of corporate initiatives become difficult and even impossible.

3.1 The elements of compensation

Two are the main elements of salaries in financial institutions, basic salary and variable salary. Basic salary represents gross income, excluding bonuses and other additional benefits. It is administered based on salary levels, which are based on rank structure, living standards in a country, and market data. The salary structure is generally comprised of 16 ranks or levels. Each rank is presented by a segment which has an average and a maximum stretch which is roughly equivalent to the average market standard for similar positions and shows the maximum level for average performance employees. The maximum point of the segment represents the maximum level of payment for employees with the highest performance. Let's skip on the second element, the variable salary or as called bonus and incentive schemes. Banks, where possible, set a variable salary rate for their employees, which differs between front office and back office personnel. The variable payment rate is no higher than 35% of the monthly base salary for sales functions and 25% of the monthly base salary for business support functions. The salary variable is provided through incentive schemes and the year-end bonus. Incentive schemes apply to all sales positions as well as other non-selling positions whose work consists of measurable indicators. These schemes are consistent across all segments of business, with no more than 5 (five) top performance indicators ranked by priority. The bonus, which represents the percentage of the monthly base salary, relates to the percentage of achievement of the target. The right to the benefit bonus generally begins with reaching 80 percent of the target and ends with reaching 130 percent. Employees, who have an average annual performance score of over 130 percent of the target, are part of a special incentive scheme. The following table reflects the bonus policy in one of the commerce banks.

Table 1: Bonus policy examples

Average annual achievement	Special bonuses
131% - 149 %	1 salary
150% - 199%	2 salaries
200% and above	3 salaries

Source: RBAL Human Resources Manual

3.2 Performance and bonus

Performance evaluation is done using a five-step rating, *excellent-5, exceeds forecasts-4, reaches forecasts-3, needs improvement-2 and does not reach predictions-1*. Employees are eligible for promotion and salary increase when their final performance score is above the 3.5. Employee performance consists of an 80 percent annual assessment of objectives/targets set for each position and 20 percent are competences. Competences that account for 20 percent of total employee performance relate to technical-professional skills, quality of work and productivity, customer focus, sale skills, interpersonal skills and teamwork as well as integrity and trust.

4. Data Analysis

We founded out that for more than 50% of the employees the reward is a neutral element, which does not affect either positively or negatively in their motivation. This is related to external factors or explained by the fact that people who are looking for a job pay more attention to the salary while employed people are motivated by other non-monetary factors. Employees feel motivated by supervisors and managers. This is reinforced in the second section of questions when more than 68% of employees generally respond positively to their level of encouragement by managers and their reliance on the performance of their duties. In this case we can conclude that for employees it is important to have other non-monetary elements that influence the achievement of objectives by bringing motivation and satisfaction to them. A very important element is the perception and positive feelings that employees have about opportunities on career growth and their sense of being valued for their contribution to the company. This is a very important factor, as the satisfaction and the appreciation can provide not only more positive results, but also long-term security to the company. However, there is dissatisfaction among the balance between family and professional life. Over 50% of respondents say that it is difficult to balance work life with the personal one. In subsequent studies the questionnaire may be accompanied by other questions to analyze whether there are any influences from other external factors. It should be emphasized that time management in a more effective way and accurate assignment of tasks and roles is also of a great importance. From the analysis of one of the open questions, it was noted that the importance of high level of collaboration between peers and team work is increasing. New programs that can be implemented in business organizations, from the proposals of respondents relate to; cultural activities, flexible working hours, entertainment activities during trainings and seminars, organization of meetings focused on the improvement or enhancement of employee self-confidence, team work, creating programs for how employees to balance better their personal life with their job, employee involvement in decision making, and motivation through improving communication and presentation skills.

Most important is the fact that employees, around 78% of them, can recommend the company as employment opportunities to their acquaintances. When employees feel good at work, they are inclined to share this pleasure with others.

In this part of the analysis we can refer to the confirmation of hypotheses raised for this paper. Thus, for the proof of the first hypothesis we have as follows.

H1: Employees of different hierarchical levels are satisfied with the current motivation programs.

Table 2: The Kolmogrov-Smirnoff test was used to test the satisfaction of non-managerial employees with the current motivation programs.

Ratings	Observed number	Observed frequency	Cumulative	Null Proportion	Cumulative	Difference
1	19	0.2289	0.2289	0.25	0.25	0.021
2	42	0.5060	0.7349	0.25	0.50	0.234
3	18	0.2168	0.9517	0.25	0.75	0.208
4	4	0.0483	1	0.25	1	0.000

Source: Survey data

Table 3: The Kolmogrov-Smirnoff test was used to test the satisfaction of managers with the current motivation programs.

