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Financing of Social Services for Children in Macedonia

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Abstract

Over the last decade the social services sector in Macedonia has been involved in a reform processes in line with the strategic paths towards decentralization, deinstitutionalization and pluralization of social welfare. Children are in the main focus of the reform processes through twofold policy interventions: reduction of child poverty with incentives for improving range and amount of child benefits and advancement of social services for children facing social problems. Additionally, the reform processes were instigated by substantial budgetary allocations for administration of child benefits and delivery of social services for children followed by a critique for inappropriate targeting of children, undeveloped, low quality and expensive services for children mainly organized in massive residential institutions. Whereas, several researches had been carried out with focus on the quality of social services for children and coverage gaps, there is an insufficient evidence and analysis of the costs of services and their budgeting. This analysis is to serve the purpose of filling in the existing data gap through: (1) to map the existing social protection measures for children in Macedonia executed by state, non-governmental organizations and private service providers; (2) to identify the main mechanisms for financing social services for children and to provide clear insight into state financial support in the social services delivery and alternative child care support arrangements.

Keywords: children, social benefits, social services, mechanisms of financing.

Introduction

Social protection in the Republic of Macedonia is defined as an activity of public interest. According to the Law on Social Protection, social protection represents a system of measures, activities and policies for prevention and overcoming of the basic social risks to which the citizens are exposed to during their life, for reducing poverty and social exclusion and for strengthening citizen's capacity for personal protection. Social protection is realized through measures for social prevention, rights of financial assistance from social protection, non-institutional and institutional protection of persons in a situation of social risk. In addition to the social measures, the state's responsibility for protection of socially vulnerable categories of population is also achieved by undertaking measures in the tax policy, employment, scholarship policy, housing, family protection, health, upbringing and education, and in other areas in accordance with the law.

Social protection, as an area that encompass multiple domains of policies and involves various actors at many levels, is regulated by a substantial primary and secondary legislation. A systematic law that regulates rights and services, as well as the institutional bases for performing social protection, is the Law on Social Protection. The status, rights, obligations and responsibilities of public bodies and other non-state providers of social services are regulated by several laws and by-laws: Law on Organization and Operation of the State Administrative Bodies, Law on Local Self-Government, Law on

Institutions, Law on Associations and Foundations, Law on Disability Organizations, Law on Administrative Servants, Law on Employees in Public Sector, Law on General Administrative Procedure, etc.

The system is accomplished through professional work in institutions for social protection, implementation of developmental programs depending on beneficiaries' needs and international standards, monitoring and evaluation of the social protection practices.

Macedonian social protection sector is predominantly managed, in terms of organization and service delivery, by the state and the non-governmental sector, independently or, less commonly, in partnership. However, there are several weaknesses related to the development of this sector, which have been identified. They refer to the low quality of services, especially when state-run, inadequate coverage with social services to respond to the needs of different socially vulnerable groups, as well as financial sustainability issues generated by frequent project funding and weak state support to the non-governmental sector active in the domain of social services (Bogoevska et al, 2017).

Institutional framework of the social protection system

The state performs social protection of citizens in accordance with the principle of social justice. The state establishes the system of social protection and enables its functioning, provides conditions and measures for conducting social protection activities and develops forms of self-help. The Republic, the municipality, the City of Skopje and the municipalities in the City of Skopje are carriers of social protection.

1. 1. Relevant governmental and municipal stakeholders

The **Ministry of Labor and Social Policy** is the central institution for policy-making, strategic planning, management, and monitoring of legality, especially through inspection over the implementation and enforcement of laws and other regulations in the field of social protection.

The **Institute for Social Activities** is a public institution that studies social phenomena and promotes social activities. The Institute has its jurisdiction and monitoring over professional work in social protection institutions as well as over other legal and personal entities that perform certain activities in the sector.

In order to accomplish the tasks within the in system a set up social protection institutions have been established: **Centers for Social Work** and **institutions for social protection**. Centers for social work are public institutions with public authorization responsible for administration of cash benefits and provision of social services. The CSWs have a key role in the identification of and support of children at risk of being abandoned, in providing support to vulnerable families, and promoting parental care and family reintegration. In addition, CSWs decide on the transfer of a child to alternative care or in being given for adoption and act in these circumstances as legal guardians. Social institutions can be established as institutions for residential care and institutions for non-residential care.

Institutions for residential care for placement of infants and young children without parents and parental care under the age of three; children without parents and parental care above three years of age and of youth; children and youth with educational and social problems; children and youth with behavioral problems; children and youth with moderate and severe mental disabilities; children and youth with physical disabilities; elderly; adults with physical disabilities; persons with mental disabilities and persons, asylum seekers (Law on Social Protection, Article 115).

Institutions for nonresidential care according to the Law on Social protection are: center for social work, day care center and clubs for elderly people, daycare center for street children – children on the streets, a daycare center for persons who use or abuse drugs and other psychotropic substances and precursors, a daycare center for people who abuse alcohol or are being treated for alcohol dependence, center for homeless persons, center for persons - victims of domestic violence, center for persons - victims of trafficking, daycare center for persons with mental or physical disability, center for administering assistance at home, center for social rehabilitation of persons that use or abuse drugs and other psychotropic substances and precursors, a small group home and counseling centers (Law on Social Protection, Article 132).

The municipality, the City of Skopje and the municipalities of the City of Skopje provide the realization of social protection through non-residential and residential forms of social protection, housing and raising the awareness of the population for the needs of providing social protection. The municipality, the City of Skopje and the municipalities of the City of Skopje may, in accordance with the material possibilities, determine other rights in the area of social protection, rights in a greater

extent than the scope of the rights determined by this Law and more favorable conditions for their realization, as well as other forms of social protection. To achieve common interests and to perform joint affairs within the competence, they can merge funds and form joint public services. The cooperation is regulated by the Law on Inter Municipal Cooperation.

Relevant non-governmental stakeholders

A citizen's associations registered in the Book of records by the Ministry of Labor and Social Policy, and the person who has a work permit issued by the Ministry of Labor and Social Policy may carry out activities in social protection, under the conditions, manner and procedure determined by the Law on social protection. Religious communities, religious groups and their associations registered in the country, can assist persons who have a need of certain types of social protection. Besides public institutions, private institutions for social protections are established with the aim to provide social protection services within the social protection system.

Mapping of the existing NGOs in the Republic of Macedonia which work in protection of the rights of children and vulnerable adult indicates a well develop organizational network with rather equal representation in all regions of the country. Nonetheless, there are several viable stakeholders that play a crucial role in policy making and delivery of social services. Major areas of influence of the NGO sector are promotion and public awareness for the problems of the specific group, advocacy of the rights of vulnerable groups, capacity building of target groups and organizations, analysis of the quality of services as well as identification of implementation gaps and obstacles. Most of them are engaged in immediate work with the vulnerable group offering psychosocial support, legal assistance, and day care protection and accommodation services. Several organizations have signed contracts with the Ministry of Labor and Social Policy in delivery of services for vulnerable groups such as children without parents and parental care, children and adults with intellectual disabilities. In such cases, as a mechanism for financing services the state uses the payment per capita. Also, on an annual basis the state gives grants for organizations that are registered in the book of registry by the Ministry of Labor and Social Policy. Yet, most of the organizations provide their sustainability through grants and financial aid from foreign donors. Apart from foreign donors, the dominant sources of funding are from government grants, membership fees and activities that generate profit, whereas the lowest share in financing are from individual and businesses donations.

Analysis of public expenditures in social protection

The activities of the Ministry of Labor and Social Policy for protection of children are implemented in accordance with the annually adopted Program for Social Protection. The activities for protection of children are financed from the budget on social protection¹. The Budget is divided into three main programs:

Non-institutional social protection. The funds within of this program are designated for activities that are performed by the Center for Social Work, for their organizational units (shelters for the homeless, day care centers for children on the street, for drug users and members of their families as well as for children with disabilities), and for the Institute for Social Activities. Also, some funds are used for cooperation with non-governmental organizations that assist the implementation of deinstitutionalization processes and for the reconstruction and equipment of facilities for non-institutional protection.

Institutional social protection. The funds are directed for accommodation, food, clothing, heating, health care etc. within social institutions, which includes those who provide care of people with physical and psychical disabilities, children without parents, children and youth with learning difficulties and homes for elderly. The funds relate to reconstruction and equipping of facilities for institutional protection.

Compensation and benefits. This includes permanent financial support, social financial support as well as financial support for care and protection. Some of these allowances include benefits for children, benefits for war disabled persons, protection of war veterans and persons with disabilities, right to salary for part-time work for care of child with special needs, one-term financial assistance and assistance in kind, right to housing, financial support of persons who had a status of a child without parents and parental care until age 18, the right to reimbursement for accommodation costs; as well as accommodation in student homes or other institutions.

Social protection includes expenses regarding the work of social work centers, the Institute for Social Activities, day care centers and shelters, institutional and non-institutional social protection, support and implementation of the Decade and the

¹ Overall budget of the Republic of Macedonia for 2017 is 187,612,000 (in thousands of denars).

Roma Strategy, program for conditional cash transfers, reform of the social protection system and the construction, equipping and maintenance of facilities for social protection. This sector includes compensations and rights in social protection, current transfers to local self-government units for block grants, including measures for reducing poverty. The values are given in thousands MKD¹.

Table 1: Planned and rebalanced expenditures for the social protection 2014-2017

	Budget year						
	2014		2015		2016		2017
	Planned	Rebalanced	Planned	Rebalanced	Planned	Rebalanced	Planned
Social services	1.076.085	1.066.584	1.103.643	1.109.284	1.112.573	1.102.253	1.061.551
Rights of material assistance form social protection	6.520.637	6.816.278	7.472.840	7.800.760	8.235.069	8.213.499	8.515.047
Measures for reduction of poverty	228.587		235.527		49.304		12.153
Block grants for Local self-government	1.160.536	1.160.536	1.193.474	1.193.474	1.303.285	1.303.285	1.420.000

Source: Ministry of Finance, 2017

The analysis suggests that the cost of social services in the analyzed period 2014-2017 ranges in relatively same level. Continuous increase was observed in terms of the rate of cash benefits from social and child protection. Namely, from 2014 to 2017 spending on this item increased for 24.92%. Also, a significant increase of 22.36% occurred regarding block grants to local government (financial resources for transferred competences in child and social protection). There is an evident reduction of 75.35% in expenses is related to the measures for reduction of poverty in 2017 compared to 2014.

Table 5 presents the trends of the total planned and rebalanced budget expenditures in the domain of social and child protection for the period 2014-2017.

Table 2: Planned and rebalanced budget expenditures for social and child protection 2014-2017

	Budget year						
	2014		2015		2016		2017
	Planned	Rebalanced	Planned	Rebalanced	Planned	Rebalanced	Planned
Planned expenditure	33.633.899	34.494.174	34.169.104	36.244.852	39.703.662	39.678.992	41.448.870
Basic budget	33.337.320	34.164.504	33.826.071	35.920.319	39.317.945	39.293.275	41.157.473
Fundraising activities	78.850	78.850	78.850	63.850	59.610	59.610	59.610

¹ According to the current average exchange rate 1 euro=61.5764 denars.

Expenditures from loans	171.620	171.620	179.500	183.000	180.000	180.000	123.000
Expenditures from donations	32.528	64.887	55.383	48.383	121.527	121.527	84.207

Source: Ministry of Finance, 2017

The analysis of the data indicates a constant increase regarding rebalanced expenditure on social and child protection. The data on expenditures in social and child protection for 2014 compared with the data for 2016 indicates an increase of 15.03%. In the compared years the highest increase of 87.29% refers to the item of expenditure from donations, while the largest decrease of 24.40% is in the item of expenditure of fundraising activities.

Table 3: Planned and rebalanced expenditures for child protection 2014-2017

Year	Expenditures for child protection	
	Planned expenditures	Rebalanced expenditures
2014	55.125	52.974
2015	42.845	38.723
2016	38.556	36.756
2017	39.888	

Source: Ministry of Finance, 2017

The data on child protection refer to expenditures for institutions for child protection and construction, equipping and maintenance of facilities for child protection.

The analysis of the data indicates evident reduction of planned and rebalanced budget expenditures for this item. When 2014 is taken as the base year, the data show that the planned expenditures for child protection in 2017 were reduced for 27.64%. Also, there was an evident decrease of 22.90% in 2015 and a decreased of 30.61% in 2016.

Budgetary allocations for child protection rights

Law on Child Protection defines a series of child rights such as child supplement, special allowance, parental allowance, right to participation, and one-time financial assistance for newborn.

Child supplement financial assistance aims to cover one portion of the expenses for rising and development of children. Child benefit is realized based on the financial threshold for the income of all family members, until the child reaches the age of 18 years and until regular school attendance. Further, it is conditioned that one of the parents has to be employed or to receive unemployment benefits in order to exercise this right. Also, the child supplement is granted to a child without parental care placed in a foster family. The threshold of income is higher for single parents, and the amount differs regarding the level of education. The amounts of compensation has not been changed for several years and amounts 716 MKD per month per for children in preschool and primary education, 1.136 MKD per child in secondary education. Maximum granted amount per family on monthly bases is 1.800 MKD regardless of the number of children. These amounts are adjusted to the living costs in the previous year according to the State Statistical Office. The financial status of the family is established on the basis of the income generated by the family and the total number of family members. When deciding on the child benefit right, the average monthly income of the family is divided by the number of family members. Child benefit may be awarded for children from families with an average monthly income per family member from any source of up to 2.490 MKD and up to 4.980 MKD for children from single parent families.

Special allowance financial assistance is administered to children with specific needs and physical or mental disabilities or combined developmental disabilities under 26 years of age. Special allowance is granted to children with disabilities up to 26 years, the amount of the fee is 4.366 denars, while single parents receive a higher amount. This right shall be exercised without financial threshold. The amount of the special allowance is 4.202 MKD. This amount has increased by 50% for single parents and for 25% for financially insecure parents, beneficiaries of rights to social financial protection who have children less than 26 years of age with specific needs and physical or mental disabilities or combined developmental disabilities. These amounts are compared and harmonized with the increase in living expenses for the previous year as

published by the State Statistical Office in January for the current year. Unlike the situation with the child benefit, the data related to the special allowance right is showing an upward trend of increasing numbers of beneficiaries.

One-term financial assistance for a newborn is given to a first-born child as a financial assistance granted to one of the parents, citizen of the Republic of Macedonia with permanent residence in the Republic of Macedonia, for a child born on the territory of the Republic of Macedonia. As first newborn child is considered a first child of the mother by order of birth; more children when the mother during her first delivery gives birth to several children at once (twins, triplets and more); first adopted child or more children when adopted together (twins, triplets and more) during the first adoption, if the child/children is less than one year old and if the mother does not have a first live born child/children by order of birth. The amount of the newborn financial assistance is 4,829 MKD. This amount is compared and harmonized with the increase in living expenses for the previous year as published by the State Statistical Office in January for the current year. This right is awarded regardless of the generated income

Parental allowance right is exercised by mother's who gave birth to a third child after January 2009. Amount of compensation compared to other allowances is very high and amounts to 8.300 MKD per month. The compensation is accomplished until the child reaches the age of 10 years old¹. Frequent legislative changes had an effect on the overall number of parental allowance beneficiaries. The expectations are that the number of beneficiaries could increase further in the forthcoming years by influx of new beneficiaries (mothers of live born third children), bearing in mind that this right is still applicable.

Table 4: Child rights budget expenses for 2013-2016

	Budget year			
	2013	2014	2015	2016
Total expenses	1.918.965	1.917.637	2.732.084	3.045.000

Source: Ministry of Labor and Social Policy, 2017

In the period from 2013 to 2016, total expenditures for implementation of all financial rights for protection of children have increased for 58.63% (from 1.918.965 MKD in 2013 to 3.045.000 MKD in 2016, see: Table 7). This is mainly as a result of an increased number of beneficiaries of parental allowance.

Table 5: Number of beneficiaries of child rights for 2013-2016

Type of right	Budget year							
	2013		2014		2015		2016	
	Beneficiaries		Beneficiaries		Beneficiaries		Beneficiaries	
	Families	Children	Families	Children	Families	Children	Families	Children
Child supplement	8.811	17.463	8.552	17.203	7.114	14.652	5.970	12.128
Special allowance	6.666	6.916	6.966	7.184	6.827	7.055	6984	7.245

¹ The Law on changes and amendments to the Law on Child Protection (Official Gazette of the Republic of Macedonia, number 98/08) prescribed parental allowance payments for: a) second child: monthly payments for a period of 9 months in the amount of 30% of the average salary paid in the country during the previous year, b) third child: monthly payments for a period of 10 years in the amount of 50% of the average salary paid in the country during the previous year, c) fourth child: for a period of 15 years in the amount of 70% of the average salary paid in the country during the previous year, and d) single parental allowance: monthly payment for a period of 15 years in the amount of one average salary paid in the country during the previous year. The average salary was replaced by the average net salary amount with the Law on changes and amendments to the Law on Child Protection (Official Gazette of the Republic of Macedonia 83/09) and the average net salary was replaced by a fixed amount of 8.084 MKD parental allowance for a third child with the Law on changes and amendments to the Law on Child Protection (Official Gazette of the Republic of Macedonia 156/09). As of 01.01.2010, the same Law provided for parental allowance payments of 4.829 MKD for a second child, 8.048 MKD for third, 11.267 MKD for a fourth child and 16.096 MKD for single parental allowance.

One term financial assistance for new born					8.148	8.238	8005	8.096
Parental allowance for 3 rd child	13.799	13.799	17.671	17 671	20.872	20.872	23.898	23.898
Parental allowance for 4 th child	856	856	853	853	846	846	843	843

Source: Ministry of Labor and Social Policy, 2017

The number of child supplement beneficiaries has been on a constant decrease for the last few decades. This decrease in the number of child supplement beneficiaries persisted in the analyzed period 2013-2016 when the total number of beneficiaries has dropped from 8.811 beneficiaries (families) with 17.463 children in 2013 to only 5.970 beneficiaries (families) with 12.128 children in 2016. This is a reduction of the number of beneficiaries of 32.24% and the number of children by 30.55 % in 2016, in comparison with 2013. The calculation of the index (2013 = 100%) shows that the total number of beneficiaries in 2016 is just 67.76% of the total number of beneficiaries in 2013 and the total number of children subject of this right in 2013 is only 69.45% of the total number of children in 2016 (see Table 6).

Table 6: Movement in the number of child supplement beneficiaries for the period 2013-2016

Year	Beneficiaries (families)	Index (2013=100%)	Beneficiaries (children)	Index (2013=100%)
2013	8.811	100.00	17.463	100.00
2014	8.552	97.06	17.203	98.51
2015	7.114	80.74	14.652	83.90
2016	5.970	67.76	12.128	69.45

Source: Ministry of Labor and social policy

The analysis of special allowance shows a slight but constant growth in the number of beneficiaries. The data show that there were 6.916 children from 6.666 families who were enjoying special allowance right in 2013, while in 2016 this number has increased to 7.245 children from 6.984 families (see Table 7 below). This is an increase of the number of beneficiary families of 4.77% and the number of children by 4.76% in 2016, in comparison with 2013.

Table 7: Movement in the number of special allowance beneficiaries for the period 2013-2016

Year	Beneficiaries (families)	Index (2013=100%)	Beneficiaries (children)	Index (2013=100%)
2013	6.666	100	6.916	100
2014	6.966	104,50	7.184	103,88
2015	6.827	102,42	7.055	102,01
2016	6.984	104,77	7.245	104,76

Source: Ministry of Labor and Social Policy

The analysis of parental allowance for a third child shows a constant growth in the number of beneficiaries. The data show that there were 13.799 beneficiary families who have enjoyed this right in 2013, while in 2016 this number has increased to 23.898 beneficiary families (see Review 10 below). This is an increase of 73.19 % in 2016, in comparison with 2013.

Review 1: Movement in the number of parental allowance for third child for the period 2013-2016

Year	Beneficiaries (families)	Index (2013=100%)
2013	13.799	100,00
2014	17.671	128.06
2015	20.872	151.26
2016	23.898	173.19

Source: Ministry of Labor and Social Policy

Finansig of social services delivery for children

The social protection system in Macedonia consists of 30 Centers for Social Work and institutions through which social protection is implemented. Social services for children and youth beneficiaries of social protection are delivered in institutions for: infants and young children without parents and parental care under the age of three; children without parents and parental care above three years of age; children and youth with educational and social problems; children and youth with behavioral problems; children and youth with moderate and severe mental disabilities; children and youth with physical disabilities.

Financing of social protection institutions for children

The Law on Social Protection determines the ways of financing of public institutions for social protection from the Budget of the Republic of Macedonia. An institution adopts annual operating programs to determine the type, scale, content and quality of services provided to beneficiaries. The program assumes expenses for implementation of activities of the institution, organized in the following items:

Rights for social protection achieved in the institution for social protection, determined by the law,

Salaries based on the law and the collective agreement,

Amortization according to the law,

Material costs,

Maintenance, construction and equipment,

Obligations of the institution determined by law.

The department for financial issues at the Ministry of Labor and Social Policy, based on the submitted financial requirement in a process of consultation with the institution, determines the required funds.

Table 8: Planned budget expenses for social protection institutions for child protection, 2017¹

¹Annual budget (material expenses) in 2017 varies during the year based on the needs of the institution and the available budget of MLSP.

	Planned Budget 2017 (material costs) ¹	Salaries	Total Planned	Annual Budget (material costs) 2017 ²	Total Annual
PI Home for infants and small children – Bitola	15.105.200	17.905.380	33.010.580	8.772.576	26.677.956
PI for Children without Parents and Parental Care “11 th of October” – Skopje	13.751.270	14.643.408	28.394.678	7.687.808	22.331.216
PI for Children with Upbringing and Social Problems and Children with Behavioral Problems – Skopje	20.024.000	17.150.580	37.174.580	13.872.540	31.023.120

Table 9: Planned budget expenses for social services 2016-2017

Year	Sub-program 41 – Daily centers and homes for social protection outside the institutions			Sub-program 42 – Institutions for institutional social protection			
	from the main budget	self-financing activities	donations	from the main budget	funds from main budget (income)	self-financing activities	donations
2016	95.391.000	2.060.000	2.700.000	236.921.000	19.900.000	50.350.000	3.500.000
2017	97.723.000	2.060.000	835.000	214.792.000	20.000.000	50.350.000	2.650.000

The small group foster home for children without parents functions as a separate organizational unit within the PI MCSW Berovo. The budget funds are provided for the costs of placement and care for children as well as for maintenance of the building.

The Budget calculation for the small group home in 2016 is 2.462.280 MKD, allocated for the following items:

Travel and daily costs

Communal services, heating, communication and transport

Materials and small inventory

Repairs and maintenance

Services according to contracts

Other costs – purchase of machines and equipment

Budget expenditures for foster family care givers

The Law on social protection envisages the right to placement in foster care as a non-residential form of protection to be executed through the CSW. This entitlement is designed for persons with inadequate living conditions or in need of placement when other forms of protection are not available. Foster care placement is regulated through a contract signed between the foster family and the CSW, and outlines key roles, rights and responsibilities for the foster family, as well as regulations concerning contract termination or extension. The CSW is responsible for monitoring and coordinating activities linked to placement and care of a foster child once placed. Foster families are obligated to act according to the contract

¹Refers to calculations regarding the expenses needed for the activities of the institution calculated by the MLSP.

²Refers to expenses approved by the MF and published in the Official Gazette.

with the CSW and duly inform the CSW of significant changes or needs of the foster child. The foster care rulebook specifically regulates criteria for selection of foster families, type and number of beneficiaries, and social protection services. The rulebook specifies the exact amount of allowances for placement and foster care and identifies categories of service beneficiaries eligible for foster care protection. The placement of younger children in foster care is usually related to complex problems in the home. The multi-faceted nature of these problems can make it difficult to isolate the primary cause for each individual placement in foster care for younger children. Often, a specific crisis precipitates the need for foster care placement. Evidence indicates that prior to foster care placement, many biological families were surviving at only marginally functional levels, coping with numerous problems and stress. Overlapping challenges make it difficult for child protection agencies to separate categories of children by problem groups to assist in identifying the most appropriate placements. The rulebook, prepared by the MLSP in cooperation with ISA, provides a legal basis to guide foster care placement and differentiates the following categories of children/persons that may be placed in foster care:

- child without parents and parental care
- child with educational challenges combined with abuse, neglect, and social insecurity
- child with a social behavior
- person with mild and moderate intellectual disability
- person with severe intellectual disability
- person with permanent physical disability
- older person
- adult person with physical and intellectual disability who is not in position to take care of him/herself

Table 10: Data on foster families for the period 2014-2017

Year	2014	2015	2016	2017
Number of foster families	182	190	201	203
Number of specialized foster families			1	1
Number of people placed in foster families	276	288	296	301
Number of children placed in foster families	268	279	288	294
Number of children with special needs placed in a foster family	93	98	102	104

The foster family receives a monthly compensation for the costs for the child and compensation for the care. The Law on amendments on the Law on social protection increased the amount of compensation for the costs for a fostered person and the compensation for care provided for 25% calculated from June 2015.

Table 11: Compensation amounts, per category of persons in foster care (The values are given in denars)

Category of person	compensation for accommodation	compensation for care	Total
child without parents and parental care and a child aged up to 6 years	6494	1947	8441
A child without parents and parental care and a child aged 6 years and older	7142,00	2598	9740
child with educational and social problems	7142,00	2598	9740
child with bad behavior	7792.00	3247	11039.00
person mild or heavy mental disabilities as well as a person referred for work qualification	7792.00	3247	11039.00
person with the worst difficulties in the mental development, person with permanent disability	7792.00	3247	11039.00

old person	7792.00	3247	11039.00
adult with bodily disability as well as an adult with disabilities	7792.00	3247	11039.00

The compensation for ad-hock placement of a child in a foster family is 2.000 MKD, while the costs for the fostered child and for the care are calculated in accordance with the time duration of the accommodation.

Within the Program for realization of social protection 2017 for the right to compensation for accommodation and compensation for care provided for a person located in a foster family-which will be paid to families that will take care and look after a person – beneficiary of social protection. This right in 2017 is planned to be realized by approximately 180 families that will care for around 290 people, for which 42.000.000 MKD have been planned.

Financing of association of citizens for social services delivery

Although the legislation provides the basis for involvement of citizen's associations, private practitioners, religious communities and groups and private institutions in the delivery of social services in the country, their share in the provision of residential and non-residential care is considerably smaller and should be further enhanced. There are three levels of financing the associations of citizens for social protection activities:

Governmental program for financing activities of associations and foundations from the state budget on annual basis. The Department for Cooperation with Non-governmental Organizations within the General Secretariat, through its network of civil servants in the ministries responsible for cooperation with civil society organizations, could play a more significant role in terms of supporting these organizations in their social services delivery mission. Despite the well developed supporting legal documents, public calls issued by this Department for provision of financial support to civil organizations should be more publicized and transparent, while funding itself should be increased and based on clear selection, allocation and monitoring criteria.

The Ministry of Labor and Social Policy participates in providing part of the funds for carrying out certain activities of social protection by associations, in a manner and under conditions stipulated in the Law on Social Protection. More detailed determination of the conditions and procedure for allocation of funds to associations of citizens is regulated with the bylaw adopted by the Minister in 2005. However, since guidelines contained in the Rulebook are too general, fair competitive environment and transparent procedure are not always guaranteed, which entails inequality in the treatment and chances for winning the available support. In addition, the grants awarded to registered non-governmental organizations are still insufficient and do not provide possibilities for financial stability and long-term planning of their activities.

Separate source of funding is derived from the Law on Games of Chances and Entertainment Games, income of which is annually distributed mostly to only a few organizations traditionally in receipt of these funds: national disability organizations and their associations, Red Cross of the Republic of Macedonia and sports activities. In the last two years organizations combating domestic violence were also granted part of funds based on the program prepared by the Ministry of Labour and Social Policy. There is no bylaw with clearly prescribed rules and criteria for the amount and manner of allocation of resources. Since these funds are considerable, revision of the list of organizations eligible to access, as well as of the criteria upon which funds are granted, should be carried out.

The analysis of the data on administered grants in the last three years shows that only a small, insignificant part of the budget of the Ministry of Labor and Social Policy is allocated to associations for performing social protection activities. Also, an unbalanced distribution of funds has been noted, with most of the funds being allocated to one association for the realization of the organized living service with support. The lack of clear criteria for funds allocated, the manner of selection of associations and separate amounts by associations, and the very nature of the grant as a financing mechanism, do not give a solid basis for more significant involvement of associations in performance of social protection activities. On the contrary, annual funding creates uncertainty with the service provider in terms of sustainability and continuity of service provision, restricts greater investment in infrastructure and human resources, and provides opportunities for political and other influences and lobbying. This model of registration and financing of associations was a good solution in the initial phase of the development of plural delivery of social services as a first step in bridging the gap between the existing needs for social services and the capacities of non-state social service providers. The analysis indicates that this solution has been outdated in the real circumstances and that conditions have been created for introducing a more complicated scheme for financing social services by non-state actors, which requires a change in the legislation.

Conclusions and recommendations

Based on the analysis of total planned budget expenditures for social and child protection for the time 2014-2017, a trend of increased expenditures is evidenced. Basic budget planned expenditures increased from 33.337.320MKD in 2014, to 41.157.473MKD in 2017. In the same period, there is a decrease in funds obtained from fund rising (24.4%) and loans, and an increase in funds obtained from donations (87.29%). When only child protection expenditures are analyzed separately, same trend of decreased planned expenditures for 27.64% is noticeable for the period 2014-2017. Spending on cash benefits from social and child protection increased for 24.92%, as well as on block grants to local self-government for 22.36%. Unlike cash expenditures, those planned to tackle poverty, reduced for significant 75.35%. Overall, there should be a tendency to restructure the cash benefit scheme (to revise the amount of benefits, to achieve better targeting to the most deserving and to enhance the parallel activities with beneficiaries so as these benefits can serve as a safety-net on a temporary basis) and partially re-allocate funds to support the development of social services for various vulnerable groups, including those in receipt of cash benefits.

Expenditures for child protection rights defined with the Law on Child Protection (parental allowance, child benefit, special allowance, one-off financial assistance for a newborn child and right to participation) evidence significant increase (from 1.917.637MKD in 2014, to 3.045.000MKD in 2016). When the number of beneficiaries of cash benefits is analyzed, there is constant decrease in the number of child supplement beneficiaries due to the restrictive eligibility criteria. Also, child supplement amount is very low. An increase is evident with the beneficiaries of parental allowance for a 3rd child (from 17.671 in 2014, to 23.898 beneficiaries in 2016). Given the fact that amount of parental allowance is higher compared to all the other cash benefits and based on findings from previously carried out researches on child protection benefits, the increase in total child protection expenditures is largely due to the parental allowance for a 3rd child. To ensure financial sustainability of the child protection system, a revision of this benefit is highly recommended.

Institutions are primarily financed by the main budget. Much less funds are provided from donations and self-financing. When annual budgets of the institutions are analyzed (based on data available for PI Home for infants and small children – Bitola, PI for Children without Parents and Parental Care “11th October” - PI for Children with Upbringing and Social Problems and Children with Behavioral Problems – Skopje – Skopje), PI for Children with Upbringing and Social Problems and Children with Behavioral Problems – Skopje has the highest planned annual budget of 37.171.580MKD for 2017, although it accommodates less children than in the other two institutions, where the budget line for salaries exceeds material costs. This calls for a serious in-depth analysis of the functioning, costs of care, institutional and human capacities within the residential placement institutions in Macedonia, in line with the trends towards deinstitutionalization.

Although the legislation provides the basis for involvement of citizen's associations, private practitioners, religious communities and groups and private institutions in the delivery of social services in the country, their share in the provision of residential and non-residential care is considerably smaller and should be further enhanced. It should be emphasized, that despite the formally available support, most of the organizations operate through financial aid from foreign donors (much less from donations by the business sector and individuals), which in turn affects their sustainability.

Subsidies and grants upon announcing public call for project proposals seems to be a dominant model of state/local financing of civil society associations. However, there are other financing mechanisms that could be applied, but for which there is no legislative framework developed in the country yet. The Review below contains recommendations for implementation of possible mechanisms for financing of social services.

Review 1: Mechanisms for financing of social services

Type	Sub-type	Description	Recommendation for implementation*
Existing Mechanisms			
Budget support mechanisms	Subsidies	Direct financial incentives for a service provider	Exceptionally (for organizations of special public interest)

	Grants	Funds allocated to non-state service providers for implementation of a specific project, usually on annual basis (competition based)	On annual basis (for organizations with innovative projects)
Possible Mechanisms in Future			
Social contracting (Types of contracts)	Direct contracting	Direct negotiations and contracting with existing service provider (no competitiveness)	Exceptionally (for organizations recognized for their service in a situation of lack of other service providers)
	Tender	Service provider is selected based on competitive procedures with strict criteria regarding the required social service	Regularly (for organizations providing services which are in demand)
	Public-private partnership	Public-private partnership (private partners implement a for-profit service, previously adjusted with the governmental objectives or through the model of co-financing)	Regularly (for organizations providing specific types of services)
Third-party payments in social contracting (financial modalities)	Per capita (normative payments)	Institutions are managed by a private provider, while the government/local self-government maintains the responsibility for sustainability and quality of the service through monitoring and control	Regularly (for organizations providing mostly residential type of service)
	Vouchers	Partially or fully free of charge usage of social services based on the choice of the beneficiary (usually for non-residential care service providers licensed by the state)	Regularly (for organizations providing mostly non-residential type of service)
	Fee for service	A service provider is paid per administered service delivered to a beneficiary in need referred by a competent institution.	Occasionally (for organizations providing specialized types of services)
	Third party reimbursement	Reimbursement for services delivered to a beneficiary by service provider.	Exceptionally (for organizations providing specialized and acute types of services)

The model of social contracting currently under development, should be further pursued as it is expected to enable decentralization and pluralization of social service delivery on regular basis, contribute towards increased state support to non-governmental organizations and thus to raising the quality, effectiveness and financial and operational stability of social services. This process of introduction of contracting in social protection requires development of regulation for standardization, accreditation and licensing of service providers as pre-conditions for involvement in social service delivery of different stakeholders (NGO's and private sector) through social contracting.

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Ethics in Banks' Publicly Accessible Documents: The Case of Slovenia

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Abstract

The article focuses on ethics being mentioned and addressed to in banks' publicly accessible documents in Slovenian banking system. Authors in the first part deal with the question, whether a bank as a financial institution can be ethical as such, taking the responsibility for formation and development in the recent financial crisis into consideration. However, ethics in banking refers to ethical behaviour and activities at all levels of banking operations: from back office to front office, bank's policies and strategies, and nevertheless, banks' influence and involvement in the community. Such banks provide financing for projects and scholarships, sponsor events, promote environmental protection and similar activities described as socially responsible banking. Socially responsible banks can by all means act ethically. Our research is geographically wise limited to the banking system of Slovenia and content wise by looking merely into the fact whether or not ethics and ethical principles are present in Slovenian banking system and being a subject of banks' reporting. We do not place a judgment about individual bank or banking system behaviour regarding ethics. The research is fully based on the presumption that information held in annual reports and other publicly accessible sources are correct and honest. In that context we set and tested two hypotheses. First (H_1), being divided into two sub hypotheses, deals with the presence of ethics and ethical activities (H_{1a}) and definition of ethical bank behaviour in banks' publicly accessible documents (H_{2a}) and second (H_2) tests, whether banks in Slovenian banking system have ethical codes. We have accepted H_{1a} and H_2 and partly accepted H_{1b} .

Keywords: ethics, banks, ethical banks, ethical code, Slovenia

Introduction

The reason, why we deal with the topic ethics in banking, is that is a more folded current problem, which offers colourful debates about ethical conduct of banks, morality of bank employees, possibility of non-banking finance, necessity of banking system and public discourse on banking sector's honesty. Sometimes negative opinion is rightful and sometimes based merely on rumours. The external bank environment often has the idea that the financial sector is much more unethical than any other business-organizational area. Cohn et al. (2015, p. 86) in this regard state that contemporary commentators have attributed many scandals to the financial sector's business culture, but no scientific evidence supports this claim. There are several reasons (Santa Clara University, 2015) for such an opinion. One is certainly the extent and diversity of financial markets and therefore common misunderstanding of their operations.

It is common sense to know, what is right, ethical and normal, and what wrong, unethical, in a certain society. This rules do depend on a cultural context, but basic rules are the same. These rules apply to all levels of personal and corporate life, society as such. The same goes for banking, conduct of bank, bank employees and central banks. In this regard the very basic question, whether a bank as financial institution can act ethically, arises. Especially, if we now those banks are partly responsible for the recent financial crises, when their role in the developments of the crisis's events has been discovered and proved. We cannot oversee the role and special responsibility of central banks for the events followed by

the turmoil, since these specialised financial institutions are considered to be banking system supervisor and guardians of financial stability (see Schelkle, 2011). Nonetheless, banking sector always has and still enjoys a high level of trust (for Slovenian case see Taškar Beloglavec & Šebjan, 2015) and according to Lah (2014) cannot be solely held responsible for the financial crises. All that could be avoided by responsible credit policy and decisions and by minding society and environmental, shortly, by acting ethical.

This article primarily deals with the significance and problematic of ethics, morality and ethically and morally within banking business and industry. The exact definition of those terms and distinguishing them is not a subject of this article and therefore not presented in this paper. In the first part of the paper we deal with social responsibility and ethical conduct in banking. We try to reason, why responsible conduct towards society and environment is especially necessary in financial sector and in banking. In literature body authors dealing with social responsibility and banks' ethical conduct usually differ these terms: social responsibility is impact on society and environment, while ethics refers to employees conduct (more Fischer, 2004). In practice however the terms are referred to as synonyms or at least ethics is thought about as a social responsibility's dimension. Ethics and ethical conduct occurs in annual reports and social responsibility reports in the context of bank behaviour in all levels of banking operations in relation to all bank's stakeholders. Various names or labels exist that should differentiate more socially responsible banks (e.g. ethical banking, sustainable banking, green banking, social banking, cooperative banking, banking on values, etc. (see Goyal & Vijay, 2011)), which act on ethical paradigm, from common banks that are mainly profit oriented and have only lately realised that customers' expectations were changed and are driven towards socially aware banks and they incorporate some of social responsible practice and ethical conduct in their operations.

The short theoretical background is followed by the research of Slovenian banking system on the topics of ethics. In Slovenia ethical banking¹ as defined by European federation of ethical and alternative banks and financier, FEBEA and Global alliance for banking on values, GABV does not exist yet and is in the near future not expected. This is supported by the fact that no Slovenian bank is found in the list of organisations that foster, support and develop ethical banking². Some time ago there was an idea of establishing such a bank in Maribor. Members of committee of cooperative Zebra have prepared a presentation for Bank of Slovenia representatives with the aim to introduce this variation of banking to Slovenian banking system. They would of course have to undertake all usual steps that are needed for grounding a bank under Slovenian legislation. Their basic feature would be low cost of operating and low cost of banking for their customers (Večer, 2015).

Facing the absence of »real ethical bank« the question still remaining is, how our banks operate and conduct in everyday activities, are they ethical? This contribution does not answer this question directly. Since Milic-Czerniak (2011, p. 70) reports that ethical behaviours in banks, despite a high awareness of moral norms, are largely declarative rather than actual, the authors decided not to "judge" banks on the criteria of ethics, but merely deal with the fact, whether banks report on ethics, ethical conduct and activities and if they have issued special documents, code of ethics, that deal with this problem field. We also look into a Slovenian banking association (further on ZBS) code of ethics³ and check, which of researched banks are signatories of that act.

We define the sample and methodology and look in to publicly accessible documents of Slovenian banks to search for Keywords as ethics, ethical, ethical activities and conduct. We set and tested two content wise separate hypotheses. H₁ deals with the fact, whether banks in Slovenian banking system report on ethics and their ethical activities and is divided in two sub-hypotheses that read as: H_{1a}: Ethics as term arises in banks' publicly accessible documents of Slovenian banks and H_{1b}: Banks define the term ethics in their publicly accessible documents and report about their ethical activities.

¹ FEBEA (2018) defines ethical banks in the frame of ethical finance and by saying that their objective is achieving a positive impact on the collection and use of money. They invest in new activities such as organic farming, renewable energies, the Third sector (or non-profit sector), Fair Trade and respond to the needs of those who are excluded from the traditional banking system. GABV (2018 in 2018a) on the other hand emphasizes the new banking paradigm, when banks are based on values that use finance to deliver sustainable economic, social and environmental development.

² At the FEBEA list from Slovenia we find only Sklad05 Fund 05 - Foundation for Social and Impact Investment. It is a private financial institution established to finance social entrepreneurship and social innovation, a private law entity established under the Foundations Act. Slovenian banks are to be found among found's partners (Sklad05, 2018).

³ The code of banking practice: The Code of Business Ethics of members of the Bank Association of Slovenia (ZBS, 2018a)

Second hypotheses, H₂: Slovenian banks have ethical codes, is addressed to in the second part of research. In conclusion we confirm or reject the hypotheses.

THE NEED FOR SOCIAL RESPONSIBILITY AND ETHICS IN BANKING

It is crucial to have a robust and sound banking structure, because banks are according to literature the carrier of national economies' development (see Arestis et al., 2001) and economic growth, so when we witnessed a breakdown of the financial system in the period 2007–09, which created havoc throughout society, we realised how reliant is everyone reliance on banks (Villa, 2015, p. 9). The meaning and significance of the bank is therefore unquestionable, controversial and doubtful have been some of the bad practices that have emerged in finance and banking, when moral hazard issues have been once more pushed into the foreground. The mere fact that banks contributed to the latest financial crisis and caused large losses, which were then socialized by most of the countries by bail out measures (see for example Schimmelfennig, 2014), clearly shows the need to avoid such situations in the future and absolute imperative that financial sector introduces and discloses its social responsible and ethical actions. Although it is true that financial and banking sector has no direct implication on environment and its environmental impact is far lower as in other industries, we cannot agree with some authors (see for example Archel Domench, 2003, in Castelo Branco & Lima Rodrigues, 2006) that based on that fact think that financial sector and banks don't need to disclose their social responsibility. In spite of that fact, there is an indirect role played in the world environmental issues scenario, where banks can arbitrary decide, which industry and to which extend to finance and therefore cause damage via their credit policy (Thompson & Cowton, 2004). Villa (2015, p. 7) claims that ethical failure, which was demonstrated through irresponsible lending and lack of concern for the plight of borrowers and lack of transparency, was the reason for the economic crisis and what caused the banks to fail.

On the other hand, financial institutions also consume paper, energy and other resources and so create wastes. Therefore, its policies regarding how they contribute to the conservation of energy and natural resources and recycling activities are important aspects of their social responsibility activities (Castelo Branco & Lima Rodrigues, 2006) and it is necessary to implement social responsibility and ethic disclosure for banks.

The need for social responsibilities and ethics in banking is crucial. Recently activities of ethics based banking have been increasingly discussed on professional and secular level, but this public discourse leads to the point, where it is discovered only that ethics is a concept that can be defined in various ways and can be interpreted or perceived differently. But, non-awareness of the importance of ethics and morality at the theoretical level as well as at a purely practical level in the banking everyday business can lead to customer dissatisfaction and consequently bank performance worsens (Caruana, 2002; Gelade & Young, 2005; Yee et al., 2009). That is why banks prefer to report on their social responsibility and ethics. Green (1989) adds that company's recording, reporting and the perception of ethics and ethical doing affect its reputation and defines long-term success or failure. Carrasco (2006, p. 47) in that regard states even that some banking institutions have done research that shows that a large number of customers prefer their money to be ethically invested. Therefore, social responsibility in these institutions has had to assume these concerns. Green (1989, p. 631) argues that the perceived ethics of a company affect its reputation. Good reputations ensure long term success, Simpson & Kohers (2002, p. 104) however especially for the case of banking industry found out that there is a strong indication that the link between corporate social and financial performance in banking is positive. In the similar manner Relano & Paulet (2012) concluded in their paper that more ethical behaviour leads to both economic performance and social gains which increase wealth for all partner and not the least, researchers (McDonald & Rundle-Thiele, 2004; Aknabi & Ofoegbu, 2012) argue that socially irresponsible operation can have a negative impact on customer satisfaction, brand reputation of a bank and bank performance, since more customers and employees increasingly inquire on the bank's social responsibility position.

