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Section 1. Economic of population

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PENSION SYSTEM MODELS BASED ON THE EXPERIENCE OF FOREIGN COUNTRIES

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Abstract

The financial threats of the pension system and the aging of the population are noteworthy in all countries of the world, that is why experts are constantly working to alleviate the mentioned problem.

Pension indexation is an accepted practice around the world. The majority of countries use the inflation method for pension indexation, in order not to decrease the purchasing power of older people, in spite of increasing in prices.

The accessibility and structure of pension systems in the world vary widely according to various dimensions: the number of participants in the system, the replacement rate, the type of financing, and others. It is clear that the design of the pension system greatly affects on the number of participants in it.

The paper aims to analyze the pension models of developed countries, analyze their advantages and disadvantages.

Keywords: *population aging, indexation, pension system*

Introduction

In 21st century, almost every country recognizes the social rights of people and fights for the protection and expansion of these rights. While talking on the social protection, we should pay attention to the pension insurance system, because it is the most important part of the state and ensures to maintain dignified old age.

According to the data of the united nations, the number of elderly people (60 years

and older) will consist of 21% of the world`s population by 2050. Exceeding the number of pensioners over the number of able-bodied people negatively affects the pension system and, accordingly, the social situation of the country. Exceeding the number of pensioners over the number of people able to work has a negative effect on the pension system and accordingly on the social situation of the country. As a result of it, the state is forced to increase the social costs, what causes an

economic crisis, that's why it is necessary to develop a mechanism of accumulative pension insurance.

Today there are many large pension systems in the world, which are the guarantors of carefree old age and they have become one of the largest investors as well: they own shares and bonds of the largest companies around the world.

Pension systems have been developed and improved in parallel with the development of humanity, the main purpose of which was to replace the average income on per capita during the working age in such a way that it would improve the living conditions.

Therefore, pension replacement rate has become a measure for evaluating the system of a particular country. The replacement rate in the pension system of developed countries is within 60–80%, in developing countries 15–30%. In the contemporary period, the development of pension policy is still a major component of debate in many countries of the world. Many developed and developing countries are still in the process of establishing of pension system, the goal of which is to ensure adequate retirement income, fiscal sustainability of pension costs and more effective response to demographic changes of the population.

Literature review

Pension funds, investment flows, ratios and the general pension system have a great influence on the economic growth of any country of the world and therefore this issue is in the center of attention of many researchers and economists research.

Martin Kavinsky and others (2012) paper reviews various types of protection mechanisms of pension system of selected central European countries. He reviews both the mandatory and voluntary retirement markets, identifies existing and possible threats in the existing framework, which may harm the social security. The paper comes to an end with a general evaluation and policy recommendation.

Olivia Mitchel and others (1995) in their paper discuss pension systems in the long-term perspective of the economies of developing countries, aims the restructuration of fiscal policy.

The paper aims to evaluate the income system and labor market by defining the

goals of a well-functioning pension system, as well as outlining the risks, which should be taken into account while developing a sustainable pension system.

In the study of Fisnik Morina and others (2022), authors aim to analyze the impact of pension assets investments on economic growth of selected non-OECD countries by taking into account gross fixed capital formation, inflation, public debt and others. In order to conduct econometric analysis in the study, authors rely on the secondary data, published in annual reports of OECD, world bank and IMF. Based on the econometric results of this study, authors conclude that investing the assets of the pension fund had a positive effect on economic growth of OECD selected countries (2002–2018). The authors, through the scientific paper, provide new scientific evidence to the governments and policy makers of these countries how to develop appropriate strategic investment policies to ensure economic growth and efficiency in capital markets.

Considering that, most of non-OECD countries are developing and transition economies, the importance of this study is that authors with the empirical conclusions emphasize the importance of pension fund investments in global financial markets and the effect of these investments on the economy.

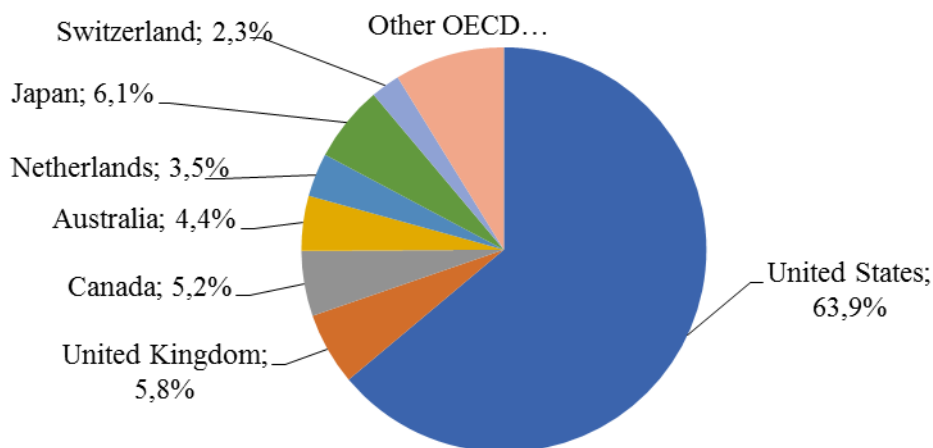
James Stavely and others (2016) review the influence of pension system structure on private savings and through them on the total foreign assets of the country. The paper presents the model of two countries, which studies the relationship between the size of pension guarantees and between the choices of workers portfolio.

According to the authors, a large number of pension costs is connected with the international debt, long share positions and short debt positions.

Pension System Models

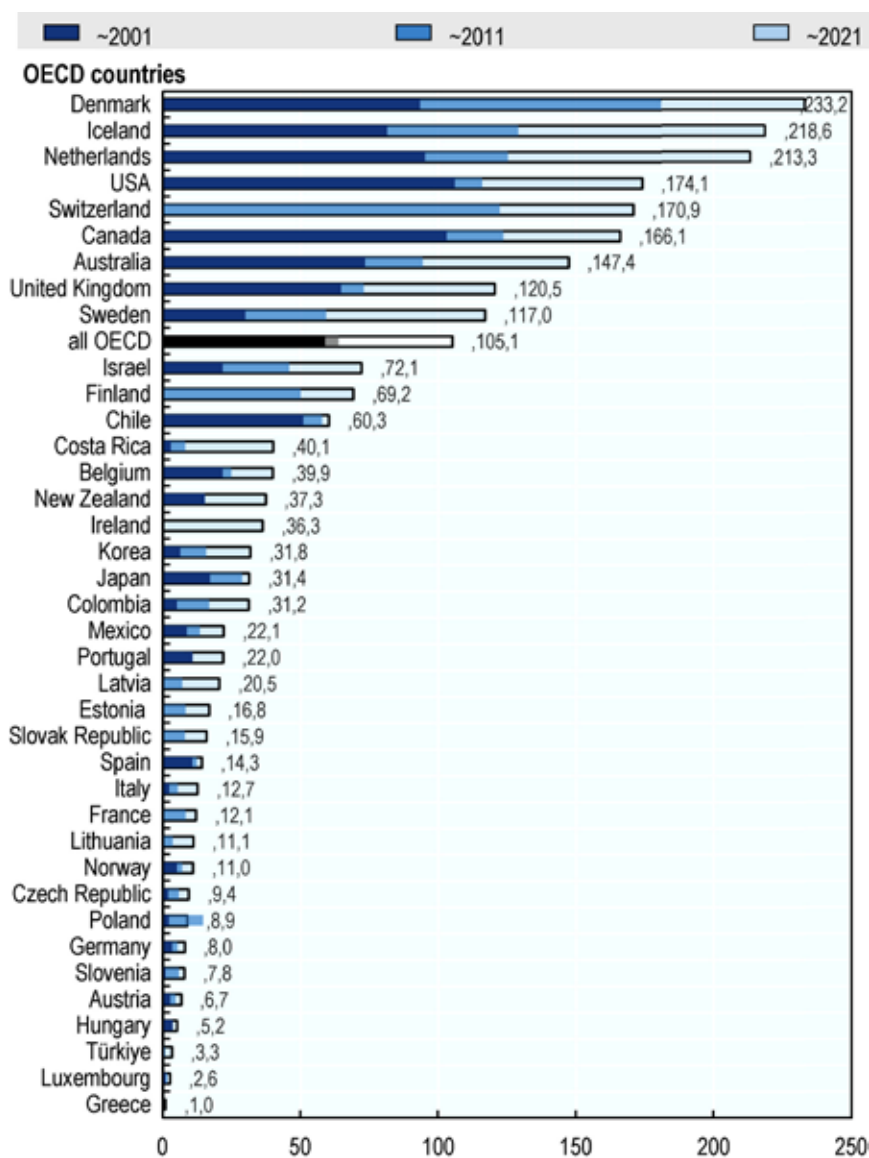
Based on the results of various researches, we can say that the structure of pension system effects on the country's foreign assets and private savings, on the dynamics of international flows of capital. Many developed countries, including USA, Canada and Italy has debt liabilities, which are compensated by capital assets.

Chart 1. Number of assets according to the countries



Source: statistics of pension systems of the countries – <https://stats.oecd.org>

Chart 2. Assets in relation to GDP in 2001–2021



Source: statistics of pension systems of the countries – <https://stats.oecd.org>

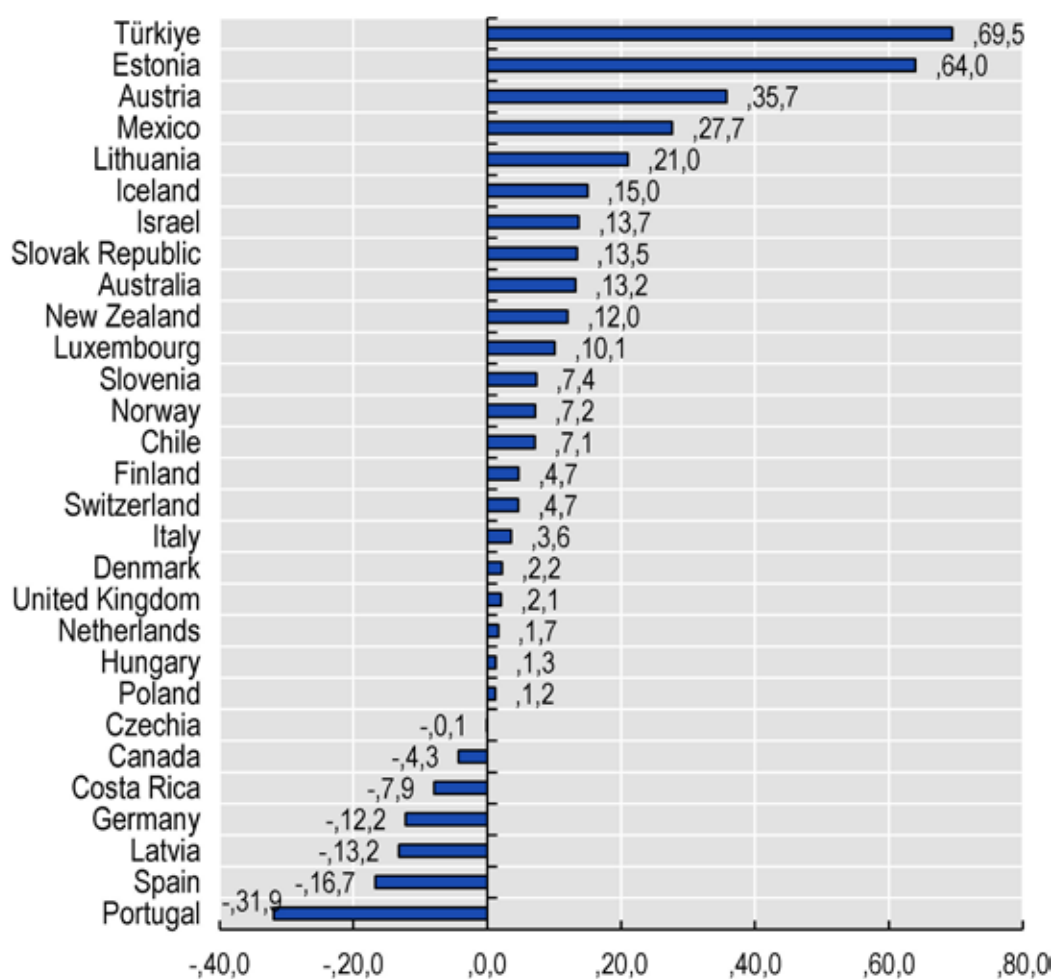
Funded and private pension schemes accumulated significant assets to fund future pension benefits around the world. Pension assets consisted of 58.9 trillion US Dollars in OECD by the end of 2021, 50.1 trillion US Dollars in 2022 and 55.7 trillion US Dollars by the end of 2023. The indicator of 2021 is 7% more than the indicator of 2020, in 2022 the assets were reduced as we see, but in 2023 it was still increased with 11% (OECD Pension Markets in Focus, 2023). The amount of assets in funded and private pension plans varies between countries. Seven countries owe more than 90% of the total pension assets of OECD. The largest pension market within OECD belongs to United States with 40 trillion US Dollars assets, what is 63.9% of OECD assets, which is followed by Japan and Great Britain, accordingly with 6.1% and 5.8%. To-

