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University of Warmia and Mazury in Olsztyn
Faculty of Economic Sciences
Department of Finance and Banking
M. Oczapowskiego 4, room 106
10-719 Olsztyn, POLAND
tel. +48 89 523 3963
e-mail: fm@uwm.edu.pl
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The paper investigates the dependence of the volume of the credit portfolio of commercial banks of the Republic of Tajikistan on the external and internal factors, using panel data and econometric model covering the period from 2006 to 2014.

18  The impact of board composition on firms’ performance: a meta-analytic review

Oleh Pasko and Edward Markwei Martey

The study examined the impact of board composition on firm’s performance based on the agency theory. Through meta-analysis, the study reveals systematic relationships between board composition and four variables of firm’s performance. The result predicts support the agency theory on the impact of board composition on firm’s performance Since failure to observe the theory creates a potential conflict of interest between managers and shareholders. The study suggested that policymakers should reconsider the size of the composition of the board of a company since it adds up to cost than to performance.

26  Participatory Budget as a Tool for Local Community Development in Ukraine

Svitlana Zapara and Oleh Rohovenko

The sustainable development of the local self-government institute in modern democracies, the introduction of the principles of subsidiarity, regionalization and decentralization show a clear need for implementing the systemic reforms aimed at strengthening local initiatives in Ukraine. Therefore, there is a need to increase the role of self-governing structures, to grapple for the ways of adapting governance at the regional level to the long-standing European traditions of democratic governance, and to address the procedural issues of the power distribution, transfer and delegation, in particular, the formation and distribution of local budgets. One of the most effective tools to enhance local communities is a participatory budget, the implementation of which in Ukraine is gaining momentum and needs to be analyzed and to be supported upon its successful realization. This article focuses on the analysis of the implementation of the participatory budget as an instrument of the local community development in Ukraine in the case of the city of Sumy.
Employment Policy in the Context of European Integration of Ukraine

Nataliia Klietsova and Nataliia Volchenko

The purpose of the study is to investigate the real causes that reduce the employment of the working population on the level of enterprises and promoting their employment policy in the context of European integration. Comparison of the data on employment in the European Union (EU) and Ukraine revealed that the presence of the gap in employment levels in the EU countries – 28 percentage points, in Ukraine – 22 ones. Analyzed and found out that the rather low level of employment in the candidate countries for EU membership in Turkey and Macedonia, which reached 53.2% and 51.3% respectively. Determined that the problem of the unemployment of working population is formed under the influence of definite factors, among which the availability of the process of structural change in the economy, seasonal fluctuations in the production of enterprises, insufficient aggregate demand, imperfect labor legislation, poor training of employees as well as the insufficient level of employment programs in the country. The employment rate of the population that associated with staff turnover organization is proved. The efficiency of the employees’ usage of the agricultural enterprises of the plant growing specialization in certain areas of North-Eastern region of Ukraine in the 2015 year is studied. Considering the methodological approach for calculating the indicators of the efficiency of the employees’ usage at the enterprise will give the possibility for owners and managers of the organizations to forecast their profits, identify future partners, determine the reserve enterprises’ staff.

PART 2

The role of shadow economy in investment effectiveness of public goods. Critical approach to Andrew Warner conceptualization

Andrzej Buszko

The article deals with the problem of the shadow economy. The main roots of the shadow economy were presented. The aim of this article is the try to identify the role of the shadow economy in public effectiveness investment. The following hypothesis was accepted - the shadow economy modifies the effectiveness of public goods investment. The close attention was paid to Andrew Warner conceptualization.

REVIEW OF THE BOOK „Model doradztwa w obszarze finansów osobistych w Polsce na tle doświadczeń międzynarodowych” („The model of personal finance consulting in Poland in the context of international experience”) by Krzysztof Waliszewski

Marianna Dębniewska

INFORMATION on the XI National Conference: “Information In The Social World”

Wacław Szymanowski
PART I

Original

Research Papers
ASSESSMENT OF THE FACTORS AFFECTING ON THE FORMATION OF THE CREDIT PORTFOLIO OF THE COMMERCIAL BANKS IN THE REPUBLIC OF TAJIKISTAN

Basgul F. Isupova, N. R. Rajabova

Tajik State University of Commerce, Dushanbe, Republic of Tajikistan

Abstract. The paper investigates the dependence of the volume of the credit portfolio of commercial banks of the Republic of Tajikistan on the external and internal factors, using panel data and econometric model covering the period from 2006 to 2014.

Keywords: credit portfolio, factors, models, saving, investments, reserves and funds to cover possible loan losses

JEL Classification: C5, G21

1. Introduction

The bank lending in a market economy plays an important mechanism and role supporting the functioning of a number of industries and spheres of economic. To understand the future prospects for the development of the banking sector as a whole, the primary task is to analyze the factors underlying the actions of the bank as a subject implementing a specific policy for issuing a credit to customers.