So, banks and other financial institutions find this topic more and more important, since the number of financial enterprises and among them also banks, which have made it to the global 100 most sustainable enterprises in the world chart, is growing. For 2018 among 100 we find 10 banks, all together 19 financial institutions, first being ranked on 24th place (Corporate Knights, 2018). In comparison to for example year 2013 banks have improved their ranking from 55th place for 31 places, while only 17 financial institutions, among them 5 bank, have made have been listed in this ranking (Corporate Knights, 2013). This demonstrates that financial institutions, banks included, find the necessity for social responsibility and ethical doing important and therefore banks' social responsibility research and ethics in their day-to-day activities is absolutely meaningful.

It seems that banks must finally reflect on and renew their business as they know it and that it is of great importance for traditional banking to recognize and accept the role of the bank, which is in line with today's challenges and demands of customers that are becoming increasingly demanding, not only regarding assortment and performance of services, but above all, as Goyal & Vijay (2011, p. 53) note, they are increasingly alerted about and aware of the impact of banking operations on the society and environment as a whole. Lentner et al. (2015, p. 95) add that economic welfare, however, may be increased alongside such values which are considered by traditional economics as externalities.

SOCIAL RESPONSIBLE FINANCE AND ETHICAL BANKING

Corporate social responsibility is the continuing commitment by business to behave according to business ethics and contribute to economic development, while improving the quality of the life of the workforce and their families as well as the local community and society in general (Uddin et al., 2008, pp. 199-200).

As already mentioned above, banking system and its role in recent financial crises and the future of banking or its practices as such are discussed on day-to-day bases on many levels. If we for instance merely see bank from the angle of being a special enterprise with an important role within a partly reserve banking system and traditional banking sector as we know it, there is inevitable to also think of it as a pillar of neo-liberalistic capitalism system with the only aim of gaining profits, leaving society and its needs aside. The possibilities for such an institution to be socially responsible or even be organised formally as ethical bank, are very low. It is a kind of black and white perception of banking industry. On the other hand, the answer, whether or not such an institution, can be socially responsible, the answer is surely positive. A bank in any form (old or new) can act socially responsible (McDonald and Rundle-Thiele 2004; Scharf et al., 2012), especially cooperative bank (Davis and Worthington, 1993) and social bank (Weber and Remer, 2011 in: Goyal & Vijay, 2011). As a result of this global crisis, social banking and social finance have become important trends among bank customers in US and Europe. The crisis transformed social banks from niche institutions to large, publicly visible players. This is due to the growing level of awareness among number of bank customers in Europe about social banking which is a less speculative, more responsible, ethical, and community-oriented. It is the modest way to deal with money than traditional banking (Goyal & Vijay, 211, p. 53).

The positive effect on the community that has established the ethical bank and thus supports the operation of the bank is the main foundation for the ethical bank's operation. The main areas of the ethical bank are obtaining deposits and lending, the same as with traditional bank, distinguished however by the service policy that encourages the bank to support mainly sustainable energy projects, organic food production and funding of non-profit organizations. They also help individuals who find it difficult to acquire sources in a form of bank credit, since that should be thought of as one of basic human rights (eBanka, 2017).

ETHICS IN SLOVENIAN BANKING SYSTEM

Methodology and data

Research was carried out in August and September in 2018, when we researched publicly accessible bank data and documents. We have approached the research of Slovenian banking system methodologically in two steps: firstly, we defined the sample, sample limitations and argumentation for the bank selection and secondly, checked, whether or not selected banks were reporting about ethics and their ethical conduct given the research limitations, which are discussed further on.

We took the whole Slovenian banking system into consideration that is the whole population, with some exemptions, which are defined in the progress. In Slovenian Banking Act (ZBan-2) the term credit institution and all other sub-meanings of that term are clearly defined. Credit institution is a generic term for bank, savings banks and bank subsidiaries. Because these forms of credit institutions offer the same services as bank, but on a limited scale, we presume that based on common public knowledge these financial institutions are perceived literary as the same and therefore use term bank when referring to them. Another reason for using unified term is the fact, that we find the term credit institution not commonly used, not even in professional language, therefore a term "bank" in our research is a synonym for credit institution and combines banks and savings banks active in Slovenian banking system. According to Bank of Slovenia (2018; 2018a) there are 12 banks and 3 saving banks currently active in Slovenia. From our research we have exempted branches of EEA state's credit institutions, EEA state's electronic money institutions, payment institutions and credit institutions that have notified their operations in Slovenia due to data uniformity from our research, undermining the fact that those are also under central

bank supervision. We have one further exemption, which is »SID banka«, a bank, which has a special purpose¹ and is not considered as other commercial banks and its business activities are limited. Our sample so contains 11 banks and 3 saving banks (for details see Table 1).

In that context we set, as already mentioned in introduction, and tested two hypotheses with sub hypotheses. We conducted our research based on pre-defined steps, that support selected hypotheses, and each of them separately answers research questions:

Step 1 to support H_{1a} – search of the term ethics in publically accessible documents of Slovenian banks: does a bank mention ethics in any context in its publically accessible documents?

Step 2 to support H_{1b} – search of the ethics' definition and activities in publically accessible documents of Slovenian banks and defining various documents and sources, that are publically accessible, in which ethics arises, is defined or ethical activities are reported about: Do banks define ethics and expose ethically driven activities? In which documents ethics is addressed?

Step 3 to support H₂ – Does a bank have its own ethical code? Is a bank signatory of Slovenian banking association's code?

We have examined various publically accessible sources, first among them being ethical codes, then business reports for 2017, where we searched for special chapters on ethics, ethics content sections within the report and any evidence of ethics and ethical doing. Than research of other sources was conducted, such as banks' Internet sites, where we searched within the sites by using some Keywords: ethics, ethical conduct and ethical activities and antonyms of those words (un-ethical). Also banks' vision, mission and strategies were taken under consideration.

The research is based upon the presumption that publically accessed bank data on ethics in Slovenia are reliable and authentic and truly report on banks' ethics and their ethics driven activities. Priority researched literature also indicates that annual reports is a reliable source regarding this matter (Gray et al. 1995, KPMG 2002) and as additional source recommends internet sites (Munthopa Lipunga 2014) and other mentioned documents (Castelo Branco & Lima Rodrigues; 2006, Sweeney & Coughlan 2008). In this contribution we do not in any way question the data collected or assess banks' ethical conduct. We do not place any judgment about certain bank and its activities are ethical. We merely look into the fact, whether or not bank mention, define ethics or ethical activities or have special codes of ethics.

Research is content wiselimited to the notion of ethics and ethical activities search in publically accessible documents of Slovenian banks, which were defined above. Geographically we are limited to Slovenian banking system and Slovenian banks, with a few exemption, which were already previously explained. "Slovenian bank" is in this article geographical designation and does not imply on the ownership structure of a certain bank. Also we did not look for the ethics content on the level of mother banks, should researched bank belong to an international group and integral reports for those banks and groups are issued. However, we are fully aware that if such document should exist at the level of banks' mother company, they also apply to daughter companies and that is the case of some Slovenian banks that are foreign owned (the example are Sparkasse or Addiko Bank). The publically accessible documents were searched for within the time window of August and September 2018.

Results

Results regarding certain step of the research, discussed above, are presented in tables below that follow the order of steps. First step, which represented the search of the term ethics in publically accessible documents of Slovenian banks gave us an answer to the question, whether a certain bank mentions ethics in any context in its publically accessible documents. In Table 1 we can see that only 2 out of 14 banks do mention ethics, their ethical conduct or activities. No bank defines the term ethics, in a sense of defining, what they understand under ethics, ethical conduct and activities. Therefore also the term banking ethics is not defined.

¹ SID Banka operates as export-credit bank and as authorized Slovene export-credit agency (ECA), which provides non-marketable insurance and Interest Rate Equalization Programme (IREP) on behalf and for the account of the Republic of Slovenia (SID bank a, 2014).

Table 1: Ethics and definition of ethics in Slovenian banking system

	Banks	Occurrence of term ethics/ethical	Definition of ethics
1	Abanka d.d.	Yes	No
2	Addiko Bank d.d	Yes	No
3	Banka Intesa Sanpaolo d.d.	Yes	No
4	Banka Sparkasse d.d.	Yes	No
5	Delavska hranilnica d.d., Ljubljana	Yes	No
6	Deželna banka d.d., Kranj	Yes	No
7	Gorenjska banka d.d., Kranj	Yes ¹	No
8	Hranilica Lon, d.d., Kranj	Yes	No
9	Nova Kreditna banka Maribor, d.d., Maribor	Yes	No
10	Nova Ljubljanska banka d.d., Ljubljana	Yes	No
11	Primorska hranilnica Vipava d.d.	Yes	No
12	Sberbank banka d.d.	Yes	No
13	SKB banka d.d., Ljubljana	Yes	No
14	UniCredit Banka Slovenija d.d.	Yes	No

In step two we search for the ethical activities in publically accessible documents of Slovenian banks. We also define various documents and sources in regard to this topic. Table 2 deals with the context of content, in which terms ethic, ethical conduct or ethical activities are used. Because of article's limitations we have only chosen two credit institutions, a bank and a savings bank, which have had covered ethics and ethical in as many as possible documents. The reader can by these examples see in which way the research was conducted and where, content wise speaking, banks pay attention to ethics and ethical. The rest of banking system is summarised in the following lines.

Table 2: Content contexts in which the term ethics occurs in Slovenian banking system

Banks	The contexts of term ethics in a certain bank
1 Hranilica Lon, d.d., Kranj	<i>Code of ethics</i> - Kodeks etičnih in strokovnih standardov LONA (Hranilnica Lon, 2018a)
	<i>Annual report</i>
	<i>Internet sites</i>
	<i>Vision</i> – ... This will ensure an adequate long-term economic return for shareholders, taking the highest standards of business ethics and satisfaction, personal growth of employees and wider social responsibility in our bank's environments into account (Hranilnica Lon, 2018).
	<i>Mission</i>
	<i>Strategy</i>
2 Nova Kreditna banka Maribor, d.d., Maribor	<i>Code of ethics</i> - Kodeks ravnanja Nove KBM d.d. in skupine Nove KBM (NovaKBM, 2017)
	<i>Annual report</i>
	Supervisory board: All members of the SB also have the necessary personal integrity and professional ethics to hold their offices (NovaKBM, 2017a, p. 11).
	Compliance function: ... by developing and promoting an organisational culture that encourages ethical conduct and commitment to compliance with the law, ... (NovaKBM, 2017b, p. 24).
	Strong risk management and compliance: ... We encourage the culture of ethical conduct and commitment to operate in line with the legislation and the Bank's values (NovaKBM, 201a, p. 26).
Operational risk: The Bank manages fraud and the risks arising from fraud or suspected fraud through the process of fraud prevention, detection and response, which involves establishing a solid ethical culture, identifying and assessing the risk of fraud, ... (NovaKBM, 2017a, p. 31).	

¹ The term ethics is merely mentioned as a part of the title of the Code of Business Ethics of Gorenjska banka, d.d., Kranj. Nor in the annual report neither in the code of business ethics it is not addressed in any other context (describing activities, actions, definition of the term, ...).

	<p>Plan for 2018 – Culture and talents: Under these activities, special attention will be paid to strengthening the values of trust, responsibility, excellence, fairness, loyalty and integrity, commitment to operate in accordance with legislation and ethical standards (NovaKBM, 2017a, p. 50).</p> <p>Description of main features of internal control and risk management in relation to financial reporting procedures: ... as well as internal and external financial reporting and communicating are applied, and that operations of the Bank are carried out in compliance with the law and business ethics (NovaKBM, 2017a, p. 51).</p> <p>Sustainable development and social responsibility: The Nova KBM Group pursues its mission, vision and strategic goals in accordance with its values, legislation, ethical standards, and national and international norms, while seeking at the same time to strengthen a broader societal well-being and preserve the natural environment in the long run (NovaKBM, 2017a, p. 61).</p>
	<i>Internet sites</i>
	<i>Vision¹</i>
	<i>Mission²</i>
	<i>Strategy³</i>

Based on the research, we can conclude that all banks taken into consideration use those terms in connection with ethical standards and values as such. Some banks address to those terms in the context of management or supervisory board activities and the context of social responsibility and sustainability. Delavska hranilnica (2017, p. 32) for example uses a term “ethical communication” and has established system to report violation of unethical communication and conduct. The notion of violation reports, also anonymous, is present in codes of ethics of researched banks, as they all apply zero tolerance to un-ethical behaviour, conduct and activities in communication with banks’ stakeholders. Vision, mission and strategy of most researched banks do not contain the searched term. However Hranilnica Lon (2018) in its vision states that they will guarantee adequate long term economic gain to stockholders, with taking the highest standards of business ethics, satisfaction and employees’ personal growth and wider social responsibility into consideration. SKB bank (2018) lays out in their group strategy that they will maintain their level of sustainable management quality also in the future to guarantee their clients the same or even higher levels of service and also take care that employees continue to maintain the highest standards of socially responsible, ethical and professional behaviour (SKB, 2018). Nova Kreditna banka Maribor (2017, p. 61) ethically wise defines vision, mission and strategy in its annual report for 2017. As we can see from data in table 2, the documents that we set out to research in the methodology and data section are not always a separate document in physical sense. The content of mission, vision or strategy often overlaps annual report or is written on the internet site under a separate tab.

In third step we answered the questions, whether banks have their own ethical codes and are signatories of Slovenian banking association’s code. The results are in Table 3 and show that 12 out of 14 banks do have their own codes of ethics, which represents a great majority of selected and researched banks.

Table 3: Documents in which ethics is addressed to for researched banks in Slovenian banking system

List of banks		Type of document and other sources					
		Vision	Mission	Strategy	Annual reports	Code of ethics	Banks' Internet sites
1	Abanka d.d.				✓	✓	
2	Addiko Bank d.d. ⁴					✓	✓
3	Banka Intesa Sanpaolo d.d.				✓	✓	✓
4	Banka Sparkasse d.d.				✓		
5	Delavska hranilnica d.d., Ljubljana				✓	✓	✓
6	Deželna banka d.d., Kranj				✓	✓	✓

¹ The vision of NovaKBM is ethically wise defined in its annual report for 2017 (NovaKBM, 2017, p. 61).

² The mission of NovaKBM is ethically wise defined in its annual report for 2017 (NovaKBM, 2017, p. 61).

³ The strategy of NovaKBM is ethically wise defined in its annual report for 2017 (NovaKBM, 2017, p. 61).

⁴ Addiko bank has issued a separate document in accordance with article 88 of Banking act Ureditev notranjega upravljanja (eng. implementation of internal governance) regarding the bank’s disclosure, which addresses ethics and ethical conduct (Addiko bank, 2018).

7	Gorenjska banka d.d., Kranj ¹					✓	
8	Hranilnica Lon, d.d., Kranj	✓				✓	✓
9	Nov a Kreditna banka Maribor, d.d., Maribor ²				✓	✓	
10	Nov a Ljubljanska banka d.d., Ljubljana ³				✓	✓	✓
11	Primorska hranilnica Vipava d.d. ⁴				✓		
12	Sberbank banka d.d.					✓	✓
13	SKB banka d.d., Ljubljana			✓	✓	✓	✓
14	UniCredit Banka Slovenija d.d.					✓	✓

In Table 3 we can clearly see that the majority of banks have addressed ethics and connected issues in their annual reports, codes of ethics and banks' internet sites.

All of 14 researched banks and savings banks are members of ZBS (ZBS, 2018) and are therefore signatories of The code of banking practice (ZBS, 2018a). Milic-Czerniak (2012, 78) in regard of national banking associations' code of ethics deliberates that associations in different countries have developed rules (canons) of good banking practice. These rules respect confidentiality of personal data, building advertising messages, behaviour of bank employees, handling complaints, bank relationships with clients and mutual relations between banks. Often they are a repetition of legal norms existing in a particular area and the rules covering customer relations usually emphasize the obligations of the bank and its employees towards customers. Slovenian version is no exemption in this regard (ZBS, 2018). Its core principles are protection of reputation, confidentiality of relationship and protecting rights and benefits of a customer. Furthermore, bank employees have to act as experts and be aware of the fact that their work and actions reflect their bank as a member of the association. They should base their relationships to other employees on professionalism, respectful conduct and mutual help. In the third section the code deals with relationship between the banks and customers, which should derive from confidence, respect of needs and wishes and taking comments and proposals. Particular attention shall be paid when customer complaints are addressed. Fourth section deals with relationship between banks, which are members of the Bank association of Slovenia and foresees mutual solidarity and cooperation. The code also addresses the field of advertising and communications.

Milic-Czerniak (2012, p. 78) continues with the overlook of codes and states, that they do not describe the most ignored obligation to inform customers of the reasons for refusal to provide a specific service (such as about negative decisions concerning a loan application) because such an obligation does not exist. That is however not true for a case of Slovenia. In the code of banking practice (ZBS, 2018, p.3) it is stipulated that a member bank must take into consideration, within the limits of their resources, a customer's needs and wishes and strive to meet his expectations, whereby each refusal must be carefully considered, grounded and always expressed in a polite manner.

CONCLUSIONS

Ethical problems in financial markets and banking influence everyone, regardless of the fact, whether you are a part of bank owners, management, employees or merely a customer that need their financial problem to be solved via banking services and are not in any way limited by legal form of a bank. In the article we draw out the necessity of social responsible and ethical conduct in banking sector and an absolute imperative for credit institutions to report about social responsible

¹ The word ethics is only a part of the code's title and is not addressed in any other way in the code or on internet site (Gorenjska banka 2016 and 2017).

² Nov a KBM issued a separate Report on sustainable development for the first time in 2017. Ethics and ethical conduct is addressed in this document. The bank sees effort for social responsibility and sustainable development at all levels of its operations as a self-regulatory mechanism that not only provides for active compliance with the law, ethical rules, and national and international standards (Nov a KBM, 2017b). Bank set out the table of all indicators that are in accordance with GRI standards of reporting (Nova KBM, 2017b, p. 25).

³ The bank issued a separate Annual report on social responsible policy 2017: We conduct responsible towards our customers, co-workers, society and environment. The report is not a separate file; it is published on bank's internet site (NLB, 2017b).

⁴ Primorska hranilnica Vipava has issued a separate document in accordance with article 88 of Banking act Ureditev notranjega upravljanja hranilnice (eng. implementation of internal governance of savings bank) regarding the bank's disclosure, which addresses ethics and ethical conduct (Primorska hranilnica Vipava, 2017a).

and ethical activities to avoid public discussion and in spite of the fact that financial institutions do not have a direct negative impact on environment and society.

Our research involved Slovenian banking system, 14 selected credit institutions, 11 banks and 3 savings banks. We have examined various publically accessible sources. Firstly, documents like ethical codes and business reports for 2017, where we searched for special chapters on ethics, ethics content sections within the report and any evidence of ethics and ethical doing. We investigated also other sources, such as banks' Internet sites, where we searched within the sites by using some Keywords: ethics, ethical conduct and ethical activities and antonyms of those words (un-ethical), banks' vision, mission and strategies.

In that context we set and tested two hypotheses:

H₁: Banks in Slovenian banking system report on ethics and their ethical activities.

H_{1a}: Ethics as term arises in banks' publically accessible documents of Slovenian banks.

H_{1b}: Banks define the term ethics in their publically accessible documents and report about their ethical activities.

H₂: Slovenian banks have ethical codes.

We confirmed first sub hypothesis H_{1a}, since all researched banks mention ethics in their publically accessible documents that were defined before the research. None of the researched banks defines the term ethics or how they perceive that notion. But do report about their ethical activities. As seen in Table 2 they mainly use term ethics and ethical in the annual report regarding supervisory board report, governance report and in the field of risk taking (operational risk). NovaKBM is the bank that has addressed the issue of ethics and ethical in most pre-defined documents, except on its internet site. However, we have to add that reporting on ethical activities is content wise not defined as activities that have impact on the society and environment (for example by ethical choices in credit policy), but is in the most cases defined as ethical conduct and high ethical standard compliance for the management and supervisory structures of a bank. Therefore second sub hypothesis H_{1b} is partly confirmed.

Second hypothesis H₂ about Slovenian banks having ethical codes can be accepted. All selected banks except for Primorska hranilnica Vipava and Banka Sparkasse have their own codes of ethics. Because all researched banks are members of Slovenian bank association and are by that fact committed to the code of banking practice, we can derive that indirectly also them have that code. Foreign owned banks or those, which are a part of international banking groups, often adopt the business codes of conduct from their mother banks and they publish translations of original codices.

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One Man's Trash is Another Man's Treasure: How the Circular Economy Contributes to Achieving SDGs -The Case of Used Tires in Spain

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Abstract

During the end of the 20th century and beginning of 21st century, there is a trend to evaluating the actions undertaken to improve the socio-economic environment in which we live, to achieve a greater level of wellbeing for all citizens. In the context of Stakeholder Theory, considering an organization should always operate towards creating positive value for society, the creation of the UN Global Compact and the 17 Sustainable Development Goals created a shift in many regions. The present study evaluates this context and how the implementation of circular economy policies has affected the achievement of SDGs in Spain. Specifically, the role of different private and public agents is evaluated in the tire manufacturing industry and the impact in each of the SDGs. Results show positive results as well as areas of improvement to further improve the roadmap towards achieving the 17 SDGs.

Keywords: trash, treasure, circular economy, contributes, SDG, used tires, Spain

Introduction

Literature Review

The relationship between mankind's actions and the environment in which we live (considering environmental aspects as well as social ones) has been the basis of multiple theories. In the case of organizations, not simply a one-person action, stakeholder theory constructs a solid baseline to understand the existing links between a company's actions and the socio-economic environment in which they operate. Taking as a standing point John Locke's philosophy, Donaldson (1982) evidenced that a company's nature is to create value for society and impact it in a positive way, aspects that go beyond finance and income generation (Donaldson and Dunfee, 1999, Freeman, 1984; McWilliams and Siegel, 2001), and the equivalent approaches of stakeholder theory (strategic corporate social responsibility, enlightened self-interest, to name a few).

Although there are several definitions that emphasize diverse aspects, in general terms, the link between companies and business can be described in two main aspects: the legal requirements (including local regulations as well as international ones) and the voluntary actions that the organization carries out beyond legal obligations. The combination of both is known as the social responsibility of a business, also called Corporate Social Responsibility (CSR). This can also be transferred to other type of organizations not only for-profit, as it is understood that all types of organizations operating in social contexts must honor the social contract.

In this context, the responsibilities organizations have towards the community and the environment must consider all aspects, and the long-term impact of their operations (Porter and Kramer, 2002). Because of this, stakeholder theory considers that when organizations understand and take this premise as the baseline for their operations, society will value them higher and will continue to support their operations. Hence, there is no tradeoff between CSR and business strategy (McGuire et al, 1988; Shepard et al, 1997; Quazi and O'Brien, 2000; Jones et al, 2007; among others).

According to the Brundtland Report (1989) there is a worldwide consensus with regards to the importance of achieving sustainable development. In this report, the concept of sustainable development is defined as a socioeconomic model through which present needs are satisfied while allowing for future generations need's satisfaction. In this context where

there is a shift in the common paradigm towards the socio-economic context in which firms operate, the United Nations created the Global Compact, in which firms adhere and commit to 10 principles related with the reduction of environmental impact, further respect for human rights and labor rights, and a constant fight against corruption. With this, there were regional and local governments that also adhered to the initiative, considering the alignment with these principles was in favor of the overall community they were representing. In addition, the UN further enhanced the commitment by determining 17 specific goals for a global sustainable development to deter the current impact of human behavior, Figure 1 summarizes those goals commonly referred to as Sustainable Development Goals (SDGs).



Figure 1: Seventeen SDGs

Source: UN (2018)

Based on the Brundtland Report, and the first two decades following the increased importance given to it, Redclift (2015) examines the conceptual history and argues that there are many ways in which to interpret sustainability. It has been evidenced that the commitment with the issues of global environmental justice have been addressed through multiple initiatives, combining a reduction of productive processes' impact with a transformation of those activities into positive impact.

Along these lines, in terms of improving the actions carried out towards reducing the environmental impact, in Europe the European Union members have agreed to several regulations from 1975 up to date, with the first one being 75/442CE, followed by 91/156CE to create a framework for waste management. Each country has later on adapted those regulations and incorporated them, such as is the case of Spain with the Waste law (Ley 10/1998) which focuses the responsibility of proper waste management on producers. Seven years later, the Royal Decree 1619/2005 consolidates waste management and the specific case of used tires which can have multiple approaches and can have a complex management, yet the impact in the framework of a circular economy is significantly high. In addition, in 2011 the Spanish government created a new regulation aimed at improving management of waste and reduction of contaminated soil, including in the specific case herein mentioned:

Prevention of non-managed used tires.

Creating a legal framework for the production and management of tires, as well as promoting the reduction, reuse and recycling, together with other measures that can re-value the used products and protect the environmental impact.

Define and regulate the activities and responsibilities of each of the actors intervening in the management of used tires (producers, waste managers, recycling entities, among others).

Some of the initiatives include the collective producers' responsibility (called SCRAP on behalf of the acronym in Spanish), which enable a detailed tracking of the products' trail in the market, from its production, to the selling point, to the collection point, etc. In addition, there is a specific tracking system of not only the producers' responsibility, but also the overall treatment, in the particular case of tires, of the treatment of used tires (TNU according to the Spanish acronym). Currently,

there is a 70% of tires covered under SCRAP, where producers take direct responsibility of the management and lifecycle of tires, while the remaining 30% is managed through TNU.

SCARP is based on the obligation firms producing tires have towards declaring the number of tires they sell in the market (whether they have been produced within Spain or are imported and sold inside the national market). Additionally, it charges a “green fee” when consumers purchase a new tire and it is responsible for managing used tire pick up trails in order to manage those wastes, through one of the main three ways in which the Spanish Law introduced in 2011 considers:

Re-usage: operations through which products or components of those products can be used a second, third or further times with the same utility.

Extracting value: transformations that result in turning waste into valuable elements that can serve as an input in the same productive process (substituting raw material extraction, or or other intermediate input), or converting the otherwise waste into an element valuable for the economy in general terms. Includes energetic value, for instance used tires can be burned in order to create heat and through this process produce energy.

Recycling: process through which the waste is transformed into a full product, material or substance, whether it meets the original product's cycle of production or it is inserted into a new economic area. This includes the transformation of organic matter yet not the energetic production, which would be included in element b.

Hence, there is a theoretical circular procedure through which all tires that are introduced to the market will be eventually reused, valued or recycled, as all producers are obliged to participate in this process or include a “green fee” surcharge (disclosed in the invoice provided to the final consumer) which will be destined to the used tires management process. However, it is unclear the impact of the current status this particular aspect of the circular economy in relation with the achievements of the SDG. This paper proposes a comprehensive approach towards analyzing the impact of legal regulations, the combinations of private and public entities, together with how each aspect of the circular economy impacts the achievement of SDGs. Results show there is a strong link, showing a proper implementation of the principles underlying the circular economy can significantly contribute to fulfilling SDGs. This will be our contribution.

Methodology and data collection

Firstly, the overall tire market is evaluated in order to establish a framework that defines the circular economy in this particular sector, including specific data regarding the number of used tires that are processed through the SIG.

Figure 2 depicts the processes and Table 1 summarizes the data of the Spanish Tire Market in 2016, divided by each management.

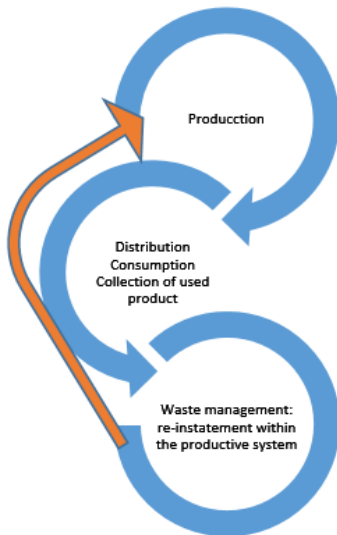


Figure 2: Circular flow of the tire productive system, **Source:** Author compiled

Spanish Tire Market		2016		
		Integrated system for Used Tires	Treatment of Used Tires	TOTAL
Number of companies		313	107	420
Number of tires sold in the national market	Declared (Tons)	170171	66.223,73	236.394,73
	Exports	8643	196,97	8.839,97
	PEM net Tn	161529	66.026,77	227.555,77
Number of points where tires were generated		25.677	5.635	31.312,00
Used tires collected	Tons collected	189.259	68.295,85	257.554,85
Destination of used tires	Re-usage	12%	13,51%	13%
	Extracting value (materials)	54%	40,02%	50%
	Extracting value (generation of energy)	36%	46,67%	39%

Table 1: Summary of tires introduced to the market and collection of used tires

Source: Author compiled based on TNU (2016) and SIGNUS (2016)

As it can be evidenced, plans to increase the product lifecycle of tires, improve the easiness with which the item can be reused, improving the recycling and other ways in which value can be extracted from used tires, together with the reduction of the ecological footprint are at the core of the Spanish Tire Market in order to meet the circular economy's expectations. To further expand the analysis, the second step was to link the evidenced results of the current productive framework and evaluate if and to what degree each of the SDGs are being impacted, taking into account those objectives that have a higher correlation with waste management (objectives 1-5, 10 and 13 were considered to have an indirect impact hence they were not deemed to be the core aim of this study).

Results and Discussion

Stakeholder theory is based on the social contract and all members of society, individuals and organizations alike, respecting one another, minimizing any negative impact imposed on fellow members through their individual or collective

actions. This, together with an idea of sustainable development, comprises the framework in which the circular economy provides a solution to better manage resources and wellbeing, together with the definition of principles (UN Global Compact) and Goals (SDGs) that summarize the areas in which society should collectively take action.

In this paper the Spanish used tire market is analyzed, and the impact it currently has on the achievement of SDGs, to evaluate the practical impact of the circular economy to this end. Furthermore, the evaluation focused on tangible impacts that are nowadays used, as well as potential impact of future discoveries through the strong R&D efforts that are currently being carried out. Table 2 summarizes the findings, with a comprehensive detail on the impact the used tire system causes in each of the SDGs according to the circular economy's phases. It can be evidenced that in some cases, more than one SDG is positively impacted by this waste management system, and in more than one phase.

This significantly contributes to the creation of a solid framework to promote not only sustainability but also the improvement of economic foundations through a circular and not a linear operating system. Additionally, the experiences from multiple states within the European Union can create a context in which the collaboration and shared-learning can contribute to an overall improvement of the social and economic impact of the tire production and the overall industry. What is more, this context enhances the principles of stakeholder theory, as firms participating in this environment, whether they are direct producers of tires, they supply raw materials, they collect used tires, etc., they are honouring the social contract.

The impact of this within stakeholder theory is twofold: on the one hand, there is a clear and specific action abiding the Spanish law and minimizing environmental impact, on the other hand, they are contributing to the creation of a new economic order in which they are creating value, obtaining a solid economic profit, while taking a hands-on approach to solve socio-economic issues. The combination of both, as evidenced by scholars in the field, proves once again there is no trade-off between CSR and profit, it depends on the strategies implemented and the context in which a firm operates (i.e. the value assigned to each of the initiatives).

SDG	Circular economy's impact on SDG	Solution provided by Tire system
6: Clean water and sanitation 14: Life below water	Waste management: recycling	Avoids tires being disposed in natural areas, particularly rivers, creeks or other hydraulic resources, which contributes to safer and cleaner water for human consumption as well as not damaging life below water's ecosystem.
7: Affordable and clean energy	Production phase Waste management: reusing Waste management: extracting value	Through the prevention and selection of processes Products being fully or partly reused reduce the energy consumption By burning the tires and extracting energy from the heat
8: Decent work and economic growth (specifically 8.2 and 8.4)	Production phase Waste management: reusing Waste management: recycling	Prevention plans promoted through the recent Laws result in higher durability in products together with greater options for recycling, resulting in lower raw materials and ecological footprint, contributing to economic growth Less need for raw materials extraction, constant R&D processes to discover new markets, usage of raw materials and products. The creation of recycling-related jobs contributes to decent work and economic growth
9: Industry, innovation and infrastructure	Production phase Waste management: recycling	Prevention plans and R&D translate into input, energy and production process savings, with outputs that are more reusable, recyclable and sustainable There are many usages that can be derived from recycling used tires, such as concrete. The variety of implementations in diverse industries is wide, as well as the spillover of technology, techniques and innovation from developed nations (Spain) to developing countries, reinforcing sustainability worldwide

<p>11: Sustainable cities and communities (specifically goal 11.6) 12: Responsible consumption and production (specifically goals 12.4 and 12.5) 15: Life on land</p>	<p>Production phase Distribution and consumption phase Waste management: recycling Waste management: extracting value</p>	<p>Through prevention and awareness raised in consumers, better products and initiatives can be created All the agents participating throughout a tire's lifecycle participate in the waste management framework either through direct or indirect actions Combinations of asphalt and tires turn cities using these inputs to create streets much more sustainable. All members of the community are involved, including collection points where any member of the community can actively be involved in proper waste disposal. This positively impact</p>
<p>16: Peace, justice and strong institutions (specifically goal 16.12) 17: Partnership for the goals (specifically goals 17.7, 17.14 and 17.17)</p>	<p>All phases (entire circular economy framework)</p>	<p>The European Union has been promoting joint-actions between all state members to tackle economic issues and move towards a circular economy environment instead of a linear one. Spain is specifically undertaking actions to achieve EU goals, modifying energetic consumption, type of energy used, reducing CO2 emissions, and other actions through proper tracing production and adequately managing waste. The 2030 Agenda set for Europe includes multiple objectives where the EU strengthens the institutional support and guidelines, together with partnership between member states to further advance and achieve said goals.</p>

Table 2: Link between SDGs and the solutions provided by the Spanish used tire system in the framework of the circular economy. **Source:** Author compiled

The study provides insights on the links between circular economy and SDG specific benefits, however it is limited to the case of Spanish used tires management systems. TO further enlarge the knowledge in this area, other waste management elements, such as glass or plastic should be evaluated, as well as replicating this study in other EU countries, which follow the same overall directive and have access to partnerships. Lastly, it would be of interest for both academia and practice to study developing nations, comparing and contrasting their results with those of developed nations.

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Tourism Clusters, Characteristics, Principles and Developing Theory

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Abstract

This is a descriptive paper that intends to analyze the Tourism Cluster Theory, considering the theoretical consideration, different opinions and ways of approaches. It considers carefully definitions, and the essential basic factors and characteristics that determine conditions and chances of creating a tourism cluster system. Importance of the competition and possible cooperation meantime between present actors in a specific location. Very significant aspects and elements of the cluster areas follows: technology, innovation and creative innovative ideas, marketing, operating mode; significance of suppliers evaluating meantime its influence on the added value chain of local Agri-tourism development. Clusters as well can create economy of scales and bring profits to the cluster's actors. Furthermore, concept of the sustainable tourism is a keyword of developing policies, what makes present active subjects to think globally.

Keywords

Tourism, cluster, competition, cooperation, sustainable development

Introduction

Literature Review

Tourism is a sector that favours local development because it generates jobs, increases the income of workers and stimulates capital investments through new business opportunities, which results in the establishment of new organizations, including SME, among other advantages (WTO, 2004).

Clusters are geographic concentrations of interconnected companies and institutions in a particular field. Clusters encompass an array of linked industries and other entities important to competition. They include, for example, suppliers of specialized a- inputs such as components, machinery, and services, and providers of specialized infrastructure. Clusters also often extend downstream to channels and customers and laterally to manufacturers of complementary products and to companies in industries related by skills, technologies, or common inputs. Finally, many clusters include governmental and other institutions- such as universities, standards-setting agencies, think tanks, vocational training providers, and trade associations-that provide specialized training, education, information, research, and technical support (Porter, 1998).

The tourism cluster is a group of highlighted tourist attractions within a limited geographic area equipped with high quality equipment and services, social and political cohesion, linkages between productive chains and accompanying culture, and excellent management in companies' networks that bring comparative and competitive strategic advantages, (Beni, 2003).

Clusters are used to represent concentrations of companies so that they can produce synergy through their geographical proximity and interdependence (Rosenfeld, 1997).

A Cluster in Tourism is linked to a tourist product and a tourist destination. Kosta (2005) adds that the development of the cluster in tourism should include the following components:

Static elements represented by accommodation and restoration;

Mobile data elements for passenger services, tourist agencies and operators, rent-a-car service;

Dynamic, recreational, cultural and sporting elements are largely responsible for increasing consumption.

Clusters show an intern configuration that generally includes:

a set of tourist attractions that draw non-resident attention;

the concentration of tourism service companies: restaurants, accommodation, transport services, crafts, travel agencies etc.;

sectors providing support to tourism services;

suitable and low-cost infrastructure (roads, energy, sanitation, health services, etc.);

companies and institutions that provide specialized qualification, information and financial capital;

intern agents organized into class associations;

government agencies and other regulating bodies that impact tourism agglomerations.

Characteristics of Clusters

Some of the cluster characteristics follow the following:

are a limited form of regional economic activity within the related sectors, usually associated with some scientific institutions (universities, researches and innovations, etc.);

represent the links (chain of value) that create vertical and narrow specific zones in which the common (interconnected) stages of the manufacturing process are the main group (eg, the "supplier - manufacturer - merchant - consumer" chain). This category includes firms around the main (dominant) networks;

industries are placed at a high level of collection (eg airline collection) or sectors of compliance still at a collection level (eg agro-touristic grouping).

information exchange between companies, institutions and individuals who are part of the cluster,

the existence of a diversity of institutional infrastructure to support activities, socio-cultural identity,

collective competitive advantages,

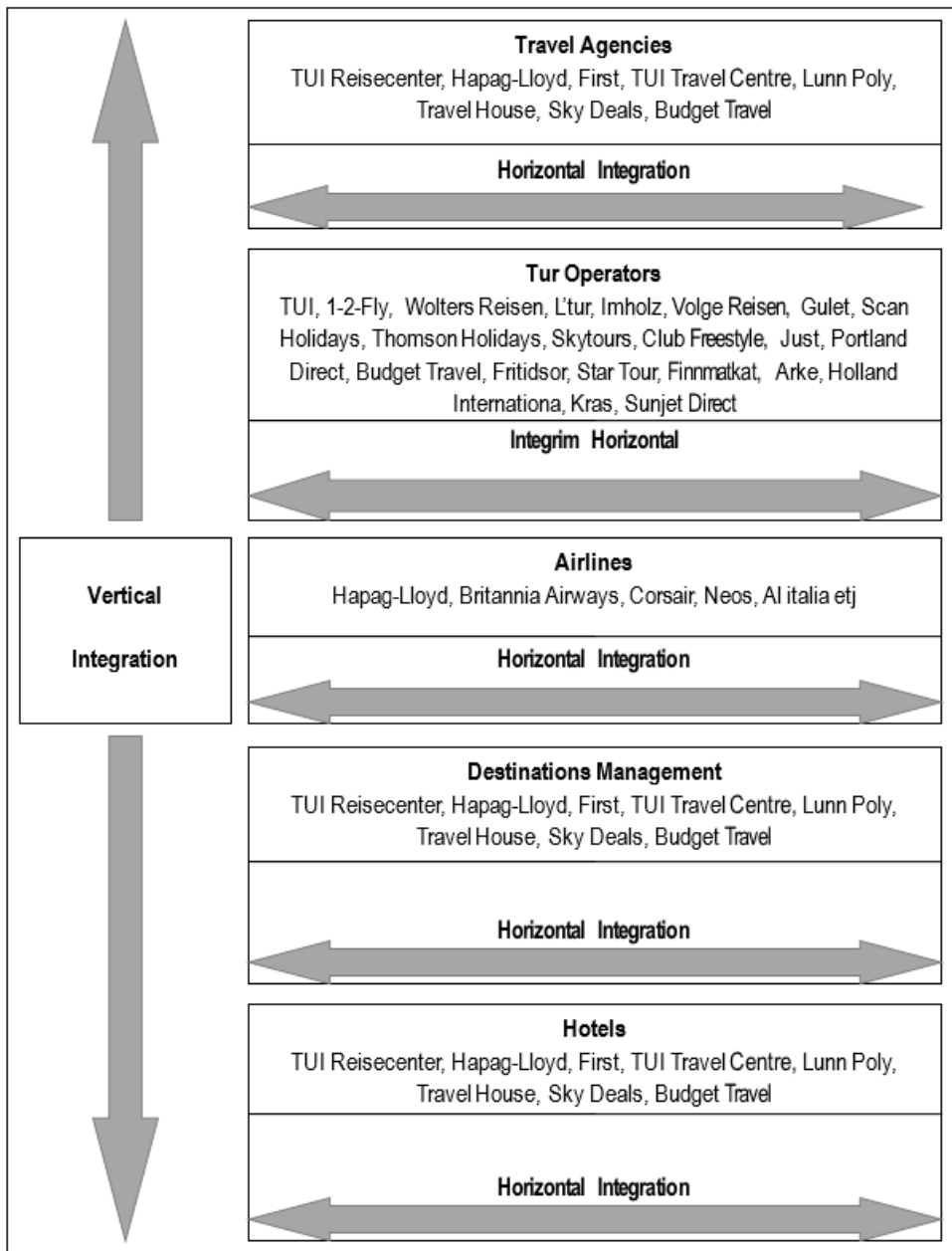
the implementation of strategic actions among agents and the simultaneous organization of competition and cooperation relations among agents.

Integrations in a Cluster

The relations between enterprises and institutions and a tourism cluster can be understood in two ways (Rodrigues, 2001):

Horizontal – by the creation of strategic alliances, where agreements can be of two kinds: on one side, the agreements between enterprises that have the same principal activity, i.e. among enterprises that deal with lodging, entertainment, transport and catering. On the other side, the agreements between enterprises working with the same group of customer satisfaction, but offering different product components to the customers (tourism service); .

Vertical – by the creation of strategic nets, where there is the establishment of a unilateral supplier customer relation among the partners in such a way that the object activities of the agreement are fulfilled by one of the parts, which gives its output to the other in exchange for a payment(Cunha, 2005).



Integrations of Tourism Business

Competitive Advantages of Clusters

Porter (1990) noted that competitive advantage is sustained only through relentless improvements to the firm's product and organisation. Geographical concentration, indeed, is important for organisational improvement and technological innovation

(Baptista and Swann, 1999). Concentration and accumulation of knowledge in the cluster will attract increased human capital to the cluster and, since the information exchange tends to be more informal, the spread of knowledge outside the region becomes limited. Baptista (1996) suggested that technological innovation is the heart of the dynamic process of cluster growth, accessed by new firm entry and incumbents' growth. Arthur (1990) noted that strong clusters tend to attract more firms, and regions with strong innovative record have an advantage in achieving more innovation; they are self-fulfilling and path-dependent. Innovative activity and output are positively correlated with new firm entry and productivity growth (Kuah, 2002).

Porter (1998) summed up that clusters greatly affect competition and create competitive advantage in three ways:

Increasing the productivity of group-based companies;

Taking care of the direction and pace of innovation, which supports future productivity growth; and

Stimulating the formation of new businesses that expand and strengthen the group, forming a virtuous circle or positive feedback.

Porter (1998) summed up that the groupings have a profound impact on competition and create competitive advantage in three ways:

Increasing the productivity of group-based companies;

Taking care of the direction and pace of innovation, which supports future productivity growth; and

Stimulating the formation of new businesses that expand and strengthen the group, forming a virtuous circle or positive feedback.