gether, these three largest markets amount more than three-quarters of global pension assets. Great Britain overtook Canada and became the third largest market with total assets, which consisted of 3.2 billion US Dollars by the end of 2023. Australia is the fifth largest pension market (after Canada), 22nd largest pension market with 4.4% of assets. Australia also has the highest ratio of pension assets in relation to GDP with 145%, it is behind only the Netherlands, Switzerland and Canada (Gray, 2024).

Pension assets have grown up rapidly over the past couple of decades in relation to GDP too, what underlines increasing the significance of retirement savings around the world.

Chart shows that, in 2001–2011, assets in relation to GDP were increased with 59% and in 2011–2021 – up to 64%.

Chart 3. Nominal growth rate of contributions into pension plans, 2022



Source: statistics of pension systems of the countries – <https://stats.oecd.org>

From a nominal point of view, pension assets have been increased in all reporting

jurisdictions over the past couple of decades. This growth was especially rapid in such

countries, which have young funded pension system, such as Estonia (31%), Latvia (33%), Slovakia (54%), Turkey (48%). Asset growth has been slowed down in Estonia (14% per year on average), in Latvia (17%), in Slovak Republic (10%) during the last decades. It has already been slowed in Turkey, but still remained more than 30%. Please have a look on the chart to see more clearly (OECD Pension Markets in Focus, 2023).

In 2023, the retirement portfolio, which consisted of 60% global stocks and 40% global bonds, was 16,6% on average. Over the past two couple of decades, capital allocation was decreased from 51% of the year 2003 to 42% of the year 2023.

After a strong performance in 2021, assets earmarked for retirement fell in 2022

in most OECD countries. Altogether, these plans held USD48.1 trillion of assets at end-2022, 15.6% less than a year before (Table 1). The decline in pension assets was widespread and visible in 32 out of 38 OECD countries. The sharpest drops occurred in the Netherlands (−20.7%) and the United Kingdom (−20.2%), with eight other OECD countries experiencing a drop in the value of assets between 10% and 20%, including the United States (−15%). As a result of these declines, there was no OECD country where pension assets exceeded twice the GDP at end-2022, unlike at end-2021 when Denmark (233%), Iceland (219%) and the Netherlands (213%) did (OECD Pension Markets in Focus, 2023).

Table 1. Assets in asset-backed pension arrangements at end-2022 (preliminary)

OECD countries	% change	in USD million	% GDP	data coverage
Australia	−1.5	2087 259	131.2	all available plans
Austria	−11.3	32990	6.9	all available plans
Belgium	−12.2	36550	6.2	21% of available plans
Canada	−6.0	1551 508	77.4	55% of available plans
Chile	4.4	174792	57.7	all available plans
Colombia	−0.5	71785	23.6	all system
Costa Rica	−0.1	26684	36.1	all system
Czech Republic	4.4	26527	8.8	all system
Denmark	−8.5	766796	191.1	all system
Estonia	−8.4	5032	13.0	all system
Finland	−5.7	154477	54.3	88% of available plans
France (1)	197.2	236145	8.4	27% of the system
Germany	−10.1	275299	6.7	all available plans
Greece	−1.4	1934	0.9	all available plans
Hungary	−2.6	7468	4.2	all available plans
Iceland	−1.4	48592	183.2	99% of the system
Ireland	−11.3	146222	27.3	all available plans
Israel	−3.6	307330	61.7	all available plans
Italy	−3.9	230396	11.3	all system
Japan	−1.1	1258 225	30.0	all available plans
Korea	14.7	268287	15.8	45% of the system
Latvia	−5.5	6794	16.3	all system
Lithuania	−4.7	6231	8.7	all system
Luxembourg	−17.2	1706	2.0	all available plans
Mexico	−0.2	269095	18.4	90% of available plans

OECD countries	% change	in USD million	% GDP	data coverage
Netherlands	-20.7	1543016	153.7	all available plans
New Zealand	5.1	78423	32.0	all system
Norway	-5.0	44004	7.8	all available plans
Poland	-16.5	35798	5.1	81% of the system
Portugal	-11.3	39844	15.6	91% of available plans
Slovak Republic	-2.3	16069	14.0	all system
Slovenia	-2.8	4232	6.7	all system
Spain	-9.2	166388	11.8	all system
Sweden	-8.2	561147	98.7	all available plans
Switzerland	-7.1	1148 286	137.5	90% of the system
Türkiye (2)	79.1	23019	2.9	all available plans
United Kingdom	-20.2	2402 270	88.7	all available plans
United States	-15.0	34003885	133.5	all system
Total (3)	-15.6	48064506	81.3	96% of available plans

Source: statistics of pension systems of the countries – <https://stats.oecd.org>

In contrast, pension assets grew in 24 out of 32 reporting jurisdictions from outside the OECD area. The aggregate growth in pension assets across these 32 jurisdictions was 4.7%. Asset-backed pension arrangements were introduced relatively recently in a number of non-OECD jurisdictions. For example, Georgia, which had one of the largest increases in pension assets (48.5%), introduced mandatory pension plans in 2019. These newly introduced plans, in Georgia and elsewhere, are gaining new members and benefit from growing amounts of contributions. These contributions exceed benefit payments that have just or not started yet and offset potential investment losses (OECD Pension Markets in Focus, 2023).

Pension assets trends are usually stipulated by a number of factors, such as the number of participants, having a retirement plan, contributions, benefits, which these plans pay to retirees and fulfillment of financial pension plans. Participation in funded or private pension plan can be mandatory, voluntary (or encouraging). Employers may be required by law to establish a retirement plan for their employees, who will be obliged to join this plan (e.g. Finland, Norway, Switzerland). The legislation does not obligate employers to draw up the plan for their employees in Denmark, Netherlands, Sweden.

Some countries of Latin America and Europe don't ask the employers to draw up the plan for their employees, but they require from their employees to join private pension fund, selected by them (for example, Chile, Colombia, Mexico). Some countries use soft coercion to motivate their employees to take part in the plan to join automatically (Estonia, Lithuania, New Zealand, Poland, Turkey and United Kingdom). Auto-join rates are lower in Poland (11%) and Turkey (13.4%), where there is a lack of trust in plans. However, more people are involved in sponsored pension plan than 10 and 20 years ago.

Many countries contribute the idea of investing in retirement savings. Considering this fact, pension funds in different countries make pension contributions in financial capital markets, which positively affects their financial indicators. Investing in pension assets in international capital markets can directly stimulate the economic growth of those countries by providing more funds for investment. Also, these pension assets investments have a positive effect on private capital markets in terms of better capital allocation and overall efficiency of institutional investors. These investments in the pension systems of these countries can directly increase the efficiency of companies in various sectors of the economy and improve governance.

Let us review the pension systems of several countries:

Pension System of USA

(Lebedeva, Feiguine, 2015)

America is considered an example of a successful pension system – the US government is doing everything possible in order to provide the citizens of the State with a dignified old age after termination of employment. The current system was created and launched in 1935. Over a few decades the system was improved, refined, reformed, but its essence remained unchanged. The pension legislation of the country has been developed in such a way that citizens living here have equal rights after retirement. In the United States, it does not even matter whether the applicant is an immigrant or a resident of the State. However, there are nuances in this system as elsewhere.

There are 3 levels of retirement insurance in the United States:

- Public, which is guaranteed by the government;
- Corporate, which is financed by the employer;
- Private, which is the employee's personal bank accounts, mutual aid funds and insurance companies.

By using all these systems, citizens can get adequate retirement protection and USA government can solve several important tasks simultaneously:

- Guaranteed minimum retirement protection for all citizens of retirement age;
- Ensure healthy competition between federal public and private entities of pension insurance;
- Ensure that the employer competes with the best specialists for the opportunity to offer the best pension insurance;
- Promote citizens to take care of their safe old age from the very first years of their careers;
- Allow older generation to bequest their saved retirement savings to their descendants;
- Provide a strong domestic investment resource.

State provision is based on insurance pension contributions that are part of the social insurance system. There are more than 43

million retirees in the United States – almost 13% of the total population. Contributions in state pension fund is done in equal shares with 7,65% by the employer and employee, but only within 65,4 thousand US Dollars per year. The self-employed persons pay – 15,3% his and employer's share simultaneously. About one-fifth of these funds go to health insurance for retirement period.

While calculating the pension, the length of service, amount of insurance premium and inflation indicators are taken into account. Average monthly state pension in USA is \$1100-\$1200.

In the United States, all citizens have a right to conclude the contract with non-state owned enterprises. People open an individual pension account in such companies. Contributions are made on a voluntary basis. The procedure for opening and keeping these accounts is also strictly regulated by US law. During the entire period of accumulation of funds, taxes are not paid on them, however, after their withdrawal and closing of the account, income tax is deducted from the accumulated amount. As a rule, pension accounts are being opened in commercial and savings banks, mutual aid funds, insurance companies. Accounts can be moved from one place to another at any time. Also, at the request of the account owner, he is able to make investment decisions himself (or plan the most profitable placement of accumulated funds) or entrust account management to financial institutions. After reaching the retirement age, a person has the right to receive a pension, withdraw all the money, spend it on treatment, tourism or give it to descendants. However, in this case, payments are stopped and the pension account is closed.

Pension System of United Kingdom

(Lebedeva, Feiguine, 2015)

Pension system of United Kingdom is based on the combination of public and private elements. It includes three types of pensions: basic state pensions, state pensions and private pensions. The British pension system is one of the oldest in the world (Bozio et al., 2010). Meanwhile, a constant effort is being made to increase the effectiveness of its structure. British people, who have reached retirement age are entitled to receive a state pension

(65 year is for men and 60 year is for women). The main source of this type of pension is the pension contributions of employees. The size of the basic state pension is set by the government and is indexed according to the inflation rate. Over a long period of time, the size of the basic pension was independent of the employee's income and length of service. Currently, after the reform, the basic pension is 20% of the employee's average salary, calculated over the entire period of employment. Unlike state basic pensions, private pensions are funded by contributions made equally by employers and employees. Herewith, state pensions are not compulsory. Employees have the choice of participating in either public pension programs or private pension programs. In the country, a trend has been clearly identified, according to which employees prefer the second option. Thus, the size of the state pension is currently no more than 30% of the total amount of pensions paid to British people. Therefore, in case of refusal to participate in the state pension program, the employees are obliged to participate in any other private pension program. In the modern United Kingdom, the list of such programs is quite large. In particular, there are collective and individual programs. Collective programs assume that a certain scheme should be applied to the entire company's personnel. Individual schemes assume that the individual employee should independently decide on a contribution transfer scheme in order to build up a subsequent private pension. Pension contributions are paid either to the accounts of private pension funds or to the accounts of insurance companies, which offer programs for personal and professional retirement protection. Recently, the UK government has implemented a pension reform, which resulted in the introduction of the so-called stakeholder pensions. The reform was intended to further increase the role of the sponsored scheme. It is a form of financed investments, such as participation in mutual investment funds. Participation in mutual schemes is voluntary for individual employees, but it is mandatory for most employers. The pension reform makes the number of pensions paid by British people more dependent on the following factors: the choice of mutual investment fund, the overall state of the economy, trends in the development of the financial market.