Ratings	Observed number	Observed frequency	Cumulative	Null Proportion	Cumulative	Difference
1	22	0.5238	0.5238	0.25	0.25	0.247
2	15	0.3571	0.8809	0.25	0.50	0.372
3	3	0.0714	0.9523	0.25	0.75	0.179

4	2	0.0477	1	0.25	1	0.000
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(Sample (N)=125, and the significance level of the data is 5 percent)

Note : (i) Largest absolute difference $D1 = 0.234$; $D2 = 0.372$; (ii) Significance Level = 5 percent; (iii) Critical Value $= 1.38/\sqrt{n} = 1.38/\sqrt{(125)} = 0.1234$

As can be seen from the tables, the highest values of absolute differences are greater than the critical value 0.1234. In these conditions, we conclude that the hypothesis H1 stands. Employees, despite their level in managerial hierarchy, feel satisfied.

Second hypothesis H2: female employees and male employees are able to balance their personal life with their work life.

Table 4: The Kolmogrov-Smirnoff test was used to test the balancing of personal life with that at work by female employees.

Ratings	Observed number	Observed frequency	Cumulative	Null Proportion	Cumulative	Difference
1	65	0.7222	0.7222	0.333	0.333	0.121
2	18	0.2000	0.9222	0.333	0.666	0.104
3	7	0.0778	1	0.333	1	0.000

Table 5: The Kolmogrov-Smirnoff test was used to test the balancing of personal life with that at work by male employees.

Ratings	Observed number	Observed frequency	Cumulative	Null Proportion	Cumulative	Difference
1	30	0.8571	0.8571	0.333	0.333	0.521
2	4	0.1142	0.9713	0.333	0.666	0.332
3	1	0.0287	1	0.333	1	0.000

(Sample (N)=125, and the significance level of the data is 5 percent)

Note : (i) Largest absolute difference $D1 = 0.372$; $D2 = 0.521$

(ii) Significance Level = 5 percent

(iii) Critical Value $= 1.36/\sqrt{n} = 1.36/\sqrt{(125)} = 0.1234$

The test was carried out for a =5 percent. The absolute largest differences are = 0.121 and $D2=0.521$, not both of these values are greater than c (critical value). Thus we conclude that only male workers manage to balance their lives at work with personal life, H2 is not proven.

5. Conclusions and Recommendations

Motivation and employee satisfaction continue to be important elements for the organizations. The success of a business organization is related to the way in which employees behaves and do their work. Managers should take into consideration the factors that motivate their employees. This is a really delicate process as the motivation elements vary from an employee to another. For some of them, the salary and immediate rewards are more important, for others the relationship with colleagues and superiors, working conditions, challenging work, and career opportunities are more important. Development and refinement of a model that will be based on a recruiting system, integration, training, performance assessment, promotion, motivation, and career development is very important. Albanian companies increasingly need to

adopt advanced managerial practices because if they neglect today's developments this means higher costs in the future. The most motivated employees are those who like their job, feel good in their work place, and with their work conditions.

We found that the main motivating factor was not the salary, but other non-monetary factors. Based on literature, this can be explained by the fact that job seekers consider the salary as the most important incentives, once employed they achieve motivation and pleasure at work through other non-monetary elements. The data analysis has highlighted other elements that need to be studied, such as the importance of time management and a good work-life balance.

In this paper, an important element relates to the fact that most part of employees is willing to recommend the company as an employment opportunity to their relatives. This is an indirect element, which shows the employee satisfaction at work. Employees largely appreciated challenging work, delegated responsibilities, promotion, and group activities. All of these factors are considered important for employees' motivation. Employees support new motivational programs or techniques, which could bring higher productivity at work. This paper also concluded that only male employees manage to balance their life at work with their personal life while. New motivational techniques should be applied primarily to female employees in order to balance their personal life with that at work.

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Fiscal Decentralization as an Instrument for Economic Development of Local Government in Albania

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Abstract

A decentralized governance refers to the restructuring or reorganization of authority in order to have a system of co-responsibility between central government institutions, where regional and local level are in accordance with the principle of subsidiarity. This process aims to increase the overall quality and effectiveness of the system governance, enhancing the authority and capacities of the subnational level. One of the most critical approaches to adapt decentralization from theory into practice is its clear understanding of the concept, so be able to better predict what decentralization means, how well it can be planned and implemented, which are its implications and how the challenges can be over-come. On the other side fiscal decentralization as a core element of financial instruments is related to the creation of opportunities for the financing of supported functions or so-called subsidized. It requires not only transferring financial resources and fiscal authority to local units, but they must be predictable in order to make planning possible enough to fulfill the tasks with transparence and autonomously. The aim of this paper is to briefly study how this process is implemented in Albania, if its principles are applied and how it has affected local government development. As it will be further described and explained, reforms made in this order have emphasized political decentralization, while the focus shifted to administrative , but not considerably into fiscal aspect.