Swann's (1998) positive feedback model aptly sums up how the clustering phenomenon, felt through the entry of new firms and the growth of incumbent firms, leads to a positive feedback loop, which will induce further growth within the cluster. The main findings being:

Firms in clusters grow faster than average (if clustered with others in their own sub-sector of the industry);

Clusters attract a disproportionate amount of new entry (but a cluster strong in sub-sector X will typically attract entry into another sub-sector Y – not into X itself);

Firms in clusters are more innovative (whether we measure this by patent counts or innovation counts);

Firms in clusters that are strong in sub-sectors other than the firm's own do not grow faster - and might sometimes grow slower. The same ambivalence applies to the propensity of firms in clusters to introduce innovations; and,

In biotechnology, the strength of the science base in a cluster had a strong positive effect on new firm formation and growth of firms in that cluster (Kuah, 2002).

Clusters and sustainable development

Local development considering the principle of sustainable development involves many complex relationships and is possible to be realized at the moment when considering the real size of a given area or territory. Ruschmann (2001) underlined the need to consciously consider the following dimensions when it comes to developing and implementing strategies for sustainable local development:

Ecological and Environmental Sustainability: -is the capacity to endure. In ecology the word describes how biological systems remain diverse and productive over time. For humans it is the potential for long-term maintenance of well being, which in turn depends on the maintenance of the natural world and natural resources.

Economic Sustainability -refers to practices that support long-term **economic** growth without negatively impacting social, environmental, and cultural aspects of the community.

Socio-cultural sustainability -this is the need to preserve the cultural diversity, values and practices currently existing in a region and the building of individual citizenship and full social integration within a culture that includes rights and duties.

Political-institutional sustainability-the strengthening of democratic mechanisms aimed at the design and implementation of public policies, institutional arrangements and representative political and social bodies that have already received solid criteria.

Conclusions

Clusters are those organizations that can create competitive advantages and economies of scale for business companies, and is one of the most important models of economic development based on the competitions, involvement and cooperation of the economic environment, considering the importance of the innovation and research institutions, the educational system, authorities and also the significance of the different tourism organizations.

Clusters, among other things, affect competition in several dimensions: first by increasing the productivity of companies in the area; second, by guiding the direction and pace of innovation, which reinforces productivity growth in the future; third, by stimulating the creation of new businesses, which expand and strengthen the cluster itself.

A cluster is also a form of network that occurs within a geographical location, where the proximity of firms and institutions ensures certain commonality, increases the impact and frequency of communications and interactions.

Associated firms in a tourism cluster can highlight managerial and economic benefits as well as create opportunities for the creation and implementation of strategies to support sustainable tourism development.

A well developed cluster also provides an efficient means of obtaining other important inputs. Such a cluster offers a deep and specialised supplier base. Sourcing locally instead of distant suppliers lowers transactional costs.

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Fiscal Expenditure and Education Quality in China: A Regional Heterogeneity Analysis

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Abstract

In this paper, we explore whether fiscal input brings the raise of regional education quality. To discuss this relationship, we employ Chinese provincial panel data ranged from 2008-2016. By constructing a two-way fixed effect model, we find that provincial education quality is positively associated with the fiscal expenditure, and more specifically, educational expenditure. This correlation is robust even we consider other important factors such economy growth, industrial structure and population structure. Besides, since the regional heterogeneity across China, the relationship between fiscal spending, and education quality may exhibit different patterns, we thus split our samples into eastern region and non-eastern region. Empirical results indicate that our main argument only exists in non-eastern area, which refers to the western area, where expanding fiscal expenditure would be more efficient for the government to raise provincial education quality. Meanwhile, fiscal policy would be less efficient to raise education quality for eastern area, thus new policy instrument is necessary.

Keywords: fiscal expenditure, education quality, China, regional heterogeneity analysis

1. Introduction

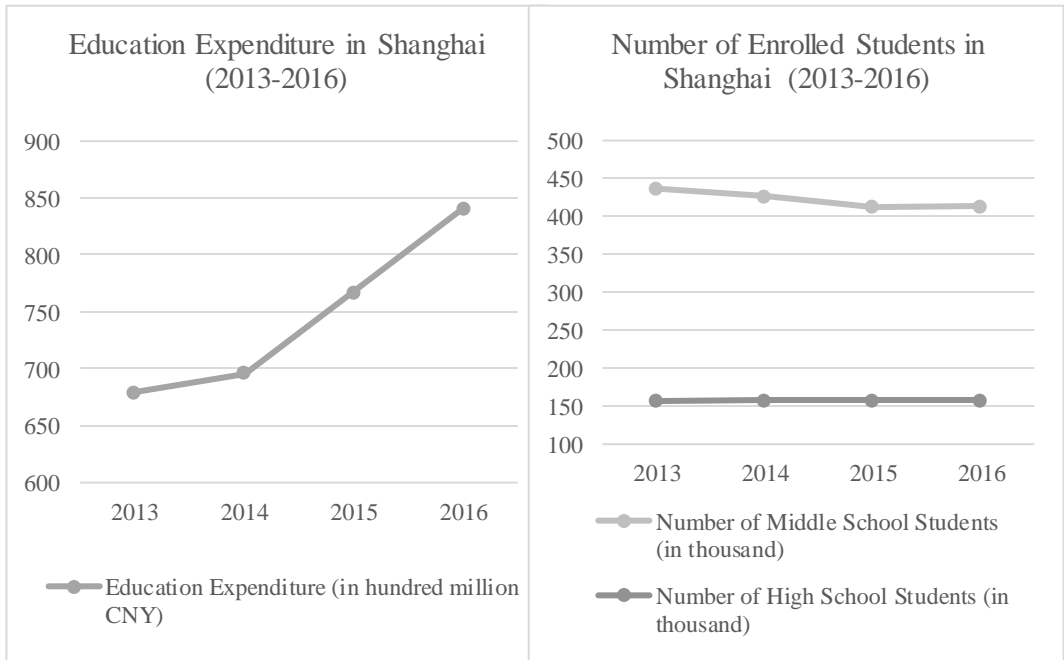
In our modernized world, economy relies heavily on human capital, for production and innovation alike. Greater human capital betokens higher efficiencies of work and lower costs (saving raw material and reducing pollution) in industries, leading to a general economic growth and an overall rise in social welfare. Therefore, countries and regional economies compete to acquire human capital.

Promoting education, whether fundamental or advanced, has been recognized as one of the key and most widely used tools available to governments to increase human capital. Economists view education that raise workers' human capital and productivity as a form of investment, a decision to spend funds or time now because it pays off in the future. As a result, in face of issues concerning shortage of skillful workers, or human capital, governments usually decide to raise fiscal expenditure, the primary and often the only resolution.

It is often taken for granted that higher fiscal expenditure on education would increase education quality (represented by citizens' average years of education), and thus human capital. However, this correlation might not be constantly obvious.

A casual examination of fiscal expenditure on education and number of enrolled students in middle school and high school reveals the potential instability of correlation between fiscal expenditure and education quality. While fiscal expenditure on education of Shanghai increased hugely by 23.8% from 2013 to 2016, number of enrolled students in high school rise by only 0.64% , and more surprisingly number of enrolled students in middle school dropped by 5.4% (despite a 3.13% natural population growth rate).

Chart 1: Education Expenditure and Number of Enrolled Students in Shanghai



Source: National Bureau of Statistics of China

Therefore, this correlation requires further studies.

Our study examines this correlation between government's education expenditure and level of education by constructing an econometric model to analyze data from 31 provincial districts in China during a period of 2008-2016.

Indeed, we found a significant correlation between the two variables – fiscal expenditure on education and level of education (represented by average education years of citizens), and this correlation is robust even when previously controlled variables are included in the model.

However, as we split data geographically –into more developed eastern region of China and less developed western region – it seems, while the correlation is especially significant in western region, it is in fact insignificant in eastern region.

Therefore, we concluded that effective increases in education level resulting from raising fiscal expenditure on education vary from case to case. In regions where fiscal expenditure on education is less efficient, governments should be advised to elevate level of education by other policy instruments.

2. Literature Review

It is commonly recognized that education acts as one of the essential instrument to improve human efficiencies at work, and, in a broader perspective, achieve economic growth. Examining the matter at a fundamental level, education betters our economy and augments growth by facilitating the accumulation of human capital, which refers to the amalgamation of individuals' knowledge and abilities which determine their course of action. (Coleman, 1998). As an industry generating vast positive externalities that enable societies to achieve the desired objectives of social and economic development, governments are naturally encouraged to subsidize education industry by injecting more fiscal expenditure. Studies reveals that investment in human capital through training and education are the driving force behind increases in productivity and

competitiveness at the organizational level (Black and Lynch, 1996), and by enabling increases in human input in the forms of physical and intellectual effort (Cannon, 2000)

According to existing literature, the relationship between education and economic growth is well discussed. Liang Ji probes how economic growth relates to per capita years of education in his "*Relationship between average years of education and economic growth: research based on optimized CD*" (2014), and reached the conclusion that there's a solid relationship based on a specialized model. A large number of academic authors, including Blundell, Dearden, Meghir and Sianesi (1999), Slaughter and Rhoades (2004), Liu and Armer (1993), and Reynolds and Ross (1998) share similar perspective. More specifically, some literature analyze the relationship in a specified region, draw more insightful conclusions and provide detailed possible applications. Hong-Sang wrote "*The impact of public education expenditure on human capital, growth, and poverty in Tanzania and Zambia: a general equilibrium approach*" (2003) based on his examination of how education expenditure associates with social improvement, including economy, employment, etc. Other studies on education correlate rather loosely to the our discussion – the relationship between education expenditure and education quality/level. Some topic includes Sun and Liu's "*Measurement of Education Equity between Regions and Genders in China*" (2014), which discusses average years of education influenced by regional development and gender bias, and Nieto's "*Affirming diversity: the sociopolitical context of multicultural education*" (1992), which targets the influence of multicultural to successful education.

Another relevant key focus of existing literature falls on the government actions related to fiscal expenditure on education. Papers of such studies often discuss the efficiency of education expenditure and its subtle implications. *Journal of Shandong Institute of Business and Technology* publishes Qiao Li and Yanjing Hu's paper in 2016, considering it as "especially focused" analysis originating from an innovative approach to explore the expenditure efficiency. In the paper, Li and Hu discovered crucial determinants of expenditure efficiency – the quantity of increased teaching facilities and teaching faculty. On the other hand, Joaquim V. Levy and Benedict Clements portrayed a broader picture of education expenditure and captures the impact of public education expenditure on private investment (a far-reaching and specific economic factor) in "*Public education expenditure and private investment in developing countries*" (1996)

As mentioned in the previous section, the relationship between education expenditure and level of education is often taken for granted, without the support of data. Existing literature often suggest to "increase fiscal expenditure on education, and draft new plans to support both basic and higher education" (Gupta, 2002) in response to the want of human capital. The relationship to be discussed in our paper seems to be a missing link, since there are currently no studies that discuss, directly and in detail, the correlation between education expenditure and education level.

3. Data & Summary Statistics

In this study, we compile our data set from several databases. We adopted the key data in our study from Tai'an CSMAR Database— the largest professional database in China for economic and financial information built by the only Chinese data provider recognized by Wharton Research Service System in greater China region. We take the following data found in CSMAR database directly into our analysis: per capita education expenditure, technology expenditure, culture and sports and media expenditure, social security and employment expenditure, transportation expenditure, and general services expenditure.

In addition, we obtained several data sets from EPS Database, which includes per capita GDP, GDP percentage of industrial sector, GDP percentage of service sector, population of provinces, school enrolments, quantity of high schools, student-faculty ratio, and child dependency ratio. And per capita disposable income was found in National Bureau of Statistics of China. These data will help to back up our examinations, and provide a more comprehensive angle of analysis.

According to the existing literature, a common proxy for education level or quality is the average years of education of a country's citizens. Our paper adopted this approach. Based on Fan, Peng, and Liu's (2016) method of calculating average years of education, i.e. $eduyear = \text{number of elementary school students} \times 6 + \text{number of middle school students} \times 10.5 + \text{number of high school students} \times 16$, the key explained variable is represented by accessible data.

Among the controlled variables, per capita expenditure in technology, per capita expenditure in culture and media, per capita expenditure in social security and employment, per capita expenditure in transportation, and per capita expenditure in public services are introduced to control expenditure structures in provinces. Percentage of industrial sector in GDP and

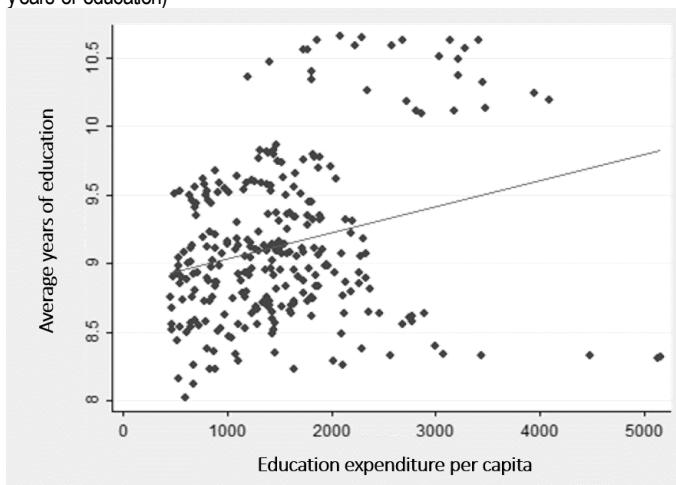
percentage of service sector are the controlled variables for provincial economic structure. Moreover, we assess provincial economic development level and citizens' living standard by considering the natural logarithm of per capita GDP and per capita disposable income. Last, we obtain data of number of high school and faculty-student ratio to control high school education quality, and data of child dependency ratio to control burden of families.

Table 1: Summary Statistics of Key Variables

Variable	Variable Name	Obs	Mean	Std.Dev.	Min	Max
eduyear	Average years of education	279	9.134	0.581	8.023	10.66
eduexp	Per capita education expenditure	279	1528	788.5	453.8	5163
ind	Percentage of industrial sector in GDP	279	46.58	8.356	19.26	61.50
ser	Percentage of service sector in GDP	279	42.75	9.261	28.60	80.23
gdp	Per capita GDP	279	10.52	0.516	9.085	11.68
inc	Per capita disposable income	279	10.30	0.405	9.525	12.93
sci	Per capita expenditure in technology	279	199.6	255.3	25.32	1412
cul	Per capital expenditure in culture and media	279	198.9	168.7	39.73	1074
soc	Per capita expenditure in social security and employment	279	1173	741.5	267.8	6298
tra	Per capita expenditure in transportation	279	712.2	773.2	31.90	6359
pub	Per capita expenditure in general public services	279	981.6	752.5	381.7	6889
high sch	Quantity of high schools	279	5.895	0.764	3.135	6.938
high sch ratio	Student-Faculty Ratio of high school	279	14.91	2.524	7.747	21.14
child ratio	Child dependency ratio	155	23.06	6.620	9.600	39.57

Table 1 provides summary statistics of the variables used in this study. From the table, we can see that the maximum and minimum values of average years of education (*eduyear*) are 8.023 and 10.66 respectively, and the standard deviation is 0.581, which indicates that the data set of average years of education does not constitute a very huge difference. This clustering of data may be explained by China's current nine-year compulsory education policy. However, the maximum and minimum values of education expenditure (*eduexp*) are 453.8 and 5163, respectively, and the standard deviation is 1528, suggesting that government spending on education among provinces are significantly different.

Chart 2: Scatterplot: Intuitive relationship between education expenditure and education level (represented by average years of education)



4. Econometric Model

4.1 Empirical Model

To assess how fiscal expenditure on education influences level of education, we construct the following model.

$$edu\ year_{it} = \alpha_0 + \alpha_1 eduexp_{it} + \alpha_2 X_{it} + \delta_i + \mu_t + \varepsilon_{it}$$

Subscripts “*i*” refers to provinces, “*t*” refers to years. Explained variable “*eduyear*” delegates the level of education in a given region, and explanatory variable “*eduexp*” measures the fiscal support of government to education. X_{it} represents controlled variables, including per capita GDP, GDP percentage of industrial sector, GDP percentage of service sector, population of provinces, school enrolments, quantity of high schools, student-faculty ratio, etc. δ_i and μ_t capture province fixed effect and year fixed effect respectively. Last, ε_{it} is the random disturbances, or error term.

4.2 Baseline Specification and Results

According to the econometric model, we examine the correlation in a benchmark regression. Starting from the simplest version in column 1 & 2, we take more variables into the model –economic development level, industrial structures, expenditure structures, and education quality level. In the last column, random effects model is employed to estimate the sensitivity of the results.

The results show that the per capita education expenditure coefficient is significantly positive, and the correlation is significant under a 5% significant level even when controlled variables are taken into account.

Therefore, the regression result verified our hypothesis: increases in education expenditure would lead to increases in average level of education. On average, when 1000RMB per capita is spent on education, the level of education would increase by 0.1 year.

Table 2: Baseline Regression Results

	(1)	(2)	(3)	(4)	(5)	(6)
	$eduyear_{it}$	$eduyear_{it}$	$eduyear_{it}$	$eduyear_{it}$	$eduyear_{it}$	$eduyear_{it}$
<i>eduexp_{it}</i>	0.000191*** (4.46)	0.0000881*** (5.97)	0.0001000*** (3.06)	0.000138*** (2.67)	0.000127** (2.44)	0.0000572 (1.02)
<i>gdp_{it}</i>			-0.0309 (-1.86)	0.0176 (0.86)	-0.00293 (-0.13)	0.0233 (1.03)
<i>ind_{it}</i>			1.955** (2.42)	1.206 (1.50)	1.102 (1.38)	3.050*** (4.04)
<i>ser_{it}</i>			2.431*** (2.80)	1.675** (1.98)	1.436* (1.68)	3.574*** (4.44)
<i>sci_{it}</i>				-0.000693*** (-4.66)	-0.000647*** (-4.33)	-0.000425*** (-2.74)
<i>cul_{it}</i>				-0.000509** (-2.43)	-0.000457** (-2.18)	-0.000451* (-1.95)
<i>soC_{it}</i>				0.00000648 (0.21)	0.00000855 (0.27)	0.00000396 (0.11)
<i>tra_{it}</i>				0.0000697** (2.01)	0.0000606* (1.75)	0.0000608 (1.58)
<i>pub_{it}</i>				-0.0000378 (-0.87)	-0.0000212 (-0.48)	-0.0000378 (-0.81)
<i>high sch_{it}</i>					-0.305* (-1.88)	0.0239 (0.32)
<i>high ratio_{it}</i>					-0.0131 (-1.27)	-0.0116 (-1.02)
_cons	8.843***	8.999***	7.161***	7.790***	10.01***	6.195***

	(120.32)	(375.80)	(10.01)	(11.15)	(8.09)	(7.67)
Year fixed effect	NO	YES	YES	YES	YES	RE
Province fixed effect	NO	YES	YES	YES	YES	RE
Observed value	279	279	279	279	279	279
With R^2	0.0669	0.1260	0.1590	0.2750	0.2910	0.2347

Note: Values in brackets are t-values. '***', '**' and '*' denote significant results at 1%, 5% and 10% significance level respectively

4.3 Robustness Check

In order to better understand the relationship between education expenditure and level of education, we perform a robustness check of the previous regression results.

As we consider per capita disposable income and child dependency ratio potentially have an influence on our result, we take these two factors respectively into our model.

When per capita disposable income is added, the correlation is still significant under 10% significant level; when child dependency level is added, the correlation is significant under 5% significant level.

Thus, we conclude our regression result is robust.

Table 3: Regressions for Robustness Checks

	(1)	(2)	(3)	(4)	(5)
	eduyear _{it}	eduyear _{it}	eduyear _{it}	eduyear _{it}	eduyear _{it}
eduexp_{it}	0.0000881*** (5.97)	0.0000659** (2.03)	0.0000956* (1.88)	0.0000888* (1.73)	0.000210*** (2.74)
inc _{it}		0.212*** (4.34)	0.206*** (4.45)	0.196*** (3.94)	
gdp _{it}		-0.0536*** (-3.18)	-0.00182 (-0.09)	-0.00879 (-0.41)	-0.0372 (-1.40)
ind _{it}		1.112 (1.38)	0.343 (0.43)	0.368 (0.46)	1.512* (1.94)
ser _{it}		1.227 (1.39)	0.480 (0.56)	0.497 (0.58)	1.306 (1.48)
sci _{it}			-0.000722*** (-5.04)	-0.000693*** (-4.76)	-0.000633*** (-3.97)
cul _{it}			-0.000401** (-1.98)	-0.000375** (-1.83)	-0.000706*** (-2.76)
soc _{it}			0.00000162 (0.05)	0.00000713 (0.23)	0.0000710 (1.60)
tra _{it}			0.0000649 (1.95)	0.0000593* (1.76)	0.0000626 (1.53)
pub _{it}			-0.0000364 (-0.87)	-0.0000254 (-0.59)	-0.0000827 (-1.32)
high sch _{it}				-0.192 (-1.19)	-0.0696 (-0.41)
high sch ratio _{it}				0.000204 (0.02)	-0.0218* (-1.94)
child ratio _{it}					-0.0532*** (-9.39)
_cons	8.999*** (375.80)	6.030*** (8.17)	6.724*** (9.42)	7.949*** (6.07)	9.884*** (7.53)

Year fixed effect	YES	YES	YES	YES	YES
Province fixed effect	YES	YES	YES	YES	YES
Observed value	279	279	279	279	155
With R^2	0.1260	0.2194	0.3307	0.3347	0.6881

Note: Values in brackets are *t*-values. ****, *** and ** denote significant results at 1%, 5% and 10% significance level respectively

5. Further Analysis

With China commanding around 9.6 square kilometers of land, the vastness of the nation has given rise to remarkable heterogeneity across regions as well as pronounced divergence in economic development. Policies during the early stage of the Reform and Opening-up Campaign also gave rise to the development of cities and special economic zones in eastern coastal regions, creating a gap of economic development between eastern and western region of China^[3]. Due to this regional heterogeneity, the relationship between fiscal spending and education quality may exhibit different patterns in different areas, we thus further examine our data by splitting our samples into ones from eastern region and the other from non-eastern region.

The result shows that in more developed eastern regions, the education expenditure has already exceeded a certain level, so increases the education expenditure do not significantly increase level of education.

Table 4: Regression Results for Eastern Regions

	(1)	(2)	(3)	(4)
	$eduyear_{it}$	$eduyear_{it}$	$eduyear_{it}$	$eduyear_{it}$
$eduexp_{it}$	-0.000066** (-2.89)	-0.000088 (-1.12)	0.000018 (0.20)	0.000035 (0.39)
gdp_{it}		-0.0246 (-0.82)	-0.0280 (-0.91)	0.00100 (0.03)
ind_{it}		6.229* (3.35)	4.106 (1.68)	3.620 (1.51)
ser_{it}		6.707*** (3.64)	4.105* (1.74)	4.207* (1.81)
sci_{it}			-0.00015 (-0.78)	-0.00021 (-1.07)
cul_{it}			-0.00086* (-2.50)	-0.00091** (-2.69)
soc_{it}			0.00007 (0.98)	0.000035 (0.50)
tra_{it}			0.00005 (0.70)	0.00004 (0.60)
pub_{it}			0.00010 (0.58)	0.00019 (1.10)
$high\ sch_{it}$				0.535 (1.69)
$high\ ratio_{it}$				0.0339 (1.65)
_cons	9.591*** (231.86)	3.788* (2.26)	5.867** (2.74)	2.166 (0.80)
Year fixed effect	YES	YES	YES	YES
Province fixed effect	YES	YES	YES	YES

Observed value	99	99	99	99
Within R^2	0.0874	0.2204	0.3050	0.3599

Note: Values in brackets are t-values. ****, *** and ** denote significant results at 1%, 5% and 10% significance level respectively

Meanwhile, in the western regions, which is comparatively less developed, the correlation between fiscal expenditure on education and level of education is still very significant. We estimate, when 1000RMB per capita is spent on education in western regions, the level of education would increase by 0.4 year, much higher than the average 0.1 year for the entire country.

Considering the controlled variables, we discover the rise of GDP in western region of China is positively related to rise of education level. It implies that in the western region, policies that focus on stimulating economic development would propel the rise in education level as well.

Table 5: Regression Results for Western Regions

	(5)	(6)	(7)	(8)
	$eduyear_{it}$			
$eduexp_{it}$	0.00017*** (11.47)	0.00041 (1.53)	0.00035** (2.05)	0.00043** (1.99)
gdp_{it}		0.103*** (5.76)	0.0911*** (3.79)	0.0871** (3.27)
ind_{it}		-1.620** (-2.31)	-1.465** (-1.99)	-1.446* (-1.95)
ser_{it}		-1.394* (-1.81)	-1.183 (-1.50)	-1.169 (-1.47)
sci_{it}			0.00011 (0.42)	0.00010 (0.37)
cul_{it}			-0.00015 (-0.61)	-0.00014 (-0.55)
soc_{it}			-0.00004 (-1.35)	-0.00004 (-1.23)
tra_{it}			0.00002 (0.65)	0.00002 (0.54)
pub_{it}			-0.00003 (-0.77)	-0.00003 (-0.61)
high sch $_{it}$				-0.0877 (-0.53)
high ratio $_{it}$				0.00113 (0.11)
_cons	8.695*** (372.89)	9.889*** (16.23)	9.761*** (15.54)	10.25*** (8.67)
Year fixed effect	YES	YES	YES	YES
Province fixed effect	YES	YES	YES	YES
Observed value	180	180	180	180
Within R^2	0.4527	0.5730	0.5862	0.5871

Note: Values in brackets are t-values. ****, *** and ** denote significant results at 1%, 5% and 10% significance level respectively

6. Conclusion

In an attempt to clarify the relationship between fiscal expenditure on education and level of education, and to answer the question whether increasing education expenditure is constantly an effective stimulus to education level release by government, we built our econometric model by gathering a set of panel data – concerning education level and quality, economic development level, and other social factors ranging from 2008 to 2016.

Based on the data we examined in the study, we first concluded that education expenditure is generally positively correlated with level of education, and is subject to the minor influence from economic development level, expenditure structures, and teaching quality.

However, owing to China's remarkable heterogeneity, as we further explored the issue by separating data, the data set reveals the key correlation discussed is significant in less developed western regions of China, but insignificant in more developed eastern regions.

Such results may imply expanding fiscal expenditure in western regions would be more efficient for the government to raise provincial education quality, and similar policy instrument may apply to other less developed regions of the country. Meanwhile, fiscal policy would be less efficient to raise education quality in more developed eastern area. To further elevate level of education in economic developed regions, governments are advised to consider alternative approaches, and thus new policy instrument is necessary.

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Factors Affecting Customer Switching Behavior towards Hybrid Electrical Vehicles (HEV's) from a Customer Perspective in Jordan

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Abstract

Purpose-This paper aims to investigate factors that affect customer switching from Internal Combustion Engine Vehicles (ICEV's) to Hybrid Electrical Vehicles (HEV's), in Jordan for the period of (2010-2014). **Design/methodology/approach**-A self-administered survey was hand-delivered to the targeted sample of car users in Jordan. The authors delivered 400 questionnaires to customers, from which 333 were deemed valid for the analysis, corresponding to the percentage of (83.25%) which indicates the validity of the study. **Findings**- There was no difference in switching behavior between (ICEV's) and (HEV's) based on gender in the Jordanian market. Fuel consumption efficiency was the number one variable that supports the switching behavior towards (HEV's), followed by Eco friendliness, lower taxes and technological features. Price and the current trend in the market were the least supporting factors. In addition to that the perception of the battery life of (HEV's), limited choices in the market, lack of information and fear of the relatively new technology were the major hindering factors of choosing an (HEV). **Research limitations**-Future research needs to investigate other factors that may affect customers' behavior such as perceived image, trust, and subjective norms. Future research should investigate into the importance of environmental awareness and new technologies, and gender differences in behavior. From an international marketing standpoint, comparative studies between Jordanian and non-Jordanian customers are potential areas of future research for international marketing strategies and cross-cultural consumer behaviour analysis. **Practical implications**-The paper identifies the determinants of switching behavior. marketers should focus addressing customers concerns in terms of providing enough information and building awareness towards the technology and its benefits towards the society and the environment. **Originality/value**-Our study is one of the few in Jordan that investigates the switching behavior towards vehicles technology. Our study is thought to have made a modest contribution to consumer behaviour literature and, specifically, for decision making process. It offers marketers insights into the determinants of switching behavior towards the hybrid vehicle technology and how this contribute to consumers' decision making process and attitudes to achieve the intended behavioural outcomes

Keywords: Customer Switching behavior, Internal Combustion Engine Vehicles (ICEV's), Hybrid Electrical Vehicles (HEV's), Jordan.

Introduction

The automobile industry today is one of the most profitable industries. Due to increase in disposable income in both rural and urban sector and availability of easy finance are the main drivers of high volume car segments (Monga et al., 2012; Shende, 2014). Alternative fuel vehicles (AFVs) are a promising means of CO₂ emission reduction as they emit only a fraction of the emissions of a conventionally powered car with an internal combustion engine. In hybrid electric vehicles (HEVs), an electric engine assists the conventional engine and braking energy is stored in a small battery. The Annual Report of the Vehicle Licensing Department, (2012) showed that the number of people that acquired a driving license in Jordan for the years (2010 and 2011) were approximately around (3,624,765) million, contributing to the increase in demand for vehicles in Jordan, where for example the revenues of vehicles import/export in (2014) has increased to reach (JD 256,950,682) with a percentage of (15.73%) (Jordan Customs Annual Report, 2014). The imports of motor vehicles with a capacity of (> 1500 CC and <= 2000 CC) for (HEV's) were (542,926,433 JD) with a (36%) positive difference from the previous year, As for motor vehicles with a capacity of (>3000 CC) for (HEV's) the value also increased to reach (JD

89,207,017) with a (19%) positive change from the former year, however, the motor vehicles with a capacity of (>1000 CC and <=1500 CC) of (HEV's), declined to reach (JD 59,998,600) with a (1%) decrease from the previous year (Jordan Customs Annual Report, 2014). The following figures show the level of demand for (HEV's) and (ICEV's) and the effect of taxes on the demand levels throughout the selected years (2010-2014) as the figures will show below:

Insert Fig. (1)

It is shown in (figure 1) that the number of (ICEV's) in the year (2010) reached (1915) vehicles, yet in the year (2011) there was a noticeable increase in demand for (ICEV's) where it reached (60801) vehicles due to a change in the taxation regulations for (HEV's). In the year (2012), there was a slight decrease in the demand due to the government's decision that it will not license any vehicles older than 5 years. In the year (2013), there was a continuous and clear drop in demand for (ICEV's) to reach (16138) vehicles, since the demand for (HEV's) was increasing due to the change in taxation regulations again, and finally in the year (2014), the demand also decreased to reach (10540) vehicles. (Jordan Customs Annual Report, 2014).

Insert Fig. (2)

However, as shown in (figure 2), the number of (HEV's) in the year (2010) was (6082) vehicles, but in the year (2011), the Jordan Customs issued a tax of (55%) on (HEV's) after they were exempted from taxes in previous years which caused a decrease in demand for (HEV's) to (558) vehicles, going through the year (2012), Jordan Customs issued that the taxes will be (12.5%) instead of (55%), in addition to the government's decision about licensing vehicles not less than five years of model age which resulted in a slight increase in demand for (HEV's) to reach (2662) vehicles. In the year (2013), customers became aware of the new fixed tax regulation which also increased the demand for (HEV's) to reach (14612) vehicles. As for year (2014), the demand continued to increase to reach (21992) vehicles (Jordan Customs Annual Report, 2014). Additionally, Jordan's once subsidized fuel prices expired in December 2012, and caused fuel prices to increase by 12% to match the price on the global market. With the indefinite price increases on petrol, household gas, cab fares and more, therefore Jordanians are looking for a long-term solution for their daily transportation needs.

Against this backdrop, the aim of the present study is twofold; first, to identify the reasons behind the change in demand for (HEV's) and the factors affecting the buying behavior when purchasing such a product and, second, to investigate factors that explain and affect customer switching behavior from (ICEV's) to (HEV's) in the Jordanian market for the years (2010-2014). Popularity of hybrid cars grew sharply among Jordanian motorists during that period showing that demand for the fuel-efficient vehicles increased by nearly six-fold in 2013. Sector leaders attributed the increase in popularity to tax incentives and rising fuel prices in the Kingdom (Obiedat, 2014). Therefore, the objectives of the study are: (a) to examine variables that encourage the switching to (HEV's) that are: fuel consumption efficiency, current trend in the market, price, lower taxes, technological features, and eco-friendliness; (b) to examine variables that hinder switching towards (HEV's), that are: lack of information on (HEV's), prevailing trend, agreeing to switch to (HEV's), limited choice of vehicles in (HEV's), fear of technology in (HEV's), and battery life of (HEV's). The rest of the paper is organized as follows; the next sections present the research literature review, model, and research question. Then, we present the paper's methodology, analysis, results discussion, implications, limitations and future research agenda.

Theoretical Framework Development

Hybrid cars have the ability to protect environment in a number of ways. Research supports that HEV's cause significantly less pollution to the environment than ICEV's (Beliveau, 2010). Yet, customers are not motivated enough to choose HEV's due to lack of information about their technology. HEV's have been regarded as environmentally friendly due to their fuel-saving attribute (Heffner, 2007), but Beliveau (2010) concluded that hybrids have several drawbacks that offset their fuel efficiency. Their higher price both turn consumers away and makes the vehicles a less attractive economic investment. Energy efficient processing techniques need to be developed before the advanced materials in hybrids can help add to their clean image. There are many factors influencing the purchase intention of hybrid cars. Oliver and Lee (2010) found that self-image congruence and propensity to seek information about green products have strong positive relationships with intentions to purchase a hybrid car among consumers from both countries. Perceived social value associated with the consumption of hybrid cars also has a strong positive relationship with intentions to purchase a hybrid car among Korean and, contrary to expectations, US consumers. In contrast, social value associated with green products, in general, has a negative relationship with US consumer hybrid purchase intentions. Moreover, Ozaki and Sevastyanova

(2010) confirmed customers' willingness and social norm adherence's influence on the purchase decision. Literature confirms the relationship between environmental attitudes and product purchase tendency. If we engage customers more with the environment, they will likely to increase their purchase of green products (Schuhwerk and Lefkock-Hagius, 1995). Tsen et al., (2006) indicated that there is an extreme relationship between customers, attitudes and willingness to purchase environmentally friendly products which was confirmed by (Ireland, 1993; Cornelissen, 2008; Walsh et al., 2009; Beckford, 2010; Jayaraman et al., 2011). Additionally, Social groups are formed by those with the same habits, similar thinking and desires to have the power to cultivate an eco-friendly culture and belief. Individuals always use others' behavior to decide the suitable course of views and actions when the decision is uncertain. Therefore, social environment/ prevailing trend is believed to influence the purchase intention of hybrid cars. Moreover, social influence could impact an individual's choices (Ajzen, 1991). The social impact theory states that, the more important a group to which one belongs, the closer the distance is between the group and oneself. Consequently, one is affected by the group's opinion and is willing to confirm with the group's normative pressures (Latane, 1981). This normative social influence shows in individual's compliance with the expectations of others (Bearden, 1989).

Adding to the above, governmental monetary incentives affect the adoption of (HEV's). As apparent by the work of (Chandra et al., 2008; Gallagher and Muehlegger, 2010; Jenn et al. 2013; Bockarjova et al. 2013) financial incentives/ taxes imposed by the government positively influence (HEV) sales and adoption intention. Consumers tend to purchase an (HEV) due to the presence of monetary benefits when purchasing such a vehicle, as these benefits are not received when buying an (ICEV). Likewise, the adoption of (HEV's) is influenced by the fuel price. Research shows rising gasoline or diesel price leads to an increase in (HEV) purchases, since there are considerable savings on gasoline expenditure (e.g. McManus and Berman 2005; Diamond 2009; Gallagher and Muehlegger, 2010). In the Arab world, there has been limited implementation of financial and non-financial incentives that could enforce certain policies and encourage a shift in behavior. For instance, in 2012 the Jordanian government reduced taxes on small-engine hybrid cars from 55% to 25%. Furthermore, an additional 12.5% tax reduction was given to Jordanians with cars older than ten model years to encourage them to shift to newer and cleaner vehicles. This tax incentive encouraged over 1,400 Jordanians to replace vehicles older than ten model years (Al-Rawashdah, 2013; Kaysi and Chaaban, 2014; Obeidat, 2014).

Khalifa and Shoura (2013) argued that there was no significant effect of green products –of which hybrid cars are included– on Jordanian consumer decision making related to using green products. Nonetheless, there was significant difference due to gender in the decision making related to green products consciousness, searching, evaluating in favor of the males, and on the purchasing in favor of the females. Another study on environmental buying in Jordan showed that Results showed that both green awareness and green trust have direct impact on environmental buying behavior. In addition, statistical differences in environmental buying behavior were found due to the education and income levels (Al-Otoun and Nimri, 2015). Hong et al. (2013) argued that relative advantage, compatibility, pro-environmental, and perceived behavioral control were positively related to the adoption of hybrid cars in Malaysia. Moreover, the analysis showed that the male gender, higher income, higher education, and age group between 29-39 Malaysian consumers are more likely to adopt hybrid vehicle. Attitudinal factors and perceived behavioral control are important determinants for the adoption of hybrid vehicles. Wilmink, (2015) found that for HEVs, price is the most important factor, followed by range and annual cost savings in the Netherlands. Wen and Noor (2015) indicated that functional value (the value received in terms of price and quality) is the most significant predictor of consumers' intention to purchase hybrid car. While, symbolic value (the meaning associated with the product and the image of the product), emotional value (the ability of a product arouse feeling or affective states) and novelty value (when the product or service arouses curiosity, provide originality) failed to show significant relationship with consumers' intention to purchase hybrid car in Malaysia. While, Barry and Damar-Ladkoo (2016) revealed that hybrid vehicles do not have the expected impacts on Mauritian consumers like they have on the international markets they conclude that there was a relationship between age of the respondents and: a) price of hybrid vehicle, b) environmental friendliness of hybrid vehicle, c) the increase in fuel prices, d) visibility of hybrid vehicles on the market in Mauritius, and e) the brand reputation of hybrid vehicles. Another study in Malaysia revealed that four main factors affect the purchasing intention of hybrid cars– price sensitivity, environmental awareness, green perceived value and green trust. The results show that price sensitivity and green trust have a significant impact on hybrid car purchasing intention while there is no such impact from green perceived value and environmental awareness (Neizari et al., 2017).

The Decision Making Process

Consumers go through a certain process before embarking on making a purchase decision despite the type of the product or the level of involvement. This process starts with problem recognition where customers become aware that they have a need to fulfill, then information search for and evaluation of alternatives, and finally the purchase decision. Customers engage in post purchase evaluation in order to decide whether the purchase was satisfying or not (Marshall and Johnston, 2010, pp. 196-203). High involvement purchases, are considered complex and occurs after extensive information search, where decisions are viewed as difficult and risky (Kotler et al., 2005, pp. 276-277). Furthermore, customers are driven by two kinds of motives when considering making a purchase; the intrinsic motives which are basically the reasons why customers adopt environmental friendly products in order to protect the environment. (Chan, 1996), and extrinsic motives in which customers are encouraged by incentives such as following trends, and enhancing their image, but then again it doesn't mean that customers that are driven by extrinsic motives don't have intrinsic motives in their decision process (Jansson et al., 2009). Intrinsic motives could be the reason why conservation and environmentally minded consumers adopt eco-friendlier products (Chan 1996; Bamberg 2003). For example, intrinsically driven consumers buy hybrid cars to reduce the effects of their driving on the environment (Chua et al., 2010). It can be also said that extrinsic rewards (e.g. popularity, image, status) may be a more salient reason for some consumers to adopt environmentally friendly products (e.g. Stern 2000, Clark et al., 2003; Jansson et al., 2009). This is not to say that these consumers do not possess intrinsic motivations, but that extrinsic reasons appear to play a more powerful role in their decision making process (Chua et al., 2010).

It is apparent that car choice can be regarded as a complex choice task; a consistent finding in literature argues that choice makers use a multistage strategy in order to cope with complex choice tasks (Olshavsky, 1979). A practical formulation of such a multi-stage strategy is the two-step decision model proposed by de Haan et al. (2009). Customer switching behavior was defined by (Zikiené and Bakanauskas, 2006) as the behavior in which customers change their activities and approaches towards shifting their buying behaviors from one brand to another and is affected by more than one factor such as price and quality of competitor's brands. On the other hand, (Bolton and Bronkhurst, 1995) stated that customer switching behavior is basically a decision made by the customer to stop purchasing from a specific organization. Nevertheless, as a typical behavior of customers, they constantly search for the finest quality and tend to stick with the organization that has a good reputation, yet if the organization didn't provide them with the quality level desired, customers tend to switch or leave the organization that they have been dealing with (Colgate and Lang, 2001). Conversely, Oliver (1996) suggested that reduced level of switching means the customer will stay loyal to the organization. Customer switching behavior is triggered by different factors, firstly, price is an important factor that customers take into consideration when buying a product or a service, therefore, an increase or decrease in price might prompt customers to switch from an organization to another (Stewart, 1998), also, the reputation of a specific organization affects customers switching behavior in which it plays a role in shaping the image of the company by satisfying its customers; hence if the reputation or word of mouth (WOM) of a firm is not worthy, then customers tend to consider switching. Muffato and Panizzolo (1995) stated that advertising reflects the company's image and reputation, it also plays a role in shaping customers behavior, thus, if there was a miscommunication between the advertisement and the customer, it could lead to customer switching. Cengiz et al. (2007) found that an important factor that might affect customer switching is customers changing brands or organizations just because they have no other choice, which is called "involuntarily switching" an example would be, moving neighborhood, changing job or illness. Also, there are other factors that affect customer switching behavior which is when customers consider a relationship with an organization, they face three different elements that impact their switching behavior, firstly, the components which push customers to switch, secondly, the factors that gives them reasons in order to hold on into the relationship which are called pullers and finally the "swayers" that play a role after the switching process in which customers rarely re-consider their previous supplier (Roos, 1999). There is an association between customer switching behavior and customer satisfaction as Bolton (1998) stated, if an organization continues to fail at satisfying its customers, the relationship between the organization and the customer will become weak resulting in customer switching. Moreover, even satisfied customers might search for other alternatives since they always look for their maximum quality (Cohen et al., 2006). Kotler and Keller, (2006 p.144), consequently indicated that, customers respond to their dissatisfied experience by exiting (leaving), voice (trying to solve the problem by talking about it), or loyalty (altering the response). In other words, when customers are dissatisfied they tend to leave and look for other alternatives in order to find an offering that meets their needs (Hirschman, 1970). Customer Loyalty results from customers being satisfied, it consists of "Loyalty Behavior" and "Loyalty Attitudes", the loyalty behavior refers to customer retention which is when the customer repeats the

purchase of a specific brand. As for loyalty attitudes, it depends on opinions and feelings of the products, services, brands, or even the business as a whole (Wyse, 2012). It is possible for customers to be loyal without being highly satisfied, especially when there are few choices in the market (Shankar and Amy, 2002) however, there is a great connection between satisfaction and loyalty in which if the presence of many alternatives are available it results in high possibility of switching (Bowen and Chen, 2001).