Pension System of Norwegian

(The Norwegian Social Insurance Scheme. 2022).

The Norwegian Pension Fund can be singled out from the world's pension systems, which is distinguished by successful investments, its assets in 2017 exceeded 1 trillion dollars. Half of this amount is the income received from investments. Perhaps it is difficult to imagine that twenty years after the first revenues of the company, its assets, which were obtained from oil sales, would exceed 1 trillion dollars. This indicator is even more impressive when it's calculated on per capita. The population of Norway is less than 5 million, accordingly, it consists of 200000 dollars on per capita. For comparison, the assets of the fund are equal to the economy of Mexico and about 70 times larger than the economy of Georgia. The amount of pension contributions in Norway is 5% of salary. This indicator is considered the lowest in Europe. There is the question, how the Norwegian manages to save for such a high pension:

1. First of all, pension contributions are not only accumulated, but they are also invested to increase cash flow. The average income from such investments over the past years was more than 13%.

2. The main source of pension contributions in Norway is "Black Gold". This is the country, which produces and sells the oil. The country gets a lot of income from this, what is wisely spent by the government of the country: invests in a pension fund. The funds are then invested around the world.

The Norwegian Pension Agency owns shares of such companies as they are: "Google", "Nestle", "Microsoft", "Apple". Also, the fund owns the assets of real estate (Nadiradze, 2020).

In Norway, more than 23% of the population is 60 years old. This indicator is increasing every year, but you won't hear any complaints from older Norwegians about their difficult living conditions. On the contrary, people here are waiting for retirement, because they know that this will be the best time of their life. Country has high social benefits, what gives the elder people a dignified old age.

The retirement age in Norway, a country with a fairly liberal and transparent system, which attracts citizens of other countries is

considered to be one of the highest ages in the world and is 67 years old. However, life expectancy in Norway is almost 90 years. Mainly, it is merit of the government – social programs, employment of retired people and possibility of providing good income, high-quality medical service does its job. How can a small country with five million people have such an opportunity? It is simple: Norway has the largest pension fund in the world, which is generated by huge profits from oil and gas exports.

In Norway, the pension consists of a combination of three parts:

- Basic pension – its calculation is not depended on the total contributions and is based only on the pensioner's length of service;
- The special pension is depended on the actual income of the pensioner, so called "retirement points". People whose annual income does not exceed six average monthly salaries earn the most. If the person has exceeded this limit twelve times or more, then the special pension is not paid at all. In this case, the state considers that, with such a salary, a citizen should be able to collect a substantial amount of money for a comfortable future;
- Benefit package – this part is charged to people with a very small pension, if the total sum of the latter and the benefit itself does not exceed more than 1,94 times of the average annual salary.

There are also benefits for pensioners in Norway. The government is particularly proud of the availability of free medicines, which is considered a significant achievement in the mountainous terrain of this state (Yalçın, Uluç, Karaçam, and Etik, 2022).

Pension System of Turkish

(Yalçın, Uluç, Karaçam, and Etik, 2022)

Turkey is a developed Asian country, which provides its citizens not only with a high standard of living, stability and significant salaries, but also with a very good pension.

In accordance with the changes made today, women are required to retire at age 58 and men – at the age of 60, this is the minimum retirement age for which certain pension parameters must be observed – working days.

In order to receive a pension on the territory of Turkey, it is necessary:

- Reaching the retirement age;
- Official employment for a period of at least 5 years and regular pension contributions.

There are three types of pension:

- Salary-based, contributions are made by the employer;
- Individual (entrepreneur) – contributions are made by him;
- Civil servants (public officials) – contributions are made by the state.

Turkey has Bireysel emeklilik sistemi (BES), what means private pension system. According to this system, even those who do not work can receive a pension. In order to take part in this program, it's necessary agreement with a bank or insurance companies and monthly deduction. Programs differ in the amount and duration of contributions. The amount can be withdrawn after 10 years.

If a citizen of the Republic of Turkey lived and worked in another country, then he is not entitled to receive a pension, he can apply for a pension in Turkey only after paying 3.5 USD for each day of missed work experience.

Maximum pension in the republic of Turkey is 3500 Turkish Lira. As a rule, such pension benefits are received by the pensioners working in the government sector (mayors, heads of administration, ministers, etc.). A foreigner has the right to receive a Turkish pension only in case of payment of the necessary social contributions, but it should be noted that foreign residents are not allowed to make contributions in the state pension fund.

If they want to receive pension in Turkey, they should transfer 32% of salary in a private fund. Making contributions to such funds and applying for accumulated pension can only those foreign residents, who have a residence permit in Turkey.

The following benefits are available for pensioners:

- Buy the medicines at a discount of 90% from the full price;
- Free access to state gyms and clubs.

Pension system of Georgia

(Urotadze, 2016)

After gaining independence, Georgia inherited the Soviet Union's pension system, according to which the amount of pension was calculated in the amount of 55% of the

average salary of the last or the last 5 years of the retired person's work. The goal of this model of the pension system was for the employee to maintain the conditions of life that he had before retirement. The existing single-pillar pension system, which was spread in Georgia till 2019, had significant shortcomings. But the main reason, what caused the need to establish the second pillar of the pension system is the demographic problems that Georgia is facing.

From January 1, 2019, the Law on accumulating pension system came into force, which provides for:

Participation in the accumulated pension scheme is mandatory for all employees except for non-residents, who, according to August 6, 2018, had not yet reached the age of 60 in the case of men, and 55 in the case of women. Participation in the scheme is voluntary for self-employed persons and employees, who were 60 years old for men and 55 years old for women on August 6, 2018.

2% of the accrued salary will be transferred to the individual pension account of the participant in the agency for the benefit of the employee participating in the pension scheme. In addition, the employer and the state contribute 2% of the accrued salary each to the participant's individual retirement account.

2% of the accrued salary is transferred to the individual pension account of the employee participating in the state pension scheme, until the total amount of the employee's accrued salary does not reach 24,000 GEL per year. After that, the state transfers 1% of the accrued income to the employee's individual pension account until the total amount of the accrued salary exceeds 60,000 GEL annually, after that, the state treasury will no longer make contributions to the employee's individual pension account. Participants of the self-employed pension scheme who are treated as self-employed will contribute 4% of taxable income into an individual pension account, and the government pays an additional 2%. Participation in the accumulated pension scheme ensures a financially secure and dignified old age of the scheme participants after retirement. The amount accumulated in the individual pension account of the participant is the unconditional and un-

touched property of the participants, which is protected by law and is not subject to seizure, deduction, any other means of debt collection (INCASSO) or enforcement. The amount accumulated in the individual pension account of the participant is subject to transfer by inheritance. Pension assets will create a significant investment capital base in the country in the near and medium term, which will be crucial for the development of the capital market in Georgia and at least 80% of which will "work" on the growth of the Georgian economy and provide a significant acceleration of the economic growth. The beneficiary of the said development will be every citizen and resident of Georgia, regardless of whether he participates in the accumulation pension scheme or not. (Georgia Pension Agency).

Conclusion

Based on all of the above, we can conclude that, in the 21st century, where the ratio between capable of working and retired population is decreasing day by day, it is necessary to develop a system that will improve the social background. Private pension scheme of savings is such system. As we have already seen in the countries discussed above, the accumulation system works perfectly and provides the population with a dignified old age. Also, the number of participants in these schemes is increasing day by day, and accordingly, the number of assets is also increasing.

It is necessary for pension funds to develop a strategy for regulating asset management in order that investments of pension assets were profitable, liquid and less risky.

The pension reform investment strategy enables the public sector to focus on correcting the external influences and on fighting against property. It is also important to develop a long-term investment strategy and not just make short-term plans.

Retirement activities are an area of growing interest from regulators. The government has a large influence on pension schemes, as they seek new ways to finance investments, which is required to overcome systemic issues. The government must manage to implement appropriate measures to maintain positive impulse and well-funded retirement income for investors.

Countries should encourage corporations, provide more methods for real and financial investment, provide more financial products and improve the investment envi-

ronment for the efficiency of capital markets. These changes will encourage public and private pension funds and financial markets to have a positive and efficient relationship.

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Section 2. Economics, organization and management

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LOCAL FINANCE AND DECENTRALIZATION. THE CASE OF LOCAL GOVERNANCE IN ALBANIA

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Abstract

The financial situation of local government units in the Albania, even though it has improved compared to the decades ago, is still delicate and full of challenges for the future. Financial resources, without neglecting the capacity building of the local administration, are a key factor to the expanding of the decentralization between the central and local government. With decentralization we will understand the legal transfer of authority and resources from the central government to the local government, which changes the way in which services are offered and how they respond to citizens' requests. The local government gets more decision-making power, which means it gets more responsibility. Otherwise, decentralization can be defined as the more responsibility and more functions, and for this to be realized, the funds are needed and these funds must be used efficiently. The purpose of this paper is to present the current situation of the local government in Albania, to highlight the importance of the expansion of decentralization and to emphasize the impact of the funding sources in the increasing of the independence and decision-making of the local government. In Albania, local government is currently organized at two levels, Counties and Municipalities, based on the new territorial division that was made in 2015, our country has 12 counties and 61 municipalities. The financing sources of the Local Government in Albania consist of transfers from the central government, from its own income and other sources from different donors through competing projects. The increase of the local financial autonomy, with the aim of increasing the financing of the local government units' own functions, should be aimed the increasing of the their own income, especially from the real estate tax, increasing the share of joint taxes, lobbying for benefited from national taxes (such as VAT or Income Tax) as well as the increase in the efficiency of the use of resources.

The challenge of the local government is to ensure a sustainable development of the regional economy, providing high-level services for the community, on the other hand, to keep taxes at a relatively low level in order not to discourage individuals and businesses under the jurisdiction. Finding the optimal ratios in this regard constituted a challenge in itself. On the one hand, the local government is faced with the many difficulties in terms of the rural development, on the other hand, it is faced with the relatively low funding sources or the otherwise fiscal imbalances or inconsistencies in the balance of the resources and responsibilities between the central and local governments. The strengthening of local government and the decentralization of powers should be seen in terms of increasing the efficiency of local government. This paper shows that the activity of the local government in Albania performed below the expectations as a result of the poor funding, but also as a result of the poor resources management.

Keywords: *Local government, decentralization, financial resources, efficiency, taxation, taxes, capacity building*

Introduction

Albania with a communist past, before the 90s, power was centralized, everything was decided by the central government, and there was no freedom of thought or action, and furthermore, there was not possible to discuss about local decision-making or decentralization. After the 90s, with the change of the system, democracy began to be implemented and the organization of local government and its functions changed. During this period, the organization of power was made with two levels of central government and local government. The local government was organized in two levels, where the first level was the communes and municipalities, while the second level was the Counties. In this period there were 308 communes, 65 municipalities and 12 counties. This organization of local government in Albania continued until 2015. The new territorial division that was made in 2015, created 61 municipalities and 12 counties while the communes no longer exist. From 2015 and currently, the local government in our country continues to have two levels, the first level of the municipality and the second level of the counties. The 61 Albanian municipalities are distinguished by the variety of characteristics of some aspects, such as demographic diversity, economic diversity, cultural diversity, geographic diversity and socio-economic factors that exist within their jurisdiction. The long period of turmoil in Albania is having an impact on the growth rates of the economy as a whole, it also resulted in the implementation of various processes related to the local government and this impact is not positive. In relation to this issue, the Institute for Municipalities of Albania in its 2022 report states:

“Albania is going through a long period of turmoil accompanied by numerous problems that have made it very difficult to strengthen local finances” (Local Government in Albania. 2022).