Keywords: Local Government, Fiscal Decentralization, Financial Instrument, Economic Development

1. Introduction

Albania, comparing with other Western Balkan countries, has start decentralization process and reforms very late. Only in the 2000s were undertaken the first reforms of this field. The legal basis in Albania has been fragmented, therefore certain levels of governance had an unclear division of functions as well as overlapping and mixed responsibilities. On the other side, the financial aspect of this process like grants and transfers distribution to local units has been subjective. As a response, local units built a non-transparent system of their funds management, which lead to corruption and a slowdown of local economic development. The new reform of administrative and territorial reorganization is expected to give the basic results on local autonomy and financial issues. Over the last two decades, democratic decentralization has been a key element of agenda for "good governance" and has had a common goal, but the discussion of decentralization reforms should begin with the recognition of decentralization as an instrument related to economic development. Local economic development is defined in Law No.8652 / 2000 as a function of LGUs, which is at the same time a derivative of national and regional economic development policies. The way of local government financing is presented in the form of transfers intergovernmental, which are two types: Conditional and Unconditional Transfer. The first is divided by a formula that is modified almost every year and is included in the law of the state budget, the second is a transfer which mainly covers joint-function investments. This financial dependence causes funding shortages and did not allow most LGUs to develop their local plans for the development of various economic and social projects. Within the local economic development according to the above law, these services are mainly included:

- Preparation of local economic development programs
- Establishment and functioning of public markets

- Development of small business, through promotional activities
- Organization of services in support of local economic development

As a matter of fact, the range of services that a municipality has in its competencies with regard to local economic development is wide and includes the markets, property and services of the local economy. In a word, in local government units' functions are not only local utilities, but also domestic economic development. Local units currently have a strong dependence on central finances. This lack of local finance is not the only one that exacerbates local government in supporting local economic development plans, but as well intergovernmental transfers in order to support and cover the functions of local government.

Methodology used in this paper is generally narrative, based in our case study and strategy of decentralization, comparative analysis of indicators in different periods of time, technical criteria for the new administrative and territorial division, STAR Project, USAID Surveys. Mainly it will include reports made in our country over years. Review of documents in general regarding fiscal decentralization or reports on local economic development implied that there is a large gap in terms of local economic development plans and policy making.

1.1 Research Methods

Methodology used is generally narrative, based in our case study and strategy of decentralization, comparative analysis of indicators in different periods of time, technical criteria for the new administrative and territorial division, STAR Project, USAID Survey. Drivers for change were:

Fragmented local government units

- 70% of communes and 26% of municipalities comprise less than 5,000 inhabitants and 12% of communes do not count more than 1,000 inhabitants
- 230 LGUs out of a total of 373 spent 60% of their budget on own staff salaries
- 80 smallest LGUs do not provide any public service to their respective jurisdictions and communities.

General study of Local Government Units (LGUs) has been made. The situation before administrative territorial reform was implemented:

LGUs Efficiency

- 193 LGUs (a total of 385) generated only 10% of own revenues
- LGU investment ratio was less than 28% of budget.
- 230 LGUs spent more than 60% of their budget on administration (operative expenditures)
- Strong dependence from state budget transfers
- High cost of public service delivery
- High administrative costs
- Strong disparities between urban and rural areas
- Weak local democracy

The new administrative-territorial Division is made up by 12 Regions (no change)and 61 Municipalities (from 373 municipalities/ communes)

Mainly the paper will include reports made in our country over years. Review of documents in general regarding fiscal decentralization or reports on local economic development implied that there is a large gap in terms of local economic development plans and policy making.

2. Literature Review

This paper deals with basic concepts of decentralization and local economic development, but as well the challenge of decentralization is neither its theoretical understanding nor the lack of economic and institutional logic, but its practical implementation.

For decentralization there are many definitions that naturally relate to the principles on which it is based and to the objectives for which it is designed, but more comprehensive are the definitions given by UNDP (1997) defining it as:

"Decentralization or decentralized governance refers to the restructuring or reorganization of authority in order to have a system of co-responsibility between government institutions at central, regional and local level in accordance with the principle of subsidiarity, increasing the quality overall and effectiveness of the governance system, enhancing the authority and capacities of the sub-national level. Decentralization can also be expected to contribute to the key elements of good governance, such as increasing the opportunities for people to participate in economic, social decisions and politics, helping to develop people's capacities and increase government accountability, transparency and accountability." (UNDP, September 1997: 4)

Decentralization from central to local level is based on three pillars:

1. Political decentralization which aims to give citizens more power in public decision-making. This support democratization, where citizens have more influence and their representatives in government.
2. Administrative decentralization is the transfer of institutional authority in the establishment and functioning of institutions for the performance of local functions and the provision of services.
3. Fiscal decentralization is primarily linked to the creation of opportunities for the financing of supported functions or subsidized.