Understanding and Predicting the Adoption of New Technologies

Developers of new technologies generally, face challenges in developing a market and motivating consumers to purchase or use their products (Mohr et al., 2010). Incumbent technologies can be difficult to unseat; they have years of production and design experience, which make their production costs lower than those of emerging technologies and thus more affordable. In addition, vehicle technology is continuously improving; many of these improvements, which are being made to meet tighter fuel economy and greenhouse gas emission standards. Traditional consumer-adoption models predict the diffusion of new innovations through society (Parasuraman and Colby, 2001; Rogers, 2003; Moore 2014). The models are well established and empirically validated across many product categories (Sultan et al. 1990) and can help in understanding the consumer purchase decision and market development process for HEV's. To put that in perspective, it took 13 years for hybrid electric vehicles (HEVs) to exceed 3 % of annual new light-duty vehicle sales in the United States (Cobb, 2013).

The adoption and diffusion of new innovations can be a long-term, complicated process that is especially slow for products that cost tens of thousands of dollars and where consumers have questions about infrastructure availability, resale value, and other variables. A further complication can be the innovation ecosystem, which includes all elements of the total customer solution. For HEVs, the innovation ecosystem includes not only the vehicle but also the necessary permitting and installation, availability of roadside assistance, and other ownership or maintenance concerns. Accordingly, the innovation ecosystem for HEVs has its own transition barriers that must be addressed for maximum market penetration to occur. Adner (2006) suggests that wide-scale deployment of new technologies is a function of three aspects of infrastructure development: (1) product technology—for example, viable, low-cost battery technology; (2) downstream infrastructure—for example, dealers, repair facilities, emergency roadside services, and battery recycling options; and (3) complementary infrastructure—for example, charging stations (whether residential, workplace, or public), knowledgeable electricians, and amenable zoning and permitting at the municipal level. Given the complexity of the innovation ecosystem, mainstream consumers typically are unwilling to undertake what might be perceived as a risky purchase until all elements of the requisite infrastructure are in place (Moore, 2014). Indeed, if all aspects of the innovation ecosystem are not ready when consumers are making purchase decisions, industry adoption rates can be substantially lower than initial expectations.

In the Now-The Current Situation in Jordan

According to statistics from the Jordan Free Zone Investor Commission (JFZIC), the number of hybrid cars in 2017 reached 31,500 compared to 26,400 in the previous year. The statistics also showed that the customs clearance of regular fuel cars increased by 23.4 per cent to reach 44,000 vehicles in 2017 compared 33,700 in 2016. Regarding exports, the number has dropped by 7.4 % in comparison to 2016 reaching 35,000 vehicles instead of 37,700 in 2016. The drop in export has begun with the turmoil in the region, especially due to the closure Iraq borders. Jordan used to export around 100,000 cars annually, of which 80% to Iraq and the rest to Saudi Arabia and Egypt. The hike in customs clearance of hybrid cars is due to the approaching deadline of the government's decision to cancel the exemption of customs fees granted to this sort of vehicles. Hybrid cars pay a reduced special tax of 25 per cent of its price, instead of 55 % for regular fuel cars. The decision came into effect in 2012 and has been renewed every year henceforth. Buyers are also given the choice to de-registrate old fully gasoline-operated cars (10 years or older), hand them to authorities and receive a partial exemption from the special tax to register a new hybrid car, on which the tax levied is 12.5 %, instead of 40 % for regular cars. In December, the government extended the deadline to the end of January only for cars that entered the Kingdom before the end of 2017. The decision to cancel the exemptions, which takes effect at the end of this month, will raise the prices of hybrid cars between JD 4,000 and JD 8,000, if the government is to extend the cancellation decision, it would positively affect the national economy with direct revenues to the Treasury. If the tax is 55 % again, the demand will decrease by 60 or 70 %, which will slash public revenues by JD40 or JD50 million (Roy'a news, 2017; Bani Mustafa, 2018).

Methodology

Study Variables, Model

Based on the previous literature, and since the research on the adoption of Hybrid technology is lacking in the Jordanian market, This research seeks to explore the reasons behind the shifts in demand for (HEV's) throughout the years (2010-2014), and rank the factors that affect the switching behavior from the customer perception in the Jordanian market for (ICEV's) and (HEV's). The below table include the study variables as follows:

Insert Table (1)

Insert Fig. (3)

Sample and Data Material

A self-administered questionnaire distributed in the city of Amman. The data was sampled conveniently by which customers were selected randomly from the Jordanian population and each respondent had an equal chance of selection; the questionnaire was administered to an equivalent of (400) respondents and the retrieval of the completed number of questionnaires reached a number of (333) that is corresponding to the percentage of (83.25%) which indicates the accuracy of the study. The questionnaire included a cover letter explaining the purpose of the study and two tables stating the factors that affect switching for both (HEV's) and (ICEV's) on a five point likert scale ranging from "Strongly Agree" to "Strongly Disagree".

Data on the study variables were gathered by reviewing previous research; it also included the collection of information from government sites such as: Jordan Customs and Vehicle Licensing Department in order to understand the correlation between the fluctuation in taxes and demand for (HEV's) and (ICEV's). Descriptive analysis was employed to develop an understanding of the concept of switching behavior.

Analysis and Results

The demographic profile of the respondents showed that the percentage of males was almost equal to the percentage of females in which males reached a percentage of (50.2%) of the whole sample and females reached a percentage of (49.8%) of the whole sample as shown in figure (4). However, it showed that there was no correlation between gender and customer switching in the Jordanian market; which contradicts with the findings of (Khalifa and Shoura, 2013; Hong et al., 2013)

Insert Fig. (4)

Figure (5), shows the ranking of factors that encourage switching towards (HEV's) from a customer's perspective in the Jordanian market. Fuel consumption efficiency was the major driving factor that supports the switching decision, followed by Eco friendliness, lower taxes, and technological features. However, price wasn't a main consideration since the prices follow the taxation regulations. Furthermore, the current trend in the market was the least important. Finally, customers strongly believe that (HEV's) are friendly to the environment and they consume fuel efficiently which also shows that customers are aware of (HEV's) features.

Insert Fig. (5)

As for the ranking of factors that hinder the switching decision to (HEV's), it is shown in figure (6) that the aspect of the battery life of is of major importance to buyers, customers tend to fear new technologies because they require new skills and a huge change in addition to embarking into the unknown. Moreover, the limited choice (variety) of (HEV's) is considered as a drawback unfortunately not all car dealerships in Jordan provide the hybrid option. Lack of information on the relatively new technology among customers was also an important hindering factor, which might result in the fear towards this technology.

Insert Fig. (6)

Insert Fig. (7)

Figure (7) shows that (85.40%) of the respondents are willing to switch to (HEV) if the prevailing conditions are in favor of that decision, while (14.50%) of the respondents tend to prefer using their conventional (ICEV)

Conclusion

The process of buying a vehicle is a complex, highly involved consumer decision. A vehicle is one of the most expensive purchases made by individuals or households, often equal to many months or even years of income, and will last for many years. As a result, consumers perceive the decision to be a relatively risky one, and will strive to ensure a "safe" decision so that they are not stuck with a poor purchase choice for years to come. In general, consumers want vehicles that are affordable, safe, reliable, and comfortable for travel and meet many practical needs, such as getting them to work, school, stores, and recreation and vacation areas. Some also want vehicles to meet their psychosocial needs; for example, vehicles can serve as status symbols that represent one's success or self-image. For all these reasons, consumers generally will undertake lengthy research into their options to ensure a good choice that satisfies all their various needs.

Within the Middle East, oil has always been readily available at affordable prices, for obvious reasons. However, Jordan has not benefitted as much as other countries from the bountiful amounts of oil present in the region, as it is not known for producing oil yet at this time, meaning that consumers do not have the luxury of low oil prices. Thus, the Jordanian Government has embraced a proactive and resourceful approach to combat this issue, in 2008, it decided to entirely do away with all custom duties and import taxes on hybrid vehicles entering the country, something no other Middle Eastern country was doing at the time. In 2009, Jordan pledged to have 10 percent of its energy from renewable resources by 2020, as government hoped that people would develop a greener conscience. So the Ministry of Environment launched the complete tax-exemption program for hybrid cars with environmental concerns in mind. Though Jordan's carbon footprint is relatively small, global warming remains a serious concern for the country. Because Jordan is the world's fourth poorest country in water resources, climate change could threaten to reduce water levels even more (Morrar, 2012). The financial consequences of hybrid cars stem from the auto and petroleum market forces already discussed, combined with consumer behavior and the rhythms of the technology adoption cycle.

This study examined factors that influence consumers' switching behavior towards hybrid cars in Jordan, we concluded that the demand for (HEV's) is not only affected by the fluctuation of taxes throughout the years but also by the capacity of the engines based on each vehicle, furthermore, throughout the research we discussed the impact of the internal and external factors in which it had a relationship with the switching between the two types of vehicles. Additionally we found out that gender had no correlation with the switching behavior from (ICEV's) to (HEV's) from the customers perspective, and fuel consumption efficiency is considered the most important factor -under the influence of the prevailing economic conditions and the continuous hike in oil prices- that affect buyers to switch to hybrid technology, while concerns of the battery life span is considered major hindering factor among others. Inexperience with the new technology could make the customer feel intimidated about making a decision, or they may not know where to start. These are legitimate apprehensions, but they can be mitigated by see more information, advice and reassurance.

Managerial Implications:

Fuel consumption efficiency and Eco friendliness were strong influencers on the adoption of (HEV's) in Jordan. Besides, hybrid vehicle have significant prospects because of their excellent mileage and low emissions. Therefore, marketers can use the fuel economy and environmental friendly cars as one of their promotional tools in marketing to encourage consumers to adopt hybrid vehicle. For promotion, they need to develop more informative advertising to educate the buyers on the benefits and important features of hybrid vehicles. In terms of product strategy, the manufactures should introduce more hybrid vehicle models to attract the consumers. The hybrid vehicles need to have these features; fuel efficiency, easy operation and high quality in terms of durability and reliability. Government incentives are also one of the factors that influence the adoption of hybrid vehicle in Jordan; therefore the government should continue providing incentives for hybrid car buyers.

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Table (1): Variables that encourage and hinder the switching decision towards (HEV's)

Variables that encourage the switching towards (HEV's)	Variables that hinder switching towards (HEV's)
Fuel consumption efficiency	Lack of Information on (HEV's)
Current trend in the market	Overwhelming Trend
Price	Agreeing to switch to (HEV's)
Lower Taxes	Limited choice of vehicles in (HEV's)
Technological Features	Fear of technology in (HEV's)
Eco-Friendliness	Battery life of (HEV's)

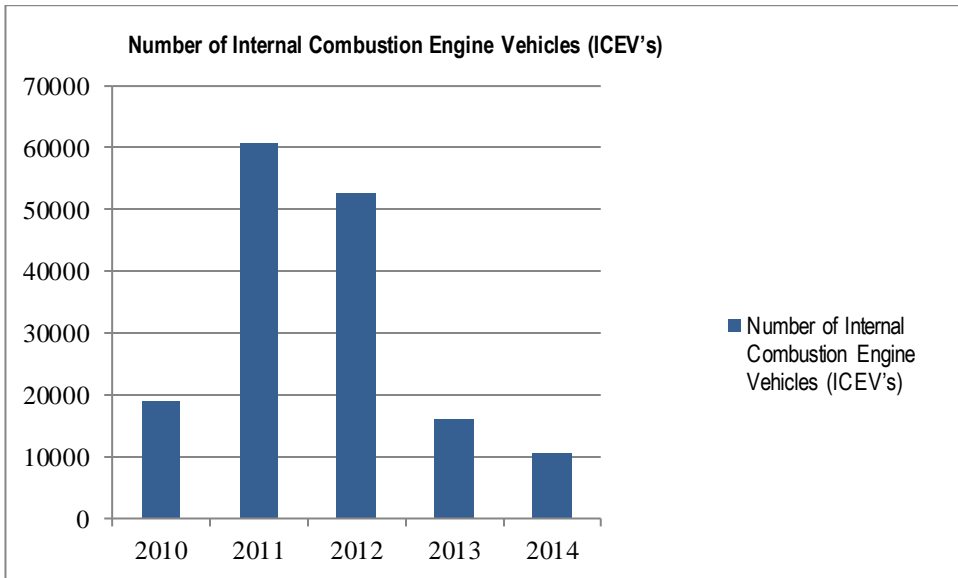


Figure (1): Number of Internal Combustion Engine Vehicles (ICEV's) based on the years (2010-2014) by the (Jordan Customs Annual Report, 2014)

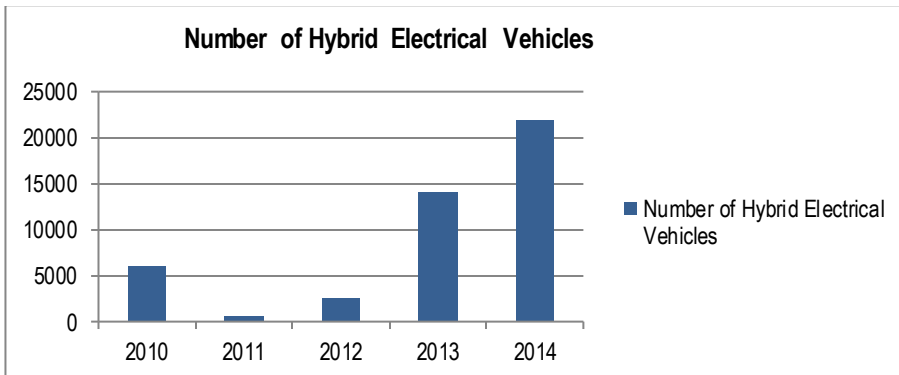


Figure (2): Number of Hybrid Electrical Vehicles (HEV's) based on the years (2010-2014) by the (Jordan Customs Annual Report, 2014)

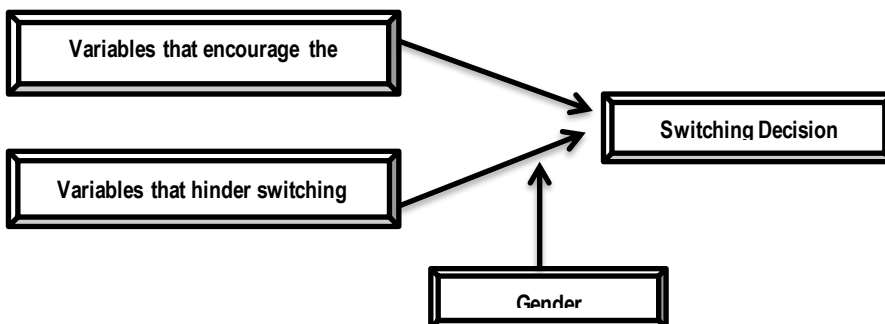


Figure (3): Research Model

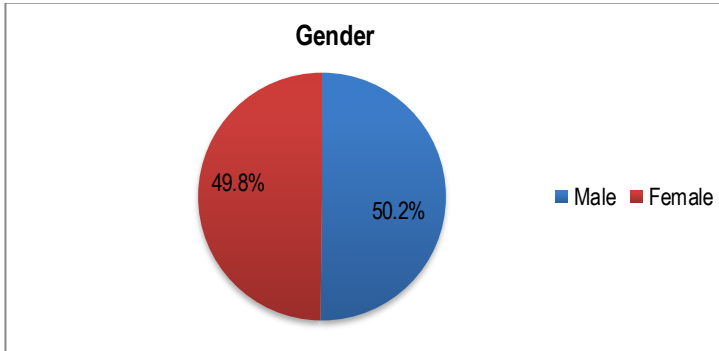


Figure (4): Percentage of Males and Females

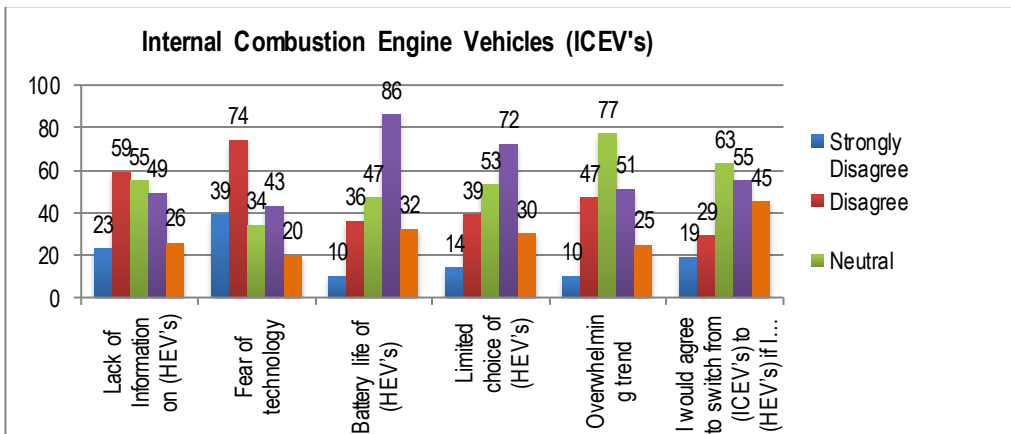
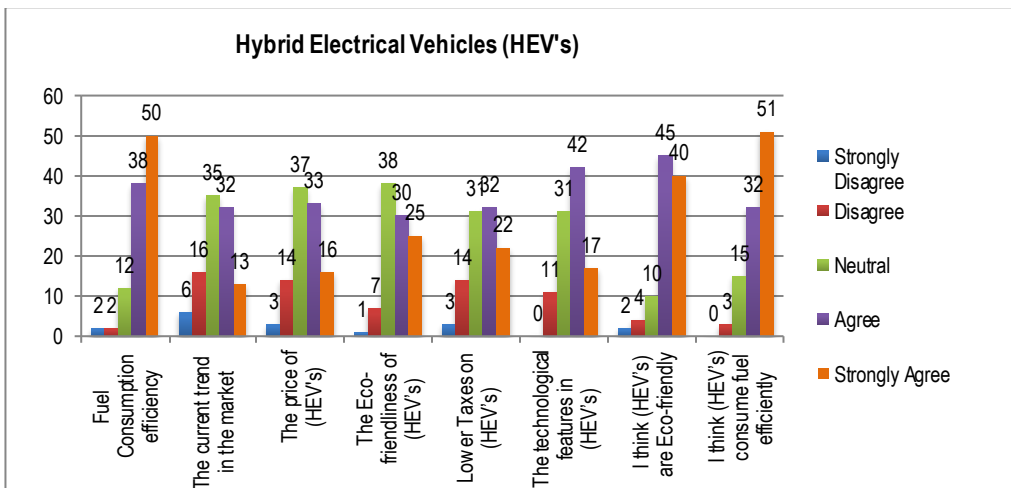


Figure (5): Ranking of Factors that encourage the switching decision to (HEV's)

Figure (6): Ranking of Factors that hinder the switching decision to (HEV's)

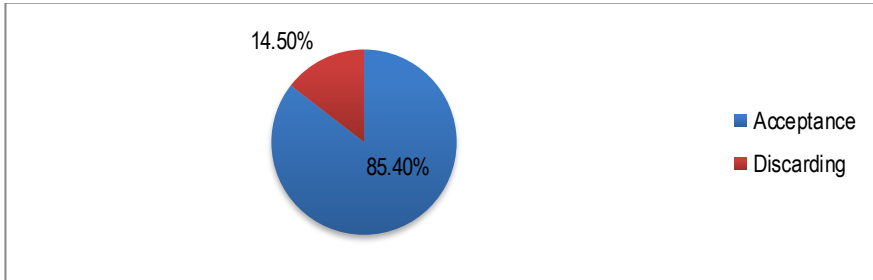


Figure (7): Percentage switching to (HEV's) Acceptance

Affiliate marketing. Can online news portals use successfully affiliated marketing in Albania?

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Abstract

Affiliate marketing is viewed as one of the online strategies that help marketers' measure success and deal with productivity. Marketers use it as a starting point to create new business or to develop an existing one. Affiliate programs support and develop these new strategies of marketing. Affiliate marketing is performance-based marketing where merchants reward affiliates commission for successful referrals. In Albania, we have chosen some of the most ranked online companies to see how this new techniques could be implemented to benefit both parts. Some of the research questions that have been raised in this paper are; how are the affiliated marketing techniques used in information portals in Albania? Under what conditions those web sites are developed? What payment fees are better to be used? In the evidence of a descriptive research, this paper will make an attempt to answer these questions.

Keywords: Online news portals, Affiliate marketing, Potential

Introduction

Affiliate marketing has become an important strategy of customer acquisition. With the use of Internet, a business can create a network of affiliate organizations that refer customers to its site. Possible affiliations include sellers of products and services, web sites connecting a group of customers with joint interests, or professional referral services. It is expected to become a major source of customer acquisition by many online merchants (Dysart, 2002; Fox, 2000), and industry servers expect (Fox, 2000).

Affiliate marketing occurs where a third-party advertises products or services on behalf of a merchant in return for an agreed commission for a sale or lead. As a result, affiliates are sometimes viewed as an extended sales force for a website (Stokes, 2010).

Affiliate marketing is mainly used for E-Commerce websites; however, it doesn't have to be limited to this. If other parts on site are valuable, it may be worth considering engaging an affiliate. Many merchants pay affiliates a referral fee for every referral that is converted into a customer (*pay-per conversion*).

For a long time, marketers have not been satisfied by the effectiveness of their advertising campaigns. Most display ads (banner ads) require an advertiser to pay as soon as a website serves an ad to the user, and almost all search ads require an advertiser to pay as soon as a user clicks an add.

Affiliate marketing payment rules are created to protect advertisers against wasted expenses.

For example, when buying display advertising, an advertiser is worried that few users will click its ads: Perhaps the ads are irrelevant to users' interests or are placed in locations where few users notice. Some of these factors are outside the advertiser's control (Zhu and Kenneth, 2011). Standard contracts let advertising networks decide which sites show a given advertiser's add. Under these circumstances, advertisers perceive serious risks that their banner advertising expenditures will be wasted. Similarly, an advertiser buying search ads risks extra expense if uninterested users, competitors, or fraudsters click or purportedly click (Zhu and Kenneth,

2011).

One interesting characteristic of affiliate marketing is that there are no up-front costs to either the host or the sponsor (Zeff and Aronson 1997). The sponsor, however, faces some hidden costs of entering into an affiliate relationship with too many partners.

The ideal host site for an affiliate sponsor would be one that attracts the same, or similar, customers that is interested. This in turn implies that the host should be the one that retails products and shares similarities with the products sold by the affiliate sponsor. The problem then is identifying the relationships among the different product categories.

This is similar to the category management problem faced by traditional retailers and extensively explored in the retailing literature (Ludwig, 2012). In this case, the marketers' chief interest is studying demand substitutability (within product categories) and demand complementarity (across product categories) to guide decisions with respect to merchandising, store layout decisions, and so forth (Russell and Kamakura, 1997).

Literature review

2.1 Online Advertising and Affiliate Marketing

The concept "online advertising" has many definitions. (Chaffey, 2000) claims that advertising takes place when advertiser pays to place advertising content on another website. Internet advertising is a traffic building campaign – a method to increase the audience of a website.

Online advertising is a form of promotion that uses the Internet and World Wide Web (WWW) to deliver marketing messages to attract customers.

For content providers, online advertising is an important revenue stream. They can sell advertising space to the merchants to promote their products and services (Chaffey, 2000).

Content providers have four options to sell the advertising space: direct selling, site representation firm, ad network and auctions.

Recently another option named affiliate marketing has been used effectively. Affiliate marketing is an agreement between a merchant and content providers to promote merchants' products or services on their websites.

Merchants are called advertisers in online marketing and they pay for the content providers' services only when visitor from their website execute a specified action. Such action can be a purchase of a product for example, filling in a form with personal data, subscribing to a newsletter etc.

2.2 Who are affiliates?

Affiliates are specializing in different areas and offering different types of affiliate marketing on their websites. There are some types of them:

Type 1: Niche content and personal interest websites

Affiliates run websites that cater to a certain niche in the online marketplace and can be an ideal way for merchants to target users specifically interested in certain products and drive great quality traffic. Websites that would fall into this category include sites offering free bias, information on certain hobbies or topics, games and bingo websites, and retail and travel-related sites.

Type 2: Loyalty and reward websites

Loyalty and reward websites build a loyal user base by marketing merchants to their users and then share their profits with them. They can share these profits by offering pure cash back to users or awarding them points that can be used to contribute towards discounted online purchases through the website.

Type 3: PPC and search affiliates

Pay per click (PPC) and search affiliates bid on words and phrases in search engines to help drive traffic to a merchant's website by using the sponsored links on portals such as Google, Yahoo, etc. Affiliates are now able to use brand terms and

improve merchant rankings within the natural portal listings. This is called organic search engine optimization (SEO). Merchants are able to choose whether they wish their products to have affiliates bidding to promote them. If they do, they must then decide whether affiliates may bid on brand terms or just generic terms. Brand term means using the actual merchant name, whereas generic term refers to using a genre or topic to bid on the product.

Type 4: Email marketers

Email affiliates send stand-alone email campaigns to their users. Companies have been set-up specializing in this form of affiliate marketing and have expansive and comprehensive lists which allow merchant's to target specific niches within their target market. Email marketers tend to be paid on a cost per thousand (CPM) bases.

Type 5: Affiliate networks

Affiliate networks are establishing themselves as 'top tier' affiliates exposing merchant offers to their own networks of affiliates while providing account management and assistance where needed. These large scale networks are often capable of providing email marketing, co-registration, PPC and classic affiliate banners, and skyscrapers to run on their affiliate's websites.

Type 6: Co-registration affiliates

Co-registration is a fairly new form of affiliate marketing and allows users to choose offers from third-party merchants whilst registering on a website, but only with the user's full approval. Registration details are passed on to the merchant who then pays the affiliate for the users details.

2.3 Advantages and Disadvantages of Affiliate Marketing

Affiliate marketing is beneficial both for merchants and affiliate marketers (Ludwig, 2012).

Merchants can hire various independent websites to advertise their products and services. Advertiser of merchant can only pay the content providers if the ad actually leads to a sale and advertising costs move from fixed to variable costs on ad in affiliate marketing. It can facilitate allocating money to advertising.

Even content providers can enjoy various advantages from affiliate marketing. It offers content providers new chances to generate revenues from their websites offering them the opportunity to cooperate with large number of merchants, which they would not have access otherwise (Russell and Wagner, 1997).

Some disadvantages are observed in affiliate marketing. Accounts of false and misleading types of advertising that lead to unjust claim and also complaints people. The shady and illegal practices involved in this kind of business include false advertising, unlawful use of trade names, logos, or other branding, spamming and hijacking. Merchants sometimes intentionally close down programs without informing the affiliates and paying commissions.

Sometimes affiliates engage in false advertising and misleading the customer in order to get commission. This means that some affiliates sometimes make claims and promises regarding the product and services which are completely wrong or they extremely exaggerate it. When this happens, the merchant usually suffers complaints and they definitely lose potential customer.

As affiliate ads pay out on results, content providers do not have any guarantees that they will make money. They may have to try a number of different affiliates to find those that their visitors respond to. Content providers should have a good idea of the profile of people that visit their site to ensure their target customers appropriately. The time from placing the ad up to getting payment can be several months depending on the affiliate schemes or network content provider register with.

2.4 Affiliate marketing pricing mode

The following, are the main types of affiliate marketing models (Affiliatefix, 2014):

CPM or cost-per-thousand impressions, is one of the oldest metrics for affiliate marketing. Merchants will pay publishers a fixed rate for every thousand impressions their advertisement is served. Targeted traffic is regarded better.

CPC or cost-per-click marketing is one of the models where publishers charge a fee for an individual click delivered to the merchant's site or program. Costs will vary per click and will be significant to the competition within the sector or niche.

CPL or cost-per-lead is used in sectors where the customers' acquisition isn't always completed in a single online session. It can vary from gathering something as simple as an email address to a large form or action. Leads are priced according to the corresponding criteria.

CPD or cost-per-download is the process of the merchant paying when downloading or installing. Otherwise known as cost-per-install, the CPD model has seen a significant increase with the rise of mobile advertising and apps.

CPC or cost-per-call, also known as pay-per-call, is the pricing model where by merchant will pay on a call-in basis. Publishers will get customers to qualify a purchase or transaction by calling a specific number.

CPA or cost-per-action is the most popular model for direct response marketers. Merchants are almost guaranteed profit as they only pay per action, which is set out in the initial stages. The payout differs on the level of action that is required, for example, an email submission will pay less than a full form submission.

Tenancy pricing model is where the merchant or advertiser pays a flat, fixed fee per month regardless of the amount of impressions, clicks or leads. Although the results can be hard to measure, and there's no guarantee it will work, the tenancy model can offer large coverage for big companies and brands.

Hybrid pricing model is the combination of several of the above. It's used when a merchant wants to track and focus on the whole purchase or funnel of the offer. Offering different models across one process can really benefit publishers and merchants.

Revenue share is when the merchant agrees to share a commission or portion of the conversion with the publisher. It is often used when a customer may be spending money on a product or program more than several times.

Most affiliate marketing programs, will work on one or several of the above pricing models.

2.5 Traffic

Internet traffic is the flow of people and data across the internet. In order to get conversions or views on your affiliate marketing campaigns, it is necessary to know how to gain traffic. The definition of traffic is basically the amount of viewers on your website.

Internet traffic comes in many forms. However, it can often be separated into paid or free. Paid traffic is usually leveraging off someone else and paying for it. Most of the time, paid traffic can be instant, though often you are put through an approval process. For example, if someone were to buy some advertising space on a website, it would be classed as paid traffic. In many instances, a budget or funding is needed in order to get started with paid traffic, as sometimes you're required to pay prior to the traffic coming in. Any online platform or service that demands you pay prior to, or after, for website traffic, falls under the paid traffic category.

For example Google ads, Facebook ads, any real time bidding or self-serve platform will all fall under paid traffic. The cost and pricing model comes down to how targeted and volatile the specific niche of the traffic is. The more popular and targeted it is, the more you will be paying for the traffic, in most cases.

Free Traffic

The opposite of paid traffic is free traffic. This is traffic that you don't directly pay for to be sent to your site. Using a variety of methods, free traffic can be sent to your website without a payment for it. Free traffic methods can take longer, especially with something like SEO (search engine optimization).

Free traffic comes in many shapes and forms. However, the most popular methods are those of SEO and social marketing. For instance, if someone has a large Facebook Fan Page for his niche and direct users to the site via a status update, that is free traffic you haven't had to pay for. Another example would be if you were able to rank a keyword on the first page of

Google for your site and you didn't pay for any ranking. The traffic you would be receiving from Google would be free traffic.

Obviously, if you have a budget, paid traffic is a faster way? But, if your budget is limited then free traffic is your choice. Longevity, on the one hand, can be achieved from free traffic. On the other hand, paid traffic is often used for a short burst, making it successful for specific campaigns (Neeman, 2013).

When learning affiliate marketing, it is easy to get lost in multiple traffic sources. The key is to pick one or two and master them. Most new affiliate marketers will start on free traffic since funds are low and it is a great way to learn the basic. Then they decide to move into paid traffic when they have a larger budget, giving them the option to test different sources.

2.6 Important Choices for affiliate marketing

According to (Affiliatefix.com, 2017) an affiliate should take into consideration:

Gender breakdown:

This split is pretty even and in line with the general population which is; 51% male and 49% female.

Age breakdown:

Affiliate marketing is certainly something anyone can do. The distribution of age is interesting and encouraging to anyone interested in generating additional income from affiliate marketing efforts.

Income for ages are; Age 22-25: 2.5%, Age 26-30: 22%, Age 31-40: 19%, Age 61+: 9% .

Work location:

Many affiliates enjoy the flexibility of working at home and balancing maximum efficiency and comfort; while others still commute to the office or split their time between both. Affiliate that work from home: 59%, Commute to office: 18% and Both: 23% .

Traffic generation:

Every affiliate has its secrets to generate traffic to the websites; this is what makes them unique. While these methods don't vary too much; thus, providing insight into what traffic channels are working, where the volumes at and what's profitable for others. Affiliates love free traffic, which is obvious with SEO, Social, Blogging and Word of Mouth, all top the charts.

Traffic generation from:

Search Engine Optimization: 79%, Social Networks: 60%, Blogging: 59%, Word of Mouth: 37%, Email Marketing: 28%, Pay Per Click: 27%, Video or Images: 21%, Display Advertising: 19%, Offline Marketing: 16%, Comment Marketing: 12%, Guest Posting: 11%, Other: 5% .

Product promotion:

While retail and consumer products and services are certainly the lion's share of the offers out there, you can't forget about business products. What's interesting is how few affiliates solely dedicate their efforts towards driving business-to-business products.

Product promotion goes:

B2C: 69%, B2B: 1.3%, Both: 29.7% .

Contact method:

Affiliates almost unanimously prefer to be contacted via email. While some networks and relationships may support methods of contact outside email, it's very uncommon. Contact Methods are; Email: 91%, IM: 4%, Phone: 8%, All of the above: 7%, Other: 1% .

Selecting merchants:

When affiliates were asked what their top 3 factors (Affiliatefix.com, 2017) are when selecting what merchant to promote, commission remains on top, more so than the relevancy of the product or service. What is really interesting is that affiliate network/tracking platform was the 3rd more important factor. When merchants are looking to launch their affiliate program, keeping that in mind can do wonders for affiliate recruitment. Commission 62%, product or service relevancy: 54.4%, affiliate network or tracking platform: 36.7%, brand awareness: 34.2%, merchant reputation: 31%, cookie duration: 24.1%, affiliate program reputation: 24.1%, payment terms and methods: 17.1%, terms and conditions: 16.5%, earnings per click 15.2%, other: 9.5%, ads and landing pages: 7%.

Finding programs:

Affiliates are constantly seeking out new affiliate programs to join, especially as their traffic increases or diversify. Although, affiliates are most likely to reach out and request joining an affiliate program, most likely through a network, advertisers should know that them reaching out to the affiliate is still a common practice. Affiliates also use search engines to find affiliate programs. As an advertiser, having a Pay per Click strategy in place to include affiliate program related keywords can help increase your affiliate base. Affiliate info on merchant's website: 51%, affiliate Manager reaches out directly: 42%, search engine searches: 39%, affiliate or CPA network: 38%, check competitor's websites: 26%, word of mouth: 20%, affiliate manager website: 15%, conferences: 9%, other: 8%, print publications: 4%.

Program promotion:

Most affiliates are specialists in their niche, which means they generally only promote closely related products and advertisers (Affiliatefix.com, 2017). Almost half of affiliates this last year were promoting 10 or fewer programs. Over 75% promote fewer than 50 affiliate programs, 1 - 10: 47%, 11 - 20: 16%, 21 - 50: 14%, 51 - 100: 6%, 101 - 200: 3%, 201 - 300: 1%, 300+: 12%.

Network affiliation:

To join a network, merchants are usually charged to launch or to set it up. For affiliates though, it is almost always free to join (Affiliatefix.com, 2017). This enables them to belong to several networks, in some cases, every network. A good network will have high quality merchants, reliable tracking, affiliate-friendly tools and sophisticated reporting, among other things.

Ranking of network affiliation are; ShareASale: 83.7%, Commission Junction: 77.8%, LinkShare: 58.2%, LinkConnector: 43.1%, ClickBank: 41.2%, PepperJam: 35.3%, AvantLink: 21.6%, Impact Radius: 17%, Affiliate Window: 15.7%, Digital River: 13.7%.

Methodology

For affiliates, keeping up to date with merchants, other affiliates and the industry is probably the key to growth (Stokes, 2010). Joining forums and keeping tabs on industry leaders will help do just that. So the information from forums and websites is relevant. We used forums, web sites, academic journals and books to gain secondary data for the research purpose.

Primary data. As traffic is one of the evidence of successful affiliate marketing, we first found evidence of the most ranked sites in Albania. Statistics were used from alexia.com part of amazon.com, as one of the most successful affiliates site (Ranking.com, 2017). Ranking (the number of sites linking in Alexa reports is the number of websites in Alexa's crawl of the web that link to a given website) is a rough estimate of this site's popularity.

The rank is calculated using a combination of average daily visitors to this site and its page views over the past 3 months. The site with the highest combination of visitors and page views is ranked #1. (Aleksa.com). We chose 30 of the first websites. From them we selected only Albanian online journals or news portals (not Kosovo's site).

We used observation technique as an instrument of collecting data. (Marshall and Rossman 1989), define observation as "the systematic description of events, behaviors, and artifacts in the social setting chosen for study" in qualitative research.

For a Period of Two weeks we observed the pages of the websites selected. We found the companies ads on their web sites. We grouped them in two categories: affiliate and on line ads. Then for each of them we used the consumer ghost technique to gather information from their websites as price per ads (do they use affiliate programs etc.).

Research Question

1. How are affiliated marketing techniques used in information portals in Albania?
2. Under what condition the new portal webs are developed?
3. What payment technique is better to use?
4. Should there be used an affiliated program or can these portals be affiliated on their own?

I. Findings

The emerging world of blogs must be understood within the larger context of a changing global news arena where the public naturally seeks perspectives beyond one specific locality and nation (Croad, 2003). The migration of news and information to an online platform has disrupted old patterns of reading and changing the relationship between audiences and news providers.

As traffic is one of the evidence of successful affiliate marketing, we first found evidence of the most ranked sites in Albania. We used alexia.com part of amazon.com as one of the most successful affiliate sites. Ranking (the number of sites linking in Alexa reports is the number of websites in Alexa's crawl of the web that link to a given website) is a rough estimate of this site's popularity. In the thirty first sites ranked, we found five Albanian Information Portals or online newspapers. The other sites were web portal from Kosovo (5), international websites as face book, youtube etc(5), and the other were entertainment pages. The results and its respective ranking is as follow for the News Portal:

Web site/publisher	Ranking
Balkanweb.com	8
Shekullionline.com	24
Shqiptarja.com	25
Gazetatema.al	27
Panorama.com.al	29

Table nr.1 The ranking of websites

The new e-paper technology has provided the newspaper companies with the possibility of publishing a portable digital e-newspaper with the same readability as in print media. The e-newspaper is converging print and online with the best from two worlds, i.e. the overview and familiar design of the printed edition and the interactivity and continuous updates of the web. An online newspaper is created by the convergence of the newspaper and the Internet. As Chyi and Sylvie (2001) describe "technologically, the Internet enables online newspapers to seek a world-wide market. Most online newspapers are owned by their print counterparts, also serve as online editions' primary content providers". According to (Boczkowski, 2004) the emergence of online newspapers has occurred "partly as a reaction to major socioeconomic and technological trends, such as changing competitive scenario and developments in computers and telecommunications – trends that, in turn, online newspapers have influenced".

Table 1 shows a high ranking of these portals. Thus, the first condition for successful affiliate marketing from these portals is evident. These portals may serve as affiliates, bringing benefits for merchant and portals to. Ranking is an important evidence, but is not enough. We need to see other element of these portals.

Web site/publisher	Nr. of adds	Nr. of affiliate adds
Balkanweb.com	12	1

Shqiptarja.com	11	0
Panorama.com.al	11	2
Shekullionline.com	12	2
Gazetatema.al	10	0

Table nr 2. Ads for the websites

As we mentioned above ads and affiliate marketing are close to each other. They differ in the payment fee. From the observation process we noted that these portal use affiliate marketing in a restricted way. The merchant are international and they belong to the trade of clothes and to the industry of download programs. Than we made a web analyses of the merchant that actually use this portals. Some of them can be affiliate one. For an average of 12.35 daily pages view, affiliate ads of Balkanweb.com, can be adopted to the content of each page. While "Shekulli on line" can use the highest daily time on site and a high daily pages view. All sites have a high number of links that bring visitors to their sites. That is another advantage that this web can use to attract sellers to their sites. "Shqiptarja.com" has an advantage in the number of links.

Table nr. 3 shows the industry that actually use these portals to advertise their activities.

Web site/publisher	Percentage of albanian visitors	Daily time on site (min)	Daily pages view	Links
Balkanweb.com	60%	5.65	12.35	1425
Shekullionline.com	47.60%	21.52	8	1033
Shqiptarja.com	75.50%	9.44	4.98	271
Gazetatema.al	55%	9.57	4.83	1268
Panorama.com.al	62,9%	8.01	3.78	1175

Table nr.3 Important statistics

Web site/publisher	1 Keywords %	2 Keywords in %	3 Key words in %
Balkanweb.com	0%	100%	0%
Shekullionline.com	25%	75%	0%
Shqiptarja.com	0%	100%	0%
Gazetatema.al	0%	100%	0%
Panorama.com.al	50%	50%	0%

Table nr.4 Keywords

How to maximize the keyword activity?

Most customers have a feel for where they want to go online, and typically perform multiple searches, but research by (Onestat, 2017) also shows the importance of covering generic long tail keywords:

- 2 word queries currently account for 30% of Searchqueries
- 3 words: 27%
- 4 words: 17.1%
- 5 words: 8.25%
- 6 words: 3.7%

The use of Keywords is not optimal. Most webs use two keywords. This will affect the web search engine.

Using at list two words will increase the possibility of finding the right site. This is crucial for Panormal.com.al, Shekullionline.com and Telegrafi.com.

Keywords will increase the possibility of finding the right site.

Average prices of ads.

Using the concept “Customer ghost”, entire representative portal webs above were contacted, as e representative of a construction company in Vlora. We asked them for the prices of their ads. The average prices listed above. We use the average price for two reasons:

Little difference between prices is noted in different online portals.

2. For ethical issues. As we used the costumer ghosts, we decided not to mention prices of ads for this portals;

- 1.**OPTION 1** (Width: 980px and Height: 100px) → 120,000 lek
- 2.**OPTION 2** (Width: 140px and Height: 1500px) → 110,000 lek
- 3.**OPTION 3** Width: 140px and Height: 1500pX → 110,000 lek
- 4.**OPTION 4** (Width: 90px and Height: 80px, **only image**)→ 30,000 lek
- 5.**OPTION 5** (Width: 222px and Height: 80px, **only image**) 45,000 lek
- 6.**OPTION 6** (Width: 90px and Height: 80px, **only image**)→ 30,000 lek
- 7.**OPTION 7** (Width: 300px and Height: 250px)→ 100,000 lek
- 8.**OPTION 8** (Width: 300px and Height: 250px)→ 90,000 lek
- 9.**OPTION 9** (Width: 300px and Height: 250px)→ 80,000 lek
- 10.**OPTION 10** (Width: 300px and Height: 250px)→ 70,000 lek
- 11.**OPTION 11**(Width: 480px and Height: 90px)→ 55,000 lek
- 12.**OPTION 12** (Width: 480px and Height: 90px)→ 50,000 lek
- 13.**OPTION 13-16** (Width: 135px and Height: 300px)→ 60,000 lek
- 17.**OPTION 17** (Width: 970px and Height: 50px)→ 90,000 lek

These were the average fees for the month.

Since March 22, 2011, a feature has been added into the Adsense Reporting system, where we can see the ad performance based on countries. This is the raking that compile with around 10 million ad impressions from 10 sites of different nature. Hopefully it helps in deciding which countries to target. A smart publisher should target those on top of the list.

01 - \$0.48 - Australia

02 - \$0.44 - Netherlands Antilles

03 - \$0.43 - Denmark

04 - \$0.41 - Switzerland

05 - \$0.36 - South Africa

71 - \$0.04 – Albania

In this, Albanian web affiliates have a little payment. Part of it goes to cover the cost of the process.

Web sites/publisher	Telecommunication In.	Banks In.	Games In.	Construction In.	Health care In.	Foods and beverages In	Travel/ Accommodation In.	Other	TOT
Balkan web.com	3	3	0	1	3	0	1	1	12

Shekulli online.com	2	2	0	1	2	2	1	1	11
Shqiptarja.com	2	1	0	2	2	1	1	2	11
Gazetama.al	2	2	0	1	2	1	1	2	12
Panorama.com. al	2	2	1	1	1	1	1	1	10
Total	11	10	1	6	10	5	5	7	

Table.5 Web portals and current industries adds

According to the table above, all the industries have enough space to attract firms toward affiliate marketing. So, the company that does not use ads in the web can be invited to use affiliate marketing.