Finance is immensely important in the running of organizations or governments. Local governments need financial resources to carry out their constitutional responsibilities as regards providing social services as well as mobilizing available resources for effective rural development and good governance at the grass root level (Olu Ojo, Paper, 2009). The financial resources of the local government are necessary to carry out all the functions defined by law, with the aim of increasing well-being of the individual/citizens. Setting a satisfactory tax package on the one hand and increasing the quality of services and the involvement of citizens on the other hand, it is a challenge in itself related to finding the optimal level of local government.

The activity of the local government in Albania is financed by several sources such as income from its own local sources (taxes, fees, income from the use of assets at the disposal of municipalities, etc.), income from unconditional intergovernmental transfers (general unconditional transfer and the sectoral one for the functions transferred in 2016), income from conditional intergovernmental transfers (conditional transfers from line ministries in function of the exercise of delegated functions), income from separated taxes. Qualified human resources, healthy finances, as well as the reduction of dependence on the central government, especially in decision-making, constitute a necessity for the realization of the mission and vision,

which are related to the existence of local government units that represent the level of government as close as possible to the citizens or community in remote rural areas. The existence of government units as close as possible to the citizens constitutes a necessity to recognize and solve the many and different problems faced by different areas of the country and therefore for regional and rural development.

Capacity building for the local government remains an issue that requires a solution, first of all in the perspective of increasing the efficiency of the use of funds as well as avoiding informality in the local taxes collection and fees with the aim of increasing revenues from the local units' own sources and expansion of the decentralization. Power decentralization of power is a necessity for any democratic state, the decentralization means the legal transfer of authority and resources from the central government to the local government, which changes the way services are provided and how they respond to the citizens' demand.

The decentralization of governance in Albania started after the 1990s, while we still cannot say that administrative or fiscal autonomy has been achieved, but we can say that the reforms that took place after the 90s are the cornerstones for the decentralization of the local government. One important moment for the decentralization of local government is the European Charter of Local Self-Government, ratified in 1998, as well as the Law on the Organization and Functioning of Local Government, approved in 200. Some foreign organizations that operate in Albania, such as The World Bank, the Organization for Security and Cooperation in Europe (OSCE), the United Nations Development Program (UNDP), the Swedish Institute for Public Administration (SPIU), etc. have continuously emphasized the improvement of local government decentralization by emphasizing to increase capacities as necessary for efficiency in the use of financial resources, efficiency in the provision of services, regional development and the creation of economic regions.

The financial autonomy of local government in Albania still remains a challenge. Governments generally do not have sufficient financial resources. Local authorities in Alba-

nia do not have adequate financial resources according to their own and joint functions. The local government units are still very dependent on the financial assistance of the central government, especially the small local government units, which face great difficulties. The local government in Albania actually deal a series of the difficulties and challenges regarding the provision of financial resources and well-trained human resources to carry out its own and joint functions otherwise called delegated functions. Local government units should lobby to make separate taxes such as VAT, corporate profit tax as part of their finances as well as to increase the percentage of profit from Income Tax. The dynamics of the development of the local government with the aim of expanding decentralization should go in sync with the dedication for necessary changes to the existing laws. The increase of transparency, the increase of the accountability of local government in relation to the community, the increase of the involvement of citizens and interest groups in the decision-making on the level of the local government, are the main pillars related to the improvement of the decentralization process of local public finances. The Local finance, among others, addresses issues related to decisions about incomes, expenditures, financial management, the process of the local budgeting and accountability in general. Local governments can make a huge difference when it comes to increasing the quality of life for the community in both urban and rural area, reducing inequalities across society, enhancing relations between people and public institutions and providing a platform for the voices of minorities (UNDP United Nations Development Programme Local governance and development).

The aim of the paper, objectives, methodology and research questions

The purpose of this paper is to present the current situation of the local government in Albania, to highlight the importance of the expansion of decentralization and to emphasize the impact of funding sources in increasing the independence and decision-making powers of the local government.

The objectives of this research are: (a) To highlight the challenges that the local govern-

ment faces, (b) To present the importance of financial resources and their good management in the realization of the functions of the local government. (c) To highlight the importance of raising the capacities of the local administration in increasing the efficiency of the use of resources. (ç) To present the importance of local governance in promoting the development of the local economy. (d) To emphasize the importance of strengthening local finances and increasing fiscal autonomy.

The research questions raised and answered throughout this paper are:

(a) Does the local government of Albania have financial autonomy? (b) Is the expansion of local government decentralization a necessity? (c) Should the capacity building of the local administration seen as a necessity for good management as well as for making decisions in accordance with the numerous climatic and technological changes that humanity is facing?

(d) Are there differences between local units that are located in different territories within the country in terms of resources and meeting the needs of citizens? (e) Are debt instruments used by the local government in Albania as a possible source of liquidity?

The methodology of this research consist on use of the secondary data method, referring to the scientific literature of different authors, statistics of the state institutions especially Finance Ministry, foreign organizations located in Albania as well as non-profit organizations. The most relevant cornerstone scientific literature related to the subject was “The dilemma of fiscal federalism: grants and fiscal performances around the world” (2002) written by Jonathan Rodden, which is widely cited from most of scientific researcher, Efficient Financial Management for Local Governments written by Olu Ajo, “Public Value ManagementA New Narrative for Networked Governance” written by Gerri Stoker, etc. The other important sources of secondary data for realization of this paper are datasets from the Ministry of Finance, Local Finance, and United Nations Development Programme (UNDP). The Important data sources to analyse the local finace dificulties are provided by Ministry of Finance, CO-PLAN Institute for Habitat Development as well as Institute for Municipalities of Albania.

Rishikim literature

The local government in different countries of the world is made up of different levels or formats of organization, and it is important in the perspective of being as close as possible to the community and in its function. In the entire democratic world, the expansion of decentralization is an important issue, as well as the participation of the community in the decisions they take for the use of resources and accountability on a large scale. Regarding this, Gerry Stker in his 2006 paper expressed: “In a democratic system, the participation of all is not required; rather, its defining characteristic is its openness to all. Democracy is more than a safety valve to protect basic rights and liberties. It has the potential to provide the basis for learning, to drive the search for collective solutions to complex and shared problems” (Gerry Stoker, 2006. p. 15).

Local governments can go beyond the minimum public hearing requirements to meaningfully engage all community members in budget decisions that affect them (Katie Hannon Michel, Cesar De La Vega Tina Yuen, 2018).

The expansion of decentralization, increasing the responsibilities and functions of the local government cannot be dealt with separately from local finances, which include broad issues related to what will be done, when it will be done, with what funds, with what human resources, etc. Regarding what local finances are, what issues they deal with, in the book published in 2009 by UN-HABITAT expressed: “Municipal finance is about the revenue and expenditure decisions of municipal governments.

It covers the sources of revenue that are used by municipal governments –taxes (property, income, sales, excise taxes), user fees, and intergovernmental transfers. It includes ways of financing infrastructure through the use of operating revenues and borrowing as well as charges on developers and public-private partnerships” (UN-HABITAT. Copyright © United Nations Human Settlements Programme 2009).

Borrowing or issuing debt instruments is an opportunity to cover capital expenses in the framework of local government activities, but the local administration must be

very careful in the efficient use of borrowing and must respect the time of debt repayment. Regarding the importance of borrowing using debt instruments, the authors Freire, Maria E. Marcela Huertas, and Benjamin Darche have said: “The use of debt instruments by local governments needs to be assessed with care, as imprudent borrowing lead to fiscal indiscipline and macroeconomic imbalances” (Freire, Maria E. Huertas, and Darche, 1998).

If the local government, in finding financial resources, will be inclined to seek as much income as possible from government transfers and not try to increase its own income from taxes and local fees, to increase the efficiency of the use of existing resources, this will make it more and more dependent on the central government. Rodden says about this addiction: “This dependence on revenue either through shared taxes or money transfers from the central government, reduces the incentive for local governments to act in an economically efficient manner” (Rodden J., 2002). Decentralization is often viewed as a shift of authority towards local governments and away from central governments, with total government authority over society and economy imagined as fixed. Attempts to define and measure decentralization have focused primarily on fiscal and to a lesser extent policy and political authority (Rodden J., 2004).

Large cities and metropolitan areas are different than smaller urban or rural municipalities, in large part, because of the size of their population, the high degree of concentration of population, and the presence of a heterogeneous population in terms of social and economic circumstances (The World Bank Institute Washington, D.C. The Centre for Urban and Community Studies University of Toronto 2001 Tony Mazi and Keith Jacobs Book 18 February 2008; Freire, 2001).

Urban policies are complex and have a big impact on the many aspects of community life and their treatment is very complicated. Regarding urban policies, the authors Tony Mazi and Keith Jacobs express themselves: “It is commonly accepted that the study of urban politics has become increasingly complex and fragmented, characterised by a shift away from formal local government structures to a diverse range of public, private and

voluntary agencies” (Tony Mazi and Keith Jacobs, 2008).

The analysis of ‘multi-level’ local governance in contemporary urban societies therefore requires a need to focus on informal relationships as well as formal institutions, acknowledging the role of a multiplicity of actors and their interactions within partnership and network structures (Gerry Stoker, 2006).

While decentralization legislation and policies exist in many countries, fiscal responsibilities have remained centrally controlled. In many cases, local governments are not financially equipped to manage their services. On the other hand, continued fiscal centralization is often justified by weak capacities at the local level (UNDP United Nations Development Programme Local governance and development).

Nawdays, the 61 municipalities of Albania and the respective Administrative Units have more responsibilities than ever. There are 42 functions and types of the administrative and public services, for which local units need serious budget support from the government transfer (Institute for Municipalities of Albania).

Finance is very important in the running of organizations or governments. Local governments have a number of functions to carry out. As such, its finances need to be efficiently managed and judiciously utilized (Olu Ojo, 2009).

Local authorities do, however, appear to vary considerably in their capacity to play a catalytic role in the formation of multi-organizational partnerships and to, more generally, function as suppliers of community governance and promoters of community development (Joe Wallis and Brian Dollery, 2002).

Monitoring local finances is an essential step towards assessing subnational governments’ financial capacity to exercise the responsibilities assigned to them and to design effective and efficient development policies (OECD and United Cities and Local Government (UCLG) Report, October 2016).

The current situation and the problems that need to be addressed immediately

Financial resources and their good management constitute the cornerstone (catalyst)

for the effective functioning of local government.

In Albania, the financial situation of local units presents challenges for the future, even though it has been improving but at a very low rate, so remains to be done a lot in this direction with the aim of expanding decentralization, development of regions and growth of the quality of life of the residents. After 1990, the most important administrative reform in the country is the administrative-territorial division of local government units in the Republic of Albania, where based on Law No. 115 of 2014, out of 373 (308 communes and 65 municipalities) local government units remains only 61 municipalities. This reform eliminated the unnecessary fragmentation with the aim of increasing efficiency and effectiveness in the services providing and improving local fiscal autonomy for the local governance.

Today, more than ever, municipalities have a considerable number of competencies and responsibilities to serve citizens according to their needs and in a democratic manner. The competences have been continuously accompanied by financial support from the Central Government, which considers the decentralization agenda very important in the process of good governance and European integration (Ministry of Internal Affairs. Intersectoral Strategy for Decentralization and Local Government 2023–2030).