2.1 Fiscal decentralization as an instrument of local economic development

Local economic development is a goal achieved through a strategy, which is a work plan for improving and increasing the climate of opening up new jobs through the development of enterprises and improving the quality of life. The basic proofs in favor of fiscal decentralization are (a) increase of economic efficiency through providing of better services and consequently have the advantages of proximity and information, and (b) the competitiveness and mobility of the population in local governments for the provision of public services will ensure proper matching of preferences between local communities and local governments. (Tiebout, 1956)

The Maastricht Treaty describes a guiding principle "Subsidiarity Principle" for defining responsibilities among EU members. This is also a basic principle for local governance underlying the European Charter of Local Self-Government. This Charter sets out the principles regarding to the protection of the boundaries of the local authority, existence of structures and administrative resources appropriate to the tasks of local authorities, conditions under which responsibilities at local level are exercised, financial resources of local authorities, legal protection of local self-government. However the Charter does not provide an institutionalized system for controlling its implementation, in addition to requesting each country to submit all necessary information regarding legislative or other measures taken to comply with it. As described above, the institutional context of fiscal decentralization implies, above all, economic development, but there are also other different perspectives.

3. Analysis of Decentralization Process in Albania

The Albanian Government after the adoption of the Constitution (1998) and the enforcement of the Law "On the ratification of the European Charter of Local Self-Government" (2000) began implementing the "National Strategy of Decentralization". The Strategy had been implemented in three phases a) the immediate phase - having short-term interventions; b) a one-year phase - where there would be legal and preparatory initiatives for the forthcoming elections c) the stage of completing the authority and the scope of competences. This strategy was an expression of the vision, consensus and common interests of the country's economic and social prosperity affirmed by the Government, local government bodies and civil society organizations. This strategy was prepared by a broad consultation supported by USAID and was drafted under the support of two political and technical structures such as National Decentralization Committee and the Decentralization

Expert Group. The first step of this strategy was to change the legal basis that started with Organic Law 8652/2000 "On the Organization and Functioning of Local Government" and Law No. 8653 "On Administrative-Territorial Division".

Despite achievements in the last decade, Albania is far below other Central and Eastern European countries. Actually in local government we have a very serious financial situation where few municipalities have managed to cover a very small part of the functions delegated by law, are in financial difficulty. In Albania there is no law on local finances consequently this function is mainly regulated by procedural laws such as the law on tax procedures, the law on the local tax system as well as the annual budget laws.

There is a huge gap between the responsibilities of local units and financial resources.

Local finances, grants and revenues are modest for capital investment programs as an essential part of the plans. There is a tendency to steadily increase the conditional grants, affecting or impairing the coefficient of local autonomy and making the LGUs vulnerable to policy assignment approaches of funds. In recent years, the Fiscal Autonomy Index has fallen as a result of the grant's increase compared with total income.

As mentioned above, the lack of transparency, trends of corruption of local authorities regarding budget expenditures has deduct the confidence of citizens and businesses, consequently lower revenues from taxes and fees were achieved. According to legal considerations of fiscal decentralization we can assume as follows:

- Defined the main terms of the budget and finances.
- Rules / Methods / Ways to Ensure Transparency and Integrity of Local Public Finance.
- The rules on special national taxes, including the specific taxes to be allocated, the percentage transferred to local government and the procedures for transferring funds to local finances.
- Rules on unconditional transfers, including principles and formula for calculating and allocating them.
- Rules on Local Government Borrowing.

The topics on local government financial consolidation have often been part of the political debate between its various branches or between central and local government. However, the legal framework for financial resources of local government has followed in general the basic legal framework that has been drafted and adopted over the last decade and which determined the transfer of competencies and functions to local units.

3.1 Administrative Territorial Reform consideration on fiscal decentralization

The previous organization of the territory in 374 units of local government (65 municipalities and 309 communes) has led to a situation where local units were far from the attention of central government as well as their public far from services in standard and required level.

Eventhough fragmentation means an increased democracy representation which leads to a higher accountability to the public. The point is finding the necessary level of this fragmentation otherwise financial resources will not be enough and unable to implement various policies, a fact this that contradicts decentralization.

According to several studies, efficiency of service delivery is a very important argument on the context for territorial and administrative reform. By this "restructuring", opportunity to provide a better distribution of funds creates the right distribution of investments about infrastructure, social care, education, water supply service, etc. A new territory compounded by larger units ensures less inequality in income of municipalities, so central government is less likely to compensate local government units. Administrative-territorial reform was approved by Law 115/2014 adopted on 31.07.2014 "On the administrative and territorial units of local government in the Republic of Albania". The aim of this reform is to boost the efficiency of local administration, enhancing the quality of service delivery, development of territory, more authority at the local level and participatory decision-making. By these means this reform provides a good framework for local economic development and the reduction of administrative problems. It is expected to enable the effective use of funds through good management of funds, but also by tax administration and matching the needs with the financial resources. Territorial merger helps to reduce inconsistency between the areas where the services are provided. But reality comparing with theories diverges. Budget transfers has been and still is a very sensitive issue in Albania. It is a "hot potato"

which politics holds from time to time and uses it to "cook" according to different political appetite of local units. In the name of cost reduction central government cuts transfers and funds but not always this makes economic climate very difficult for development.