Assessment factors that affecting on the formation of credit portfolios of commercial banks become the heated topics among researchers and sciences in recent decades. The bulk number of publications is devoted to the development of various problems related to risk, especially the problems of building risk management systems (Hamerle, Liebig, Rusch 2003) and risk management in a financial market (Morone, Cornaglia 2013).

Nowadays, the quality of the credit portfolios of banks in the Republic of Tajikistan depends on many factors. The actual issue remains the identification of the relationship between the volume of credit issued by the country's banks and various factors of the business environment.

To provide a regression analysis and finding our empirical analysis it’s important to us to collect statistical data, identify the factors based on the degree of their influence on the final result, construct and optimize the econometric model, and interpret the obtained data.

The volume of crediting to the commercial banks of the Republic of Tajikistan and the factors that determine the volume of the credit portfolio of domestic banks depend on the
subject of the study over the period 2006 to 2014 has been selected as objects for econometric modelling.

The factors such as dependent and independent variables have been obtained from the World Bank, International Monetary Fund, United Nations Conference on Trade and Development, National Bank of Tajikistan, and the Statistics Agency under the President of the Republic of Tajikistan.

Currently, 18 commercial banks are eligible for credit operations that are registered in the Republic of Tajikistan.

Recently, a significant number of foreign capital and as well as foreign banks and their branch were noticeable increasing on the banking market of the Republic of Tajikistan that their completion noticeable increasing.

There are only a few banks known by the population in the market that could contribute to the accumulation of money from the population, which in turn is important for the formation of sources of subsequent lending.

2. Factors affecting on the formation of the credit portfolio of the commercial banks

The current situation is not easy to break in favour of other market participants. In order to attract the funds of deposits its necessary for banks to increase the rate on deposits, which, in turn, it will lead to increase in the rate of credit or a decrease in the profit of the institution.

Being in dilemma, banks are more willing to raise credit rates than allow themselves to deteriorate their performance indefinitely. Such increase, in turn, will reduce the flow of clients which will also weaken of the bank’s positions. Thus, Tajik banks are in a complicated situation, when it is difficult to expect to expand their market share and adequately respond to rapid changes in the business environment.

However, it is important to mention the impact of the economic crisis on the financial sector as a whole. Commercial banks of the Republic of Tajikistan for the analyzed period from 2006 to 2014 are deeply feeling crisis. The first global financial crisis adversely affected the quality of a credit portfolio in Tajik banks. As soon as commercial banks began to function steadily after the financial crisis, they gradually faced to the second crisis, e.g. ongoing Russian crisis. Since the Tajik economy has a great dependence on the Russian economy, it might have a direct negative impact or adverse consequences to our economy.

During the economic downturn, the volume of overdue loans for banks in the Republic of Tajikistan sharply increased and the process of issuing new loans is sharply declined. In addition, there may be a situation of outflow of private depositors' capital, when, under the influence of various related factors, they decide to withdraw their funds, which has a very negative effect on the financial situation of banks and may cause liquidity loss risk. It should also be noted that the recovery of pre-crisis volumes in the industry becomes possible only against the backdrop of a general recovery in the economy, as banks are providers of services for specific organizations and individuals (Volkova, Gruzdiyev 2013).
Finding our empirical analysis through using regression model, we consider that it’s necessary to take the volume of the credit portfolio of commercial banks of the Republic of Tajikistan as a dependent variable, and include as two factors in the model two types of variables that can affect the credit portfolio: internal and external. Internal factors are those that the bank can influence decisions of top management, under external-lying outside the control of the bank, but influence decision-making and this should be taken into account (Lupanov, Belotserkovsky 2010).

As internal factors, four variables are initially considered in the model. The first two are related to the bank's active operations, while the next two are too passive. Let’s interoparates them more detail.

1. **Overdue arrears on the credit portfolio.** Internal monitoring of this factor is an important and exceptional task of the bank which lies on a control of credit risks. Association of dynamics of indicators and dependent variables is not obvious: the growth of absolute magnitude of the overdue arrears can be consequence increase of the credits. But possibly and feedback, when the critical growth of overdue credit portfolio means that the risk level has gone beyond the permissible limits as a result of failures of bank management. In this case, natural reactions will be revised a condition of lending customs (increase rates of introduction more rigid collateral policy) that consequently it will reduce the quantity willing occupy facilities of the bank.

2. **The volume of credit in the interbank market.** Lending banks is an alternative investing of banks, however, it logically suggests that growth portfolio of interbank credits simultaneously will be faced to the liquidity of bank, moreover declining profitability of the bank with lower interest rates. The following two variables indicate on the sources of financial resources of the bank that participate in the formation of the pool that used for extradition credits legal and physical persons. There a straight correlation among each of these factors and dependent variables, however, it’s impossible to argue it that one of this would be used for extradition credits from the different categories borrowers.

3. **The volume of deposits of individuals.** This kind of factors is the most available sources of lending clients, as there are free monetary facilities at the deposition bank. However, before terms of outflow by the depositors may be caused a problem from their liquidity that also negatively affect to the quality credit portfolio.