The strengthening of the local finances and the decentralization of the local government is not an easy process and which addresses the several issues. In this framework, we consider increasing the capacities of the local government units with the aim of increasing the efficiency of the use of existing resources as well as creating new opportunities for financing, such as the use of borrowing to finance capital investments within the permitted legal framework, and increasing the amount of the benefit of the local government from national taxes. Another important point is the consolidation of local revenues, i.e. the revenues provided by local taxes and fees, as well as the improvement of fiscal administration.

Strengthening the public finance management system at the local level remains another important issue in the framework of strengthening local finances and fiscal

decentralization. Municipalities in Albania have several sources of funding in order to carry out its functions and competencies defined in the law that regulates the organization and operation of local government. These funding sources, in general terms, include: a) income from local sources (taxes, fees, income from the use of assets available to municipalities, etc.); b) revenues from unconditional intergovernmental transfers; c) revenues from intergovernmental transfers conditional on the exercise of delegated functions; d) income from taxes shared with the central government, as well as income from mining rents, income from labor income tax, income from road circulation tax, from the transfer of property rights. Based on the configuration of the legal system for local finance in Albania, local government units are allowed to borrow money for capital investments from financial institutions as well as from the central government, but currently only a very limited number of municipalities accessed to financial institutions and the use of debt instruments when there is a lack of funds cannot even be mentioned.

There is an discrepancy in the legal basis regarding the use of the income provided by the separate taxes, specifically based on the law no. 68 of 2017 “On the finances of local self-government” in article 4, point 4, it is mentioned that the revenues from the taxes allocated are used autonomously by the municipalities, so the municipalities must decide what they should use these revenues for, while according to law no. 9975 of 2008 “On national taxes” emphasize that municipalities must use the income provided by mining rents only for investments. The improvement of the legal framework related to the above issue, the increase of local capacities as well as the increase of the efficiency of the use of income remain issues that require immediate solutions. Since 2015, based on the law on local finances, they should benefit from 2% of the total income from income tax, but this was achieved in the first half of 2021, but only for 6 municipalities out of 61 the municipality that our country has. The data for the first six months of 2021 show that these 6 municipalities received in quantitative terms about 258.1 million ALL from personal income tax (PIT) (www.financatvendore.al).

In relative terms, about 19.4% of the income tax was absorbed by the municipality of Tirana (about 50 million ALL), followed by the municipalities of Durrës (6.7% or about 17.2 million ALL), Elbasan (4.9% or about 12.7 million ALL), Shkodër (4.8% or about 12.3 million ALL), Fier (4.4% or about 11.4 million ALL) and Vlorë (4% or about 10.4 million ALL). Together, the 6 mentioned municipalities received about 44% of the income tax distributed to the municipalities (Co-Plan December 2021, Separate Taxes Report – Personal Income Tax).

Property tax revenues calculated about 20% of local self-government revenues in Albania and remain low compared to other countries in the region.

For Albania, the income is about 0.3% of GDP, the average of 0.7% for the region, from about 0.4% of GDP for Bosnia Herzegovina and Kosovo, to 0.5% of GDP for Macedonia, to 1.0% of GDP for Serbia and to 1.3% of GDP for Montenegro. Montenegro and Serbia are closer to the EU average of 1.6% of GDP. Compared to OECD member countries, this average varies from 0.9% of GDP, from 2–3% in continental European countries and 1–7% of GDP in industrialized countries (Ministry of Internal Affairs. Intersectoral Strategy for Decentralization and Local Government 2023–2030).

The separate taxes in Albania are applied to the income on the circulation of cars, from the transfer of ownership rights, from the rent of exploitation of mineral resources, and in a certain percentage from income on personal income taxation. Revenues from allocated taxes remain low compared to countries in the region. Revenues from the shared tax in Albania are estimated at 0.1 percent of GDP, at 0.5 percent in Macedonia, at 1.0 percent of GDP in Bosnia, at 1.3 percent in Montenegro, and at 2.3 percent of GDP in Serbia. Albania transfers in favor of the local government about 10 million euros, Macedonia about 42 million euros, Montenegro about 63 million euros, Bosnia about 99 million euros and Serbia about 1.087 million euros.

Compared to the data for the countries of the region, Albania has the lowest level of unconditional transfer and sectorial grants. The total transfer from the central government in Albania is 1.6 percent of GDP, in Montenegro it is 2.0 percent of GDP, in Bosnia it

is 2.5 percent of GDP, in Macedonia it is 2.8 percent of GDP, in Serbia it is 2.9 percent of GDP, and in Kosovo is 5.9 percent of GDP.

Based on the relief of Albania, almost 50% of the municipalities have hilly and mountainous territory and consequently have poor access to infrastructure and communication, these and other factors constitute a weak point of local democracy. If we are going to aim for a wide decentralization of the local government, it must be given competences but also accompanied by finances. The expansion of the fiscal instruments to create new spaces for the local finances is one of the many challenges that the local government must overcome. Just as it became possible that six municipalities from 2021 onwards (the municipality of Tirana, Durrës, Elbasan, Fier, Vlore and the municipality of Shkodra) benefits in total 44% from the income distributed to the municipalities from the tax on the income from work, they should lobby strongly to increase the percentage of the profit from this source, as the current law has set it at 2%.

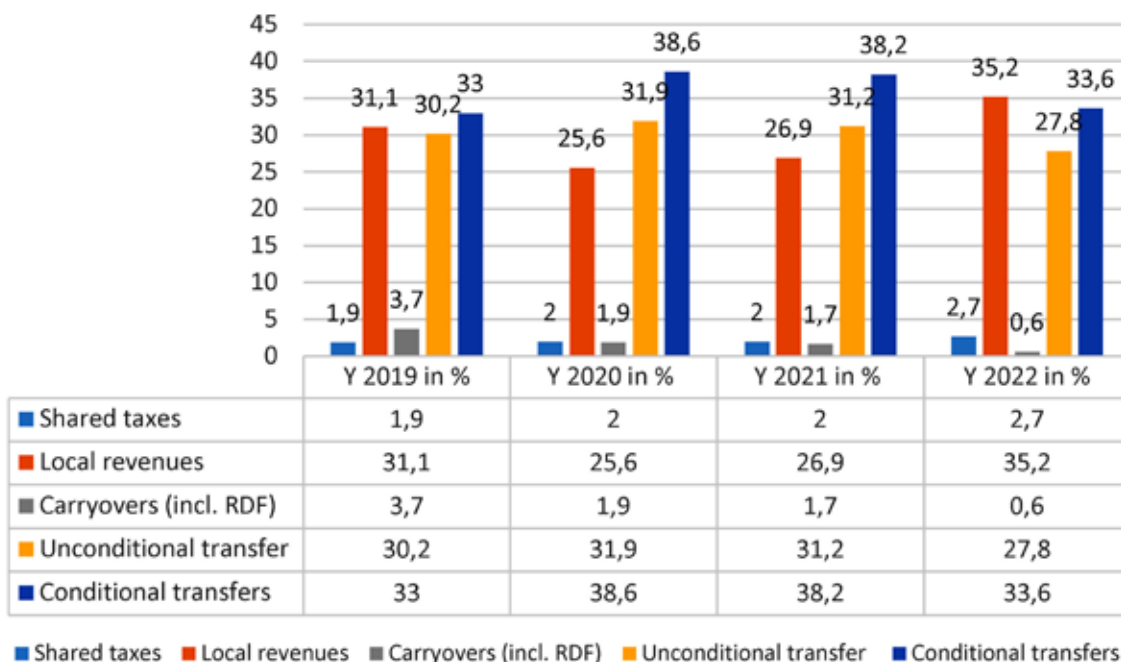
Meanwhile, in the framework of strengthening their finances, municipalities should lobby to benefit from other common national taxes such as tax on corporate profits, Value Added Tax (VAT) or other taxes, and they should increase efficiency, in order to realize the collection of existing local taxes at the rate of 100%. The availability of financial resources is a prerequisite for the exercise of functions and powers for the 61 municipalities in the country. In addition to financing through revenues from their own local sources, allocated taxes, unconditional and conditional transfers, municipalities have the right to access funds in terms of borrowing (short-term and/or long-term), but only for the financing of the capital expenditures or the re-financing of an existing loan. Based on Law no. 9869/2008 “For local government borrowing”. Access to external financial resources (borrowing) is also an indicator for the financial autonomy of municipalities in terms of income (either in the form of short-term and/or long-term loans) according to the OECD. The law gives municipalities’ access to the loans for capital expenditures, but a very limited number of municipalities use this resource, for example, at the end of 2022, only four out of 61 municipalities have active loans in the local banking

system, and specifically the municipality of Korce, Vlore, Elbasan and Lezhe.

Referring to the chart below (chart no.1), it is clearly seen that in the total sources of financing of the local government, the largest

percentage is the funds that the central government transfer to the local government in the form of transfers. While its own income, provided by local fees and taxes, has been increasing but at a very low rate.

Chart 1. Total revenue by funding sources
(P.S: for the year 2023, the data expected to be published in April)



Source: Authors' processing based on data taken to (www.fnancatvendore.al)

Local income still remains at a low level compared to the public income or the Gross Domestic Product. Specifically, for the year 2022, the local income is about 4.79% of the public income and about 1.34% of the Gross Domestic Product. Compared to the trend of a year ago, in relation to the public revenues, they have decreased by about 0.43%. Local revenues have had the same downward trend in terms of gross domestic product, where from 1.41% in 2021 they have reached 1.34% in 2022 or about 0.07% less (Ministry of Finance and Economy. May, 2023).

Referring to the data in chart no. 1 of the total local financial resources, over 60% is occupied by the funds that the central government gives to the municipalities. In nominal terms, the role of municipalities in general governance and the financial resources available have increased from year to year and account for about 6% of GDP, the contribution of income from their own local sources is estimated to be relatively low and below potential, since still there is a problem

with the collection of local fees, so the municipalities do not manage efficiently available fiscal space. In order for local finances to be strengthened, the largest part of the income in the total local income should be taken by the income provided by the municipality itself, while currently over 60% of it comes from the central government in the form of conditional transfers and unconditionally. The dependence that the municipalities have created on the state budget is harmful since the local government, in facing the challenges, manages to finance less than half of the expenses with its own resources. The difficulty of financing or the dependence on the budget of the central government is even greater if we add the debt that the local government has to the central government, financial institutions or third parties such as Albanian Energy Emulation Organization, etc. Debt, which keeps on increasing and therefore has led some municipalities to be at a critical point in terms of finances. This dependence leads the municipalities to not fulfill all their

responsibilities towards the residents within their jurisdiction and therefore makes it impossible for the municipalities to “walk on their own feet”. The informality, on the other hand, makes the local government less efficient in collecting local fees and taxes, and therefore weakens local finances and increases dependence on the central government.