In other words finding, the main challenge is the reorganization of the territory through balancing efficiency and local democracy. Reform is in the first steps and needs further interventions especially in decisionmaking, community participation and reduction of corruption.

4. Results and Conclusions

- ✓ Financial autonomy of local government is still a challenge. Government transfers have been changing over years. local incomes and taxes are still insufficient for local units as well as their capacity. The new organizative framework must consider new strategy for fiscal reform or review the legislation.
- ✓ There is an immediate need to increase the financial transfer from central government (unconditional grants) for local government.
- ✓ There is a need to review the law on local borrowing in order to increase autonomy of local government by reducing Central Gov. weight in narrowing Local Autonomy. The need for macroeconomic control should not pressure local autonomy, especially the fiscal one, and hamper the power of local government initiatives.
- ✓ Society , especially public positioned in local units, needs higher level of information regarding how their government is dealing with their concerns, how territorial changes are being implemented and more connection to the managerial levels responsible for them.
- ✓ Reducing the fragmentation of the territory does not lead to greater capability of self management and economic development. Fiscal decentralization should accompain way along this process in order to make the administrative and territorial changes more effective.
- ✓ Sub national governments should be supported to increase their ability for higher revenues and strengthen financial management. There is no discussion for local economic developement without real assigment of expenditure responsibilities, financial accountability and its monitoring.

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Determining Factors in Measuring Consumers Trends for Consumption

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Abstract

In this paper we focused on defining factors that affect in consum and in consumer behaviour. The purpose of this paper is to address the impact of Inflation and disposable income to consum, between different periods of time taken in study. We will use the consumer price index for Albanian case, to measure Inflation's rates changes for a certain period of time, or changes in prices of goods and services included in market basket. The period that we have taken in study is from year period 2012 to 2016, which 2015 is the base year period. The aim of this paper is to calculate the annual average of inflation rates and to analyse changes for each periods taken in the study. Also we are going to explain the relationsheep between inflation and other factors influencing in consum and consumers behaviors.

Keywords: Consume, market basket, Inflation, Inflation rate, consumer price index

1. Introduction

In this paper we intend to highlight the factors that affect on consumers behavior for different products and services. We are going to analyze that, how can be effected consumer's behavior by changes in overall price or inflation rates level and other factors such as available income.

Also, based on some data that we have obtained from instad.gov.al, by calculating the annual average consumer price indices, to measure changes in inflation rates, we have calculated annual average of inflation rates that shows changes by period that is taken in study. The data related with annual average consumer price indices are taken for period 2012-2016.

We should analyze which groups have had more changes in the average inflation rate, and how have affected these changes in consumer behavior.

The market basket is classified in 12 main groups, according to EUROSTAT classification (Institute for Eurostatistics).

2. Literature

Through the literature review we will provide some examples of other authors who have used in their study similar thematic as in my study.

Here are some examples:

1. The study of inflation by Stanley Fischer in (1971) in his study with topic "Relative Shocks, Relative Price Variability, and Inflation". In his paper he was focused on the relation between inflation and relative price variability, which were discussed various explanations of a causal relation between inflation and relative price variability providing estimates of the relative prices variability that can be attributed to monetary and fiscal policy and viewing that inflation may be a factor explaining poor performance of the United States and other industrial economies after 1973.
2. William R. Easterly and Michael Bruno in their research with topic, "Inflation Crises and Long-Run Growth". Their research was focused on the negatively relationsheep between growth and inflation, the data covers 136 countries over the 1960-94 period.
3. Alexander Tsyplakov in his project with topic "The Links Between Inflation and Inflation Uncertainty at the Longer Horizon" The aim of his paper was to examine the Okun-Friedman hypothesis of the link between inflation and inflation uncertainty using historical international data on monthly CPI. The evidence obtained strongly supports Okun-Friedman

hypothesis both in time dimension for most countries and across countries.

4. Aarstol, Michael in his article with topic "Inflation, inflation uncertainty, and relative price variability". The aim of his study was to determine relationship between inflation and variability of relative price changes (RPV) using the menu-costs model, Lucas-Barro signal-extraction model, and the Hercowitz-Cukierman extension of Lucas-Barro model. Results indicate that none of the three models nor their combination can entirely explain relationship between inflation and RPV.

3. Research Methods

In our study have used the annual average consumer price indices, which measures annual average changes in prices of goods and services. Also, the aim of this method is to see how annual average inflation rates has changed by years period of our study and how it affected consumption.

3.1 Purpose

The purpose of this paper is to make a comparison of annual average changes in inflation rates according to periods taken in our study, and to see how could affect an increase or decrease of average inflation rate in consumer behavior to buy products and services that we have included in the market basket groups.