Conclusions

Albanians are among the most passionate internet users in Europe, having achieved the second highest growth in this area of the world from 2006 to 2010. Albanians have one of the highest mobile phone usage rates in Europe. The mobile phone penetration in the end of 2011 breached the 185% level. Albania is also the first country in the world having achieved 100% electronic public procurement services (Akep, 2017)

The space that the actual affiliate ads use is relatively small. The visitors stay enough in site to see more than 10 ads, which is the average of ads. Specially the banking industry, the food, the health care are represented from a little number of firms that use ads in these sites. If the marketers of these portals offer a marketing platform. when they can pay for performance, there are good possibilities for this merchant to use affiliated marketing (Marshall, et al., 1995).

The ideal host site for an affiliate sponsor would be one that attracts the same, or similar, customers in which it is interested. This in turn implies that the host should be one that retails products that share some commonality with the products sold by the affiliate sponsor. The problem then is identifying the relationships among the different product categories

These portals can attract small and medium business using these strategies. They have little financial power and such a strategy will help them to use effective marketing techniques.

Seasonal activity can be attracted from these sites and be effective too. For the inbound travel industry it can be a good opportunity. Nearly 25% percents off actual viewers belong to Albanians who live in countries like Italy, Greece, USA, and Germany. They use these portals to be informed about their country. Often they came to spend holidays in their country and need accommodation. So small and medium firms off accommodation or travel can use affiliate marketing.

Another important issue is that visitors on this web sites go from on portal to the other (Alexa.com, 2015). So nearly of 40 % of the visitors go to visit another portal immediately after they have visited one. They want to compare information with other issues. The differences between target audiences in these portals make the merchant choice much easier.

For all Ads (except for 4 of them) the payment is a fix one. Affiliate marketing requires a payment on performance.

According to the industries for the telecommunication, banking, food and music industry, the affiliate, can pay the system per view or pay per click. This industries rarely use on line buying. Hotels and traveling industries can use the payment pay per action or pay per lead.

According to the research result we can conclude as follow;

1. Affiliate marketing as a new technique is used rarely from the news portals in Albania. Most of them use ads technique.
2. The condition to develop affiliate marketing in news portals in Albania is favorable as shown in the tables above.
3. The best mode to pay for affiliate marketing it would be a variable one, because the fix one is already used for ads. Further studies will make it clear which is the best technique.
4. The news portals can use an affiliate program as it is a new technique for them.

Recommendations

Affiliate marketing is a new concept in Albania. With the development of internet/online advertisement is increasing day by day. In affiliate marketing, content providers provide online marketing and advertising facilities for advertisers where they (advertisers) pay for their advertisements. Rapid development of online marketing indicates better possibilities and opportunities of affiliate marketing in online advertisement. Content providers should offer a variety of options available for online advertising on the website for their users. By providing quality service, affiliate marketing can become a greater source of revenue. In near future, it will gain more popularity and users will be able to buy their products sitting at home by placing orders just watching the advertisement. For selling advertising space of the website, affiliate marketing is very much significant to the content providers. To accelerate and conduct the affiliate marketing effectively, several recommendations are made:

- Content providers should recommend high quality product or service.
- Content providers should affiliate to link straight to individual products, rather than just the home page (otherwise visitors might not go for the next step). "Pay-per-sale" and "Pay-per-lead" are good payment models for content providers.
- Content providers should give the prospective customer content surrounding the niche with the products relate to.
- Content providers should build a process that allows them to choose products that sell easily. In addition it allows not choosing products subjectively.

VII. Limitation

1. The first limitation comes from professional knowledge of the news portals about affiliate marketing. Most of them do not have knowledge about it.
2. The second limitation comes from the mode of gathering primary data. The ghost client technique may be a genuine one, but it is not a complete one.

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Promotion on Marketing Decision-Making: “Case Study Albtelecom & Eagle Mobile”

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Abstract

Decision-making is what is behind every action performed by each entity, company or organization. Due to the fact that telecommunication companies can be listed among the organizations which undertake almost more than other companies promotion activities, this paper analyses the marketing decision-making process related to promotion mix of one of the largest company of the telecommunication sector in Albania “Albtelecom & Eagle Mobile”. The study aims to observe marketing decision-making process at telecommunication companies, presentation of the practical side of this process, and to identify factors that influence this process in Albanian market. Methodology used to collect the primary data/information and to arrive in concrete results, is interview with open question. Among the main and concrete finding of the work we may emphasize those: while the company undertake promotion decision the purpose of promotion should be to sell something, product life cycle is the key factor taken into consideration on promotion activities by the companies operating on the telecommunication sector, the customers buying nature significantly affect the promotional strategy of companies, and most importantly, companies must promote with a certain strategy. It finally recommends development of promotional activities which are more creative, and attraction of the target market through those activities, companies must be sure for the message to be easily understandable for the consumers and customers.

Keywords: Marketing Decision-Making, Promotion Mix, Telecommunication Sector

1. Introduction

Modern marketing should include something more than simply developing a good product, putting a good price or developing the product for the target customer. The added element affecting the success now days is related to the “communication” companies do with their customers. Companies have to communicate with the customers and to achieve this they deal with the marketing decision-making process, and more specifically marketing decision-making process regarding the mix of promotion. Many of major companies in Albania have passed the stage of whether to communicate or not, and are on that phase of decision-making process which Koekemoer and Bird (2004) define as decision-making situation of when, where, how and by what means should be communicated.

While communicating with the target audience companies use a set of tools known as communication mix or promotional mix. But, the determination of this mix requires a well-analyzed and well-alternated decision. According to Nour and Almahirah (2014), determination of the elements of the most appropriate, most effective and most influential promotion mix requires involvement of the marketing planners of the company and it requires at the same time a good measurement of the indicators.

Marketing decision-making take place on a constantly changing environment, which is seen as an interactive process which includes analyzing, planning, implementing and controlling of all the factors influencing on it. Business reality conditioned by the time and competition, together with incomplete and imperfect information shows that marketing decisions are taken based on the concept of limited rationality (Simon, 1957; March & Simon, 1958).

Organization must continuously make decisions. As the environment of operation become more competitive, the more complex is the world they deal with, and, as quicker this environment change with time, the more qualified and quantified the decision taken must be (Streufert, 1978). Often, decisions are closely linked with the imagination and creativity, as the severity of the competition where the businesses operate requires something more to succeed. According to Levitt (1986), to "think straight" in a successful way in an environment full of smarts, the thoughts must be qualitative in order to overcome the ordinary and to reach the imaginary beyond the obvious. According to him the future belongs to those who see the possibilities before they become obvious and localize resources effectively to achieve them. Spurred by the complexity of decision-making process and the lack of works done related to this, the aim of this paper is to advance in literature related with marketing decision-making and more specifically on marketing decision-making process regarding promotional mix.

1.1. Problem Statement

Decision-making is what is behind every action carried out in each entity, organization, company, etc. Behind every visible or tangible result is hidden a long working process which is finalized with the decision making and become tangible through the results. Focusing on what we see, we forget to take into consideration complexity and difficulty with which companies are faced before they arrive at a decision, further more regarding marketing decisions which often appear as abstract, require rationality in an irrational environment, etc.

Given the fact that telecommunication companies may be listed as the organizations which use almost more than other companies promotion, and due to the fact that we continuously see promotional activities undertaken by them, often seemingly not well thought, it is reasonable to see if companies have method, way or concrete solutions related to the promotional mix they use, and at the same time to the way of decision making process of those activities.

1.2. Objectives of the Study

The aim of the study is to analyze the complexity of the marketing decision making process related to the promotion mix that telecommunication companies decide to use. More specifically this study aims to:

Investigate marketing decision making process at telecommunication companies;

Disclosure of the practical part of the marketing decision making based on a case study;

Identification of the factors influencing this decision making process on those companies operating in the Albanian market environment.

1.3. Importance of the Study

In the first part of the study is made a brief introduction regarding the paper, initially introducing the topic and the issues it includes. In this part it is presented the aim, problem statement and the importance of the study, and it is closed with the structure of it.

In the second part it is done a summarized review of the literature, starting with the definition of the term decision-making. Further, it is reviewed literature related to the marketing decision making by posing similar studies done and the way they have treated the topic, closing it with the review of decision making process about the promotion mix since it is the core of the paper.

In the third part it is shown the methodology used and in the fourth part it is given analyzed and processed case study. It is closed with some conclusions and recommendation on the final part.

2. Literature Review

Companies need to make decisions every time they need to perform any of marketing functions. Marketer must constantly decide what should be done, who should do, how to do, when is the right time and where is the best place for something. Pearce & Robinson (1985) show that decision-making is inevitable, because even if you avoid to make a decision, in fact it is also a decision.

Decision-making is the identification and selection of alternatives based on the values and preferences of decision makers. Making a decision means that there are many considerable alternatives from which we choose, but in such a case, we do

not need to identify as many as possible alternatives, but we need to choose one which best meets our objectives, goals, desires, values and so on (Harris, 1998).

According to Baker et al., (2002), decision-making should begin with identification of decision-maker and stakeholders, and with the reduction of possible disagreement about the determination of problem, requests, goals and criteria.

Considerable part of everyday decisions companies make is also marketing decision-making. Marketing decision-making requires a comprehensive analysis of the internal and external environment of the company. It requires a wide range of strategic information, including easy and difficult information, but at the same time it requires managers to deal with issues which have high degree of uncertainty, subjectivity and ambiguity. Finally it involves intuition, judgment and personal vision of the managers (Li & Davies, 2001).

Van Bruggen et al., (1998) analyzed the impact of supportive system of the marketing decisions in the decision making process and found that the use of such a system improves the performance, the quality and the process itself, and at the same time it reduces doubts especially under limited time pressure.

Researches related to marketing decision-making or related to different managerial decision are extremely limited. The initial fields on which researches focus are managerial judgment on parameterizing the decision making models (Little, 1969). Many of these theories are based on Bowman (1963) theory about managerial decision-making. Among the first authors who discuss the use and development of marketing decision-making is Eisenhart (1990).

Researchers of marketing decision-making cannot skip the role of human on the decision-making, indeed, Alpar (1991) emphasize that even on quantitative models human judgment is necessary. On the same line goes also Magrath (1988), who explain that major contributors to the success of companies in the market are marketing decision of the stuff and their superior capacity compared to that of the competitors.

Something widely faced is that researches on the past have just started to explore marketing decision-making, based on the fact that for example, search for information is only a part of marketing decision making.

Regarding genuine marketing decisions, they include the traditional 4Ps - product, price, placement and promotion, as well as extra 7Ps which have the same level of importance in the field of marketing decision. On the 7Ps are included: positioning, portfolio segmentation, placement of base portfolio to the segmented one, portfolio of the world product by segmenting it, political marketing tools such as negotiations, public relations and public works (Wind, 1979).

Marketing decision-making requires a broad involvement and it is not a decision of the moment but an ongoing process, therefore it is done in several phases. Hans & Thabor (1973) transmitted by Kılıç (1994), define those steps according to the following Figure.:

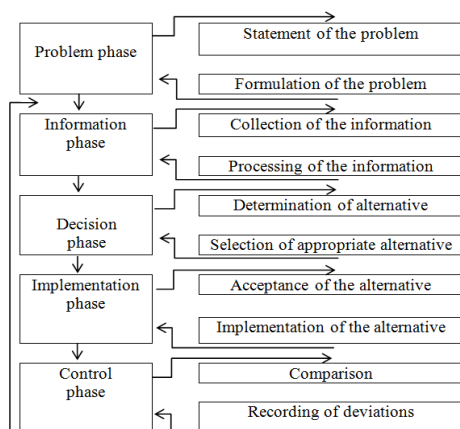


Figure 1. Decision-Making Process. Source: Hansen, Thabor, Marketing-Modelle

On a similar way, phases through which marketing decision-making pass as explained by Gadeca.org but by grouping them on six steps.

Step I: Finding the idea or the problem – what is the real problem, identifying it and after that trying to find a possible solution.

Step II: Collection, interpretation and evaluation of the information related to the problem – use of different source to collect information which can influence the decision.

Step III: Development of possible solution alternatives – different ways of problem solution due to the fact that usually there are many possible ways to solution.

Step IV: Choosing “the best” alternative – selection of one of possible solution alternative in a logical and analytical way. Usually this is done by using cost/benefit analysis and risk analysis.

Step V: Implementation of the decision – putting the decision in operation.

Step VI: Monitoring, evaluating and making changes if necessary – this step may require starting the work from the first, if monitoring and evaluation is not going as you forecasted (gadeca.org).

So far we have clearly seen the decision making process and marketing decision-making with its characteristics and difficulties, due to the importance and the fact that the focus of this work is marketing decision regarding the promotion mix, we see promotion mix related decision are a considerable part of marketing decision-making process. For this reason one other concepts necessary to be reviewed is also promotion and promotion mix, finishing than with the revision of marketing decision related to promotion mix. The process of communicating a message from the organization to customer is widely called as promotion. This message is transmitted to influence the purchase decision and can be realized through different ways. So the company must in addition to marketing decision take important decision regarding promotion, the way it is realized, the time when or other necessary overlaps needed for this operation of the company.

Promotion is one of the elements of the marketing mix, which has its mix of communication tools that should be integrated harmoniously. Kotler (2000) defines it as the set of tools the firm uses to achieve marketing objectives on targeted market. Berkowitz et al., (1997) define promotion as the way of communication between the buyer and the seller, and that, the company can use one or more alternatives of promotion mix: personal sales, advertising, sales promotion, or public relations. While Fischer (1996) emphasizes that three of those elements; advertising, promotional sales and public relations usually are used for mass sales because they target groups of potential buyers.

The selection of tools of promotion or the determination of the combination of those tools is an important marketing decision and it is somehow like solving a difficult problem for the company. Consumers can get informed in different ways, but the management must be careful to make a decision about the promotion mix which best meets promotion's objectives and marketing plans. Robinson & Luck (1964) have developed a model, called Adaptive Planning and Control Sequence (APACS), which determine optimal promotional mix on 5 steps:

Defining the problem and setting the goals must be consistent with the aims and objectives of the company.

The assessment of the overall situation. Determine "the feasibility space," which consists of the potential opportunities and limited to finding a solution to the problem.

Determination of tasks and identification of ways. Set different objectives needed to be achieved, as well as promotional tools to achieve them.

Identify alternative promotional mix. Different ways of combining the tools of promotion.

Calculation of expectable results. Calculations are made on how well will meet the objectives of promotional mix of the designed alternatives.

Defining the promotion mix is a difficult decision which Thomas Petit & McEnally (2007) define as a decision with a sick “structure”, because it is not the possibility of testing in determining which promotional mix is more appropriate. For this they list 5 reasons:

Exchangeability of promotional tools. Tools can be interchanged with each-other and there is no certainty which one is the best for promotional purpose.

Synergy between promotional tools. The effect of their combination is greater than the effect of each tool alone.

The complexity of the relationship between the promotional mix and marketing mix. Promotional tools must support and strengthen marketing objectives.

The impact of market forces. Promotional mix is affected by the purchase process, the extent and nature of competition and by market characteristics.

Difficulty of application of cost considerations. You cannot make measurements or tests related to the use or try of product. This is the biggest problem, especially for new products.

Kevin et al., (2004) state that the promotion strategies consist in moving the product through distribution channels and that, the company must decide whether to use push, pull or both channels of distribution. Push strategy occurs when the manufacturer or provider of the product/service directs marketing activities towards distribution channels by encouraging them to bring or promote the product to end users. The main promotion mix of this strategy is advertising and sales promotion. While Pull strategy happens when, the manufacturer directs promotional mix to final customers in order to encourage them to ask for the product at the stores, and as a result, due to the demand, the stores order this product for their clients. This is most commonly used strategy (Brocato, 2010).

Marketing decision related to promotional mix is affected by different factors. According to Stumpf & London (1981) the likely factors to influence promotional decisions include, the decision-making process, attributes of decision-maker, promotional policies of the organization and the supportive system, other organizational elements and environmental context. According to them, the process of promotional decision-making can be separated into five phases: strategy formulation, research, information achievement, evaluation and selection, and planning of implementation. According to some other authors (Mintzberg et al., 1976; Payne, 1978) generally those phases come in accordance to this rank, but they can even change the range. It can be influenced by the fact that, how quick the decision should be made, how many possible alternatives are, who take the decision and other contextual factors.

Tanner & Raymond (2012) state that there are various factors that affect the process of decision-making regarding the choice of promotional mix such as, budget, life cycle of product, product itself, type of buying decision, market characteristics and customer readiness to buy, way how it is demanded to arrive the customer, regulations and legislations, competitors and environmental factors, and finally the willingness of the media.

3. Methodology of the Study

In this paper the method used is "Case Study", which is an empirical research that observes a contemporary phenomenon within the context of real life, where the boundaries between phenomenon and context are not clearly visible (Yin, 1994). The study illustrates the experience of a telecommunications company in Albania regarding the marketing decision-making process related to the promotional decision. It was conducted an interview with one of the top executives of the company "Albtelecom and Eagle Mobile" by which it is tried to identify the methods followed by this company in marketing decision-making process and of those of promotion strategies. The interview is done with Mr. Indrit Daci, Chief of Consumer Business Group, at the same time responsible for Distribution and Promotion and in the past Director of Sales Department. On the study have been used also data taken from official web page of the company (albtelecom.al). After the telephonic conversation with Mr. Daci questions of the interview were sent by e-mail and after answering them, were sent back. The study was conducted at the beginning of the month of November, 2015.

4. Case Study

4.1. About company "Albtelecom & Eagle Mobile"

Albtelecom company was established in 1912, immediately after the declaration of Independence of Albania and is licensed to provide fixed telephony and the Internet in 1992 by the Telecommunications Regulatory Authority (TRA). Until the '90 Albtelecom has passed various periods during which, according to the priorities, has tried to increase and develop its capacities. The year 1990 brought a new wave of positive changes in Albania, which coincided with the establishment of a

new government system, which was accompanied by large changes in the telecommunications field too. The year 2000 found this Company into a new phase; that of the preparation for privatization. On 1st of October 2007, CETEL AS Company, consisting of one of the largest companies in Turkey, Çalık Group (80% stake) and Turk Telekom (20% stake), bought 76% stake in Albtelecom, while the rest of the shares of 24% are owned by the Government and other stakeholders. While Eagle Mobile shares were owned 100% by Albtelecom. Thus, under the contract, ÇALIK HOLDING with its headquarters in Istanbul, in consortium with Turk Telekom, officially became the owner of Albtelecom fixed telephony giant and of the third telecommunication operator in Albania, "Eagle Mobile". Albtelecom company provides communication service of fixed telephony, ADSL, Dedicated Internet Access, Dial-up, Intranet, ISDN service, Prepaid Cards, etc. In late 2013, Albtelecom numbers 210 thousand subscribers PSTN service (landline) and 71 thousand internet service subscribers. On March 2011, begins the process of merger of companies ALBtelecom & Eagle Mobile, which despite of being part of a package, function as two different companies. On February 2013, mobile phone company "Eagle Mobile" is part of ALBtelecom, which turned into a brand within it. Eagle Mobile covers 92.5% of the national territory. It offers full service Roaming in over 170 countries, with 373 operators and marks around 700,000 subscribers. Network Eagle stores already are integrated with those of Albtelecom and together they number a total of 150 stores. ALBtelecom & Eagle Mobile has around 1,400 employees across the country. On April 2014, ALBtelecom & Eagle Mobile introduced to the public unified new brand with amaranth color and the new image of the company. In the structure of the company there are six directorates, CXO, CFO, CMO, etc., And three main director, like Legal Affairs, PR and Human Resources, who are not part of the groups, but report directly to the CEO.

4.2. Promotion on Marketing Decision-Making: Albtelecom & Eagle Mobile

Firstly, we should note that, for marketing decisions in the company has a decision-making structure, which consists of marketing group headed by the Head of Marketing. This is regarding the structure, but the importance of such decision requires it to extend beyond that. For this reason, in the case of our company, the decision is part of a commercial table of the Marketing Department and Sales Department due to the fact that they are the first line that faces the terrain and customers, and at the same time receive first direct feedback, exchange their experiences, information, goals, needs and define strategies. Based in this agreement Marketing Department designs the product.

Marketing decision is influenced by several factor or variables, but the list of all those factors are elements which can be considered as paths driving the company to the final goal, so in short we may say that marketing decision making is influenced by the objective or the goal. By the goal we mean the objective that the company wants to achieve. Generally the goal is separated into two directions: (a) increase of market share of the product, (b) increase of revenues by increasing or promoting added value of the product. Increase of market share, is achieved by increasing the penetration in the society or more simply said, by increasing the presence to as many as possible customers. Increase of revenue is realized through added value of the product, and the aim in this case is precisely promotion of added value.

Those promotional campaigns are strategically designed with mid-term and long-term effects, by skipping so short-term or immediate incomes. The main focus is to create a wide base of clients that secure returns on the future.

Variables affecting the marketing decision-making are all classical variables that society is made up with, and in our case, variables that consumers have such as, their segmentations, different demands they have, as well as more easily distributional channels of information. The totality of models of targeted groups is the path followed to build a strategy in accordance with determined objectives.

Decisions that Albtelecom and Eagle Mobile company make are different. Marketing decisions of companies, as well as to our Company, cannot be sustainable over time and suitable for all environmental changes faced when operating, said CCBO -Responsible for distribution and promotion, z. Daci. He goes on saying that those decision cannot be sustainable because the market they operate itself is not such. The market where this company operates has great dynamics and consists of constantly changing needs. Moreover, the product/service this company offers, communication, is based on technology and in this sector the present and future are completely different. One other reason that makes company's decisions unstable in time and on different environments is the harsh competition. On both of them, fixed telecommunication and mobile communication, the market is very small and fragmented, which does not allow a quite competition, but it is always faced an aggressive and opened competition. We can demonstrate this by the simple case of two years ago, when the market offered 3G mobile service, while before that, people navigated at a speed of 368 Kbps. But in contrast to this, we can try 4G on mobile with a speed of 100 mbps, meanwhile the package is consumed than the clients have again

access but with the speed of two years ago. Despite those great improvements on the service offered by the company, satisfaction of the client remains always a challenge, as to the user switching from 4G to 3G is perceived as if there is no internet, but it is normal to be so, because passing from a higher speed to a lower one is not that satisfactory. Besides the tough nature of the competition, another challenge at this point remains the continuous imitation competitors do with each other.

Marketing decision-making of the company uses different models in order to be successful, which all have analytical bases. Professionals of the field, from the beginning link their intuition with the reality at least 80%. Crucial for every decision is data mining. When it is spoken for a consumption base made of hundreds and thousands of users, the basis for decision-making still remains the use of models. All the discussion is constructed on customer behavior and the strategy pursued in the use of analytical tools is commercial table and the strategy that Marketing Department and Sales Department use.

One of the main and most important parts of marketing decision-making of Albtelcom & Eagle Mobile Company is the decision related to promotional mix. Those decisions include: determination of elements of promotional mix to be used, their combinations, promotional approach, factor that influence promotional mix, involvement of a strategy at this decision, etc.

Regarding the question about the company's promotional approach, Mr. Daci states that, unlike the theory, practically, it should be said that the best promotion is done by satisfied clients. The effects of a qualitative service in line with what the market absorbs, contributes to the subsequent effects and stability. In this context we may say that, this fact is essential for company's continuity and its long run. While what is done through marketing lines is conveying a strong and quick message, in order to quickly penetrate into customer's attention.

Practically, the company Albtelcom and Eagle Mobile uses ATL and BTL. Such spaces are expensive, and the return compared to costs does not go positively. This is the least strategic way but is the most visible one. Day to day challenge is finding the right channel for the right target group.

Currently the company uses ATL (above the line), i.e., television advertising and other areas of television to promote the product and the company in general. The company does not neglect BTL-in (below the line) also, which includes the invisible work done to segmented customers with similar behavior by offering something suitable for them. This is realized through direct targeting, channels of direct sales, stores, sales through TV or even promotional messages.

What is noted at Albtelcom and Eagle Mobile company (which is not a specific of it only), is that the majority of the customer's base is not positioned with the most appropriate product for them. Product awareness by customer is low and this can be understood by its use, ex: there are seen many cases when customers buy a product they do not use. This customer base is taken into account and company offers to them an appropriate product which, even it causes an immediate cost to company, it is worth, because affects in increasing customers loyalty. The opposite of this is much more costly, because sooner or later, the client will understand he/she is not buying the needed/wanted product/service and as a result he/she leave, turning so in a disappointed customer.

Regarding the decision about promotional mix elements used by the company, or the combination of them, the issue ones again is related with the base of marketing decisions: accurate understanding of the market, its needs and trends. Selection of promotional package is defined precisely by those factors, because the aim can be wide, and it varies from creation of a product in accordance to the needs till the stimuli of the need for something new the company offers as a trend by sparkling curiosity.

According to Mr. Daci, promotional mix implies: two elements on product quality and one element on communication quality. The product can promote a monetary value, the price or the inverse correlation with it, the added value that constitutes the second aspect, therefore, value. Both groups have very large subdivision and bring to the attention of decision-makers, the care that should be given to message in order to find to that channel where the target segment has the attention. A typical case of this is advertising online to an Internet service provider in the banner of an application that measures the speed of the internet. Due to the fact that the service that the company offers is already perceived as a consumer good, customer's needs and want are the bases in designing a successful product.

Before arriving at a decision regarding the promotion mix, usually, companies design different alternatives and choose among them. In the case of Albtelcom and Eagle Mobile company, the alternatives are almost depleted in the case of

ATL's (on the line), from where we understand that after you spend the resources, energy, or effort using an advanced tool, it is not reasonable to add even more than that. The feedback of these assets is measurable in the short term, based on the figures of volume of sales on the days that follow ATL campaign.

When using BTL (below the line), there is always something to add, or that can be done better, with other segments that are the most affected. In this case are taken into consideration market standards. This can demonstrate so, if you promote at specific channel with a set of tools that the whole world has as standard return 7% , any value below it indicates a possible error in the message, the product or the determined target.

Every year, this company divides or commissions funds for market research in support of different alternatives, to see how stands the perception of the message, the company, the service, etc. this is seen from year to year, from one area to one other, and of course by comparing it with the competitors.

Based on long experience of the company, it is confirmed once again that in today's market where everything is easily copied by competitors, and as a result, imagination and creativity are the two elements that make the difference in marketing and communication strategies. According to Mr. Daci, telecommunication sector is not known for any specific creativity and this is considered as a gap which is seen at competing companies also. Based on this, one of the biggest challenges of the company is to draw attention with creativity and imagination which is easily digestible by the target group. Regarding this point we can say about creativity and imagination that, as they are not easily bought they are not easily found also.

Among the factors that affect marketing decisions regarding the mix of promotion we can mention: budget, product life cycle, and at a minimum level the willingness of the media and the legislation. Budget and finance are key conditions to approve a planned offer. Finance analyzes the cost of the proposed purchase and determined return at the time given. In our company it is not the case, but there are cases when the strategy chosen by finance is costly or that a product has little or no profit margin. The life cycle of the product is a determining factor, like as the time needed to reach the point where costs and revenues are the same. We should note that products cannot be built with costs higher than 8 months, even though the product life is longer than that. Regarding the Albanian environment, the willingness of the media is a minor problem. Legislation is predetermined for each product. The telecommunications sector has regulation which goes at the department level, consisting of an internally specialized team to check the compliance of activities with the legal framework.

To summarize, it can be said that the use of a promotional strategy in decision making, absolutely makes it more successful. A promotional campaign where the strategy is not well-determined, it is a waste of economic resources. Stating like this, it may sound quite easy, but often companies fall into the trap of the need to be present and at the customer attention, even though there is not something real to promote. In those cases, it is promoted for the sake of promotion and not to the strategy. The most important element here is that, the aim of promotion must be to sell something, and to realize this, the best strategy is the creation of strong relationships between the message and the product.

At the telecommunication strategies the most appropriate strategy to be used is mix strategy, which includes both pull and push strategy, so a combination of both. Most of the products are changeable and complementary with those of the competitors, while the base is continuously under the threat of competitors. From here we understand that pull strategy, is an idle one, according to which attraction of the company is very strong and it is sufficient only the presence in the market and a strong message to have impact on sales. But the reality is not like this. The fact that, the company offers individual and group products makes the issue more complicated, because often the target group is not the decision-maker. For example, internet at the house may be a need of 15-year son while the decision-maker is his father even though he is not the last user of the service. Direct sales in this case have effect because they offer the opportunity to have an intermediary, as the person who buys makes the transaction. The parent in this case is not interested on product details but however he does not want that the choice he has done not to be accentuated by the child.

Fixed telephony products, as household products are part of a collective decision-making, where the user and decision maker is not the same, so they necessarily need direct sales.

Regarding mobile products, due to the fact that they are individual products, pull strategies are more effective. But despite this, overload of the audience with messages and the nature of the market, causes low level of absorption of all the advantages that all the details of a specific product may offer. Encouraging direct sales with promotional schemes on sales clearly shows the immediate effect of the sales. Given those facts we may conclude that, push strategy is continuously becoming a constant strategy while pull strategy a complementary one.

5. Conclusions and Recommendations

5.1. Conclusions

Decision-making begins with the identification of the decision maker and ends with the reduction of disagreements on determining the problem, requirements aims and criteria.

Marketing decision-making requires a comprehensive analysis of the internal and external environment of the company.

Despite the fact that specifically we can list a wide range of factors that affect the decision-making of a company, in macro level the one that can summaries all those factors is the "aim".

A deep analytical base and data mining is the main concentration where the marketing decision-making is based.

Contrary to theories of promotion, practically the best promotion is done by satisfied clients.

Marketing decision-making when choosing the mix of promotion is closely linked with the bases of marketing: accurate understanding of the market, correct reading of needs and wants of the market, etc.

Product life cycle is an important factor to be taken into consideration in marketing decision-making. There should not be undertaken promotional activities with a life cycle more than 8 months although promoted product life cycle may be longer than this.

Determining a strategy in decision-making is essential to the success of the promotion. A promotional campaign where the strategy is not well defined is nothing more than a waste of economic resources.

The aim of promotion must be to sell something, and in its essence must have a strong correlation between the promotional message and the product.

An important factor affecting the promotional strategy used by telecommunication companies is the buying nature of the clients. It differs substantially if the buyer is the final consumer of the product or not.

5.2. Recommendations

Based on the experience of Altelecom & Eagle Mobile company, it is recommended that, on the promotional activities to show utmost care in selecting the proper channel of communication for the right segmented market.

It should be taken into consideration the base of clients and the product should be designed if full accordance with their needs.

It is recommended to increase the activities that increase product awareness by the clients.

It is strongly recommended to develop more attractive promotional activities, and the attraction of the attention of the target market through these activities. Marketers should be careful that the message is easily understandable by the clients and the customers.

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An Empirical Examination of the Export-Led Growth Theory Regarding Georgia

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Abstract

This paper aims to justify the validity of the export-led growth hypothesis (ELG) for the transition economy like Georgia. The ELG theory implies the acceleration of an economic growth through the market openness in exchange for market expansion. The concept of the work lies in the following assumptions: Firstly, as a transition country, Georgia should prioritize private sector driven and export-led growth economy and secondly, the European integration process is the unprecedented opportunity for Georgia regarding export market expansion. The paper covers the time from 1990 to 2016; Engle-Granger cointegration and Granger causality tests were employed to trace the validity of the ELG hypothesis. The results confirmed the existence of at least one cointegration vector, as well as the bidirectional causality between economic growth and export, thus landed support on the validity of the ELG hypothesis regarding Georgian economy.

Keywords: Economic growth, export, Export-led growth hypothesis, Georgia

1. Introduction

An economic development strategy varies depending on a country background and its role in the global economy. It is the common practice that for small countries like Georgia, consumption is limited as it is a market volume. This condition creates a high dependency on external markets. Over the years, as the economy is getting more advanced, the dependence on the foreign market increases correspondingly. Considering the European integration process of Georgia that opens the doors to a whole new market, the export-led growth hypothesis (ELG) can boost the economic growth through "reaping" the trade benefits in terms of comparative advantage. In addition, implementation of the ELG theory can enhance the inflow of foreign direct investments (FDI) in a country, thus increasing productive capacity and capital accumulation of the nation (Salisu & Sapsford 1996).

During last two decades Georgia developed sufficient base of the economic legislation to implement the outward oriented growth strategy. Georgia is a post-soviet state which is in a transition process from a centrally planned economy to a market economy with GDP per capita of 3864.6 USD. After undergoing a set of structural changes to develop the market based institutional framework, Georgian economy started growing rapidly. In 2007 annual GDP growth reached 12.34% that was the exceptional record for the country.¹ In the World Bank accounts, Georgia is set as the exemplary model regarding successful economic transformation.

An Association Agreement and DCFTA (Deep and Comprehensive Free Trade Areas) that took place in 2014, is the remarkable economic phenomenon for the country. DCFTA serves as the main stimulus for the promotion of the ELG theory. It refers to the extended market access through the harmonization of a national and EU regulations, as well as the reduction of the trade barriers to some extent. By signing these agreements, Georgia is able to explore 500 million European market; Correspondingly diversifying the export market and raising the incentives to invest in productivity improvements (Juvenal & Monteiro 2013).²

¹ Gross Domestic Product. National Statistics Office of Georgia.
http://www.geostat.ge/index.php?action=page&p_id=119&lang=eng

² Juvenal & Monteiro (2013). Export Market Diversification and Productivity Improvements.
<http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.296.5533&rep=rep1&type=pdf>

Currently, decomposition of Georgia's export market looks as following: Russia remains the biggest market for Georgia with the 12.9% share; The second largest export market is Turkey 12.6% coming with Azerbaijan 9.1%, USA 6.7%, and Romania 6.6%. As for the export by country groups, EU covers 28.8% of the Georgian total export, CIS countries 36.3% and others 34.9% respectively.

Nowadays, EU is the largest host market for agricultural products that are produced by developing or transition countries. Therefore, Georgian agricultural production is the additional aspect to be considered at the national level. As an agrarian-oriented country, Georgia has a significant rural population. The employment in agriculture as the percentage of total employment averaged 40% during 1990-2016.¹ A contribution of the agricultural sector in GDP is ranging from 8 to 9%. Dependence of Georgia's economic performance on the agricultural sector is undeniable.

Recent OECD (The Organization for Economic Cooperation and Development) study showed that Georgia's comparative advantage in agriculture ranks 15th out of 193 countries. In a study of global wine markets, Georgia's revealed comparative advantage in wine ranks second on a list of 13 major wine exporting countries.²

The list of the product categories in which Georgia revealed comparative advantage from 2008 to 2017 include: ferro alloys, motor-cars, copper ores, live animals, pharmaceutical products, beverages, wine, vegetable plaiting material and etc. Furthermore, the export intensity index of Georgia with EU indicates that Georgia is exporting less than we should expect. Hence, there is considerable potential to stimulate the export earnings through prioritization of agricultural sector.

2. Literature review

Although a relationship between trade and growth is quite "mature" topic in economics, the general dispute still exists. The emergence of the ELG theory is dated back to post world war two period. By the 80th of the last century, the ELG hypothesis reached a general consensus in the academic field regarding its effectiveness. During this period, advocates of ELG theory seemed to be the winners of the inward-outward oriented policy game in trade and economic growth. Later on, while the economic growth theorists continued to deal with general trade-economic growth concepts, interestingly, a number of country-specific empirical researches were conducted, which did not support the "conventional wisdom" of ELG theory. For instance, contrary to Chinese experience with ELG growth model, Mexico has not recovered its strong performance of 1960–1980 [Thomas I. Palley 2011]. In the empirical research regarding exports, growth, and causality in developing countries conducted by Woo S. Jung and Peyton J. Marshall, only in 4 cases out of 37 was there evidence that supported the export-led hypothesis (Indonesia, Egypt, Costa Rica, and Ecuador). Similar results were presented in Henriques and Sadorsky (1996), Jung and Marshall (1985) etc.

Herman Daly (1999) called globalization via ELG the new philosopher's stone of the IMF-IBRD-WTO alchemists and criticized ELG in terms of low wages, poor working class, and deteriorated environment.

Despite the controversy that arose from the number of country-specific empirical researches, ELG theory still persists on its effectiveness. As so, despite the theoretical dispute regarding emerging new models, it is important to conduct the empirical examination to reduce the gap between theory and practice. Till now, the economic growth is thought to be an essential goal for the countries' wellbeing. Increasing export is considered as the important stimulus for economic growth. Developing countries try to reach high economic growth through more trading. For low-income countries, agriculture plays a vital role in increasing export to reach economic development. Mostly, theoretical sources consider export as a growth engine and with reference to low-income countries, agriculture is an essential part of increasing the export.

As *Francisco F. Ribeiro Ramos* remarked: Export, as a main determinant of the production and employment growth according to export-led growth theory (ELG), is supported by the following reasoning: Firstly, the export growth is escorted by the expansion of production and employment regarding export multiplier that operates like the investment multiplier of Keynes; Secondly, the foreign exchange enhances the importation of capital goods, successively increase the production ability of a country; Competition in the exports markets leads to technological progress in terms of production, as well as, economies of scale (Ramos 2001).

¹ International Labor Organization. Employment by sector -- ILO modelled estimates, May 2018. Georgia.

² Cramon-laubadel, S. Von. (2014). Georgia's agricultural exports, (November)

http://georgien.ahk.de/fileadmin/ahk_georgien/Publikation/Georgias_agriculture_exports.pdf

An effectiveness of export in economic growth is mentioned in the works of *Robert F. Emery*. He argued that there is a causal relationship between the two and that this relationship is one of interdependence rather than of unilateral causation, but that it is mainly a rise in exports that stimulates an increase in aggregate economic growth rather than vice versa (Robert F. Emery 1967).

Peter C.Y. Chow, Gershon Feder and Rostam M. Kavoussi presented empirical results, which showed that “for the small open economies the development of manufacturing industries and export growth have causal relationships. It means that they are interdependent in the development process. The export growth in developing countries can expand their limited domestic markets and contribute to the economies of scale necessary for industrial developments. Furthermore, export growth integrates domestic economy with regional and/or global economies thereby expanding the dimension of competition to international markets. Competition promotes resources reallocations in developing countries as they transform from less productive farming sector to relatively more productive manufacturing sector. Therefore, factor productivities are improved through export growth” (Peter C.Y. Chow 1987).

In his work “Export expansion, growth and the level of economic development” *Demetrios Moschos* showed that the positive effect of the export on economic growth is limited for ‘advanced economies’ but on the contrary, the evidence indicates that among ‘less advanced developing economies’ output growth is mainly influenced by export expansion and capital formation, its response to labor growth being highly insignificant (Moschos 1989).

Furthermore, *Majid Mahmoodi and Elahe Mahmoodi* provided the evidence of long-run causality from export and FDI to economic growth and long-run causality from economic growth and export to FDI. Thus, as *Gerald M. Meier* remarked, export expansion leads to a reduction of the unemployment rate as well as increased domestic saving/investment, by this enhancing the inflow of factor inputs regarding the export sector.

Both, empirical and theoretical scientific literature reflects the bipolar nature of the ELG hypothesis. The effects of export on economic growth are derived through the positive impact on the resource allocation, economies of scale, the inflow of the foreign direct investment, labor force skills, employment, and capital formation. Conducting the empirical analysis is essential in this case to provide a solid argument for ELG effectiveness.

3. Methodology

3.1 Model specification

This paper uses a Solow-Swan growth model which derived from the neoclassical production function framework, commonly referred to Cobb-Douglas kind. According to the model the output is calculated by the interaction of two factors of production, labor force and capital.

Originally the model was designed by Robert Solow and Trevor Swan in 1956. Due to its flexibility and simplicity, the Solow-Swan model can facilitate various extensions, thus, it became the basis of multiple mathematical formulations. Similarly, our model uses the following production function:

$$Y=f(L,K).....(1)$$

Correspondingly, the formula is expanded by adding total export:

$$GDP_t=f(LF_t, CA_t, EX_t).....(2)$$

By taking natural logarithm on the variables we discarded the differences in the units of measurements and minimize the gap between them:

$$\ln GDP_t= \beta_0+ \beta_1\ln LF_t+ \beta_2\ln CA_t+ \beta_3\ln EX_t+\varepsilon_t.....(3)$$

$\ln GDP_t$, $\ln LF_t$, $\ln CA_t$, and $\ln EX_t$ are natural logarithm of the gross domestic product, labor force, capital, and export respectively; ε_t represents the error term; β_0 is the constant and $\beta_1, \beta_2, \beta_3$ are the coefficients to be estimated.

3.2 Specification of the variables

This paper uses the secondary time-series data (from 1990 to 2016) collected from the National Statistics Office of Georgia and World Bank Group. The following variables were used for the empirical analysis:

GDP – Gross Domestic Product. GDP is expressed in terms of total value of goods and services produced in an economy within a year (inflation adjusted).

EX – Total Export is the sum of the goods and services produced in a country and sold abroad to foreign countries/citizens.

CA – Gross Capital Formation is the total value of the gross fixed capital formation, changes in the inventories and acquisitions less disposals of valuables for a unit or a sector.¹

LF – Total Labor Force or currently active population, comprises all the persons who fulfill the requirements for inclusion among the employed or the unemployed during a specified brief reference period.² It will reflect the effect of LF on GDP growth.

3.3 Research methods

The method selection process was guided by the stationarity level of the variables and sensitivity of the co-integration tests regarding the time span. The level of stationarity is important to avoid spurious regression.³

The stationarity check of the variables presented in this paper was performed through the Augmented Dickey-Fuller test (ADF). ADF test procedure is similar to standard Dickey-Fuller (DF) test (equation 4). Difference is that in ADF test we are augmenting the DF test by the lagged values of the dependent variable (equation 5):

$$\Delta Y_t = \beta_0 + \delta Y_{t-1} + \mu_t \dots \dots \dots (4) \text{ DF with drift}$$

$$\Delta Y_t = \beta_0 + \delta Y_{t-1} + \delta_1 \Delta Y_{t-1} \dots + \delta_{p-1} \Delta Y_{t-p+1} + \mu_t \dots \dots \dots (5) \text{ ADF with drift}$$

The null hypothesis of the test is that series contain the unit root, therefore it is non-stationary and alternative hypothesis states that the series does not contain the unit root and it is stationary. If the *P* value is less than 5%, we can reject *H*₀ and accept *H*₁ of stationarity of the series.

Unlike other cointegration tests, Engle-Granger is less sensitive to small data sample. As long as our data covers the period from 1990 to 2016, by this having at most 27 observations, the Engle-Granger co-integration test was employed to check the validity of the ELG hypothesis.

In general, Engle-Granger co-integration is a two-step test which requires series to be integrated of the same order. Correspondingly, if the series are integrated of order 1, but the error term in this relationship tends to be stationary (0), then the series are cointegrated.⁴ Engle-Granger co-integration is the residual based test (equation 6) which uses the following equation (7) for the co-integration procedure:

$$\varepsilon_t = Y_t - \beta_0 - \beta_1 X_t \dots \dots \dots (6)$$

$$\Delta \varepsilon_t = \mu + \varphi \varepsilon_{t-1} + \varepsilon_t \dots \dots \dots (7)$$

The null hypothesis of the test states that there is no co-integration relationship (*H*₀=($\varphi=0$)) and alternative hypothesis: *H*₁=Existence of the co-integration ($\varphi \neq 0$).

The last step of our empirical analysis deals with the causality check of economic growth and total export. Hence, the Granger causality test was employed. This test refers to the augmentation of the autoregression of the particular variable by including lagged values of another variable to check if it adds explanatory power to the regression. Mathematical formulation of the Granger causality test is as follows:

¹ Glossary of statistical terms – Gross Capital Formation

<https://stats.oecd.org/glossary/detail.asp?ID=1158>

² OECD - The Organization for Economic Co-operation and Development, Glossary of Statistical Terms.