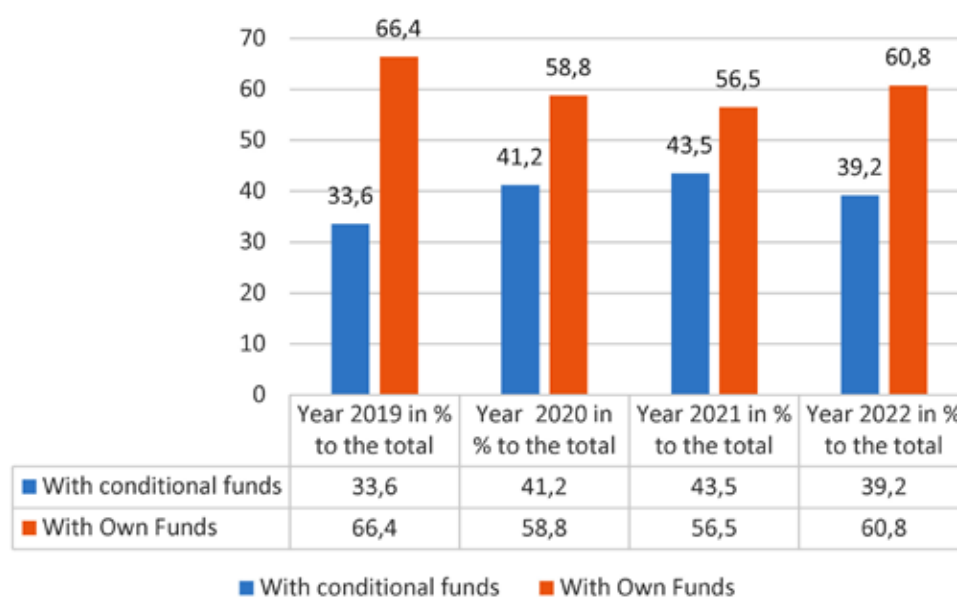
The municipalities of Kavaja, Tirana, Vlore, Pogradeci and Malsi e Madhe have the largest debt, where the debt of each of these municipalities reaches more than 10% of the total local tax.

The problem with the debt of the local government lies in the fact that this debt is mainly taken by the central government and that this debt is constantly increasing. But the debt of the local government also consists on the outstanding liability to the third

parties, as is the case of the obligation to the Albanian Energy Emetation Organization, for unpaid energy. The municipalities of Durrësi, Lezha, Kamza, Belshi and Fieri also have problematic debts. Some of them are in the serious economic difficulties, unable to make investments, while two of them, Kavaja and Vora, are considered at risk of the bankruptcy.

Referring to the chart below (chart no. 2), which compares the expenses incurred with own funds and financed by the conditional transfer for the last four years, a slight increase in coverage from own funds for 2020 and 2021 can be observed, while in 2022 we see a decrease to 4.3%. While the expenses financed by the conditional transfer, which is mainly for the delegated functions, are decreasing on average from year to year by 6%.

Chart 2. Expenses of LGUs according to the source of financing



Source: Authors’ processing based on data taken to (www.fnancatvendore.al)

Municipalities are faced with the financial difficulties in order to realize of the responsibilities they have in the framework of the realization of their functions, and as a result there is currently a fiscal imbalance or otherwise inconsistency in the balance of resources and responsibilities between the central government and the local governace. The amount of the expenditures made by the local governance for the year 2022 compared to the total Gross Domestic Product is 3.01% of it, while compared to the public expenditures it is 9.39% (Ministry of Finance

and Economy. May 2023 “Annual Report 2022 Local Public Finances”). While in all the countries of the region, local governance expenses are over 5% of GDP, with the exception of Kosovo, where these expenses are 4% of GDP. If we refer to the countries of the European Union, local governance expenses are about 15% of GDP or 45% of state budget expenses. Referring to the above figures, the responsibilities that the local government has, as well as the expansion of decentralization with the main purpose of strengthening the local governance, the increase in the per-

centage of local governance expenses, both in relation to the state budget and in relation to the PPB, constitutes of a challenge that must be solved.

Referring to the data of the Ministry of Finance for 2022, some municipalities are in financial difficulty, specifically the municipalities of Dimal, Cerrik, Vore and Kavaje, while eight other municipalities have financial problems, such as the municipalities of Poliçan, Dibër, Tropojë, Pogradec, Devoll, Libohova, Delvinë and Peqin (Ministry of Finance and Economy, Year 2022).

The municipalities and various organizations such as the Association of Municipalities, etc should lobby for an increase in the percentage of the local government expenses compared to GDP, even though from 2015 onwards the percentage has been increasing, but the rates of growth are very low. Decentralization requires an expansion of competencies and not an increase in the conditional transfers that the central government gives to the local governance, as this makes local decision-making even more dependent on the central government.

Conclusions and recommendations

Every government or organization, no matter how big it is, needs funding sources, so finances are important for the functioning of government units. On the other hand, not even a government has enough resources to fulfill its obligations to the community and to carry out all its functions, therefore the prudent and efficient use of existing resources is a necessity.

The local governance in Albania faces numerous challenges, challenges which vary from one municipality to another depending on the geographical position where the 61 municipalities perform their functions in the service of the community within their jurisdiction. The local government is still in need of financial resources even though no government level in the world has enough financial resources. But if we add the lack of qualified human resources, which is characteristic in all municipalities in rural areas, then the efficiency of using existing resources is at relatively low levels. An issue that requires an immediate solution for municipalities is integrated and systematic management, which makes it

possible to adapt in real time to different situations with a focus on local economic development. The municipalities should involve partners, donors and civil society and the community to ensure that local reforms are viable and credible and should be more transparent. Increasing community participation in decision-making at the local government level, which currently leaves much to be desired, will enhance better performance in providing social services that are truly local in nature and meet the developmental needs of local communities. To make local government work for the people requires an integrated approach to local governance reform aimed at local economic development. Efficiency and effectiveness in the use of resources, increasing the quality of services to citizens and increasing the level of development of the local economy should be at the center of the activity of each municipality.

In the framework of the response to the challenges of European integration and the absorption of funds from the European Union with a focus on the sustainable development of the local economy through the adaptation of the territorial reform in the country, the specialization and increase of the human resources capacities of the municipalities constitutes an important prerequisite. Municipalities should minimize the informality in order to increase the income provided by the local fees and taxes. If the local government in terms of securing financial resources will be inclined to seek as much income as possible from government transfers and not try to increase its own income from taxes and local fees, to increase the efficiency of the use of existing resources, this will make it even more dependent on the central government. Referring to the current situation local finance characterized by a low level of decentralization. In general, lack of finance resources are presented as the reason for the poor performance of the local government, but experience has shown that the poor management of finances against the lack of funds is the cause of the failure to realize the expectations of the local government's activity. The local government units in Albania should pay attention to the soundness of the finances, they should evaluate the budget planning process considering the sources of funding

for investment expenses and they should evaluate their possible fiscal capacities. The improvement of the legal framework related to local government finances should be part of the agenda of the central government and local government.

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Section 3. Management of innovations

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INNOVATIONS IN SERVICES

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Abstract

This article explores the evolving landscape of academic creation and dissemination, particularly in the context of the service sector. It delves into the transformation of research ideas into valuable academic outputs, examining the shift from traditional publishing methods to modern multimedia formats. The advent of digital tools and the Internet of Things (IoT) has revolutionized the pace and methods through which academic research is conducted and shared. Artificial Intelligence (AI), blockchain technology, and Lean Six Sigma methodologies are highlighted as key enablers in enhancing service personalization, security, efficiency, and effectiveness.

Keywords: *Academic Creation, Service Sector Innovations, Digital Tools in Research, Internet of Things (IoT), Artificial Intelligence (AI), Blockchain Technology, Lean Six Sigma*

Introduction

Unexpectedly in a scholarly field that crosses to a great extent on the publishing and consuming of books and journals, there is generally little written work on academic creation. Considering consistent research activity in the natural and mechanical sciences, this is something of an absence. A consequence of this, in our view, is that details about how research is truly conducted and the complications experienced in the process are less revealed in the organization and social investigation fields. In this respect, our attempt is a walk to some degree into the clouded. Specifically, our topic is the path by which research ideas are transformed into something with exchange value. For past the

fundamental stride of persuading someone to make the journal, there is a long chain of tasks that must happen for a tangle of ideas to comprehend its final shape. We have to start by revealing a shift that has been happening over the course of recent decades. In the earlier days, academic work generally flowed into the published printed copy form. However, in the later twentieth century, we have witnessed an explosion of the media through which scholarly investigations are best represented. There are two components of this. The first is the wide accessibility of data and software tools available to researchers. This has increased the pace at which a given idea can be developed and pursued. The second is the emergence of modern media, such as

video tapes, as a tool for disseminating scholarly ideas. All of these media have differing economies in terms of the quality of academic output, and we suspect this is an under-explored subject. As one of our respondents stated: “In the earlier days, you basically wrote everything you could in a paper with a specific end goal. Now it is a lot more complicated, you’re able to tailor the quality of what you’re doing binding in the result” (Julia Veleiras-Jurado, Edgar Bernad-Mechó, 2022).

Research methodology

The research commenced with an extensive review of existing literature across several databases and academic journals. The focus was on identifying studies related to academic creation, digital tools in research, the application of AI, blockchain technology, and Lean Six Sigma in the service sector, and the impact of influencer marketing on consumer behavior. This review helped establish a theoretical foundation for the study, highlighting gaps in the literature and emerging trends in academic and service innovations.

Analysis and results

The term ‘artificial intelligence’ (AI) refers to the ability of a digital computer or computer-controlled robot to perform tasks commonly associated with intelligent beings. AI is relevant to service as this ability can be used to facilitate learning, reasoning, understanding, perception, and learning by machines. AI is currently used in a wide range of fields and is already affecting the way services are delivered and received. One major issue facing services today is the need to achieve personalization. As the needs and wants of consumers become increasingly heterogeneous and competition between companies intensifies, the ability to tailor services to an individual consumer becomes more important. This can be seen emerging in the use of ‘smart agents’. Smart agents are software entities that carry out some set of tasks on behalf of a user or another program with some degree of independence. They can carry out these tasks with little or no interaction with the user and exhibiting an element of learning. In terms of the consumer, smart agents can seek out and evaluate service options, make decisions about these options, and act upon these de-

isions. This is an example of where AI can automate a task usually carried out by a human and in the case of an agent acting on your behalf, is a primitive form of outsourcing a service. As AI progresses, smart agents will grow in sophistication, their decisions will become more accurate and resemble that of a knowledgeable human, and they will be employed in a growing number of service contexts. Another way services can achieve personalization is through the gathering and analysis of data about the consumer in order to make service options more relevant to that consumer (<https://www.sciencedirect.com/science/article/pii/S1475158522000388>). AI is the most efficient means by which to carry out such data analysis, being capable of learning from patterns in the data and applying knowledge gained from the analysis to make relevant decisions. This is exemplified in the use of data mining and recommendation systems. Data mining is the process of discovering patterns in large data sets involving methods at the intersection of machine learning, statistics, and database systems. It is an essential process where intelligent methods are applied to extract data. Data mining has an extensive list of methods but some of the most common are decision trees, clustering, and association rule learning. These methods can be used to gather and deduce information about a consumer from a database. A recommendation system uses this information about the consumer to make suggestions to them about what service options would be best for them. This again is an area with huge potential for AI development. Currently, recommendation systems base their suggestions on a generalized set of rules about what is usually a good option for a consumer with certain data. This is known as content-based filtering.

The phase of IoT 2.2 draws on experience from research and industry to explore the evolving applications of IoT and their likely impact. The Internet of Things (IoT) has been identified as the next big technology shift, with predictions of billions of devices becoming connected over the coming decades. The sheer scale of IoT presents both a big opportunity and a big challenge in terms of how it can be deployed to deliver maximum benefit. A commonly cited example is that of ‘smart cit-

ies', where vast sensor networks will monitor and control civic infrastructure in real-time for an enhanced level of efficiency and service. In consumer markets, IoT is being applied to develop 'smart home' systems that learn user behaviors and automatically adjust the home environment to suit. While the vision and hype surrounding IoT is indeed very grand, there has been rather limited exploration as to how the technologies underpinning IoT can be integrated and applied in a manner to effectively achieve the grand visions. This 'bottom-up' approach involving the development of specific technologies and methods is where research can make a significant difference. In this phase, there are three papers representing the state-of-the-art in three specific areas of IoT deployment, and one paper addressing the implications of IoT from a consumer informatics viewpoint. The paper by Tae-Hyun Kim et al. provides an excellent example of taking an existing technology and adapting it to the IoT space for enhanced service. The authors' previous work had focused on the development of NFC technology for use in mobile phone-based transportation ticketing. The convenience and automation provided by NFC was seen as a good match to the IoT ideal, but the practical implementation of an NFC system for a city-wide bus network was limited by the requirement for readers to be wired to a power source and back-end checking systems to ensure correct operation of readers at each bus stop. With IoT-style vision in mind, the authors proposed a new system utilizing power-efficient Bluetooth Low Energy (BLE) beacons as virtual bus stops, removing the need for physical infrastructure apart from beacon installation at bus stops.