3.2 The research questions

In which period of time taken in study there have been more fluctuations of the annual average inflation rate, and what are some of factors that may have caused these fluctuations.

3.3 The data and choice

In our paper, we used secondary data, which are focused on INSTAT publications, where have taken some data about the average consumer price indices for 12 main market basket groups.

The data were obtained for period 2012 to 2016, and have calculated annual average inflation rates for each year taken in study.

4. Analysis Result

In the table below have calculated annual average consumer price indices for periods of our study, that is from year 2012 to 2016, which 2015 is the base year period.

Table 1. Annual average consumer price indices for each periods taken in study

Average CPI by main groups and period
(December 2015=100)

COICOP	Average CPI by main groups	CPI 2012	CPI 2013	CPI 2014	CPI 2015	CPI 2016
1	Food, and non-alcoholic beverages	94.66	97.27	97.45	99.96	102.73
2	Alcoholic beverages and tobacco	86.16	88.83	94.03	99.08	100.80
3	Clothing and footwear	107.03	103.18	101.58	100.39	99.31
4	Rent, water, fuel and power	98.84	99.91	100.73	100.43	100.48
5	Furniture household and maintenance	99.81	100.55	99.69	99.57	100.17
6	Medical care	104.30	104.47	100.78	100.29	100.70
7	Transport	101.51	101.63	102.13	100.65	99.02
8	Communication	98.98	99.46	99.11	100.61	100.18
9	Recreation and culture	99.88	99.47	99.58	99.94	100.18
10	Education service	84.60	85.85	88.84	96.67	100.16
11	Hotels, coffee-house and restaurants	94.63	96.12	97.88	99.21	100.02
12	Goods and various services	94.71	94.32	100.61	100.15	101.18
	Total Average CPI by main groups	97.09	97.59	98.53	99.75	100.41

Source: INSTAT. (2016). Consumer price index, Average consumer price indices. [Online] Available: <http://www.instat.gov.al/al/temat/%C3%A7mimet/indeksi-i-%C3%A7mimeve-t%C3%AB-konsumit/#tab2> December,2016).

The consumer price index is used, to measure changes of inflation rates for a certain period of time or changes in prices of goods and services included in market basket. (Salko & Dhuci, 2005)

Market basket is classified in 12 main groups, in accordance with EUROSTAT classification (Eurostat Institute). Where are given the annual averages of respective consumer price indexes in % for each of main market basket groups, according to year period taken in study.

Table 2. Total annual average of inflation rates according to periods under study

		Inflation 2012	Inflation 2013	Inflation 2014	Inflation 2015	Inflation 2016
1	Food, and non-alcoholic beverages	-5.4	-2.7	-2.8	0.1	3.0
2	Alcoholic beverages and tobacco	-13.9	-11.2	-5.3	-1.0	1.2
3	Clothing and footwear	7.0	3.2	2.0	0.5	-0.8
4	Rent, water, fuel and power	-1.2	-0.1	0.7	0.5	0.1
5	Furniture household and maintenance	-0.2	0.6	-0.3	-0.4	0.2
6	Medical care	4.3	4.5	1.8	0.5	0.2
7	Transport	1.5	1.7	3.3	1.3	-1.5
8	Communication	-1.0	-0.5	-0.4	-0.7	-0.2
9	Recreation and culture	-0.1	-0.5	0.5	0.3	0.3
10	Education service	-15.4	-14.1	-3.8	-1.6	0.4
11	Hotels, coffee-house and restaurants	-5.4	-3.9	-1.3	-0.7	0.0
12	Goods and various services	-5.3	-5.7	-3.1	-1.0	0.0
	Annual Mutual Inflation Change	-2.9	-2.4	-0.7	-0.2	0.2

Source: Salko & Dhuci, 2005

In table 2, are presented the annual average inflation rates for 12 market basket groups, according to annual periods of study.

Regarding the total annual average of inflation rates, can be concluded that in 2016 total annual average of inflation rate is 0.2%, which is higher compared to the other years taken in study that results with negative values of total annual average inflation rates, which means that there has been a decrease in total inflation rates, except 2016 period that has a low positive value of total annual average of inflation rate.

In overall related to the total annual average of inflation rates can estimate that inflation rates may be considered as expected or foreseeable, and we can say that inflation rate is stable, because no significant changes occur on aggregate demand and supply of goods. If total average of inflation rate reaches values from 2-3%, we can say that inflation is acceptable and does not cause imbalance on aggregate demand and supply of goods.