<https://stats.oecd.org/glossary/detail.asp?ID=2719>

³ Stationarity – The Central Concept in Time Series Analysis. Andreea-Cristina Petrică.

https://www.emt.net/docs/papers/Volume_6/1_January2017/V6N1-107.pdf

⁴ Co-Integration and Error Correction: Representation, Estimation, and Testing - Robert F. Engle; C. W. J. Granger.

http://www.ntuzov.com/Nik_Site/Niks_files/Research/papers/stat_arb/EG_1987.pdf

$$Y_t = a_0 + a_1 y_{t-1} + a_2 y_{t-2} + \dots + a_m y_{t-m} + b_p x_{t-p} + \dots + b_q x_{t-q} + \text{error} \dots \dots \dots (8)$$

The null hypothesis of the test states that y does not Granger cause x and vice versa; in other words: No explanatory power added by the x 's lagged values.

4. Econometric analysis

4.1 Stationarity check and order of integration

As the precondition of the Engle-Granger co-integration test, the variables must be integrated of order one. Therefore, stationarity check was performed on all the variables by using the Augmented Dickey-Fuller (ADF) unit root test. Pre-examination of the raw data indicated the distortion from the endemic post-Soviet affects in terms of huge time-series shifts from 1990 to 1991, thus we eliminated two observations. In this regard, the elimination of the observations helps us to estimate the model for the post-soviet state; 'Blank page' for the country of Georgia.

The results showed that observed series are non-stationary at levels, as far as we can't reject the null hypothesis of non-stationarity: T-statistics are less than critical values at 5% level of significance and P-values of the corresponding variables are more than 5%. After taking the first difference, the series became stationary (T-statistics > Critical values at 5% and P-values < 5%). Thus, the series appear to be integrated of order one (I(1)) (See Table 1).

Table 1. ADF unit root test results.

Variables	lnGDP	lnLF	lnCA	lnEX
ADF at Level (T-Stat.)	-1.43	-2.39	-1.03	-1.16
Critical Values at 5% (level)	-2.99	-2.99	-2.99	-2.99
Prob. at Level	0.54	0.15	0.72	0.67
ADF at 1 st Difference (T-Stat.)	-4.70	-4.38	-5.73	-6.48
Critical Values at 5% (1 st Diff.)	-3.00	-2.99	-3.01	-3.01
Prob. at 1 st Difference	0.001	0.002	0.000	0.000

4.2 Estimation of the long-run relationship

The results of the ADF unit root test showed that all the series are integrated of order one. Thus, we can proceed to the estimation of the long-term relationship between economic growth (GDP) and total export (EX) by using the Engle-Granger cointegration test. The results of the test are presented below in Table 2:

Table 2. Engle-Granger co-integration test results.

Step 1: Co-integrating regression				
Dependent: lnGDP	Coefficient	Std. error	T-ratio	P-value
Constant	9.44	3.890	2.427	0.024
Time	0.024	0.003	7.35	4.21e-07
lnLF	0.557	0.265	2.098	0.0488
lnCA	0.159	0.022	7.091	7.13e-07
lnEX	0.079	0.020	3.806	0.001
Adjusted R-Squared	0.98			
Durbin-Watson	1.63			
Step 2: Testing for a unit root in residuals				
model: $(1-L)y = (a-1)y(-1) + \dots + e$ estimated value of $(a-1)$: -0.876719 test statistic: $\tau_{a-c}(4) = -4.4093$			p-value: 0.002121	

The result presented in Table 2 confirms the existence of the cointegration between the GDP and Export. All the variables are statistically significant at most 5% level. As for export, 1% increase of total export increases economic growth by 0.079%. Furthermore, The residuals tend to be stationary, as long as we can reject the null hypothesis of non-stationarity (Step 2 in co-integrating regression presented above: p-value=0.002<0.05%). Durbin-Watson value is close enough to ideal value and the adjusted R-squared is high (98%), meaning that the dependent variable was explained by 98%.

4.3 Post-diagnostic tests for Long-run relationship model

4.3.1 Autocorrelation test

Autocorrelation is the process when the time-series data is influenced by its own lagged values. Thus, violating the underlying assumption of independence. Check for the autocorrelation was performed via LM test for autocorrelation. The null and alternative hypothesis of the test states the following: H_0 : No AR(P) and H_1 : AR(P). $P=1$, as long as we are testing for the first order autocorrelation (AR(1)).

Table 3. Autocorrelation LM test results.

LM test for autocorrelation up to order 1. Null hypothesis: no autocorrelation	
Test statistic: LMF	0.343064
P-value = $P(F(1, 20) > 0.271537)$	0.564959

According to the test results, the series does not indicate the presence of the first order autocorrelation, as we can't reject the H_0 : Probability (0.564959) of the Test statistic with the value of 0.343064 is more than 0.05 (See Table 3).

4.3.2 Heteroskedasticity test (White's test)

To ensure the consistent results from the regression model, the residuals must indicate the constant variance, or homoscedasticity. In this regard, heteroskedasticity refers to the changing variance of the residuals.

Presence of the heteroskedasticity in the model violates the profound assumption of the homoscedasticity and can bias the regression results. Hence, we used the White's test for heteroskedasticity. Null hypothesis of the test states the absence of the heteroskedasticity. H_0 can be rejected if the probability value is less than 5% and vice versa.

Table 4. White's heteroskedasticity test results.

White's test for heteroskedasticity. Null hypothesis: heteroskedasticity not present	
Test statistic	18.2068
P-value = $P(\text{Chi-square}(14) > 18.2068)$	0.197522

The results of the White's test do not detect the presence of the heteroskedasticity, as we failed to reject the H_0 (P-value>5%). Therefore, residuals seem to be homoscedastic.

4.3.3 Normality of residuals (Shapiro-Wilk T test)

Observing the residuals is the vital aspect of our statistical modeling. To check whether the residuals are well-behaved or not, we applied to Shapiro-Wilk Test. The H_0 of the test is that the sample is normally distributed. H_0 is rejected if the probability value is less than 5%, thus accept the alternative hypothesis of non-normality.

Table 5. Shapiro-Wilk Test Results.

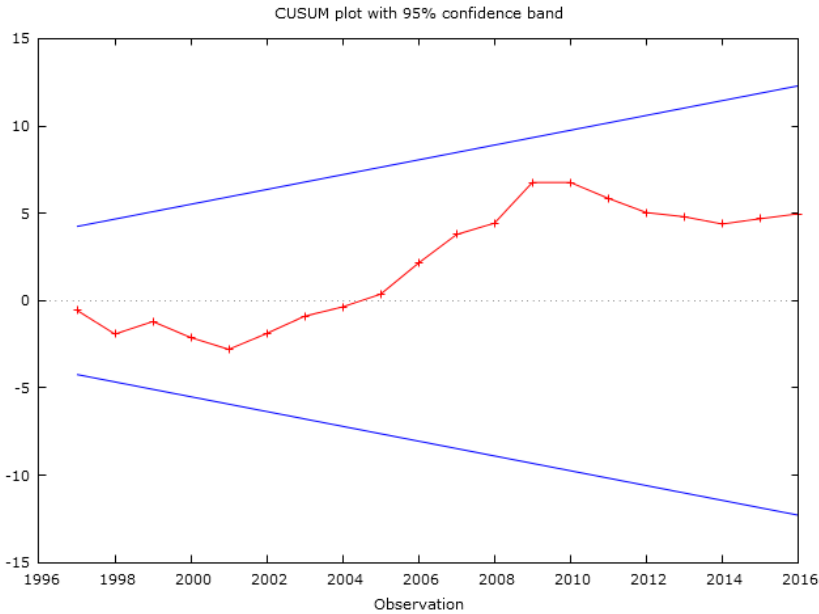
Shapiro-Wilk Test for normality of residual. Null hypothesis: Error is normally distributed	
Shapiro-Wilk W	0.948424
P-value	0.230967

The results of the test showed that the residuals are normally distributed, as we cannot reject the H_0 of normality (P -value=0.230967>0.05%) (See Table 5).

4.3.4 Structural stability of the parameters (CUSUM Test)

We used CUSUM test to check the structural stability of the estimated parameters. The H_0 of the test states that parameters are structurally stable, against H_1 : Parameters are not structurally stable. If the test crosses the 95% confidence band even once, then the coefficients are not structurally stable.

Graph 1. CUSUM test results.



(Harvey-Collier $t(19) = 1.10995$ with p -value 0.2809)

As we can see from the Graph 1, crossing of the 95% confidence band is not detected, and P -value=0.2809>0.05, therefore, we accept the H_0 of structural stability of the coefficients.

4.4 Causality check

The last step of our econometric analysis deals with causality check. In the previous section, we showed the existence of the long-run relationship between economic growth and export. Thus, suggesting that there can be a causal relationship between the two. Performing the Granger causality test revealed the existence of bidirectional causal relationship from export to GDP and vice versa, as we can rejected both null hypothesis of no causality at 5% level of significance (See Table 6):

Table 6. Granger causality test results.

Null Hypothesis	F-Statistic	Probability
InEX does not Granger Cause lnGDP	6.54	0.018
lnGDP does not Granger Cause InEX	16.92	0.000

5. Conclusion

This paper empirically examined the compatibility of the ELG hypothesis for the Georgian economy. To check the validity of the theory multiple econometric methods were employed namely Engle-Granger co-integration and Granger causality tests.

Although, current direction of the Georgian economy does not indicate strong signs of the export-driven economy, empirical results landed support to the ELG hypothesis by revealing the existence of the long-run co-integration relationship between economic growth and the export, as well as the bidirectional causality from export to GDP and vice versa. Thus, prioritization of the ELG theory as the main economic development strategy can boost the economic performance of the country. Due to the European integration process, Georgia has an opportunity to explore the new export market. Therefore, enhancing the economic growth in the long-run through increasing the export earnings.

An adoption of the outward-oriented growth model in Georgian economy can have multiple benefits: Besides the GDP growth, export expansion can stimulate the foreign direct investment (FDI) inflow, as well as the reduction of the unemployment and increase in domestic savings. To stimulate the rapid growth, economic policymaking should be directed towards the most productive sectors of the export production (like wine and agriculture) to reap the benefits of both, comparative advantage and increasing returns to scale.

There is no doubt that after changing a direction of the economic development strategy towards radical, outward-oriented growth, the results will reflect stronger support to the ELG hypothesis. Thus, farther empirical examination will be needed to trace the validity of the ELG theory. As for now, this article can serve as the preliminary results indicating the effectiveness of the ELG theory, even though it is not fully prioritized by the country.

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A Case Study of Foreign Direct Investment and Economic Growth Relationship in Turkey

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Abstract

Foreign direct investment is believed to enhance long-term economic growth of a country through knowledge spillovers and technology transfers. This paper is an empirical attempt to check the effects of the foreign direct investment (FDI) on the economic growth (GDP) of Turkey. The paper uses time span from 1980 to 2017 for statistical analysis. Johansen co-integration and Granger causality tests were applied for empirical analysis. The results of the tests confirmed the presence of the co-integration between GDP and FDI as it was expected from the beginning. Furthermore, Granger causality test showed the unidirectional causality from FDI to GDP.

Keywords: Turkey, Foreign Direct Investment inflow (FDI), Gross Domestic Product (GDP), knowledge spillovers, technological advances

1. Introduction

Foreign Direct Investment (FDI) can be defined as the flow of cash organized by a unit or an individual, which aims at the business located in another country. The essential feature of FDI is the ability to establish an effective control over the decision-making process of a foreign business or substantially have an influence on it at the very least.

The role of foreign direct investment has been on the rise since the second half of the 1980s. The new management understanding and a considerable amount of possibilities are brought together resulting from technological advances, these investments have been demanded by both developing countries and developed countries. Foreign investments which was previously considered as a negative exertion are now put into practice in many countries due to the positive contributions they have made, as a result they are willing to open their borders and pay attention to attracting more direct foreign investment. Turkey has adopted new policies and strategies in this regard as it has been witnessing the initiation of foreign direct investment in the country as well as the widespread view that the problems of the countries suffering from capital shortages will arise immediately and have a positive effect on other macroeconomic indicators. In Turkey, promotion of the FDI through various policies is quite multidimensional. Turkish government utilises intersectoral development approach. The manufacturing, retail, logistics, communications and financial services industries have been the major beneficiaries of FDI in Turkey since 2002 (Citation). As for the legislative part, Turkish government undergone the set of changes to create more flexible investment climate. According to the "Foreign Direct Investment Law" issued in 2003, foreign investors shall be subject to equal treatment with domestic investors; Foreign investors can freely transfer abroad: net profits, dividends, proceeds from the sale or liquidation of all or any part of an investment (Deichmann, Karidis, & Sayek, 2003).

In addition to the efforts of the Turkish government to create competitive investment environment, geographical location played an important role in success of Turkish economy. It has unique location, lying in both Europe and Asia and serving as a bridge between the two biggest markets. Thus, giving a stimulus to the policy makers to develop outward-oriented growth state.

Besides the practical importance of this article to justify current policy changes in Turkey favouring FDI driven growth, we will enrich the existing literature regarding FDI and economic growth and eliminate the gap between theory and practice.

The article starts with section 2, in which we expound literature review about FDI inflow and Economic Growth. Our model which was applied in this paper and its result based on statistical analysis along with the data set will be illustrated in section 3. In section 4, disclosed conclusion according to achieved results will be made. Finally, section 5 will present all the references used.

2. Literature review

(Alagöz, Erdoğan, & Topallı, 2008), the relationship between direct foreign investment in Turkey and economic growth has been examined for the period 1992-2007. Resulted no causal relationship between direct foreign capital investments and economic growth from the study. The regression analysis for period 2002-2007 was examined in the study. The elasticity coefficient of the model indicates the effect of foreign direct investment on economic growth is moderate.

(Şen & Saray, 2010) analysed the effect of direct foreign capital investments on economic growth in Turkey using panel data regression analysis. Positive contributions to economic growth lead to direct foreign capital investments in Turkey.

(Yılmaz, Kaya, & Akinci, 2011), the effects of foreign direct investment on economic growth have been analysed for the Turkish economy for the 1980-2008 period. In the analysis, two variables were used as gross domestic product and foreign direct investment. Time series analysis method was used in the study. Resulting a one-way causality relation from foreign direct investment to economic growth. It is also seen that the variables are co-integrated. Positive effects on economic growth from foreign direct investments shown from the estimation results.

(Gürsoy & Kalyoncu, 2012) analysed the impact of direct foreign investment on economic growth between 1977 and 2010 in Georgia. Engle-Granger co-integration test and Granger causality analysis were used in the study. Results show that the two variables are co-integrated, that is, they act together in the long run. Which also gave the conclusion that direct foreign investment is the reason for economic growth.

(Çeştepe, Yildirim, & Bayar, n.d.), the data for the period 1974-2011 used for the direct causal relationship between foreign direct investment, growth and foreign trade in Turkey. The long-term causality between the variables was investigated by following the Toda-Yamamoto method in the study. Findings obtained; "Growth based export", "export dependent FDI" and "import dependent export" hypothesis. These findings can be interpreted as the fact that the import-based export structure and FDI inflows do not change this, so the export-based growth hypothesis cannot be verified in Turkey.

(Younus, Sohail, & Azeem, 2014) analyzed the impact of foreign direct investment in Pakistan on economic growth for the period 2000-2010. The two-step least squares method is used in the study. As a result, there is a positive relationship between economic growth and foreign direct investment. Domestic investment, exports and political stability have been found to be very important in the selection of foreign direct capital in Pakistan.

(Muhammad & Ijirshar, 2015) analyzed the impact of foreign direct investment on economic growth in Nigeria between 1970 and 2013. Time series analysis method was applied in the study. As a result, a one-way relationship between foreign direct investment and economic growth; there was no relationship between foreign direct investment and unemployment. A positive but statistically insignificant relationship was found between the foreign direct investments and the economic growth in Nigeria in the short and long term.

3. Data, Methodology and Model Results

3.1 Data and Methodology

The time series data set has been used for applied analyses part of paper, covered the period span from 1980 to 2017. Two variables were utilized in the model: GDP (Gross Domestic Product) and FDI (Foreign Direct Investment inflows) those were obtained from World Bank Group ("World Bank Group - International Development, Poverty, & Sustainability," n.d.). As software, Gretl and EViews were employed to fulfil empirical part of the paper. The long-run implications of FDI on economic growth of Turkey can be detected through regression analysis. Before applying the regression model, stationery test was performed through the Augmented Dickey-Fuller (ADF) test. Stationery level is the crucial part in the time-series analysis. In fact, running the conventional regression analysis on non-stationary time-series can be consistent if the linear combination of the selected variables results in stationary residuals, otherwise, it leads to the spurious results. In this case, statistical property like co-integration appears to deal with non-stationary time-series and detect the long-run relationship between them. Thus, the Johansen co-integration test was employed for our empirical study. The test examines the multiple linear combinations for more than one variable, that results in a stationary process. The Johansen test uses two statistics to identify the number of co-integration vectors: The trace and the maximum eigenvalue tests. In addition to our empirical examination, we employed the Granger Causality test to check the causality between the observed series.

3.2 Model Results

3.2.1 Unit root test and order of integration

As the pre-condition of Johansen co-integration test suggests, selected time-series must be non-stationary, $I(1)$. Therefore, we performed ADF test individually on both variables. The null hypothesis of the ADF test states that there is a unit root in the series. The null hypothesis is rejected if the P-value is less than 5%, thus, accepting the alternative hypothesis of no unit root in the series.

Table 1. ADF test results.

ADF test at Lev el. 9 lags, unit-root null hypothesis: $a = 1$ model: $(1-L)y = b_0 + b_1t + (a-1)y(-1) + e$	LnGDP	LnFDI
Estimated value of $(a - 1)$	-0.4412	-0.4049
Test statistic	-3.0718	-2.9647
P-value	0.1278	0.1554
ADF test at First Difference. 9 lags, unit-root null hypothesis: $a = 1$ model: $(1-L)y = b_0 + (a-1)y(-1) + \dots + e$	LnGDP	LnFDI
Estimated value of $(a - 1)$	-1.6721	-1.1217
Test statistic	-4.1972	-7.3377
P-value	0.0006	3.575e-07

Source: Author's own calculation

The results presented above showed that both variables have a unit root at levels, as long as we can't reject the null hypothesis, and become stationary at first difference (See Table 1). Therefore, we can conclude that the observed data are integrated of order one, $I(1)$ and continue to the Johansen co-integration test.

3.2.2 Johansen co-integration test

According to the ADF unit root test results, our series are integrated of the same order, $I(1)$. Thus, it allows us to continue with Johansen co-integration procedure. The test uses two statistical measures from Trace and Eigenvalue tests.

Table 2. Johansen co-integration test results

Johansen Co-integration test: Sample (adjusted): 1982-2017, Included obs.: 36, Series: LnGDP, LnFDI, Lags interval (in first differences): 1 to 1.				
Unrestricted Co-integration Rank Test (Trace)				
Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.
None	0.3522	16.559	15.4947	0.0345
At most 1	0.0253	0.9257	3.8414	0.336
Unrestricted Co-integration Rank Test (Maximum Eigenvalue)				
Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.
None	0.3522	15.6333	14.2646	0.0302
At most 1	0.0253	0.9257	3.8414	0.336

Source: Author's own calculation

Based on the Johansen co-integration test results we rejected the null hypothesis of both trace and maximum eigenvalue tests of no co-integration between GDP and FDI at 1% level of significance, but we failed to reject the alternative hypothesis (P-value in both tests $> 0.05\%$, and Trace/Maximum Eigenvalue < 0.05 Critical Value = 3.8414) (See Table 2). Thus, we can confirm the existence of at most one long-run co-integration vector between GDP and FDI.

3.2.3 Granger Causality test

As we have already mentioned, we checked the causal relationship between GDP and FDI through Granger Causality test. The null hypothesis of the test states the following:

H_0 : LnFDI does not Granger Cause LnGDP, and

H_0 : LnGDP does not Granger Cause LnFDI

Null hypothesis is rejected if the probability value is less than 0.05% .

Table 3. Granger causality test results

Pairwise Granger causality test, Lags 2, Sample 1980-2017		
Null Hypothesis	F-statistic	Prob.
LnFDI does not Granger Cause LnGDP	4.696	0.016
LnGDP does not Granger Cause LnFDI	2.251	0.122

Source: Author's own calculation

According to the results we can reject the null hypothesis of no causal relationship from FDI to GDP (P-value=0.016<0.05%), and except the second null hypothesis (P-value=0.122>0.05). Thus, the results of causality test indicated the unidirectional causal relationship from FDI to GDP (See Table 3).

4. Conclusion

This study analyzes the relationship between Foreign Direct Investment inflows to Economic Growth of Turkey by using annual data for the period span from 1980 to 2017. Unit root test (ADF), Johansen co-integration test and Granger Causality test were applied for empirical part of paper to examine the impact of Foreign Direct Investment inflows on Economic growth(GDP) of Turkey .

The findings showed us further; According to the results of Unit root test both of variables were stationary. That meant we could continue our calculations by applying Johansen co-integration and Granger Causality tests. The next step was Johansen co-integration test. Johansen co-integration test confirms the existence of at most one long-run co-integration vector between GDP and FDI. The final step to complete our empirical analysis part of paper was Granger Causality test. Based on results there was unidirectional causal relationship from FDI to GDP.

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Development of Value Added Tax in Kosovo – Comparative and Research Aspects 2006-2017

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Abstract

This paper aims to present the progress and effects that Value Added Tax (VAT) may have on a country's economy. The efficient fiscal policies would enable a country to develop more rapidly, however it will all depend on the situation, economic state, and the power that the Republic of Kosovo has. VAT is a tax on consumption, and if seen from the buyer's point of view, it is a tax on the purchase price; while from the seller's point of view, it is a tax on the added value of the product or service. VAT revenues comprise the main part of Kosovo's budget financing, where comparative data from 2006 to 2017 are given in this paper, showing the extent of VAT participation in the total revenues of the state of Kosovo. Due to this, the tax system including the VAT, which was established by advancing in harmony with the EU directives and regulations, but maintaining the specific features of the state of Kosovo, has recently changed. Owing to legal changes, among others, the Government of Kosovo raised the VAT tax rate from 16% to 18% in most products, while reduced the VAT from 16% to 8% mainly on basic food products, medications. The state of affairs between the states is relatively different, being influenced by many factors, making it impossible to present consistent scale-level comparisons between them.

Keywords: VAT, tax rates, reimbursement, VAT exemptions, financial effects.

Introduction

Value Added Tax is a tax on consumption and/or expenditures, which is applicable in 158 countries worldwide. This type of tax has been applied for the first time in France since 1954. In 1968, the Council of the European Union approved the first VAT Directive, according to which the countries that wish to be in the EU, must first establish a VAT system which is in compliance with the Directive.

When it comes to establishing a new tax system in Kosovo, the conditions imposed to commence with a simple tax system. It was initially based on sales tax, at a rate of 15%. In Kosovo, the value added tax for the first time was applied on 1 July 2001, which had a rate of 15% and was applied to all imports and domestic products of firms with a gross turnover above € 100,000, where the changes to VAT have been made many times. The last applicable Law on VAT dates from September 2015. The Value Added Tax (VAT) is the main source of tax revenues in Kosovo.

VAT comprises about 40% of tax revenues. The Government of Kosovo facing an expected increase of the budget deficit, as a result of the increase in public expenditures, has made a number of legal changes in VAT.

VAT is collected and deposited into the state every time there is trading in the chain of product distribution, service, supplies, and works. As a result, the VAT is a multi-stage tax. Value added is the value newly added to the goods, product, service, from each subject, at each stage of trading. Value added is the difference resulting between the value of the products for sale (sales receipt) and the value of the products for purchase (purchase receipt), where this difference is the gross margin of the enterprise. With this margin, the enterprise is required to withstand internal cost factors, as well as some external factors that are not related to its trading activity. If the enterprise has a positive gross margin, i.e. it has a higher added value, and it is obliged to carry out its obligations towards the state.

Formulation and research of the problem

Since the public goods are offered by the Government to all its citizens, implying that the consumption of a public service or a public good can be used by all citizens without additional costs.

In terms of their volume and structure, the public revenues are not only fiscal components, but in contemporary states, they have effects on economic development, stabilization and social policy.

The fact that there is no state without a budget and that there is no budget without an adequate revenue system to meet public needs, served us as the main and reasonable argument for addressing this problem in this paper. It is important to establish a sustainable tax and fee policy in Kosovo that can serve the future development of the society with a view to advancing an adequate system of value added tax application, and all this in the function of economic and social development of the country.

The research question put forward is: How can the Government, through the most advanced Value Added Tax application, affect the increase of general revenues and simultaneously with the increase of revenues, also increase the public goods for the citizens of Kosovo.

Research Methodology

The paper was done based on some tax system researches that address and analyse, with particular emphasis, the issue of value added tax, the applicable regulation for the regulation of this tax.

During this research, I have used the deduction method, as well as methods of comparative analysis. I have used the notes and publications from the official websites of the IMF, Division on Macroeconomics and Division on Fiscal and Public Policies (MoF), Department for Budget (MoF), Tax Administration, Customs, Rinvest Institute and other relevant institutions. This paper also takes into account the estimates of business representatives and tax area professionals.

With the method of analysis and comparison of VAT revenues over the years, it is intended to determine alternative methods, which at the lowest costs ensure the realization of the purpose to increase the collection of revenues for Value Added Tax.

Value Added Tax in Kosovo

Value Added Tax - VAT, includes the application of the total tax on goods and services consumption, which is exactly proportional to the price of goods and services. The VAT is calculated at this price according to the applicable rate, it is charged at different stages of production, distribution, and lifecycle of the trade of goods and services, and ultimately charged to the consumer.

For the purposes of Value Added Tax (VAT), a taxable person is any person who is, or is required to be registered for VAT, and who independently conducts an economic activity on a regular or irregular basis, regardless of the purpose or outcome of that economic activity.

Value Added Tax (VAT) is a tax on consumption. If seen from the buyer's point of view, it is a tax on the purchase price, but if seen from the seller's point of view, it is a tax on the added value of the product or service.

Each person meeting all the terms of the definition on the taxable person is required to be registered for VAT, if within the calendar year exceeds the turnover of thirty thousand euros (30,000 €).

VAT in Kosovo is differentiated into two rates, the standard of 18% and the reduced one of 8% of the value of imported supplies and domestic taxable supplies, except for exempt supplies and supplies treated as exports.

A transaction is subject to VAT taxation in Kosovo, if it is a supply with goods or a supply with services made against a payment, within the territory of Kosovo, by a taxable person acting as such. Similarly, the import of goods is subject to VAT taxation.

A transaction is subject to VAT taxation in Kosovo, if it is a supply with goods or a supply with services made against a payment, within the territory of Kosovo, by a taxable person acting as such. Similarly, the import of goods in terms of the Law is subject to VAT taxation.

A taxable person is any person, whether a natural or legal person or organized in any other form recognized by law in Kosovo, who independently carries out economic activities in terms of the Law, regardless of place, purpose or outcome of this activity. The outcome (loss/profit) of the economic activity is not significant to VAT.

The obligation to charge VAT arises when the supply of goods or services takes place. The VAT becomes chargeable depending on which of the three moments occurs first: Supply of goods or service; Issuance of receipt related to the supply of goods or services; or acceptance of the payment in advance/advance payment, prior to the supply of goods or services.

The taxable amount of the supply of goods or the supply of services consists of all amounts, values, payments, goods or services received or to be received by the goods/service provider as an equivalent of these supplies, against the buyer, the customer or a third party, including the subsidies directly related to the price of these supplies. Thus, the taxable amount of a taxable supply in Kosovo with regard to the supply of goods and services includes everything that constitutes the consideration received or to be received from the supplier, foreseen for that supply. Central and local level authorities and other bodies regulated by law shall not be considered as taxable persons in relation to activities or transactions in which they are engaged as public authorities even when they collect taxes, contributions or payments related to those activities or transactions.

In accordance with the EU and VAT principles, the exports are exempt from VAT with the right to deductible VAT. The VAT on imports is collected at the state borders of Kosovo. The transaction holder pays the VAT based on the customs value and any other import tax (customs duty and excise duty, if applicable) irrespective of their origin. VAT is applied to imports and to any supply of goods and services, except from those which, according to the law, are deemed as exempt supplies. Under the VAT rules, some supplies are exempt from VAT with the right of reduction of deductible VAT and some supplies are exempt from VAT without the right of reduction of deductible VAT.

Revenues from VAT in Kosovo for the period 2006 – 2017

Incomes from VAT comprise about 40% of Kosovo's total budget revenues. From the point of view of the fiscal burden, the value added tax affects all citizens of Kosovo where the VAT is applied. The VAT revenues for the period 2006 – 2017 are presented below.

Table 1: Revenues from VAT in Kosovo from 2006 to 2017

The values are in 000 €

Years	Total revenues in the Budget	Total VAT	Domestic VAT	Cross border VAT	VAT share in %	Domestic VAT share in %	Cross border VAT share in %
1	2	3 = 4 + 5	4	5	6 = 3/2	7 = 4/2	8 = 5/2
2006	712,012	258,554	47,772	210,782	36.31	6.71	29.60
2007	902,998	313,822	58,783	255,039	34.75	6.51	28.24
2008	942,525	363,167	58,407	304,760	38.53	6.20	32.33
2009	1,146,817	390,620	62,959	327,662	34.06	5.49	28.57
2010	1,178,589	454,937	93,617	361,321	38.60	7.94	30.66
2011	1,303,328	540,923	121,438	419,485	41.50	9.32	32.19
2012	1,537,955	548,887	129,960	418,927	35.69	8.45	27.24
2013	1,428,704	559,959	147,679	412,280	39.19	10.34	28.86
2014	1,448,957	559,991	136,056	423,935	38.65	9.39	29.26
2015	1,691,849	611,319	154,800	456,518	36.13	9.15	26.98
2016	1,767,114	693,754	179,293	514,461	39.26	10.15	29.11
2017	1,912,521	756,117	198,341	557,776	39.54	10.37	29.16
Total:	15,973,369	6,052,050	1,389,105	4,662,946	37.89	8.70	29.19

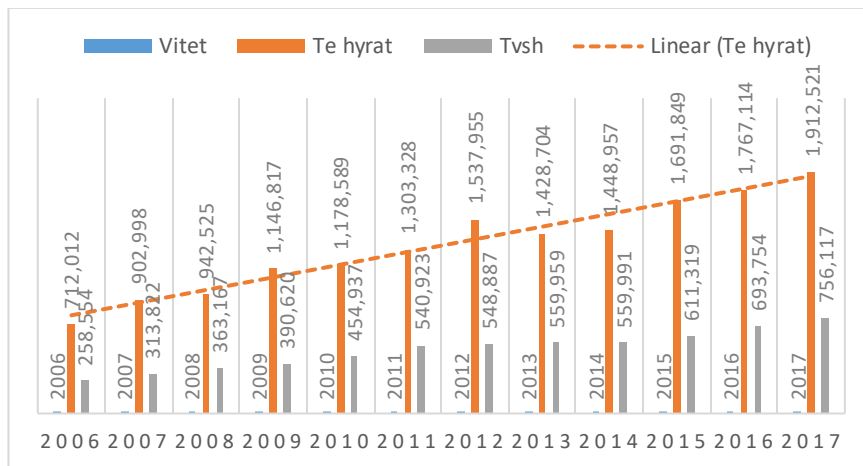
Source: Ministry of Finance, <https://mf.rks-gov.net/>

From the above data, it can be seen that the revenues from VAT in 2016 were 258,554,000 million €, which revenues have continued to increase every year and in 2017 they amounted to 756,117,000 million €, where VAT accounts for about 38% of total state budget revenues, as the main revenue in the state budget.

Following the entry into force of the new Law on VAT, the standard VAT rate on most products increased from 16% to 18%.

In order to measure the effect of the increased VAT, based on the amount of import over which the standard VAT of 18% has been set during the abovementioned period, it can be seen that the VAT revenues for 2016 have increased around 24.5 million € compared to 2015, while in 2017 they increased for about 43.5 million € compared to 2015 when the standard VAT rate was 16%. Thus, the increase in VAT has positively impacted the total revenues in the state budget.

Figure 1: Revenues from VAT in Kosovo from 2006 until 2017



Source: Ministry of Finances, <https://mf.rks-gov.net/>.

Therefore, from the figure it can be seen that there is a linear increase in revenues from VAT each year.

Regarding the effect of reduced VAT on consumer prices, given that Kosovo's economy functions on market principles, the state cannot directly affect consumer prices through VAT reductions. Regarding the effect of VAT reduction as a means of income redistribution, the findings show that the VAT reduction is not an effective instrument to achieve this goal. Given the high import level, consumer prices in Kosovo are more affected by international market prices rather than domestic, economic or social factors.

Reimbursements and Refunds

In cases where the amount of the deductible tax exceeds the VAT liability, the taxpayer's right to reimbursement arises. As soon as this happens, a business can claim VAT reimbursement. Upon submission of a business request for reimbursement, TAK will review business documents and if they are complete TAK will reimburse the funds within 60 days.

Table 2, Reimbursement according to tax type, amount in €

Tax type	2014	2015	2016	Approved requests 2016	TAK Obligations 2016	Structure	Comparison
1	2	3	4	5	6	7=4/Σ	8=6/4
VAT Reimbursements	31,003,893	22,900,734	17,482,519	268	1,969,522	52.6%	11.3%
VAT Refunds	200,149	1,803,099	445,810	34	41,099	1.3%	9.2%
PIT Reimbursements	121,357	170,320	49,029	300	9,181	0.1%	18.7%
PIT Refunds	193,468	23,591	177,190	21	22,118	0.5%	12.5%
CIT Reimbursements	-	611,310	8,047	1	8,047	0.0%	100.0%
CIT Refunds	89,006	534,640	735,431	25	83,710	2.2%	11.4%
WR Refunds	-	250,751	-	-	-	0.0%	-

TF Refunds	-	333	-	-	-	0.0%	-
TP Refunds	-	80,117	-	-	-	0.0%	-
KP Refunds	-	-	68,239	25	65,763	0.2%	96.4%
Deposit returns	-	2,112,264	-	-	-	-	-
Refund for fiscal receipts	-	1,252,875	14,289,350	774,977	-	43.0%	0.0%
Total	31,607,873	29,740,034	33,255,614	775,651	2,199,440	100%	6.6%

Source: TAK. Annual report 2016.

775,651 claims were approved for reimbursements and refunds, whereby 674 are for businesses and natural persons, while the other part of 774,977 is for the reimbursement of fiscal receipts, whereby the approved total reimbursement amount is 33.3 million €, of which 31.1 million € were transferred in the accounts for all kinds of taxes, while 2.2 million euro were transferred for the coverage of tax obligations.

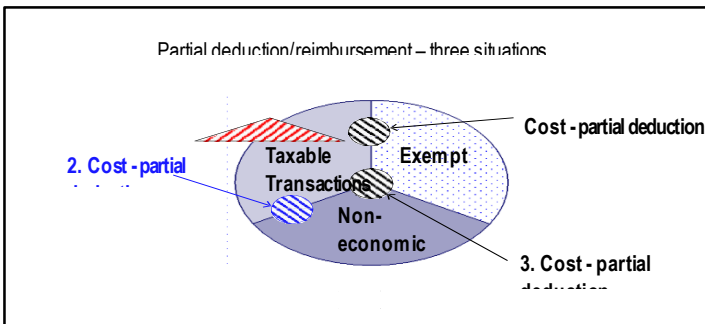
According to tax types, the highest approved amounts are 17.9 million € for VAT reimbursement and refund, 14.3 million euro for fiscal receipts, 743 thousand € for Corporate Tax, 226 thousand € for Personal Income Tax, 68 thousand euro for Pension Contributions.

In regard to the project “Incentives and Motivation for Obtaining Fiscal Receipts”, TAK has reimbursed funds for the citizens who have submitted fiscal receipts. The Division of Fiscal Cash Register in cooperation with other Departments within the TAK, Post of Kosovo, Treasury and the CBK were able to successfully manage this project even during 2016. During 2016, 775,416 envelopes were received, 774,977 envelopes were verified, 770,906 citizens were referred to for reimbursement, 6,714 citizens were rejected for various reasons, such as: wrong bank account, incorrect personal information, etc.

The amount of reimbursements for fiscal receipts, since the beginning of this project is 15.5 million euros with 851,850 envelopes verified, while during 2016 14.3 million euro was reimbursed, with 774,977 envelopes verified.

VAT exemptions. Production lines and machinery for use in the production process, raw material used for the production process and information technology (IT) equipment are all exempt from the VAT. The right to VAT exemption, on raw materials, belongs only domestic producers, while in technology only businesses that conduct IT activity or deal with IT resale are exempt. The businesses must apply to TAK for exemption. The exemption of these products from VAT does not represent any loss to the budget because in the previous periods this amount was reimbursed to businesses. However the businesses do not need to wait for VAT reimbursement any more until they sell their products. This increases the liquidity of Kosovar businesses and may also have increased effects on the efficiency. This is because businesses are able to provide a larger amount of raw material in stock. The list of businesses that have been exempt from VAT for 2016 includes 239 businesses.

Figure 2, Partial reimbursement/deduction in three situations



VAT rates in EU countries

Council Directive 2006/112/EC, 28 November 2006 on the common system of value added tax. The VAT standard rate applicable in different Member States, mixed with the provisional system mechanisms, provides that this system operates to an adequate extent. In order to avoid the divergences in the VAT standard rates, applicable from the Member States, that drive to structural imbalances in the Community and competition disruption in certain activity sectors, it should be set a 15% minimal standard rate, subject matter. In order to better understand the impact of reduced rates, it is necessary for the Commission to prepare an assessment report on the impact of reduced rates application on local supply services, in particular in terms of generating new jobs, economic growth and proper functioning of the internal market.

In order to address the unemployment issue, certain Member States willing to act accordingly should be permitted to experiment with the functioning and influence, in relation to generation of jobs, reduction of the VAT rate implemented to services of intensive work. Similarly, the reduction may decrease incentives for interested businesses to enroll or stay in the non-formal economy.

Member States will implement a standard VAT rate, set by every Member State as a taxable amount percentage and which will be identical for the provision with goods and services. As of 1 January 2011 to 31 December 2015, the standard rate cannot be lower than 15 % .

Member States can implement one or two reduced rates. The reduced rates will be set as a taxable amount percentage, which cannot be lower than 5% .

Table 3, VAT rates applicable with the EU Member States

Country	Code	Super-reduced rate	Reduced rate	Standard rate
Belgium	BE	-	6 / 12	21
Bulgaria	BG	-	9	20
Czech Republic	CZ	-	10 / 15	21
Denmark	DK	-	-	25
Germany	DE	-	7	19
Estonia	EE	-	9	20
Ireland	IE	4,8	9 / 13,5	23
Greece	EL	-	6 / 13	24
Spain	ES	4	10	21
France	FR	2,1	5,5 / 10	20
Croatia	HR	-	5 / 13	25
Italy	IT	4	5 / 10	22
Cyprus	CY	-	5 / 9	19
Latvia	LV	-	12	21
Lithuania	LT	-	5 / 9	21
Luxembourg	LU	3	8	17
Hungary	HU	-	5 / 18	27
Malta	MT	-	5 / 7	18
Netherlands	NL	-	6	21
Austria	AT	-	10 / 13	20
Poland	PL	-	5 / 8	23
Portugal	PT	-	6 / 13	23
Rumania	RO	-	5 / 9	19
Slovenia	SI	-	9,5	22

Slovakia	SK	-	10	20
Finland	FI	-	10 / 14	24
Sweden	SE	-	6 / 12	25
United Kingdom	UK	-	5	20

Source: VAT rates applied in the Member States of the European Union, January 2018

Conclusions and recommendations

In Kosovo, the VAT plays an important role in the revenue system and it has supported Kosovo to replace international aid with sufficient domestic revenue sources. Revenues collected from the VAT in the total revenues comprise around 40% and represent one of the most important tax forms in all countries regardless of the development stage. Currently, the VAT is implemented in approximately 158 countries of the world.

Adequate tax system and favorable business environment are the most important pillars for the sustainable development of the private sector in the country. In this regard, fiscal policy reforms include VAT differentiation, lowering VAT threshold, VAT exemption of production lines and machinery, VAT exemption and customs duty on key inputs of priority competitive sectors, and functionalization of industrial and technological parks within which the provision of various tax incentives is foreseen.

Lowering VAT thresholds for business registration is welcome for businesses due to lower informality and hence creating prerequisites for fair competition among businesses.

In the future, it would be necessary to assess the possibility to better harmonize the definition of a taxable person (taxable business), in particular to determine the country of service supply, respectively a definition as clear as possible.

It may be useful to apply more explicit rules regarding the determination of country of service supply by the country of effective use of services.

Improvements should be made to the VAT administration in case of bad debts, for the assessment of the implementation of some additional terms in the applicable VAT rules in Kosovo regarding bad debts. In order to set the time limit when bad debt has arisen, it is necessary to improve the administration of VAT. It may be useful to have a time limit for the recognition of bad debt, for example, bad debt cannot be recognized earlier than 2-3 years in advance.

In order to harmonize the Kosovo VAT rules with the Directive, it is also necessary to determine that the VAT receipt is issued even if the recipient is a non-taxable legal entity.

Certain restrictions should be added on goods purchased before the registration of the business for VAT, respectively determining that such goods, for which the VAT deductions are made, cannot be purchased earlier than a certain period of time (for example, if, according to business data, the goods that are in the warehouse at the moment of VAT registration are purchased earlier than the VAT registration date).

The registration threshold and the calculation method for VAT business registration should change and all the businesses, which within the calendar year exceed 20,000 euros turnover, should register for VAT.

By approval, the production lines and machinery for use in the production process, the raw material being used for the production process, the information technology equipment should be exempt from the VAT. The Ministry of Finance should start implementing tax breaks, as a way to boost new investments that can generate new jobs and mitigate trade deficit.

In addition to reducing the VAT on certain products and services, the Ministry of Finance should present direct tax relief to citizens as the most effective measure of revenue redistribution; it should be continued with the reimbursement of citizens at a pre-determined monetary value in the collection of fiscal receipts, obtaining information from citizens in regard to non-issuance of fiscal receipts, tax receipts, corrupt information, and other information that help combat fiscal evasion, thus, ways should be found to stimulate information-providing citizens to help combat fiscal evasion and have an effect on revenue growth in the state budget.

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The Connection between Unemployment and Migration at the Level of Hunedoara County and Town

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Abstract

The population of Hunedoara County has manifested after the Revolution of December 1989 a continuous downward trend. According to National Statistics Institute in Hunedoara County, in 2012, at the last population census there was only a number of 418,545 people representing the constant population and since 2016 it had decreased with almost 5% in 4 years but counting from 1992 the decrease is of almost 28%. As far as concerns migration, the official figures of the number of the temporarily absent people left abroad for a shorter than a 12 months' period it was 5,510 and the number of those who were left for a period longer than a year it was 15,215. As follows, the total number of migrants was 20,725 which represents a percentage higher than 4% from the total number of the population. Comparing the data received from the AJOFM Hunedoara (the statistics is effectuated every year in August) with those obtained from the CJRAE Hunedoara (statistics reported every year in February), - excepting the year 2015- when the effect of the liberalisation of the labour market in Great Britain can be remarked, it can be noticed a descendent evolution of the number of unemployed which fact drags a decrease of the children with migrant parents. On the other hand, a very important decline of the unemployment in 2017 resulted into a diminution of the parents who would leave abroad in the following year.

Keywords: migration, Hunedoara, statistics, number of unemployed, children who have migrant parents, school

Introduction

The migration of Romanian people after 1990 has been considered a continuously dynamic and wide social phenomenon. It can be noticed that consulting the specialized literature that totally different figures are obtained from various sources, fact which can induce the idea of a lack of consensus and disparity between the existing data and the reality. Chipea and Bălițătescu (2010, p. 110) mention the fact that the Romanian authorities "underappreciate the number of children left behind", Sandu (2010, p. 11) stated that "the information is chronically deficient", he also offers as explanation of this situation three possible causes: the first which deals with the nature of the phenomenon, the second one is the low interest of the institutions and the third is presented as "the reduced capacity of a scientific answer from the specialized community".