Blockchain technology has become very popular since the initiation of cryptocurrency, mainly due to its element of security and reliability. Blockchain is an innovative technology which acts as a digital ledger to record transactions across several computers in such a way that the information stored cannot be altered retroactively. Gupta and Brar (2017) state that blockchain is an information infrastructure that is established for a transaction involving value. There are three key elements to the technology which Gupta and Brar highlighted: integrity, transparency by means of traceability, and secu-

rity. This technology is globally accessible and has the potential to improve services in developing countries where banking services are limited. Blockchain enables services to process their transactions on a decentralized network rather than a central one, which may be an effective approach for mobile banking services and for mobile check-out services in retail stores, whereas computerized transactions may process transactions without any automatic human intervention. Blockchain can also offer complete traceability and transparency for products and their customers, especially in the food industry.

Six Sigma is a highly analytical, data-driven methodology and a process to reduce variation in process output by identifying the cause of the variation and controlling the process. By combining Six Sigma's rigorous focus on standardizing process with Lean's focus on reducing effort and resources, Lean Six Sigma provides a solid framework to improve any process.

Lean Six Sigma is a methodology that links a series of tools and methods into one framework with the aim of improving the speed and quality of a process. This is done by identifying and eliminating variation, defects, and waste. Lean Six Sigma has been used widely in industry with success and is now making inroads into the service sector.

In response to these growing market pressures, Lean thinking has provided service organizations with a new way to look at their operations. Lean thinking establishes a mindset and a set of tools to create sustainable change by exposing and solving problems. It is focused on creating value for the customer, whilst using the minimum amount of resources.

Lean thinking has come a long way since the establishment of the Toyota Production System almost 70 years ago. It has evolved from manufacturing to product development to operations and now to the services industry. As pressures continue to increase from the customer and competition, service providers are looking for ways to improve the way they work to become more efficient and effective (Ferreira M., Lopes B., Granado A., Freitas H., 2021).

Consumers have also become frustrated by botched personalization attempts where

they are served inappropriate offerings or where their information has been misinterpreted. In one survey, 44% of consumers said that they would become repeat buyers, and 33% spend more, with companies that do well at personalization. On the other hand, 50% of those polled also expressed that they would be annoyed by ads from retargeting campaigns. 59% of UK consumers avoid brands that have poorly targeted promotions and 38% of American internet users have expressed distrust in how their data will be used by companies. This demonstrates that while consumers appreciate relevant offerings, there is a fine line between an effective use of personal data and an intrusive one.

Big data and personalization are a double-edged sword in that they represent significant value to both consumers and producers; however, there are privacy implications and a backlash when firms get it wrong. With the capture of detailed consumer data, it is harder for firms to retain privacy standards and data breaches such as the 2017 Equifax breach pose a threat to consumer privacy. Studies show that there is a disparity between people's stated willingness to share information and their feelings once their privacy has been violated. It can be difficult for consumers to foresee how their information will be used and what value the exchange will hold for them. If they do not see a clear benefit to themselves, they may resent the degree of personal information that firms are now capable of gathering (e.g. through data mining) (Spilker, H. S., & Colbjørnsen, T., 2020).

Personalization is the provision of individualized service or product to meet specific consumer needs. This has long been a practice in offline services, such as financial advising or where the service is provided by direct human contact. However, the term is relatively new to the field of marketing, and its latest meaning is significantly broadened by digital technology. Marketers now seek to provide personalized content to a wide range of consumer groups. This is being taken even further with the emergence of big data as companies now have the capability to store vast amounts of information about individual customers and have the means to profile them individually. At its best, per-

sonalization is a service that is rendered to a specific individual, as when a web page provides an individualized assortment of news stories or assesses an individual's physical state to then provide health advice. At a minimum, it entails the customization of mass-produced offerings, as when a music streaming service has a recommendation engine that serves up targeted playlists for different kinds of listeners. Big data enables thorough customer analytics so that firms can accurately tailor offerings to segments or even to individual buyers.

Conclusion

It is in the spirit of addressing this issue that we have encouraged the stepping back from the delivery processes into a re-discovery of the core nature of the service, the consumer that it takes place for, and the context in which it is being utilized. Step through the various chapters and note how many different ways this same basic message is being redelivered. Step back, try to understand, and only then act. This seems rather obvious for any form of marketing or product development, but in the world of services characterized by lower skilled operation on behalf of the customer, there is a tendency to leap to assumptions on what the output should be and how this can be more efficiently delivered.

First and foremost, we hope that it is apparent to the reader that much service and public policy provision today is designed from production function assumptions. Services are a series of processes to deliver a functional output, and the core focus in operational improvement has been to try and make these processes as efficient as possible. Step into any government department, hospital, bank, or airline and ask them what they are trying to do, and the answer will invariably be some derivation of doing the same thing better. This is problematic because efficiency in process execution to deliver a standardized output only saves time and money for the customer if the output itself is what they want! Often these same customers are not deeply satisfied with what they receive and are invariably left feeling that services are all too similar and there is plenty of room for improvement.

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Section 4. Marketing

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OPPORTUNITIES FOR THE DEVELOPMENT OF PILGRIMAGE TOURISM IN UZBEKISTAN

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Abstract

This study explores the development possibilities of pilgrimage tourism in Uzbekistan, a country with a rich spiritual heritage and significant potential as a destination for religious and spiritual travelers. Utilizing a mixed-methods approach, including surveys, interviews, and document analysis, the research examines visitor demographics, motivations, economic impacts, and stakeholder perspectives on challenges and opportunities in the sector. Findings indicate a strong foundation for pilgrimage tourism, driven by a diverse visitor demographic and a shared interest in sustainability among stakeholders.

Keywords: *pilgrimage tourism, cultural heritage, sustainable development, economic impact, demographic characteristics of visitors, marketing strategies, preservation of religious places*

Introduction

The development of pilgrimage tourism in Uzbekistan provides a unique opportunity to stimulate economic growth and cultural exchange using the country's rich historical, cultural and spiritual heritage. Located in the heart of Central Asia, Uzbekistan is home to a number of ancient cities that played a crucial role in the spread of religions and cultures along the Silk Road, including Samarkand, Bukhara and Khiva. These cities contain many architectural wonders and sacred sites of great importance to various religious traditions, including Islam, Buddhism, and Christianity.

Uzbekistan's strategic location and presence of its venerable shrines make it a potential center for pilgrimage tourism. This type of tourism not only serves the spiritual needs of individuals, but also promotes intercultural understanding, promotes peace, and stimulates local economies.

Despite this potential, pilgrimage tourism in Uzbekistan is still in its infancy, with the country only beginning to unlock its potential as a leading destination for religious and spiritual travelers. The introduction of new policies to promote tourism, investment in infrastructure and marketing shows a

growing recognition of the value of pilgrimage tourism. However, in order to fully realize this potential, it is necessary to solve the problems related to infrastructure, access, preservation of sacred places and ensure the sustainability of tourism development.

This study aims to explore the possibilities for the development of pilgrimage tourism in Uzbekistan, examines the current state of the sector, identifies key opportunities for growth, and addresses issues that may hinder development.

Through an in-depth analysis of the potential of pilgrimage tourism in Uzbekistan, this study informs strategic initiatives that will help position the country as a leading destination for spiritual and religious travelers, thereby increasing its visibility on the global tourism map.

Research methodology

The contribution of Uzbek scholars to the development of Islamic religion and science, their scientific and spiritual heritage, their role in the formation of Islamic civilization in Central Asia, their rich history and the hospitality of their people are the basis. to develop travel tourism in the country. Famous pilgrims such as Ismailini, Chor Bakr, Chashmai Ayub, Shahizinda, Ruhabad, Imam Al-Bukhari, Bahauddin Naqshband, Ghur Amir, Khoja Ahrur, Pahlavon Mahmud, Hazrat Imam, Zangi ata, Sultan Saadat, Hakim at-Tirmizi are proof of this opinion. . There are world-famous pilgrimages and shrines in the country, the visit of which is equivalent to a small pilgrimage of Islam. In particular, in Central Asia, visiting the tomb of Qusam ibn Abbas in Samarkand is equated with visiting the Kaaba. In order to facilitate pilgrims in Uzbekistan, mobile applications on holy sites and pilgrims have been developed (Jurakhonovich, Khashimov Sherakhon, 2020).

According to Mirzahid Koriyev, pilgrimage sites in Namangan region, which is one of the richest areas for pilgrimage in Uzbekistan, need to be improved, repaired and reconstructed based on world standards (Koriyev, Mirzohid, 2023).

According to the research conducted by Dzharfarova Nigina Alisherovna and Abdurakhimova Sevara Tulkin, Uzbekistan is famous not only for pilgrimage, but also for its ac-

tivists who lived and worked in the Islamic world. According to the Global Muslim Travel Index (GMTI) rating for 2019, Uzbekistan entered the top ten popular countries among the member countries of the Organization of Islamic Cooperation. In addition, a number of projects were implemented to increase the role of religious tourism in Uzbekistan. The first international forum on tourism "Ziyarat" organized in Bukhara on February 21-23, 2019 was one of them, in which Mr. Peter Debrin, an expert of the General Directorate of Sustainable Tourism of UNESCO, participated. There were more than 120 leaders of influential organizations in the Islamic world, religious figures from more than 30 regions. There are more than 7,000 tangible cultural heritage objects of different regions and periods in Uzbekistan, including historical centers in Bukhara, Samarkand, Khiva, and Shahrisabz, which are included in the UNESCO World Heritage List. Of course, this creates favorable conditions for the development of pilgrimage tourism as one of the promising directions. Also, on May 24, an international scientific-practical conference was held on the topic of "Revival of pilgrimage tourism at the intersection of the Great Silk Road" in cooperation with the State Committee for Tourism Development, Samarkand State University and "Silk Road" International University. Tourism took place in Samarkand. According to the Tourism Committee, the number of tourists from Muslim countries to Uzbekistan in 2018 increased sharply compared to 2017. For example, the number of arrivals from Malaysia has increased by 66%, while for Indonesia this figure is 88% (Djafarova Nigina Alisherovna, Abdurakhimova Sevara Tulkin Kizi. 2020).

According to Gulnara Gulyamova's research, Uzbekistan has a high potential for the development of various types of tourism. According to the Ministry of Tourism and Culture Development of the Republic of Uzbekistan, indicators of tourism development in our country are growing steadily in 2016-2019 (Fig. 1). In 2016-2019, the number of tourists who came to our country increased by 3.2 times and reached 6.7 million people. Despite the financial, organizational and economic measures taken to improve the situation in 2020, 1.3 million tourists visited our country, that is, the number of visits

decreased by 5 times. 2021 was a period of tourism recovery, 1.9 million foreign tourists visited Uzbekistan during the year. Despite the fact that the number of tourists who came to the country increased by 2.7 times compared to last year and reached 5.8 million people, in 2022 the figure of 2019 was not reached. In 2020, the closure of external borders completely stopped the arrival of foreign tourists. In addition, the introduction of quarantine restrictions across the country has almost stopped domestic tourism. As a result, the direct income from the export of tourism services in our country decreased more than 4 times compared to 2019 (Gulyamova, Gulnora. 2023).

In addition to the method of theoretical analysis and scientific abstraction, the questionnaire method was also used in the research process.