4.1 Analysis of changes in average inflation rates by main groups and for each period

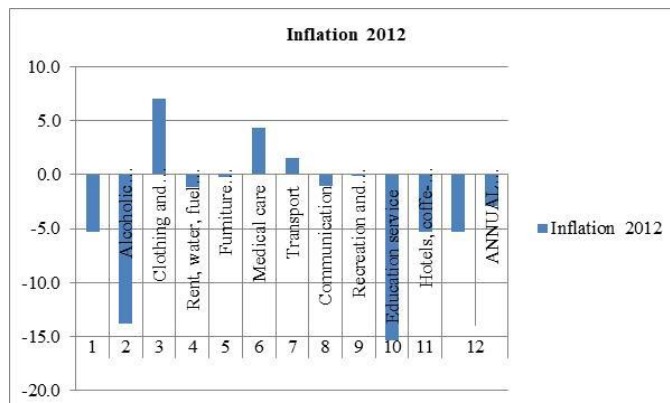


Chart 1. Changes in average of inflation rates by main groups for 2012

The chart shows that during 2012 annual average inflation rate has been variable, highest average inflation rate was achieved by "Clothing and Footwear" group with an average inflation rate of 7%, followed by "Medical care" group with an

average inflation rate of 4%, and "Transport" group with average inflation rate 1.5%. Inflation has had fluctuation throughout the year at lower and upper limits, marking an increase and fall in the average annual inflation rate.

In other groups, were observed significant price level movements, mainly with negative values of average inflation rate. This shows that for these groups have had a fall in annual average inflation rate, and at certain moments has influenced inflation as a whole.

Lowest level inflation rates were achieved by these groups : "Education service" with an average inflation rate of -15.4% and by "Alcoholic beverages and tobacco" with an average inflation rate of -13.9%.

Factors that have influenced inflation rate are classified as factors with a positive or negative impact, driven by demand or supply.

For 2012, the total annual average consumer price index reached value 97.09 in annual terms. Annual average inflation rate for 2012 is -2.9%

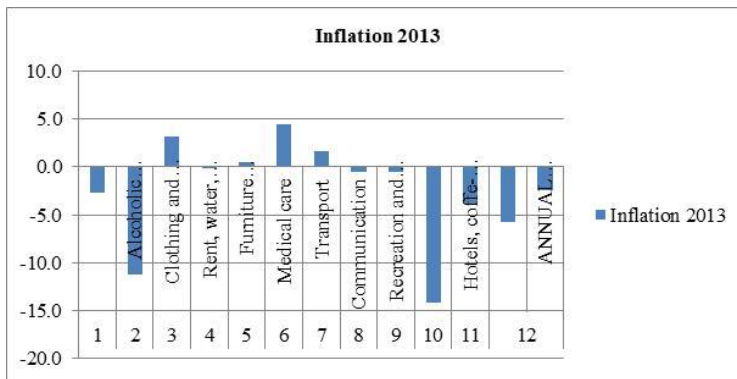


Chart 2. Changes in average of inflation rates by main groups for 2013

The chart shows that during 2013, highest annual average of inflation rate was achieved by "Medical care" group with an average inflation rate of 4.5%, followed by "Clothing and Footwear" group with average inflation rate of 3.2%. In other groups, were observed significant level movements, mainly with negative values of average inflation rate.

Indicating that for these groups have had a fall in annual average inflation rate. The lowest level of average inflation rates were achieved by these groups: "Education service" by average inflation rate of -14.1% and "Alcoholic beverages and tobacco" by average inflation rate of -11.2%.

For 2013, the total annual average consumer price index reached value 97.59 at annual level. Annual average inflation rate for 2013 is -2.4%

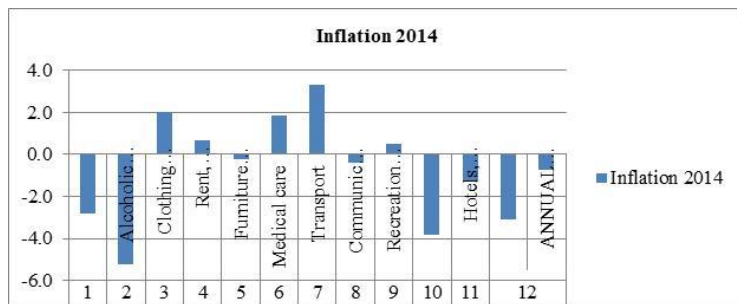


Chart 3. Changes in average of inflation rates by main groups for 2014

The chart shows that during 2014, high levels and positive inflation rates were achieved by these groups: "Transport" with an average inflation rate of 3.3%, "Clothing and footwear" with an average inflation rate of 2.0%, "Medical care" by inflation rate of 1.8%, and "Recreation and culture" with average inflation rate of 0.5%. In other groups, were observed significant price level movements, mainly with negative values of average inflation rate.

Indicating that for these groups have had a fall in annual average inflation rate. The lowest inflation rates were achieved by these groups:

"Alcoholic beverages and tobacco" with average inflation rate of -5.3% and "Education service" group by average inflation rate of -3.8%.