The National Institute of Statistics (an official institute with a high degree of credibility) offers the following information concerning migration

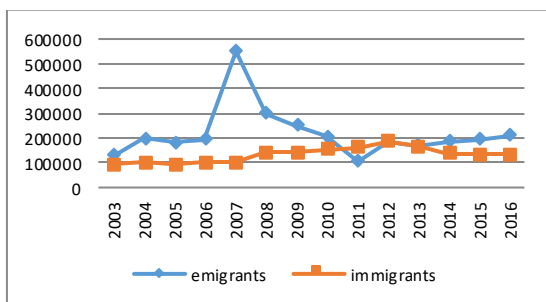


Figure 1. The evolution of the migration in Romania between 2003-2016 from the perspective of the flow of emigrants and migrants (source NIS- Tempo Online Database)

It can be distinguished a top of the emigration around the year 2007 (in 2007 at 1st of January Romania joined the EU) and for the other years taken into consideration it is outlined an average of about 200,000 of emigrants.

Based on these figures, the total number of the Romanian emigrants is estimated by the UN at 3,4 million people, figure which places Romania on the second place in the world after Syria at the level of 2005. (UN report about migration 2015)

The equivocal and uncertain situation concerning the Romanian migration after 1989 can be correlated by the European statistics as destination countries for the Romanian emigrants. According to the published data by the National Institute for Statistics from Italy, the number of the Romanian residents in Italy on the 1st of January 2011 was 969,000 (ISTAT, 2011). The Ministry of Labour and Immigration from Spain mentions the number of 842,000 resident Romanians in Spain in 2011 (Ministerio de Trabajo e Inmigración, 2011,), a total of 1,811,000 Romanians inscribed in the administrative registers of the two countries. "At these figures it is added a number of Romanian people who live on the territory of these two countries without being registered and without being part of the official statistics, that gives a final number of about 2 million people. If we add the numbers concerning Romanian people in other countries representing important destinations of the Romanian migrants as – Germany, France, Greece, Austria, Ireland, Hungary- the total number exceeds 2,5 million." (Ghetau, 2012, p.10-11).

Comparing the censuses from 2002 and 2011 the result is a recession of 2,638,000 persons. Taking into consideration that the natural decrease was of 424,000 persons and the NIS offers the figure of 910,000 persons left abroad for a period of at least 12 months, which means that that 1,3 million from those left abroad were not registered in households within the 2011 census. For this reason Mr. Ghetau proposes the use of the "population estimating equation", assuming all the risks what a this sort of approach can generate.

Hunedoara County and the Migration

In the absence of a clear statistics at national level, we try a statistics at the level of Hunedoara County.

The population of Hunedoara County has manifested after the 1989 December Revolution a continuous decreasing trend and we can say that in certain periods this trend was a massive one, as the following graph shows:

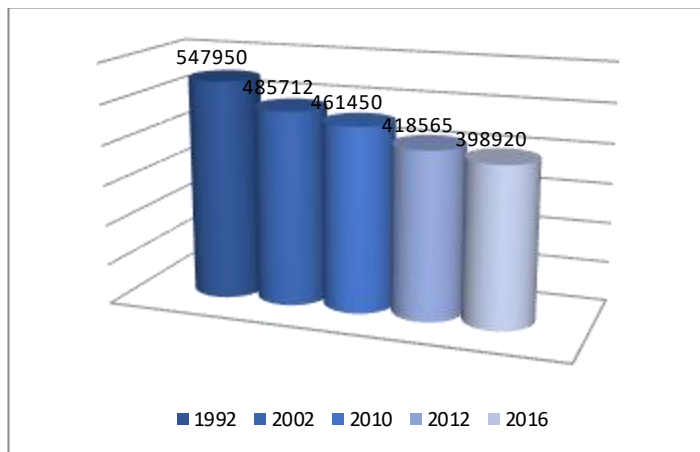


Figure 2. The downward evolution of Hunedoara County (source NIS –Tempo Online database)

According to National Institute of Statistics, in Hunedoara county in 2012 at the last census, there a was a number of 418,565 people as settled population and until 2016 this number decreased to 398,920- an almost 5% diminution, counting from 1992 the decrease is almost of 28% .

Concerning the migration, the number of persons who were temporarily absent- left abroad for a shorter period than 12 months, according to the official figures, was 5,510 and the number of those who were left for a longer period than a year was 15,215. In conclusion, the total number of migrants is 20,725, that represents 4,7% from the total population.

A more accurate statistical situation is that representing the number of parents who have school and preschool ages and they are left abroad, because the teachers know the best the situations of these children.

According to the data provided by CJRAE¹ Hunedoara, at the beginning of the 2015-2016 school year there was a number of 4,340 of children whose parents were abroad. This figure includes the children who were studying in the primary and secondary education system in Hunedoara County, namely from the kindergarten to the 12th grade. In April 2017, when the centralization of data for the 2016-2017 school year was realized there was a number of 4,387 students. We mention that these data were obtained from the internal reports of the CJRAE, this institute usually does not make public this sort of figures. These statistics are realized as a result of centralization of the reports sent by school counsellors from each educational institute.

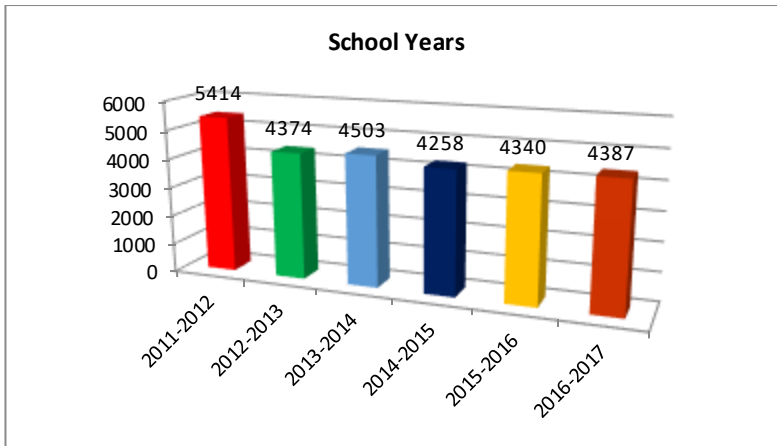


Figure 3. The evolution of the number of children whose parents are left abroad at Hunedoara County level (source CJRAE Hunedoara).

Regardless of the period under review, the most alarming problem by far remains the educational environment in which the children remain, the persons to whom these children would be entrusted after the biological parents left abroad, supposing that they had been taken care of the children's education.

For April 2017 the situation is represented in the following graph:

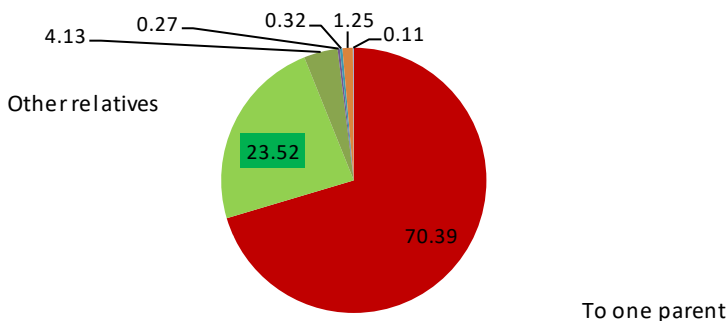


Figure 4. The persons who are taking care of the children whose parents are left abroad (source CJRAE Hunedoara)

¹ CJRAE- Hunedoara Country Centre for Resources and Educational Assistance

From the 4,387 students whose parents were left abroad in the 2016-2017 school year, 547 (12,47 %) had both parents working in foreign countries; 1,538 (35,06%) had their mother left, 2,282 had their father left and 20 (0,46 %) had one parent left abroad without being specified by the educational institutes which one.

A special case is that one where the child comes from a single parent family and this parent is the sole support of the family: in 454 of the cases (76,05%) as sole support - the mother was left left, in 134 cases (22,45 the father was left as sole support and in 9 cases (1,51%) is not specified the sole support parent who was left.

Generally the single parent families are those which confront more difficult problems connected to the support of the child, the single mother sole support families usually confront financial difficulties. (Voinea, 2010, p.16).

Consulting the reports of the AJOFM¹ Hunedoara we can make an analysis the Hunedoara town area and so we can make a connection between the evolution of the number of unemployed and the evolution of the number of children with migrant parents:

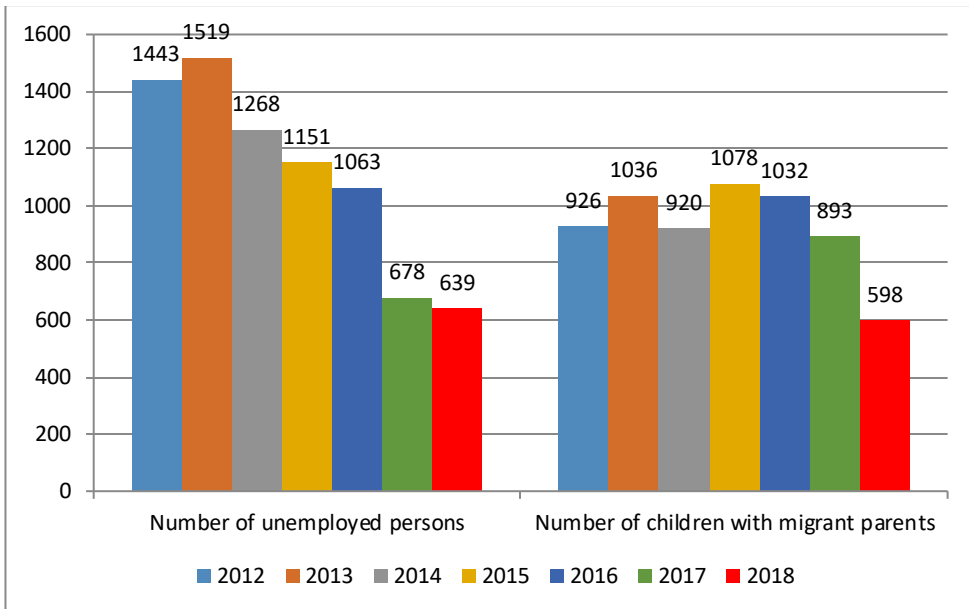


Figure 5. The evolution of the number of the unemployed and the number of the children whose parents are migrants in Hunedoara town (2012-2018)- source AJOFM an CJRAE Hunedoara)

Comparing the data obtained from the AJOFM Hunedoara (the statistics is made each year in August) with the data from the CJRAE Hunedoara (the statistics are made each year in February) we can notice the way how - excepting the year 2015- the downward evolution of the number of unemployed drags a diminution of the number of children who have migrant parents.

The cause of the mismatch for 2015 is the result of the elimination of the restrictions on the British labour market for Romanian citizens beginning with the 1st of January.

Conclusions

In conclusion, it can be stated that

¹ AJOFM- National Employment Agency

The evolution of the unemployment in Hunedoara county is in a tight connection with the evolution of the students whose parents are migrants. With the exception of the 2015 (the year when the effects of the liberalization of the British labour market became obvious), the number of the unemployed and the number of the children with migrant parents has permanently decreased since 2012- this the year when educational institutes started to establish reports regarding the children with migrant parents.

In the most of the cases, the children are left in the care of one of the parents (72%), although there is a large number of children who are entrusted to the grandparents, to relatives or to some close people, the number of these cases has been increasing with year by year.

The year 2013 is marked by an important increase of the number of unemployed, reaching a maximum of 1,519 persons and this is the reason for the maximum level of the number of migrant parents (1,036 cases).

The year 2017 brought an important decrease of almost 33% of the number of unemployed persons by creating opportunities for new jobs. This important diminution is the reason of an obvious decrease in 2018 of the migrant parents with the same percentage (33%).

The reported downward trend of the unemployment at the level of Hunedoara town in August 2018 makes possible to predict a decreasing number of the migrant parents.

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The Impact of Economic and Demographic Factors on Retirement Risks in Albania

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Abstract

C19 The pension system has an important role in developing countries' economies. It is very important in the context of the social security. During the last two decades, pension plan in Albania, has passed important transformation in all aspects. So the first goal is maintaining the stability of this system. The aim of this paper is to analyze the efficiency and sustainability of the existing pension system in the Albania and the identification of key factors, which determine its further stability. We should point out that life insurance market and pension plan in Albania are noticeably underdeveloped compared to other European countries, but in the recent years it has been developing moderately under the influence of various factors. Many economic factors have an impact on it, and some of them are globalization, global economic crisis and expressed instability of financial markets. Other factors like demographic factors: mortality rate, life expectancy and net migration have also impact on retirement risk, but in this paper we will analyze and indicate the most significant economic and demographic factors.

Keywords: Pension system, sustainability, economic factors, demographic factors, retirement risk etc

1 Introduction

After fall of communism system, 1993, "Social insurance in the Republic of Albania" was enrolled and implemented.. This PAYG scheme would be financed through employers and employees' benefits and would guarantee the fulfillment of social-economic rights in the field of life insurance. But in 1995, the financial institutions allowed the implementation of the new voluntary column of private supplementary pensions, for the first time in Albania. This column would provide supplementary benefits for the elderly compared to those of public mandatory scheme. The first private institution started its activity in 2006. The occupation percentage of the third column remains very low for the Albanian market.

In recent years, there are taken a lot of pension system reforms from financial institutions in order to find the best way on this demand. The last reform on this approach was taken on 2015, but there are not seeing any changes from these taken instruments. There are different proposed Plans as solutions of the pay-as-you-go system. The goal of the financial institutions and political reforms is to implement Pension Reforms and creating a financially stable and efficient pension scheme that is based on individual social security contributions, as well that will facilitate the increase of social security contribution growth.

The World Bank offers during all its literature review a three-column system. But going through a detailed observation of this system throughout the countries all over the world and the efforts undertaken to build a sustainable pension system, it is considered as interesting to add two extra columns to then old literature and discuss a five columns pension system. This one is more appropriate for countries like Albania and many other Central and east European countries, which came up from a hard communist regime.

We should underling that the demographic factors are extremely important, not only because of the negative rate between birth and death, but also other factors like unemployment and migration to other countries influences pension system as the revenue from taxes reduce.

Demographic changes and the economic crisis have increased the pressure for pension reform.

As qualitative methods there are used theoretical comparison analysis about pension systems, life tables analyses, actuarial methods, etc. As quantitative research methods the statistical data analysis, forecasting and other financial calculations are used. The paper contains the analysis of statistics of the period from 2011 to 2018.

2 Research results

Overview

The origin of the name “Pension” comes from England term pension (payment), which in its turn derives from pensio, pension, pensus, pendere (consideration, to consider, payment, to pay) in Latin. Historically, in Albania, pension is defined as a material provision of elder citizens or in case of losing ability of work or losing a supporter. The following definitions of the term pension are found in Cambridge English Dictionary:

A regular income paid by a government or a financial organization to someone who no longer works, usually because of their age or health.

An amount of money paid regularly by the government or a private company to a person who does not work any more because they are too old or have become ill.

The payment period usually continues till the end of natural life of the retiree, or sometimes the payments are extended and assigned to the widows/widowers of retirees after their death.

Overview of the European Country and Analysis of the Current Albanian Pension System

Based on the data in the above table, it can be seen that the first pillar pension income occupies the largest share in the overall pension income for most of the observed countries. This is followed by revenues from paid pension contributions in the second and third pillar. The largest revenue in the context of the second pillar of pension insurance is in the Netherlands and the United Kingdom, while the dominance of the first pillar is most common in Italy, followed by Croatia, Germany and France. This distribution of income depends on the structure of the pension insurance system of a country, its executed reforms, demographic trends, economic indicators and historical tradition of individual areas of Europe.

Country	First column	Second column	Third Column	Total
Germany	65%	19%	16%	100%
France	60%	22%	18%	100%
Italy	85%	10%	5%	100%
Netherlands	30%	53%	17%	100%
United Kingdom	30%	45%	25%	100%
Croatia	80%	15%	5%	100%

Table 1. Income from pension contribution paid to the three pillars of insurance in certain European countries (in %) (Source: CEA, Insurers of Europe, statistics report, 2015)

The institutions represent pension systems in the second pillar of the European Union, whose fundamental objective is to solve problems that arise in the system of state pensions (first pillar) caused by demographic and economic fluctuations, especially in times of financial crisis which has affected all parts of Europe in recent years. Such systems can be set up as voluntary or mandatory depending on the organizational form and the degree of coverage of employed in each Member State of the Union.

The experience of recent decades has shown that many countries are transforming pension systems from mono-pillar version to the multiple one. Multiple-pillar pension systems are more appropriate to meet the goals and objectives that a pension scheme should have.

In many Western European countries the term “second pillar” is often associated with the supplementary pension schemes set up under collective labour agreements. Reforms of the PAYG system started in 1993 resulted not so effective and

efficient, so the pension reform is under the main priorities of the Government. The main intervention in this sector was undertaken in 2002 and the last one in 2014. The strategic objective of the Government is to develop the second and the third pillars of pension system, as the first pillar is not any more attractive, due to many changes in Albanian context through years. Based on the solidarity among generations characteristic, the PAYG system provides immediate benefits for retired people, but creates little or no contributions to those who are of working age. For this reason, the unfunded pension system PAYG is vulnerable to risk. PAYG scheme works well when the rate of increase in labour force participation is the same as the rate of natural growth of the population.

The new system born from the new legislation consists on two different columns. The first one is the required column and the second is the additional volunteer one. The funds of this system are uniquely managed by Social Security Institution, a public entity and covered all types of categories. As mentioned, the actual system has got its problems that need to be resolved.

This one new system is more appropriate for countries like Albania and many other Central and east European countries, which came up from a hard communist regime.

Now we can see the Columns that referred to the Pension system Plans:

The zero Column: help with benefits associated with poverty reduction. This Column derives from retirement payments that are made for individuals who have reached retirement age and doesn't have contributed during their lifetime because they were unemployed or because they did not want to contribute to pension schemes.

First Column: This column, mainly tend to protect the elderly from poverty, which is part of the redistributive function of the state. This scheme is called generation relationship, as current contributors pay to get benefits those citizens who are currently retired. This is the so called model of Pay as You Go, the one that Albania is applying.

Second Column: This column is a combination between a private scheme and the public pension system and is based on capitalization or redistribution, but it should be clearly separated from the first column. Under this scheme, part of the mandatory contribution will be administered by the public scheme Pay as you go (current scheme: solidarity between generations), which will guarantee a basic pension while the rest will be administered by private companies. These companies will pay the pension when the retirement age will arrive, based on the paid compulsory contribution along with the gain realized over the years.

Third Column: This scheme is completely independent and not under the state control. Under this scheme, the persons are free to contribute. A voluntary funded and privately managed retirement system. This means that all the people who aspire for higher pensions than normal can become part of these schemes. The private pension scheme is still an area to be explored and needs further reforms in Albania to be real effective.

Fourth Column: This is also a non-funded system. Here, we find more social aspects of the scheme, such as family support, health care, and so on.

The right to receive a pension in one of these schemes belongs to everybody who has reached retirement age. (Blake, 1992)

Demographic Impact on Pension System and his Stability

The challenges of this pension system depend on the country's demographic and economic developments (Holzmann et al., 2008):

Projections in Albania, as many part of the world show that in the near future the percentage of working age population will decrease, compared to the percentage of pensioners. This phenomenon is called "population aging". The aging of the population is accompanied by an increase in the fiscal burden that the government has to afford to pay for pensions. (Baldwin, 2009).

Another important object for accelerating the aging of the population has been immigration. In Albania, the Immigration began after the 1990s as a phenomenon and according to an valuation by the International Organization for Migration (IOM) Albania has had a migratory population rate for the last two decades by the highest number of people in the world. According their analyze, almost 25% of the population migrate and most of them were young men (IOM - Migration in

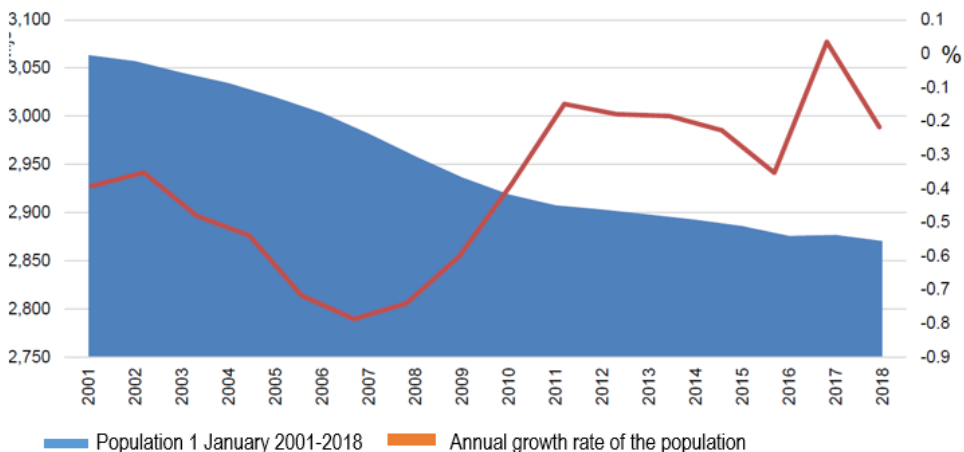
Albania country profile 2016). The Albanian transition from a centralized economy to a free market led to the creation of private enterprises, which at the beginning were more focused on services and were small enterprises. The process of creating new jobs was at very low rates. According to the Labour Force Survey organized by INSTAT in 2017, the unemployment rate was 11 %. According to the same survey, the participation rate in the labour force for the population of 30-64 years old is 77 %, while the employment rate is 68.7 %. The labour market in Albania was also associated with a high degree of informality. Most of the working people do not declare themselves employed, thus avoiding social security payments. (INSTAT, 2018).

The Albanian Social Insurance Scheme is managed by the Social Insurance Institute, which is an independent public institution whose organization and operation is regulated by law. It is governed by the administrative council and the general director.

The mission of the Social Insurance institute is focused in the administration of the social security plan and to pension policies, casing the population with social security elements in each country and time when it is proper, increasing so the number of contributors and collecting income from farmers' and volunteer contributions, improving efficiency in the management of social security funds, temporary free funds and reserve funds.

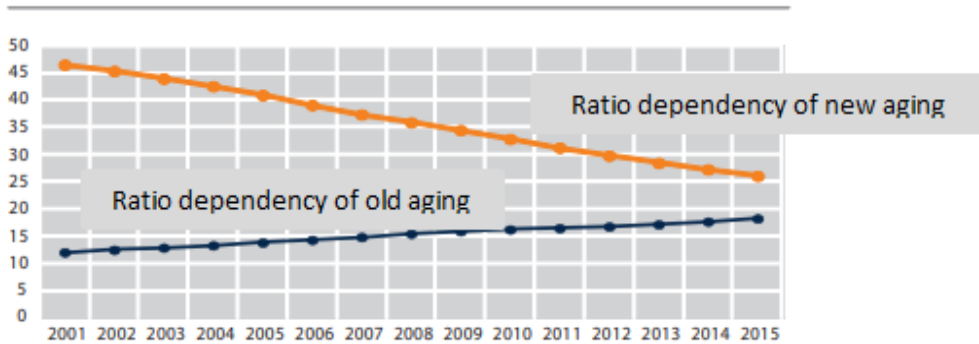
We should take into consideration that pension reforms are needed in order to reduce the risks, which is affected by demographic, economic and politics factors.

Germany, Italy, Portugal and Spain are affected by the most severe demographic problems. As to the UK and France, this problem does not have such an impact on the population due to higher birth rate (Axel, Karsten, & Hendriks, 2005). In case of Albania, the demographic factors are extremely important. Not only the ratio between birth rate and death rate is negative, as it was mentioned before, but also the so called "envelope salaries", unemployment and migration to other countries influences pension system as the revenue from taxes reduce, thus making less contributions to the pension fund. As a result, the state is forced to raise taxes, which slows down the economic development.



Graph 1 Population of Albania from 2011 to 2018 and Annual growth rate of the population (Source: INSTAT 2018)

From the graph 1 we can clearly see that the annual growth of the population is increased based on the passed years.



Graph 2. Ratio of dependency aging. (Source. INSTAT. 2016)

The average population on 2015 has a decrease from 2014 year.

The two main components of the population are: natural population supplements and net migration. Natural populations have declined compared to the previous year by about 31%, as a result of the decrease of births by 8.5% and the increase of deaths by 8.5% compared to 2014. On the other hand the second component, net migration marks the value of -17,000 during 2015, thus giving a significant impact on population cuts.



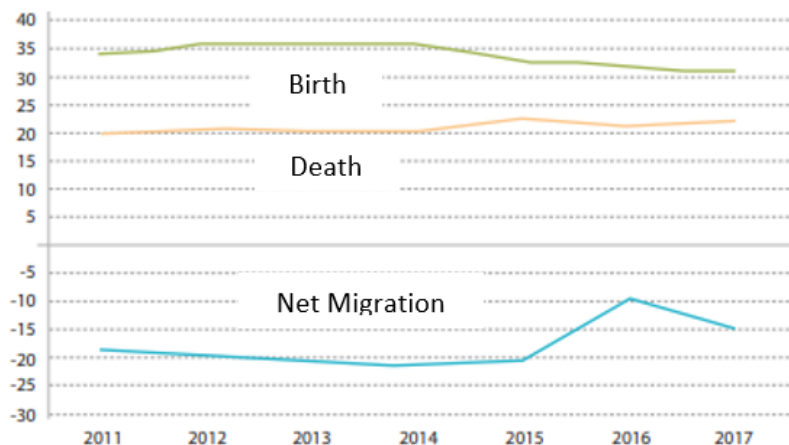
Graph 3. Pyramid of population 1 January 2018 (Source: INSTAT 2018)

The population pyramid gives a clear illustration of the population by age, group and gender. The graph reflects the pyramids of the population for two years 2011 and 2018. During this 7 years period there is a clear tendency towards aging population reduction of the pyramid base as a result of lowering the number of births and increasing in the upper pyramid such as the result of an increase in life expectancy. The dependency ratio of the elderly is calculated as a 65-year-old population ratio over the working-age population of 15-64 years; for 2015 this ratio in Albania is 18.2% versus 12.0% in

2001. (Guxho 2015) This report expresses a growing trend over the years. The ratio of youth dependency is calculated as a ratio of the population aged 0-14 years to the working age population of 15-64 years. This report for the year 2015 is 26.1% versus 46.5% in 2001. Clearly, a drop in this report in our country is almost at its halving. The overall dependency ratio shows a downward trend, as the decline in the youth dependency ratio has a greater effect than the increase in the dependency ratio of the elderly. Thus, the weight to be borne by people of working age, for the support of young people and the elderly has decreased from 58.5% in 2001 to 44.3% in 2015.

Albanians today live on average 1 year more compared to 2011. In 2015, life expectancy for women is 79.7 years and 76.1 years for men. Unlike the general trend 2011-2015, compared to 2014, there is a slight decline in life expectancy at birth for both sexes. During 2015, the number of births decreased by 8.5% compared to 2014. Albanians today live on average 1 year more compared to 2011. (Instat 2018)

Albania's aging population, from 7.6% of the elderly in 2001 today we have 12.6% of the elderly.



Graph 4. Trend of demographic factors in Albania. 2011-2017 (Source. Instat)

Considering the negative tendency of demography and migration, during the following years and economic development the issue of labor approachability will become more and more urgent in Albania. Till now improvement of Albania competitiveness was basically determined by reducing labor costs. However, it should be mentioned, that to maintain the advantages of low cost labor in long term would not be possible under conditions of labor market liberalization and international mobility of the workforce.

This situation will not continue longer, because employees now need to save money for our pensions and help others, but with Albania average salaries it is not possible. Respectively, in order to improve the situation positively, the birth rate should increase two fold from what it is today.

The problems that Albania is facing today and will face over the future ten or twenty years such as migration, low birth rate, aging of society and the changes in national economy and economy, in general, as a result of the crisis leads to the fact that the burden on the social security budget will keep growing.

Initially the aim of Pension Level 2 was not only to increase pension capital, ensuring full value pensions in future, but it was meant to facilitate the development of national economy. It had to become the driving force of national economy.

Currently the money mostly is invested in short-term deposit savings where its profitability is much lower than inflation, so money loses its value. Financial means are also invested in state bonds. Bonds accumulate money for the state budget, which goes to consumption but not into state investments in the long term.

3 Conclusions

The pension system is an extremely important part of the social security of every individual or the society in which it is located. Its sustainability is significantly affected by the economic, but even more the non-economic factors.

Pension fund from the first pillar dominates the largest share of total pension income in Albania, but the second pillar in Albania significantly differ from other observed countries of the European Union.

Current low engagement of improvement reduces the possibility to achieve rapid development of macroeconomic indicators.

Since most of the population represented do not participate in the voluntary pension insurance column the necessity of complete harmonization of the Albania pension system with the European social model will be of great importance in the coming period. They think that the investments from voluntary pension funds are ineffective and they do not have money for that type of investments.

The contributions into Pension Level 2 should be increased gradually, until it is comparative with the Pension Level 1 contributions, making it possible for people to make savings for pensions.

The Albania government has to pay attention to the pension Level 3 system. The accumulation system should be introduced when working people make contributions into private pension funds and receive later pension from those savings that have been made.

In addition, respondents identified themselves as partly satisfied in relation to the functioning of the current structure of the pension insurance system, and expressed their greatest dissatisfaction with the inefficiency of the current system and its long-term unsustainability.

In order to reduce the informal labor force, it is necessary to improve competitiveness of tax system. Reduction of tax burden on business and employment must be achieved.

The demographic changes have an impact on the risk of pension systems. In order to reduce the negative impact of demographic changes on production modernization, it is necessary to encourage increase of professional education and the lifelong education system, by ensuring accordance between labor supply and demand, through putting emphasis on improvement of employee skills and increasing professional mobility.

It is necessary to consider seriously migration issues (immigration and emigration) policy, so that it contributes to a qualified workforce and enhances economical growth. Yes, we might agree, that they help in covering state subsistence costs, but it is unlikely that they will be able to create added value to economy.

As we see the economic and demographic factors have an impact on pension plan. We should try to improve with the political and legal policies in order to reduce the risk of mortality and economic risk. We can suggest making an actuarial calculation in 2 years in order to get better results on actuarial science, so we can predict the right pension system.

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Non-Performing Loans Increase in the Albanian Banking Sector during the Last Global Economic Crisis - An Analysis Based on the Client Groups

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Abstract

Non - performing loans (NPLs) in the Albanian banking sector has become a crucial problem during the last global crisis. In this study, it was aimed to understand the specific reasons of and resolutions for this issue by analyzing the bank loans based on the borrower groups. Since the general increase of the business loans' portion in the total loans has been mostly due to the loans to large enterprises, the focus of the study is on this group. The main factors of NPLs rise by the bankers answered the questionnaire are : financing unrealistic projects, lack of corporate structure in borrowers, wrong lending decisions due to external influences/corruption, negative effects of some government applications, unfair competition in some sectors from time to time, decrease in primary commodities' prices and false external audit. According to 86 percent of them; deeper analysis of potential clients, elimination of external factors' effects and corruption in lending decisions, government measures to prevent unfair competition, establishment of corporate structure in borrowers and more reliable external audit are the most effective remedies while 71 percent of them consider this situation as normal for Albania under its existing conditions. It is suggested that more comprehensive and objective client analysis by the banks, institutionalization in and more reliable external audit of business entities, precise and timely government decisions to prevent unfair competition and launching of new financing methods will cause considerable improvement in NPLs issue.

Keywords: Non - performing loans, Albania, banks, business loans, loans to large enterprises.

1. Introduction

The amount of Non-performing loans (NPLs) in the Albanian banking sector has increased considerably with almost continual movements commencing from 2008, the year when the last global economic crisis started to become more effective with covering almost all the countries in the world. As it started in the USA financial market, it affected more the origin country and the regions/countries those have more internationally related and improved financial markets such as Western Europe. Although Albania, as a developing country in transition period, is not in the category of that countries, she has been affected more than what it could be normally. The main reason of this result is that Albania has very strong economic and social relations with Italy and Greece which have had big economic downturn in this period. The total number of Albanian emigrants in the world is about 1.4 million of which 70-75 percent live in Italy and Greece (<http://www.puneteshatme.gov.al> accessed on 18.02.2017). On the other hand, the number of Albanians who live in the country is 2.876.591 in January 2017(<http://www.instat.gov.al> accessed on 25.02.2017.)By looking at these figures, it is possible to estimate the importance of remittances in the country's economy.

Albania has an underdeveloped financial system. Financial capital and stock market do not exist. The dominant in the system is the commercial banks which buy treasury bills issued by Bank of Albania with their funds not given as loan since there is no other alternative instrument in the domestic market. Albanian financial market is isolated from foreign markets (Garó and Nikolla, 2015). Moreover, Albania is a net importer country. In the period of 2000-2016, the maximum rate of export/import is 47.6 percent in 2013(<http://www.instat.gov.al> accessed on 25.02.2017). The countries with trade deficit usually decrease it in economic crisis periods by benefiting from discounts in prices of some goods. These two economic phenomena normally are not positive things, but would have prevented from being affected deeply by the crisis unless some contradictory factors existed. However, the country has been affected seriously. The factor which has made the crisis more severe is the huge decrease in remittances, i.e., from 951.7 million Euros in 2007 to 592.9 million Euros in 2015 (<https://www.bankofalbania.org/> accessed on 01.05.2017).The general effects of the crisis together with that of the country

specific factor have created liquidity problem which have led to considerable decreases in demand for goods and services. Lower demand has caused less import/production which has raised the unemployment rate from 13.5 percent as at end-2007 to 18 percent as at end-2014 (<http://www.instat.gov.al> accessed on 25.02.2017). The economic downturn has deteriorated the financial figures of business entities and individuals' incomes who are the major borrowers of the commercial banks. The borrowers have started to pay their debts with delay or even no payment at all. The banks, as a reaction to these negative developments, have become stricter in making new loans, especially to business entities. Both factors have led NPLs level to rise considerably with reaching its highest level of 23.5 percent as at end -2013. Apart from the above mentioned factors, the following elements have also caused NPLs to reach such high ratios. In the pre-crisis period, the banks aimed at having a boom in lending activity by giving aggressive targets to their sales units and they generally achieved this aim¹, but usually without making enough investigation about the potential clients and analyzing their financial situation, business/investment plans deeply. By the way, there was no credit registry system, which allows banks to see historical and current credit exposure of physical/juridical persons in all the financial institutions, till 2008. Besides that, in some cases, the banks are forced to give credit to improper enterprises or finance investment projects/existing activities at higher than the generally accepted levels because of pressure by influential people or corrupted relations. Another bank specific factor is mismanagement of credit risk, i.e., weak monitoring till repayment of credit becomes a serious problem, not doing or doing late the necessary arrangements (payment rescheduling, restructuring of loan, capitalization of debt in delay, etc.) for hopeful clients. Borrowers related factors have been effective in this phenomenon too. According to the legislation in Albania, financial statements of all joint-stock companies (Sha in Albanian) and also of limited companies (shpk in Albanian), those fulfill two out of three of the conditions, i.e., yearly turnover ≥ 30 million Albanian LEK (ALL), average number of workers during the year ≥ 30 , value of total assets ≥ 40 million ALL in the subject year, have to be audited by a certified accountant or an audit company (<http://www.ieka.al>, accessed on 24.02.2017). However, some of the certified auditors are not reliable—something normal in a society existing intensive corruption- and thus lead the banks to get wrong/exaggerated information about the business entities. Unrealistic business/investment plans and misuse of credits are the other factors which create bad loans. By the way, the banks took some measures to prevent from using of credits for the unintended purposes when NPLs started to become a real problem. In Albania, there are 24.554 juridical persons of which only 911 are established in the form of joint-stock company as at end-2015 (<http://www.instat.gov.al> accessed on 25.02.2017). This shows that there is no—even in documents- corporate structure in most of the business entities that usually leads to make wrong decisions and thus play role in NPLs rise. Meanwhile, some government decisions/applications and improper governance also made negative effect on repayment of bank credits. In some periods, the government made payments to contractors/sellers (especially in the energy sector) with big delays. Within the framework of the improving regulations in some sectors such as education, activity licenses of some companies were cancelled which led them to go bankruptcy. Moreover, corruption and insufficiency in control mechanism by state officers—especially in foreign trade transactions- and some changes in custom tariffs have enabled to create advantage for importers over producers or vice versa which have created unfair competition from time to time and thus have resulted in getting worse for some companies. Meanwhile, deficiencies in and slow working of the judicial system have created huge barriers and big delays in collateral enforcement. Meantime, primary commodities' prices in the international markets have decreased considerably in general, another factor of this situation as minerals and crude oil are major in Albania's export.

In this study, first of all, it is aimed to identify NPLs levels in the credit client categories separately—firstly as business/retail and then business loans in subgroups- in order to see in details how such huge increases in NPLs have occurred during the examined period. After that, it is focused on loans to large businesses. Because, the loans given to this client group has been making up the major part of business credits which have contributed more to NPLs rise than retails loans. In this case, it is also possible to say that identifying and understanding the factors which affect large entities directly and more than the other borrower groups help us see the country specific reasons behind this huge NPLs increase and bring some concrete suggestions for resolution of this crucial problem.

2. LITERATURE REVIEW

The study, Non-Performing Loans in the Albanian Banking System—Seeing Beyond the Waves—Deloitte Albania, was made to understand the loan quality in the banking system and the actions to improve it. Besides getting information from Bank of Albania and Albanian Association of Banks, a survey was done by getting response from bankers in 15 banks who deal

¹ For example, the growth rate in the loans to private enterprises in 2007 and 2008 became 48.7 percent and 32.1 percent respectively. (<https://www.bankofalbania.org/> accessed on 01.05.2017).

with NPLs. The findings are: 1-The prime reason of huge increases in NPLs level is the economic crisis. 2-A big part of NPLs is in the construction sector and credits over 200.000 EURO (it reaches the highest ration in loans bigger than one million EURO meaning that larger loans are the most likely to create bad loans.) 3-Most bankers believe that real NPLs level is higher than the declared one. 4-High lending target is the key internal factor which makes effect on NPLs rise. 5-The banks are more careful in making new loans, especially to the more risky industries. 6-Poor financial data and planning also lead to NPLs increase. According to the survey results, the banks give more attention to loan monitoring while reducing lending to certain sectors and developing their risk management process, but only seven percent of the respondents see "giving less credit to some sectors" as a remedy to NPLs problem (Zu et al., 2013). In the article, *Loan Management and Its Role in the Lending Process*, it is stated that business loans are used by a limited number of companies in a banking system where generally, the quality of credit staff is low and the role of risk management in making credit decisions is small. There is also no portfolio diversification as most of the business loans are given to construction/real estate and trade sectors. The effects of the following factors on NPLs were tested by using some macroeconomic and the commercial banks' data: real GDP growth, strong lending policy, clear separation between sales and risk management departments, voting right of risk authority, change of credit portfolio level, flexibility in negotiations when dealing with bad loans and number of days that a bad loan goes for monitoring. It was determined that NPLs level has a positive correlation with real GDP growth, strong lending policy, voting right of risk unit in making loans, flexibility in negotiations and change of portfolio level while the others do not have significant effect on NPLs amount (Nazaj and Meka, 2014). Sofika Nazaj analyzed loan making approaches and practices in the last decade by using the banking sector data in her conference paper named, *Adverse Effects of Banking Competition in Albania*. It was determined that funds surplus in the local market before the economic crisis made the commercial banks very aggressive in lending and thus they financed risky projects in an unconsolidated business environment. The consequences of these mistakes in an economic crisis period have become very heavy which have resulted in huge NPLs levels (Nazaj, 2013).

The research study, *Macroeconomic and Bank-Specific Determinants of Non-Performing Loans in Greece: A comparative Study of Mortgage, Business and Consumer Loan Portfolios*, was made to identify the determinants of NPLs for the three loan categories separately. The data used includes the figures of nine commercial banks from 2003Q1 to 2009Q3. The results show that NPLs in the Greek banking system can be explained mainly by real GDP growth rate, unemployment rate, loan interest rates, public debt and management quality. However, the quantitative effect of the factors changes according to credit type. Consumer loans are very sensitive to lending interest rate, business loans to real GDP growth while mortgage loans are the least affected by macroeconomic conditions (Louzis et al., 2012). In the research paper named *Macroeconomic and Institutional Determinants of Non-performing Loans*, macroeconomic and institutional determinants of NPLs rise in some Central, Eastern and Southeastern European countries in 2006-2013 term was examined. Country specific macroeconomic and financial indicators as well as institutional variables were used as independent variables. It was found that NPLs level has a negative relation with GDP growth while in a positive relationship with loan amount in foreign currencies and foreign exchange rates showing that the more credit exposure in foreign currencies, the higher bad loans ratio, especially when local currency losses value against the hard ones. Inflation rate is not statistically significant. Among the institutional variables, only financial markets development level is statistically significant meaning that NPLs level is lower in the countries with more improved financial markets (Tanasković and Jandrić, 2015). In the research article, *The Drivers Behind Household and Corporate Non-Performing Loans Ratio: The Case of Croatia*, the relation between NPLs and Croatia's macroeconomic performance from 2001Q4 to 2014Q1 was analyzed by separating the loans as household or corporate in order to see the similarities and differences between them. The results of the study which was made by using secondary data are: 1-NPLs level for both categories are strongly affected by economic cycles which was proved by using real GDP and industrial production index as independent variables. 2-There is a significant positive relation between corporate bad loans amount and unemployment rate. 3-The relation between credit interest rates and NPLs ratio is positive in the long run, but negative in the short run for both categories (Žiković et al, 2015).

Non-Performing loans in Commercial Banks: A Case of CBZ Bank Limited in Zimbabwe was prepared to find out the causes of NPLs increase in the period of 2009- 2011. The data were collected by interviews and questionnaires. The Findings indicate that the upward trend in bad loans commenced in 2009 when the multicurrency system was adopted. The external factors, namely natural disasters, government policies and integrity of borrowers played important role in NPLs rise while the influence of the internal factors such as wrong credit policy, poor financial analysis, weak monitoring, mistakes in risk management and insider credits remained at low levels. The majority of bad loans occurred in agriculture and manufacturing sectors due to unfavorable climate conditions and imported products with cheaper prices. This situation normally

deteriorated liquidity and profitability of the bank (Mabvure et al., 2012). In the research paper, Management of Non Performing Loans (NPLs) of Banks in Bangladesh - An Evaluative Study, magnitude of NPLs was discussed with investigating into its different reasons. Primary data, which was obtained from 30 managers of the 10 largest banks through questionnaire, and secondary data were used. Political influence was perceived as the most significant external factor of bad loans coming before the national economic downturn. Not giving some important information at evaluation period and misuse of credit are the major borrower related elements of and lack of aggressive credit collection procedure and poor credit risk management are the most important bank related elements of NPLs. The other substantial factors are quick credit approval due to pressure and also high interest rates. Some improvements in assessment of new credit requests have been done through better client analysis and information sharing among the banks (Hasan et al., 2013). The study named The Determinants of Non-Performing Loans in the 'MINT' Economies was made for determining the major factors of NPLs in Mexico, Indonesia, Nigeria and Turkey. The period of 1998- 2014 was analyzed by using secondary data and the following common results were obtained for all the countries. Capital adequacy ratio, return on assets, liquidity ratio and total bank credit amount are the main bank specific elements of bad loans. NPLs is in a significant negative relationship with capital adequacy ratio, return on assets and liquidity ratio while in a very significant positive relationship with credit interest rates, money supply growth, nominal exchange rate and total bank credit amount. It was also determined that corruption has a very strong positive relationship with NPLs (Morakinyo and Sibanda, 2016).