100 foreign tourists aged 18 to 65 participated in the survey conducted by the researcher. Analysis and results were formed based on their answers. In particular, the survey investigated the motivation of visitors, the average cost and its distribution, and the main problems for interested parties.

Analysis and results

Research shows that pilgrimage tourism attracts the over-60 demographic segment, which is interested in spiritual and cultural exploration. The main motivation for visiting shrines was found to be spiritual enrichment (60%), followed by cultural exploration (25%). This creates a solid foundation for the development of pilgrimage tourism around Uzbekistan's rich spiritual heritage and cultural landscapes.

Table 1. Demographics and motivations of visitors

Demographic characteristic	in percent (%)
Age 18-30	25%
31-45 years old	15%
46-60 years old	20%
People over 60 years old	40%
Motivation for the visit	in percent (%)
Spiritual enrichment	60%
Cultural research	25%
Academic studies	10%
Other	5%

**the table was compiled by the author based on the results of the survey*

Table 2. Economic Impact of Pilgrimage Tourism

Element	Average cost per visitor (\$)
Accommodation	600
Food and drinks	150
Local transport	50
Souvenirs and other purchases	75
Total	875

**the table was compiled by the author based on the results of the survey.*

An economic impact analysis has shown that visitors spend a large amount in various categories, particularly accommodation and food. On average, visitors spend \$875 per

trip, indicating that pilgrimage tourism can be an important source of income for local hotels and restaurants, especially in areas surrounding pilgrimage sites.

Table 3. *Situations identified as the main problem*

Situations	Cases identified as the main problem (%)
Infrastructure development	75%
Marketing and advertising	60%
Conservation of the tourist area	85%
Sustainable tourism practices	80%

**the table was compiled by the author based on the results of the survey*

Stakeholders identified a number of problems in the development of pilgrimage tourism. Among them, preservation of tourist areas (85%) and infrastructure development (75%) were noted as the main problems. These problems require careful repair planning and investment to avoid damaging the cultural and natural assets that attract visitors to Uzbekistan.

There is a great potential in the development of pilgrimage tourism in Uzbekistan, but it is necessary to solve problems such as the preservation of infrastructure, areas without damage, and the introduction of sustainable tourism practices. Together with strategic investments and targeted marketing efforts, the development of sustainable tourism offers (Collins-Kreiner, N., 2020), can make Uzbekistan a leading destination for pilgrimage tourism globally. It can also be noted that there are still problems that prevent the development of pilgrimage tourism in the country. Including:

As for the language, there are still few people who speak English outside the capital. Foreign visitors may have difficulty in simple communication. This can be a communication barrier, especially for the older generation who want to stay in rural areas for a long time. This can cause discomfort and misunderstandings for the locals. In Uzbek culture, it is customary to offer food and drink to any guest. If communication is poor, guests may reject the hospitality of the locals and offend them.

Encourage public-private partnerships between local tourism operators and international travel agencies. Promotion of joint venture business relations between local and international tourism enterprises. To promote regional tourism by developing tourism routes and destinations based on special interest and culture, especially including countries such as Afghanistan, India, Iran,

Kazakhstan, Pakistan, Tajikistan and Turkmenistan.

Pilgrimage tourism increases the demand for jobs in various sectors. Countries that are popular with tourists increase demand for local goods and services, such as agricultural products. It is a major area of tourism job creation (Djuraeva D.D., Berdiyeva Z.M., 2016), with increased tourism demand creating jobs in areas such as public and private infrastructure, airport facilities and hotels.

Sustainable development of pilgrimage tourism includes ensuring environmental protection. Pilgrimage and religious tourists often visit culturally and environmentally sensitive sites, and their visits can have both positive and negative effects on the site.

Conclusions and suggestions

The development of pilgrimage tourism in Uzbekistan creates a great opportunity to use the country's rich cultural and religious heritage for economic and social benefits. The study found that interest in pilgrimage tourism is primarily characterized by a younger and more diverse demographic of visitors concerned with spiritual enrichment and cultural exploration. Economic analysis shows that significant spending by visitors increases the industry's ability to stimulate the local economy and support small businesses. Stakeholders identified several development challenges, including the need for improved infrastructure, better protection of tourist destinations, and overcoming cultural and language barriers. More importantly, there is a strong inclination towards sustainable tourism practices among visitors and service providers, which points the way for future development in line with global sustainability trends.

Strategic marketing efforts, partnerships with international organizations, and the de-

velopment of culturally sensitive tourism offerings are critical to entering the global pilgrimage tourism market. In addition, solving the identified problems through inclusive planning and policy development can make Uzbekistan a leading destination for pilgrim-

age tourism. By creating an environment that values the preservation of religious monuments and promotes sustainable and respectful tourism practices, Uzbekistan can leverage pilgrimage tourism for long-term cultural, economic, and environmental benefits.

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Section 5. World economy

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ASSESSMENT OF THE PROSPECTS FOR THE DEVELOPMENT OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE CURRENT CONDITIONS OF ECONOMIC DEVELOPMENT

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Abstract

The article examines the importance of the development of small and medium-sized enterprises (SMEs) as a key element of economic growth. The author emphasizes that the intensification of SME development contributes to the competitiveness of the economy, the creation of new business structures and the promotion of innovative projects. Particular attention is paid to analyzing the peculiarities and prospects of SME development in different countries, such as the United States, China and Kazakhstan, in order to identify important trends affecting the structure of the economy and the overall economic potential of the country.

Keywords: *SMEs, economic growth, competitiveness, innovation, developing countries, developed countries, USA, China, Kazakhstan, economic potential*

Introduction

Small and medium-sized enterprises are considered one of the key factors of economic growth, due to the accumulation of innovative functions, high flexibility and the possibility of accelerated adaptation to external changes, and the testing of various management models in practice of a particular market. The development of small and medium-sized enterprises is one of the strategically

significant tasks within which economically developed countries create their own support institutions aimed at stimulating the activities of small and medium-sized enterprises (hereinafter referred to as SMEs). This is due to the fact that the intensification of the development of small and medium-sized enterprises leads to an increase in the competitiveness of the economy, the creation of new largest business cells and the promotion

of innovative projects, the achievement of socio-economic goals. The relevance of the study of the features and prospects of the development of small and medium-sized enterprises in developing countries is due to the fact that, depending on the state, its legislation, the conditions created and the support measures taken, the sectoral composition of small and medium-sized businesses is changing, which affects the competitiveness of the enterprise. The economy in a number of key areas creates additional prospects for the development of market participants, leads to an increase in not only quantitative, but also qualitative effects from entrepreneurial activity. The purpose of the work is to conduct a comparative analysis of the features and prospects of the development of small and medium-sized enterprises in developed countries using the example of the economies of the USA, China and Kazakhstan.

Method

The materials for this study were open statistical data, scientific articles by domestic and foreign authors; information published in media sources describing the features and current state of small and medium-sized enterprises on the example of the USA, China and Kazakhstan. The research is based on methods of analysis, synthesis, comparison, generalization, comparison, abstraction, observation, inductive and deductive methods.

Results

Small and medium-sized enterprises (SMEs) in developed countries play an important role in the economy. They contribute to the competitiveness of the country by using minimal resources and enhancing the capabilities of human capital. SME support is becoming a key aspect of economic and social development. Investments in SMEs not only contribute to economic growth, but also to innovation. Complexities such as the complexity of the business environment and the introduction of new rules may slow down the growth of SMEs, but digital technologies can enhance their importance.

The general characteristics of SMEs in developed countries are related to:

– the prevalence of the SME sector in the GDP structure (which is also indicat-

ed by studies by D. Senneris, N.V. Kvashi, A.V. Kozlova; D.A. Pletneva, V.I. Barkhatovk, K.A. Naumova; K.A. Smirnova, etc.);

– the presence of a fairly extensive and variable systems of support measures, on the quality, accessibility and total number of which the degree of increase in the number of SMEs depends;

– high participation of SMEs in the organization of employment of the population – in developed countries this figure exceeds 50–60% (this is indicated by M.V. Krylova, D.A. Molev, Zhi Tan, E. H. Clyde);

– high innovation, investment and patent activity (also noted in the study by K.G. Stefan);

– the focus of SMEs on certain leading industries and sectors of the economy, the choice of which is dictated by the specific features of the economy of a particular country and the created stimulating conditions (indirectly confirmed in the work of S.P. Zemtsov and A.A. Mikhailov) (Gridneva, E.E. et al., 2021).

The key differences in the field of SMEs in developed countries are related to the specific contribution to the development of the economy, the distribution by sector, the availability of specified benefits, the tax regime, and the increase in the number of small and medium-sized businesses. Comparative analysis shows that the more extensive the existing support programs and the more accurate the classification of SMEs, the more organizations get access to benefits. An important difference is the vastness of the classification of enterprises into micro, small and medium-sized, the presence of a variable system of factors taken into account. If in China, according to the standard classification, an average enterprise can have a staff of up to 1,000 people, then the United States and Kazakhstan are significantly inferior in this indicator by two and four times, respectively, which complicates the possibilities for obtaining benefits from companies (Zhou Shi, 2022). However, in the United States, this factor is offset by the high flexibility of criteria that take into account the industry composition and other specific features of a particular business entity, which expands the possibility of obtaining benefits. There is no such practice in Kazakhstan (Zaitseva, A. S., 2021). In addition, it is important to have a single body that develops preferential programs and interacts

with SMEs at the state level. There is no such body in Kazakhstan, which negatively affects the possibility of receiving direct or indirect support. The most developed system of benefits for small and medium-sized enterprises is represented in the United States, since the country has many distinctive preferences that are not typical for other countries (for example, the mandatory share of SMEs in government orders, amounting to 23%; integration of SMEs into the country's defense complex) (Garcia-Martinez L.J. et al., 2023).

Despite the existing conceptual differences, there are common prospects for the development of small and medium-sized enterprises for all countries, related to:

- participation in preferential support and expansion programs, accelerated achievement of set performance indicators due to this, the entry of an increasing number of SMEs into economic processes, integration into territorial agglomerations;

- digitalization of external and internal business processes, the introduction of information and communication technologies in the activities of small and medium-sized businesses to improve the efficiency of the economic process;

- creation of internal ecosystems and integrated products, system solutions. And although such measures are now in most cases considered at the level of the largest business structures, small businesses have every opportunity to scale these trends to their own business processes;

- diversification of industry composition and the penetration of small businesses into uncharacteristic sectors of the economy of individual developing countries. In the long term, this leads to the inclusion of small businesses in complex economic systems, becoming a condition for development and accumulation of experience.

Table 1. *Assessment of the development prospects of small and medium-sized businesses in the USA, China and Kazakhstan*

A country	Description
USA	Small and medium-sized enterprises (SMEs) play an important role in most economies, especially in developing countries ¹ . However, access to finance is a key constraint to SME growth. Despite this, SMEs continue to innovate to achieve high levels of radical innovation.
China	SMEs make up the vast majority of enterprises in China and are key to its economic development. About 50% of the country's tax revenue and 60% of China's GDP comes from SMEs ³ . In 2023, the total number of micros, small and medium enterprises in China exceeded 52 million.
Kazakhstan	In Kazakhstan, the number of operating SMEs is 1,153,595 units. They contribute 24.9% ⁴ to the country's GDP. However, SMEs in Kazakhstan need increased funding, as well as targeted, innovative solutions to continue stimulating the economy and creating jobs.

Note: Compiled by the authors

Discussion

The analysis of the prospects for the development of small and medium-sized enterprises in developed countries indicates their closely interrelated nature, which appears as a combination of many perspectives at the business level as a set of measures to improve efficiency. An additional stimulating

factor is the shift of the specific features of the economic activities of individual entities towards innovation-oriented areas of activity due to their priority nature at the level of actively promoted state reforms.

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