For 2014, the total annual average consumer price index has reached level 98.53, and total annual average inflation rate for 2014 is -0.7%

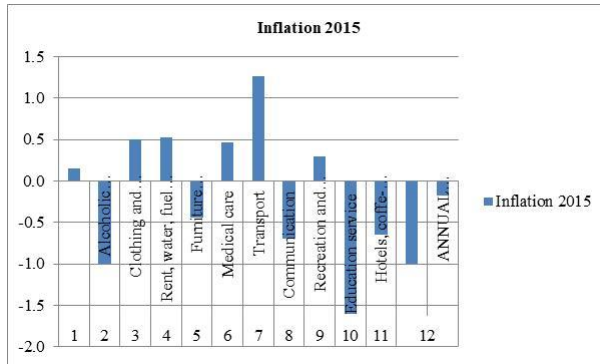


Chart 4. Changes in average of inflation rates by main groups for 2015

The chart shows that during 2015, high levels and positive inflation rates were achieved by these groups: "Transport" with average inflation rate of 1.3%, "Rent, water, fuel and power" and "Medical care" with respective average inflation rates 0.5%, "Food, and non-alcoholic beverages" group with average inflation rate of 0.1%. In other groups, were observed significant price level movements, mainly with negative values of average inflation rates.

Indicating that for these groups have had a fall in annual average inflation rate. Lowest inflation rates were achieved by these groups: "Education service" with an average inflation rate of -1.6% and both "Alcoholic beverages and tobacco", "Goods and various services" groups, at respective average inflation rates of -1.0%.

For 2015, the total average consumer price index has reached 99.75 at annual level. Annual average inflation rate for 2015 is -0.2%

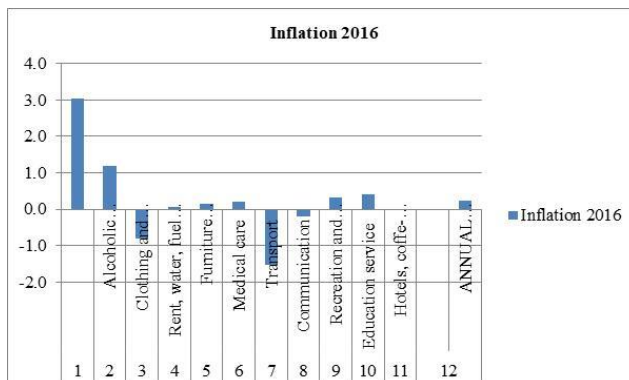


Chart 5. Changes in average of inflation rates by main groups for 2016

The chart shows that during 2016, higher levels of inflation were achieved by group "Food and non-alcoholic beverages" with an average inflation rate of 3.0%, followed by "Alcoholic beverages and tobacco", with average inflation rate of 1.2%.

In other groups, were observed significant level movements, with positive and negative values of average inflation rate. It indicates that for these groups have had an increase and decrease of annual average inflation rate. Positive levels of inflation rates were achieved by these groups: "Rent, water, fuel and power", "Furniture household and maintenance", "Medical care", "Recreation and culture", "Goods and various services". Lowest levels of inflation were achieved by these groups: "Transport" with average inflation rate of -1.5% "Clothing and Footwear" with corresponding average inflation rate of -0.8%.

For 2016, the total average consumer price index has reached value 100.41 at annual level. Annual average inflation rate for 2016 is -0.2%

4.2 Income effect in consum

Available income are another important factor that affects consumption. Consumption and incomes are linked to each other in right way, with increase of disposable income, consumption will increase. If disposable income will reduce the consumption is going to decrease..

Also disposable income directly affects consumer behavior. Consumers with high disposable income will consume and save more than consumers with low disposable income. In our paper we note that inflation is a very important indicator because in the economy of a country changes in inflation rate will have a direct impact on salaries of employees or on disposable income of consumers. So we can say that have a mutual relationship between inflation and disposable income, saving and consumption, stressing that the key role effecting in consumer behavior is inflation.

In our paper for the period taken in study, we can say that inflation is acceptable and does not cause imbalance on economic indicators.

5. Conclusions

The main factors that we have taken in analyse influencing consumer behavior are the changes in price of products and services and available income.

The price of products and services is a very important factor influencing consumer behavior, which means according to (Nesturi, 2016) the law on demand if the price of products decreases, the readiness of consumers to buy increases. If the prices of products and services increase and consumers' readiness to buy will decrease with condition that other factors remain constant.

In our paper, we noted by comparing inflation for periods taken in the study, the highest and lowest levels of inflation have been achieved in year 2015. There are various factors that may have affected this rise in inflation, driven by the demand or the offer. However, generally we can assess controlled inflation levels and that hasn't had any significant growth to cause unbalance in macroeconomic indicators.

Incomes are a very important factor affecting consumer behavior because through available incomes consumers express ability to buy a product or service at a certain price, so we can say that income is a determinant factor of request.

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