3. METHODOLOGY

In this study, primary and secondary data are used. Primary data were collected by getting response to a questionnaire from the representatives (35 bankers) of all the commercial banks in Albania, who work at managerial positions in the divisions of business credits evaluation/allocation, credit risk/bad loans collection or are managers of big branches. Although it was required to put the given factors in order by using Likert Scale Method in the first two questions, the respondents also had the possibility of specifying other factors which do not exist in the questionnaire and of writing down their opinions if not agreed with the statement in "yes" or "no" questions (appendix 1). Secondary data were obtained from the annual reports of and semi-annual financial stability reports of Bank of Albania. The examined period starts with 2007 as it was the last year before the global economic crisis started to show its effects in Europe. By this way, it can be seen how these figures were before the crisis and to what extent they have changed during this period.

4. DATA PROCESSING AND FINDINGS

As it is seen in the below table, distribution of the bank credits between business enterprises and households has shown some fluctuations, but has changed in favor of business loans in this period (table 1).

Table 1: Distribution of the Bank Loans (in Percentage)

Loan Type/ Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Business	64.2	64	75.7	69.9	73.7	74.1	69	67	73.4	71.9
Retail	35.8	36	24.3	30.1	26.3	25.9	31	33	26.6	28.1

Source: Annual Reports of and Financial Stability Reports of Bank of Albania (2007 – 2016)

In the table below, NPLs levels in business and retail loans are shown separately. As it is seen, they were very near each other before the global economic crisis started to show its effects in Albania and both have increased considerably with continual movements from 2008 to 2012. However, the difference between these two ratios have widened as the increase in business loans have become considerably higher than that in retail loans. Meanwhile, starting from 2013, NPLs ratio of retail loans have shown continual decreases while it continued to increase in 2013 too and then has made ups and downs on business side and also in total loans since a big part of the lending is for business enterprises. A notable decrease in NPLs level occurred in 2015 when the write off process started by the new regulations (table 2). The banks are obliged to monitor the credits, which have been recorded in lost category for more than three years, out of their balance sheets. The amount of written off loans in 2015 is 26.6 billion ALL of which about 21 billion ALL is business loans. In this period, the amounts of total and business bad loans decreased by 29.5 billion ALL and 19.1 billion ALL respectively which shows that the quite big part of improvement in NPLs ratio was due to the write off process and the positive change was only on retail side as the situation in business loans even worsened little. In 2016, although 12.6 billion ALL write off was done, the amount of bad loans increased by 3 billion ALL, which shows that a change for the worse in credits continued though the

improvement in retail credits (<https://www.bankofalbania.org/> accessed on 01.05.2017). Meantime, the relation between NPLs ratio and real GDP growth rate (the main sign of economy) have not been in the way it should be normally in most part of the period when the business loans and total loans are taken into consideration. This indicates that there are also some other factors -except economic downturn- behind the huge increase of NPLs rates in the business loans and total loans (table 2).

Table 2: NPLs Levels of the Loan Categories & Real GDP Growth Rate (in Percentage)

Indicator/ Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
NPLs	3.4	6.6	10.5	13.9	18.8	22.5	23.5	22.8	18.2	18.3
NPLs(Business Loans)	3.6	7.6	12.3	15.5	20	24.5	26	25.1	20.1	21.4
NPLs (Retail Loans)	3	5.5	8.2	11.8	15.3	16.9	16.2	16.1	12.9	10
Real GDP Growth	6	7.5	3.7	3.75	3.17	1	1.45	1.45	2.61	3.45

Source: Annual Reports of and Financial Stability Reports of Bank of Albania (2007-2016)

Meanwhile, the chronic problem in repayment of loans caused Albania to be in the seventh place in the highest NPLs level ranking among the countries for which information obtained (<http://data.worldbank.org>, accessed on 01.05.2017).

In this research, it is aimed to analyze the repayment problem in business loans since the trouble is mostly there. But, before that, it is necessary to see the composition of them in order to better determine the most problematic category and focus on that part. In the examined period, credit to large enterprises has always had the biggest portion among the categories and moreover, its share has increased considerably with reaching its peak of 63.8 percent as at end-2015 (table 3).

Table 3: Distribution of Business Loans (in Percentage)

Loan Category/Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Small Enterprises	31.4	26.5	21.1	18.9	20.1	17.3	17.0	18.9	18.4	22.3
Medium Enterprises	27.5	26.2	26.1	21.6	20.0	19.0	20.6	19.4	17.8	21.3
Large Enterprises	41.1	47.3	52.7	59.5	59.9	63.7	62.4	61.7	63.8	56.4

Source: Annual Reports of and Financial Stability Reports of Bank of Albania (2007-2016)

The questionnaire was realized with the purpose of putting in rank the possible specific factors of having very high NPLs levels in loans to large enterprises and the remedies for the resolution as well as of getting known the factors which do not exist in the questionnaire and the respondents' opinions about this issue (appendix 1). The answers for the first two questions were ranked by using weighted grade method in order to show fairly the respondents' evaluation. The factor which make the most effect on NPLs rise, financing unrealistic investment projects (191 points), is followed in order by: lack of corporate structure in companies (168 points), giving credit to improper enterprises or excessive lending (162 points), government decisions' negative effects on some ongoing activities (148 points), unfair competition in some businesses (138 points) and the last two namely, drastic decreases in primary commodities' prices in the international markets (87 points) and audit by unreliable external controllers (86 points). The factors which do not exist in the questionnaire, but were specified by the respondents are 1-Aggressive lending targets by two respondents.2-Lack of modern managing style and qualified staff by one respondent.3-Change of the destination of investment funds by one respondent. 4- Lack of stock exchange market and concentration of investments in certain fields by one respondent. According to the respondents, a deep and comprehensive analysis of potential borrower's current situation and business/investment plan (153 points) comes first among the factors which lead to considerable decrease in bad loans amount. The other factors in order are: elimination of external factors' power and corruption in decision making process (109 points), necessary measures by the government to prevent unfair competition (97 points), establishment of corporate structure in borrower enterprises (91 points) and external audit by reliable controllers (75 points). Six respondents specified some other factors as follows:1-Better coordination between the commercial banks and the state institutions.2-A specific and tailor made investigation about potential borrower so as to identify the unseen dynamics, influencers and motivators which affect borrower's performance and the other is payment in time by the government for the public works done by the contractors.3-Debt settlement in bankruptcy/bailiff execution cases to prevent from facing with low execution values and the other is to get

credit from the banks where the borrower has no or little loan. 4-Improvement in the legal execution processes. 5- Advancement in the government's fiscal policy. 6- Reducing informal economy so as to have more reliable financial reports. Another result shows that 30 respondents out of 35 agree with the proposed opinion that the factors mentioned in the second question as remedy cause considerable decreases in NPLs level. One of the "yes" said respondents thinks that these factors make positive effect on new loans, not on the existing ones while one respondent who said "no" expressed that only the application of the new bankruptcy law adopted can decrease NPLs amount. According to the answers given to the last question, 25 respondents out of 35 think that this situation is normal for a developing transit economy in an economic crisis period. Five among the respondents who said "this is something special for Albania" stated the followings as country specific factors which caused very high NPLs levels: 1-In a fragile economy, the banks made wrong decisions with inexperienced staff under political interferences and corruption which led to failure and also restructuring or liquidation of bad loans is very difficult due to weak institutions and inefficient judicial system. 2-The major players in the banking sector chose large companies as preferable group for lending in order to reach their targets easily and with the thought that big companies were more stable and better structured than the others, but they did not do proper due diligence about them. 3-The crisis have hit the large companies more than the other borrowers as most of them lack the required management style for them. 4-Aggressive loan targets in a non-established economy.

5. CONCLUSION

NPLs ratio in Albania has shown huge and almost continual increases since 2008, the year when the last global economic crisis started to affect Europe. Although its effect has become more in the developed countries which have improved financial markets, Albania, as a developing country, has been affected deeply due to her very strong economic and social relations with Italy and Greece which have had big economic downturn in this period. The country's underdeveloped and isolated financial market and also being a net importer were important factors to mitigate the negative effects of the crisis, but the big decrease in remittances, i.e., from 951.7 million Euros in 2007 to 592.9 million Euros in 2015. The crisis started with lack of liquidity which has deteriorated the other macroeconomic indicators and thus the borrowers have had difficulties in loan repayments. The commercial banks have reacted to the rise in bad loans by making less new loans, especially to business entities. Besides that, the following elements, which make more effect on business loans, have led NPLs ratio to increase considerably and almost continually with reaching about one fourth of the total credits in the banking system. Firstly, some important mistakes have been made by the banks in lending processes due to inexperienced staff, corrupted relations, influence of powerful people, aggressive lending targets, lack of credit registry system (till 2008) and improper risk management. Secondly, deficiencies in external audit, lack of corporate structure, exaggerated business/investment plans and misuse of loans have played role as borrower related factors. Thirdly, some government applications such as late payment to contractors, new regulations in certain sectors and deficiencies/delays in governance have made negative impact on some companies' activities. Fourthly, slow and ineffective working of the legal system and fifthly, considerable decreases in primary commodities' prices in the international markets are the other factors of this undesirable situation.

In the examined term, the changes in real GDP growth rate usually have not been enough in explaining the huge increases in NPLs level indicating the existence of some other factors except deterioration in the economy. The portion of business loans in total loans has increased and also the share of loans to large enterprises in business loans have risen considerably while NPLs ratio has shown huge and almost continual rises. These parallel changes in considerable amounts mean that large enterprises have made much more effect on NPLs increase than the other borrower groups. According to the responses by 35 bankers to the questionnaire about NPLs in loans to large enterprises, the main factors which cause NPLs are: to finance unrealistic investment projects, lack of corporate structure in borrowers, to give credit to improper enterprises or excessive lending, the effect of some government decisions/applications on ongoing activities, unfair competition in some businesses from time to time, decreases in primary commodities' prices and audit by unreliable external controllers while the major remedies are (by 86 percent of them): a detailed analysis of potential clients, elimination of external factors' power and corruption in decision making process, necessary measures by the government to prevent unfair competition in time, establishment of corporate structure in borrowers and external audit by reliable controllers. According to 71 percent of the respondents, this situation is normal for Albania under the existing conditions of the country.

The general trend of NPLs ratio has been downward since 2014, thanks to retail loans and mostly the changes in write off regulation in 2015. The real decrease has become in a very small rate as the situation in business loans, which has a quite big portion in total credits, has even worsened little in this period. For this reason, NPLs level is still very high and takes place on agenda as one of the most important problems of Albania. Positive change in macroeconomic parameters which

is not expected in the short run, general measures/actions by the banks/related state institutions surely lead to some decrease in bad loans amount, but to make a considerable decrease and bring a permanent resolution will be possible only by lowering NPLs rate in business loans, especially in credits to large enterprises. The suggestions for realizing it are: 1- The banks have to improve their lending management, especially by paying attention to elimination of external factors' influences and corrupted relations as well as better analyzing of potential borrowers. 2- Establishment of corporate structure in borrowers is needed for better management and more precise investment plans. 3- External audit has to be done more seriously and correctly and thus the banks will have more reliable financial information about their credit clients. 4- The government should take the necessary measures to prevent unfair competition without delaying which occurs in some sectors from time to time and also support the producers/exporters. 5- Improvements in the financial system such as launching stock exchange market and private sector bonds are necessary to create alternative financing methods for large enterprises.

APPENDIX A: QUESTIONNAIRE

Having very high levels of Non – Performing loans (NPLs) in the Albanian banking system (18.3 percent as at end- 2016) is currently one of the main issues of the country. NPLs amount has increased considerably with almost continual movements starting from 2008. Meanwhile, in the period of 2008- 2016, the share of business loans in total loans have increased from 64.2 percent to 71.9 percent and also the portion of loans to large enterprises in business loans have risen from 41.1 percent to 56.4 percent. These changes in the same direction indicate that the effect of lending to big companies on NPLs rise has been much more than that of the lending to the other groups.

1- Please rank the factors below according to their influence on NPLs rise in credits to large enterprises (1 shows the biggest effect).

- External audit by an unreliable company
- Giving credit to an improper enterprise or financing an investment project/existing activity at higher than the generally accepted levels because of pressure by influential people or corrupted relations
- Financing an unrealistic investment project
- Unfair competition
- Lack of corporate structure in borrower enterprises which usually leads to make wrong decision
- Government decisions/applications and payments with delay which make negative effect on an ongoing activity
- Drastic decreases in primary commodities' prices in the international markets
- Specify if any other.....

2- Please rank the factors below according to their possible effect on NPLs decrease in credits to large enterprises (1 shows the biggest effect).

- External audit by a reliable company
- Elimination of external factors' power and corruption in decision making process
- Analysis of investment projects deeply and comprehensively by bankers
- Necessary measures by the government to prevent unfair competition
- Establishment of corporate structure in borrower enterprises
- Specify if any other.....

3- Do you think that the factors mentioned in the second question lead to considerable decreases in NPLs level excluding the possible effects of economic recovery and the other regulations/measures by the government/the banks? If "no", please explain shortly why?

4-Business loans, whose big part given to large entities, has a considerably higher NPLs ratio than retail loans. This situation is

- a) A normal result for a developing transit economy in an economic crisis period.
- b) Something specific for Albania.

If you think it is specific, please write down your opinion shortly.

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Some Factors for Growing Savings to Be Well-Thought-Out by Key Actors in Kosovo

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Abstract

The main problem for developing countries is the lack of investment, which consequently limits the country's economic growth. Developing the real sector of any economy is not an issue that should be left to random actors. So, the Government of Kosovo, Bank of Kosovo and Commercial Banks are the three main actors that should be focused on factors that influence the growth of the level of domestic savings. By channeling savings into Kosovo's economy through banks for investments in healthy financial capital, Kosovo becomes economically and politically more developed and independent. This paper based on literature analyses and data processing identifies some of the factors that could affect the growth of savings in Kosovo, as these will lead to higher level of financial capital for entrepreneurs and the continuity of the country's economic growth. Taxation and income levels, demographic variables, confidence and deposit security, banking network, state-owned bank, financial education and financial inclusion are among the key factors of increasing savings. The interest rate is also important factor, but since this factor is often subject of other papers, we did not incorporate it in this paper.

Keywords: commercial banks, savings, factors for growing savings

Introduction

In the emerging economy of Kosovo, commercial banks remain the main channel of financial intermediation. Bank deposits represent the most important component of money supply used by the public and changes in money growth are highly related to changes of output in the economy. For commercial banks to efficiently perform their intermediary role in securing liquidity, they should be well-governed and take into account the factors that influence their growth and sustainability. Bank stability has been a key international agenda by policy makers since the global financial crisis of 2007-2009. One of the goals of the Central Bank for Kosovo is to promote financial stability through regulation. CBK has secured stability to date by adopting the regulatory framework with EU Directives and BASEL Principles.

The issue of increasing savings is of high importance for increasing the Kosovo's economic growth rate and development of the country. "The growth of any economy's output depends on accumulation of capital and capital accumulation requires investment and an equivalent amount of savings to match it. Two of the most important issues in underdeveloped economies and developing countries are how to stimulate investment and how to bring an increase in the level of savings to fund large investments.¹

Commercial banks play a key role in transforming savings into investment. They attract people's savings and ensure the country's economic growth. If a developing country owns a sound financially sound, well-managed and efficient banking system then increasing the level of accumulation of savings in commercial banks is a reliable measure for the economic development of that country². "The private savings ratio tends to increase along with the development of the financial

¹ Anthony Thirlwall, 2002, page 7

²For more, see: Growth and development of financing in transition economies: The role of domestic / domestic savings, 2000. United Nations Economic Commission for Europe

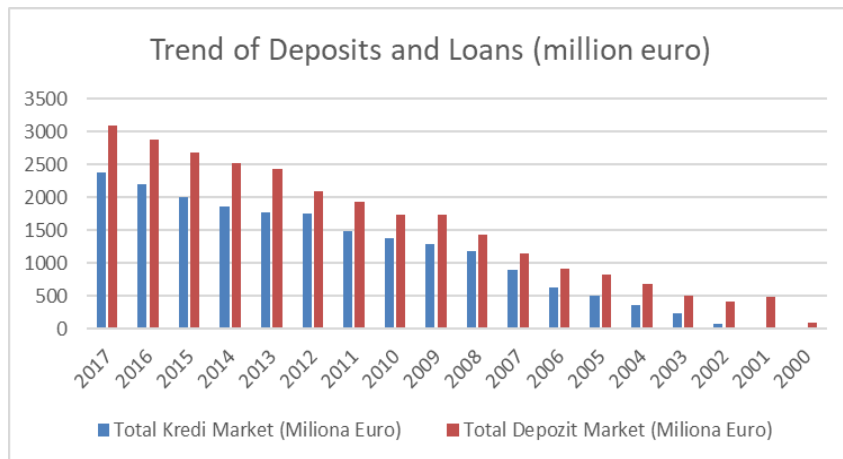
system" ¹. The financial links of people with other sectors of the economy depend on good governance and the level of development of commercial banks and the strategies that ensure the growth of deposits accumulation and investment of them to Kosovo.

Kosovo is lacking the capital market. It is a country of the type of banking market oriented and not financial market oriented. Consequently, it is crucial for Kosovo to have well-developed and developed commercial banks which can increase the accumulation of savings of Kosovars and the use of these savings as they are the only financial institutions under the legal framework in force in the state of Kosovo their allowed and main activity is accumulation of deposits and their investment for the growth of financial capital in the economy.

Bad creditors, nevertheless at a low level for Kosovo compared to other countries in the region, should be legally pursued without any tolerance to ensure that Kosovar deposits are not invested in the wrong direction and also to tighten discipline in the behavior of borrowers. These will ensure that banks have optimal performance as more deposits will be channeled into productive investments and there will be growth in the money and investment markets, thus achieving a healthy economic growth in Kosovo.

Sustainable development will have to rely on domestic financial systems and ultimately for domestic investors to mobilize savings and channel them into productive investment. The banking sector is the main source of finance for the economy by offering loans to individuals, firms and government. Knowing the role that financial institutions have in a country's economy and their growth is a positive step in this regard.

The chart data below shows that the value of deposits increased year-over-year compared with previous years, but there are also two periods with decline of total deposits. The biggest decline was in 2002 where we have decreased by about 87 million euros compared to 2001, while in 2010 we have decreased by about 10 million euros compared to 2009.



Graphic 1. Trends of deposits and loans

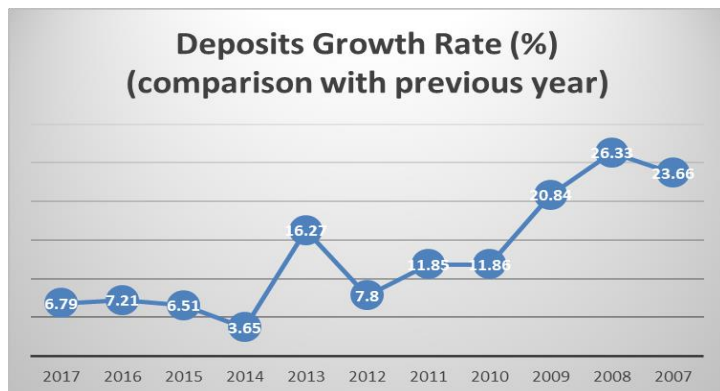
Source: Data published by banks and processed by authors

Such drops cited above also reflect the relationship with the political situation in Kosovo and the state's importance to the stability-enhancing effect of deposits and loans. The trend of loans that appear in blue at the graphic 1, represents lending by banks with a slight upward trend year after year which is strongly linked to the trend of savings accumulation in Kosovo. Despite the fluctuations in bank activity growth, the banking industry is among the sectors with the best performance of Kosovo's economy and has contributed a lot in terms of financing investments.

¹ Koskela E., Viren M. 1983 p. 117.

According to data processing the overall savings of Kosovo will be higher compared to the previous year, as per normal forecast will growing up to 3.915 billion euro in 2022; as per lower confidence forecast will growing up to 3.7 billion euro in 2022; as per upper confidence forecast will growing up to 4.13 billion euro in 2022.

Deposit growth continued to be positive for years now, despite the worrying growth rate which has considerable deviations from year to year and this is shown in the following graph. The growth rate of deposits in industry in the last four years has been at the lowest level compared to the pre-2014 growth.



Graphic 2. Deposits growth rate from 2007-2017. **Source:** Data published by banks and processed by authors

From the data processing and presentation in the graphic 2, above we note that the growth rate of deposits for Kosovo as a developing country to keep growing fast, was up to 2009, despite the fact that double digit growth was also shown in 2013 but this was a casual peak which clearly does not come as a result of clear strategies by Government of Kosovo, CBK or commercial banks for increasing the accumulation of savings of Kosovars. The other periods continue to fall and rise 6.51% in 2015, 7.21% in 2016 and 6.79% in 2017. These rates do not bring Kosovo's required economic growth. So, what is also evidenced by this graphic 2, is that despite the total increase in the amount of deposits (savings) in commercial banks of Kosovo, there is a downward trend in the growth rate compared to the previous year over the last ten years, which is also reflected in the volume of bank investments for the economy of Kosovo.

The factors that determine savings as well as the factors positively affecting investments are a major political challenge for all countries ¹ "Understanding the motivation for savings (at the level of individuals and the community as a whole) is not only of academic interest, but also important in terms of policy implications. Identifying key determinants of savings can help policy makers draft policies to stimulate domestic savings and thus domestic investment. " [Economic Survey of Europe, 2001 No.1].

According to data analyses of Kosovo, there is evidence of a low growth rate of savings and the main actors in Kosovo (Government, CBK and Commercial Banks) do not have a strategy to increase accumulation of savings to ensure increased investment. Taxation and income levels, demographic variables, banking network, state-owned banks, confidence and deposit security, financial education and increased financial inclusion are among the key determinants of increasing savings. These factors will be addressed following this paper. While the interest rate is also an important factor, but since this is often handled in scientific papers it is not addressed in this paper.

Taxation and the level of income

Encouraging the growth of savings through taxation policies is a well-known model applied by different countries. In Kosovo there is not yet a government action plan for studying the application of this model. "Some studies have shown that tax policy has a positive impact on the real sector and is an important tool not only for stabilization but also for promoting savings and capital."²

¹ Zhou Xiaochuan, 2009).

² Peter V, Peter R. 2006, p. 36.

Tax incentives to boost savings are needed to apply in Kosovo. Applying appropriate taxation policies based on income benefits that people receive from investments. Types of incentives for Kosovars may be tax deductions for the amounts invested in pension investment funds and special savings accounts for studies, purchase of the first home, etc. The introduction of special bank accounts that would allow people to deposit a sum of money without taxation of accrued interests within the few years is one of the methods of promoting tax savings. Higher revenues allow higher levels of savings, which in turn are likely to be held in savings accounts in commercial banks¹. The level of income directly affects the amount of savings, and also increases the predisposition to save. Increase in household income will lead to an increase in investment potential in the Republic of Kosovo. Increasing the size of the income will be associated with even greater savings. Savings of people is one of the indicators for living standards of the country.

2. Demographic variables

Demographic variables are considered important as determinants of household savings. The population structure affects people's saving behavior. "In the basic life cycle model, household age distribution has an impact on individual savings rates, because household savings rates are supposed to change with their age. An increase in the proportion of older households in the population is expected to reduce the rate of aggregate savings because retired families are supposed to eliminate or at least save less than those of working age. Similarly, an increase in the percentage of the working age population is also expected to reduce the rate of aggregate savings for each person, as parents spend a large part of their income in caring for their children."² Referring to the statistics on the age structure of Kosovo population there are: for the age group 0-14 years: 25.01% (male 246.281 / female 227.718) for the age group 15-24 years: 17.22% (male 170.515 / females aged 55-64 years: 7.92% (male 75.964 / female 74.170) for the age group 65 years and over: 7.28% (male 57,965 / female 79,945). Based on data analysis, the population growth factor is favorable for Kosovo, as the population is young and most of working age. The number of new generations prevails over the older generation. The new, energetic and growing population predicts long-term economic growth. This factor increases the likelihood of an economy for growth and contributes to the growth of aggregate savings in the country.

3. Financial education and inclusion

The link between education and financial inclusion can be understood in the context of the theory of financial growth. The essence of the theory of financial growth³ is that financial inclusion creates a productive environment for economic growth. This theory supports financial stability, which is a condition where the financial intermediation process works smoothly. While [9] Spratt (2010) writes that "the success of economic growth depends on the level of financial involvement, composition and stability of financial institutions. Thus, the existence of a financial education and financial inclusion carried out by an energetic financial sector has economic growth effects".

Therefore, the deepening of education and financial inclusion is a reflection of growth in other sectors of the economy. Financial institutions to support financial inclusion, they should be financially viable. Another theory that provides an explanation for the possible relationship between financial inclusion and bank credit risk is the financial intermediation theory. The extent of involvement has an impact on the level of stability as confirmed by the literature. Financial market is seen as the place which bring together the parties they spend and the parties that save. Without a financial advisor (broker), all investors (who do not have financial education) are involved in illegal long-term investments that give high benefits to those who consume later.

The effect of education and financial inclusion on the credit risk of a bank can be seen from the perspective of the theory of financial asymmetry. Asymmetry of information arises when a party to a debt contract has better information than the other party. The theory proposed by [10] Akerlof in 1970 shows that it may be difficult to spot a good sign from bad borrowers. [11] Richard (2011) writes that: "The moral hazard and negative outcomes of the asymmetry of information between borrowers and lenders may contribute to credit contractions, thus affecting performance and stability. Moral risk is the risk that a party to a transaction provides fraudulent information about its assets, liabilities or lending capacity. This is noted to be contributing to non-performing loans".

¹ Adusei, 2015.

² Bérubé G, *Côté D* 2000, p. 5.

³ Bagehot, 1973

Commercial banks in Kosovo that are mostly seeking profit should be much more engaged in financial involvement. Due to the change in the landscape of financial involvement by commercial banks, it is important to understand its implications for their stability. Most of the early studies have found that increased financial inclusion improves the quality of banking sector assets. However, other studies have revealed potential threats caused by financial involvement in lending to those previously excluded from the banking sector [12] (Gokhale, 2009; Allen et al., 2012; Khan, 2011). Meanwhile, another study suggests that financial inclusion and financial stability have a relationship and that synergies exist between them [13] (Adasme et al., 2008; Cihaki et al., 2015). This is also evidenced by [13] Hanning and Jansen, who conclude that: "Increasing financial access through financial involvement changes the composition of clients in terms of saving and borrowing behavior. These compositional changes can support financial stability through diversification of risk" [14] (Hanning & Jansen, 2010).

According to the Global Partnership for Financial Inclusion (GPII) and G-20, financial inclusion has become an important component of financial development. Increasing access to financial services for many citizens should be a priority for policymakers. The recent decade has witnessed many initiatives from emerging economies, in fostering the financial inclusion agenda. [15] (Demirguc-Kunt et al., 2015). Multilateral agencies, including the IMF, the G20, the Alliance for Financial Inclusion (AFI), and the Advisory Group on Assistance for the Poor (CGAP) have also been active in increasing the financial inclusive banking agenda. The 2007-2009 Global Financial Crisis (GFC) tested the rationality of financial inclusion when bank failures were accompanied by financial involvement (Cameiro & Ghosh, 2008). Financial involvement has also been associated with improving financial performance [16] (Allen et al., 2012). Despite the continued importance and attention to financial involvement and the claim that the global financial crisis has been accelerated by the lack of financial inclusiveness, there is still a lack of empirical evidence to bring this to the conclusion. In addition, there is little awareness of the effect of micro-level or banking-level involvement, as most studies are conducted at sectoral level with several studies that deal with individual banks [17] (Allen et al., 2012). Allen states that: "Financial inclusion can be measured using some dimensions, breadth, availability, accessibility, and usage. The availability dimension is used to calculate the expansion of the financial sector in terms of the physical network of banks, as physical distance from the financial point of view of financial services is considered to be an important obstacle to financial inclusion [18]" (Allen et al., 2014).

Referring to a country in the Southeastern Europe, similar to Kosovo, during the global crisis of 2008, Montenegro moved from rising deposits by 94 percent¹ in 2007 to move to a decline and not a rise in deposits - 8 percent in 2009. At the time of financial stress or crisis, depositors worry, they can turn to banks urgently and withdraw their deposits [19] (Diamond and Dybvig, 1983, Shin, 2009). Large depositors are usually the first to compete to make withdrawals of their deposits from commercial banks [20] (Huang and Ratnovski, 2011). Under the law of large numbers, withdrawals related to deposits can be mitigated if bank deposits are more diversified. Greater diversification of deposits can be achieved by enabling a wider access to and use of timely bank deposits, including a larger proportion of the adult population in the use of timely bank deposits. Based on this assumption, wider financial inclusion in time bank deposits can significantly improve the sustainability of banking sector financing and thus overall financial stability [21] (Cull et al., 2012).

Greater financial involvement, including access to savings, may also increase financial stability indirectly by offering individuals, families and small businesses a greater access to financial risk management tools. This larger financial approach can improve the elasticity and stability of the real economy and thus the financial system that serves it [22] (GPII, 2012; Cull et al., 2012; Khan, 2011). At the banking level, the concentration on the accumulation of retail deposits can create a more varied and sustainable financing base that is less vulnerable to changes in market interest rates and a bank's financial standing.

At the country level, education and financial inclusion may increase financial intermediation efficiency by mediating larger amounts of domestic savings and thereby improving the sustainability of investment financing and investment cycles. Provided that the quality financial infrastructure and competent supervision are implemented, such improvement will produce greater economic and financial stability [23] (Prasad, 2010; Cull et al., 2012).

¹ Access to Bank Deposits and the Growth of Deposits in the Global Financial Crisis by Rui Han Martin Melecky. JEL Classification: G21, G01, G28, G32

If no investment is made for education and financial inclusion from developing countries such as Kosovo, banks with a larger Loan-to-Deposit indicator may be considered from potential depositors' point of view that they are more generally vulnerable to bankruptcy risk.

Thus, support for education and greater financial involvement of Kosovars will help increase the stability of the banking sector by mitigating the weakness of the bank deposit base. The coefficient estimated by the WB study on the [24] Honohan (2008) and DK & K (2012) variables measuring access to deposits shows that a 10 percent increase in the share of people having access to bank deposits can mitigate the fall in growth deposits (or deposit withdrawals rates) by about three to eight percentage points. Increased banking financing strength can support the overall financial stability of the banking sector and the entire financial system

4. Increased confidence and secured deposit amount

The problem of transforming savings in investment is of particular importance for the development of the republic of Kosovo. Redistributing the financial resources of those who are in possession to those in need is essential to the economy. Thus, savings and investments are interlinked.

To transform savings into investment, savings should be accumulated from commercial banks in Kosovo. The mobilization of population savings by commercial banks is the most important type of relevant banking operations in Kosovo. For people in order to deposit their savings on bank accounts, it is necessary to ensure the confidence of depositors through good governance by commercial banks, ensuring transparency and symmetry of information on any product and service offered to Kosovo bank customers.

Macroeconomic indicators of Kosovo, such as gross domestic product, macroeconomic policy, inflation, unemployment and interest rates, are indicative of the overall economic situation of the country. They affect the extent to which Kosovo citizens use the financial sector. The most favorable macroeconomic conditions are expected to increase the confidence for depositing in the banks of Kosovo. [25] Mohrotra and Yetman, 2014, noted that financial stability could increase confidence in the financial system.

It is also necessary to develop a more effective mechanism for guaranteeing and protecting the deposit of people, which will increase confidence in the banking system. The use of security mechanisms to transform savings in investment is of great practical significance. One of the solutions to the problem of increasing the confidence of the people in the Kosovo banking system is the increase of the amount of insured deposits. The amount of deposits secured by the state in Kosovo to date is € 10,000 according to the Law on "Deposit Insurance" of the Republic of Kosovo. If we are referring to other countries in the region, this amount is several times higher. It is time to think that Kosovo will increase the deposit amount as measures taken to protect the rights and legitimate interests of depositors and increase the financial stability of financial markets and people's confidence in Kosovo's commercial banks.

The large number of small individual or household savers can potentially contribute to the stability of the financial system [26] (Cull et al., 2012). [27] Khan notes that "Low-income depositors tend to maintain viable financial behavior through the business cycle. Therefore, during crises, deposits from low-income customers usually act as a continuous source of funds even when other banks' funding sources sink or become difficult to attract. Small consumers in this way offer great opportunities to mobilize sustainable deposits "

The global crisis showed that steady sources of domestic retail funds, unlike international borrowing funds, could greatly increase the health and sustainability of financial institutions and reduce revenue volatility of a country [27] (Khan, 2011). The diversified financing fund of financial institutions has played a role in mitigating the impact of a global credit (wholesale financing) on domestic financial intermediation [28] (Hannig and Jansen, 2010).

If will increase the number and the amount of retail depositors, who are covered by Kosovo Deposits Insurance Agency, it will contribute to the stability of the financial system. Khan notes that small depositors tend to maintain viable financial behavior through the business cycle. Therefore, during crises, deposits from low-income customers usually act as a continuous source of funds even when other banks' funding sources sink or become difficult to attract. Small consumers in this way offer great opportunities to mobilize sustainable deposits [27] (Khan, 2011). In times of stress, secured depositors have proven to be the most reliable source of bank financing and, consequently, play an integral role in liquidity risk mitigation [29] (OCC, 2012).

5. Banking network

There is a link between the commercial banks' deposits and the expansion of the commercial banks network. Not only are deposits increased by the presence of the banking network but also the expansion of the banking network is also influenced by the deposit level potential in each area / city / village. Banks make decisions to expand their presence with a banking network taking into account factors such as level of competition, deposit potential, regional income and infrastructure existence. Deposit potential is a reason that banks consider in the strategy of expanding their banking network. There is a long-term relationship between the banking network of commercial banks and the commercial banks' deposits. It has often been argued that the growth of the banking network stabilizes the banking system by facilitating the diversification of bank portfolios [30] (Mark Carlson and Kris James Mitcher, 2006).

From the research of literature for the effect of banking network over deposits increase, we note that the expansion of commercial banking network leads to more stable banking systems, enabling banks to diversify their assets and expand their deposit base. [31] Daniel (2005) states that: "The lack of widespread banking networks hampers the development of large-scale industrial firms. It is said that unit banks (centered only on one branch or capital) become increasingly incapable of receiving deposits from all the cities / areas of a state. Also, these types of banks are not able to monitor geographically widespread debtors as easily as it could with a banking network spread across the country." An articulated argument in the literature is that banking networks stabilize banking systems by reducing their vulnerability to local economic shocks; the growth of the banking network enables banks to diversify their loans and deposits into a wider geographical area or diversify their customer base. While, banking network constraints have been linked to the instability of banking systems.

The availability of banking services was represented from the point of view of penetration of banks, ATMs and agents [32] (Mostak & Sushanta, 2015). For accessibility, the number of bank deposits, loans and mobile accounts for 1000 adult adults was used to integrate the depth of financial access. The size of the use included the volume of loans plus deposits in relation to GDP [33] (Beck et al., 2014). This study used the Financial Inclusion Index (IFI) developed by [34] Sarma and Pias (2011). The index captures information on the three dimensions of financial inclusion in a single number ranging between 0-1, where 0 means complete financial exclusion and 1 indicates full financial inclusion. [35] Chiba (2009) noted that "commercial banks have taken actions to address financial inclusion by designing new services and products targeting low wage and poor earners all over the world. Investing in accumulated deposits is their biggest single and largest source of income".

From commercial banks' reports in Kosovo in recent years there has been a restriction of the banking network by some banks which has affected a contraction in the share of deposits and loans owned by these banks in the Kosovo banking market. Referring to the table below, commercial banks since 2013 seem to have reduced the number of agencies / offices from 245 to 183 in 2017 across the country on the basis of their spending reduction targets.

Banks network	2013	2014	2015	2016	2017
Banks	9	9	10	10	10
Branches	44	45	45	45	45
Agencies	245	223	210	207	183

Table 1. Banks network in Kosovo. **Source:** Data published by banks and processed by authors

The pronounced decline of banks with capital from EU countries in Kosovo has also been influenced by parent bank policies which have shrunk in their growth strategies, limiting the banking network, staff reductions but also interest rates on deposits maximizing profit. Despite that for 2017, it turns out that about 357,300 accounts have applied online banking by enabling banking services to make payments or to check the account balance over the internet. The latter have seen a significant increase thanks to investments in technology and encouraging the rapid growth trend in the use of electronic payment instruments in Kosovo.

6. The role of a state-owned bank

For small and developing countries, it is very important to collect domestic savings and utilize savings accumulated in domestic investment. The phenomenon of Greece and some Latin American countries whose budget deficit has been financed by foreign investors, with external debts, is well-known. Due to the lack of tax revenues they passed into an

economic crisis. The Asian financial crisis in 1997 is one of the typical phenomena where speculative foreign capital suddenly hit countries such as Thailand, Indonesia, Malaysia, Korea, etc. These speculative attacks from the outside created panic and financial instability in their domestic economy.

Ensuring proper functioning of banks should be the first priority for all governments. The role of the bank is to increase and maintain deposits of households, businesses and institutional organizations, as well as finance the real economy. The banking system should be governed by a clear legal and regulatory framework. Also, might be a good measure setting the maximum limits for the size of each bank to the GDP of the country where they operate, in order not to repeat the "Too big to fail" phenomenon of 2008. After the financial crisis of 2008, many banks' shares came to the hands of the state in the United States, England, Spain, France, Belgium, Germany and other countries.

The coordinated actions of governments and central banks during the 2008 global crisis to save financial institutions, which were considered too large to fail, saved the banking system from total bankruptcy in the US and Europe. The US gave the sum of \$ 16 trillion to keep the banking industry from failing to go bankrupt. These experiences showed that private equity banks (such as Bear Stearns, Lehman Brothers, Citigroup, Royal Bank of Scotland, etc.) were systematically risky through their bad management

In today's world post-crisis situation, commercial banks choose to write-off the loans, clear balance sheets and manage bad loans, and then might lend new loans, resulting in less liquidity for the real economy, which in turn has serious negative economic and social effects by causing businesses and individuals to go bankruptcy, unemployment increases, and social problems intensify. Each state should have an analysis of whether a bank should be owned by it. As the world experience and relevant literature has shown, only 25% of economic recovery is realized without credit.

Instead of governments supporting and encouraging private commercial banks or international financial organizations to provide more soft loans, the solution can be found with domestic financial resources that can be accumulated through state-owned bank as they offer more trust for savers, wide banking network and then invest in the country's economy.

State-owned banks must act for the general purpose of developing a country according to the economic policies of the respective country. The bank should be a useful tool for practicing politics, not a tool to replace commercial banks. The importance of a state-owned bank increases in periods of recession and deflation, where conditions are created to reduce liquidity. State-owned banks should have the means to limit the adverse effects of the above phenomenon by providing low interest rate loans and longer repayment term to overcome the crisis cycle and in order to establish the economy mechanism in movement

The state-owned bank does not focus on increasing profitability and returning ROAE to shareholders, but in fulfilling development planning requirements and completing of the needs of society. In some developed countries, they have begun to discuss the necessity of creating state-owned banks, as it has been shown that even private banks lack the ethical and professional management, but also do not respond in a coordinated manner to the monetary policies and needs of the country. In the US, the creation of state-owned banks has found some supporters. The example of the North Dakota Bank, which based on accumulating deposits offers low interest loans to students, small businesses and businesses under construction, cooperates with private banks in buying home loans and buys municipality bonds has now become the center of discussion between financial districts and bankers in USA. North Dakota Bank and its mode of operation is one of the main reasons why the North Dakota state shows the lowest level of unemployment and bankruptcy in the US.

We note that public banks account for 40% of the number of banks around the world, most of which are in developing countries and where the impact of the recent crisis was much smaller. Germany, Brazil, Japan, Singapore and China are examples of countries that did not hit the economic crisis and have state banks. In Europe we see the creation of development banks, with the latest examples of France and Andalusia in Spain, which copied the German model of success of the KfW. People need to know that KfW, and other development banks and banking institutions are excluded from the exceptionally high capital adequacy standards presented by Basel (standards affecting the bank's capacity to provide loans).

The case of Japan that owns the Public Post, which carries out banking activity, and has the main role in the accumulation of domestic savings. The Japan Central Bank annually conducts a household savings survey. The results of survey were: Closeness with the branch and office network was the main reason for depositors in the selection of the financial institution where they would deposit their savings and another reason was security (confidence). In Japan there are 24,700 nationwide

post offices. On the other hand, there are only about 3,500 banking branches in Japan. Due to geographic distribution and proximity to customers, post offices attract most depositors in Japan.

The state of Kosovo does not own any state-owned banks, and to date there has not been a study or initiative for this. Also, Kosovo does not have credit savings associations that can have a special role to play throughout the system. These savings credit associations may be the first cells of another type of economy, especially at the local level, and in cooperation with a state-owned bank could contribute to supporting and developing Kosovo's agricultural production in order to increase the pace of the country's sustainable economic growth.

The significant difference between a state-owned and a private bank should be absolute transparency based on a clear legal and regulatory framework for any money investment. The bad management phenomenon, government interventions, and free credits should be hampered by the use of money. Otherwise, there will be strong criticism and confidence will shake and many citizens would seek to close the state-owned bank. At this point we can mention the practices and experiences of state-owned banks in former Yugoslavia and Albania where there have been phenomena of mismanagement by the administrators of state-owned banks. So, experience has shown that state-owned banks are used by country politicians. Intervention by political leaders for the employment of special employees or for obtaining loans for business-friendly interests. In order to reduce the existing risk of political interference, there should be a legal and regulatory framework that will determine the transparent mode of operation and decision-making method and will allow control of the state-owned bank.

The role of state-owned bank is not to perform a fierce competition with private commercial banks. State-owned bank may act in a complementary way with private commercial banks to accumulate deposits and provide loans to those whom commercial banks cannot serve. The purpose of state-owned bank is not to have a high rate of ROAE. It should be clear that the state-owned bank should not participate in the investment in stocks, derivatives and toxic products. At the same time, any funding they provide should be the product of a broad study to avoid the creation of "bubble" conditions, for example in the immovable property market and their internal procedures should be clear and strict rules to prevent their administration from lending under political pressure.

CONCLUSION

The current savings of Kosovars have served as the main potential of financial resources for capital investment in Kosovo and banks have their contribution to the development and growth of the economy of the independent state of Kosovo. Finding out that Kosovo is a banking market-oriented and no financial market-oriented country, it makes commercial banks having a crucial role for growth or decrease of Kosovo's economic growth.

Analyzing the low growth rate of savings in Kosovo during these last 4 years, it is required that key actors in Kosovo (Government, CBK and Commercial Banks) should be engaged to increase accumulation of savings and provide incentives for entrepreneurs to maximize resource use (production factors) for the production of goods for consumption and sustainable economic development of Kosovo. To support Kosovo's economic growth, it is necessary the commitment of Kosovo's government in drafting appropriate policies and models to support the country's sustainable macroeconomic development through the use of fiscal policy, financial education and financial inclusion; the CBK's commitment to ensure optimum performance of licensed banks in Kosovo and maintaining financial stability; engagement of good corporate governed banks to ensure their development and increase the accumulation of Kosovars savings and transform these savings into investments for the Kosovo economy. Well-governed commercial banks facilitate the flow of funds from savings in investment.

Referring to the practices of some developed countries but also to some emerging countries, if Kosovo continues to have a low rate of increase in savings, high difference between deposit and lending interest rates, and non-financing of production and agricultural sectors from private commercial banks in the country, the state of Kosovo should consider the possibility of establishing a state-owned bank to increase deposit accumulation and investment in Kosovo's manufacturing and industrial development sectors.

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