4. **A number of funds on the organization's accounts – clients of the bank.** Unlike retail deposits, funds on accounts of enterprises are a less liquid source of credit because of the uncertainty of the period during which they can be withdrawn by the client, as well as an increase in a number of funds in the accounts can positively affect the quality of the loan portfolio.

Dynamics 3 and 4 are determined by the general economic conjuncture: these indicators, as a rule, grow together with the general growth rate of the markets. Improving the activities of
industries and organizations, as well as increasing the financial activity of the population and increase a demand for business lending, which determines the positive relationship of these parameters with the factor-result. These factors fully describe the activities of the bank as a source of credit and at the same time take into account the specifics of the pooling of its financial resources available for lending.

As external factors, we suppose that it’s necessary to consider the following variables:

1. **The average interest rate on household deposits**, considering as average rates by the market. This allows us to consider the current conjecture on granting credit by the bank. Increasing deposit rate entails an increase in the credit rate to maintain the bank's performance at the same level. To increase the credit rate, in turn, should be reduced the volume of loans issued by a particular bank, but in general, the reverse situation is possible in the economy. In particular, during the economic boom, when banks need to attract more resources in order to increase the volume of loans issued when demand for them will be steadily grown.

2. **The average rate on the interbank credit market**. We have included the current index in our model based on the mentioned higher anticipated communications volumes interbank credits on the market from a volume of lending physical and legal entity.

3. **The volume of investment**. The following index characterizes macro-level that is working for a credit organization. Basically, to assume a direct link between him and the dependent variable, as each decision on investments is expensive and, as a rule, implies the need to use a bank loan;

4. **Inflation**, which reflects the process, occurring at the economy at whole, being significant measures of the regulator of macroeconomic level;

5. **Gross national savings** – is a part of national income that remains after consumption. The level of saving determines the number of financial funds which may be turned at investments. Saving domestic economy will attract investments through a credit system. If the savings rate does not provide a possible under these conditions the amount of investment, it is possible to resort to borrowing abroad.

6. **The volume of migrant remittances**. Migrant remittances constitute the second volume of the commercial banks income of the country working in the Russian Federation in recent half decades, however, because of the ongoing Russian financial crisis the volume of remittances inward has sharply decreased that it negatively affected credit portfolios commercial banks, moreover, it has a negative effect on the increasing the level overdue debt.

It’s possible to find a great correlation between variables we selected that will adversely affect the quality of the future regression model. In order to eliminate this links first, we need to build a model and to determine the degree of influence of each factor on the dependent variable of correlation analysis (table 1).
Table 1. Coefficient of correlation factors.

<table>
<thead>
<tr>
<th>No.</th>
<th>Factors</th>
<th>Signs</th>
<th>Correlation coefficient with factor LP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total volume of credit portfolio</td>
<td>LP</td>
<td>1.00</td>
</tr>
<tr>
<td>2</td>
<td>Arrears of credit portfolio</td>
<td>NPLs</td>
<td>0.93</td>
</tr>
<tr>
<td>3</td>
<td>Volume of the deposits of commercial banks</td>
<td>DP</td>
<td>0.83</td>
</tr>
<tr>
<td>4</td>
<td>Volume of the credit of banks in the interbank market</td>
<td>IL</td>
<td>0.88</td>
</tr>
<tr>
<td>5</td>
<td>Amount of funds on customers’ accounts</td>
<td>DLP</td>
<td>0.76</td>
</tr>
<tr>
<td>6</td>
<td>Interest rate of deposits</td>
<td>IRD</td>
<td>-0.60</td>
</tr>
<tr>
<td>7</td>
<td>Interest rate in the interbank market</td>
<td>IRL</td>
<td>0.31</td>
</tr>
<tr>
<td>8</td>
<td>Investments</td>
<td>TI</td>
<td>-0.51</td>
</tr>
<tr>
<td>9</td>
<td>Gross national savings</td>
<td>GNS</td>
<td>-0.44</td>
</tr>
<tr>
<td>10</td>
<td>Remittances</td>
<td>REM</td>
<td>0.81</td>
</tr>
<tr>
<td>11</td>
<td>Inflation</td>
<td>INF</td>
<td>-0.90</td>
</tr>
</tbody>
</table>

Source: Author’s calculation.

With an insufficiently high correlation coefficient, the inclusion of an appropriate factor in the model seems inappropriate, since it will only worsen the overall quality of the model, reducing its explanatory power. Table 2 indicates the correlation coefficients of the dependent variable in pairs with each significant factor that will be included in the model (table 2).

Table 2. Correlation coefficients for the period 2006-2014.
5% critical value (two-way) = 0.6664 for n = 9

<table>
<thead>
<tr>
<th>Signs</th>
<th>1_LP</th>
<th>1_NPLs</th>
<th>1_IL</th>
<th>1_IRL</th>
<th>1_TI</th>
<th>1_GNS</th>
<th>1_REM</th>
<th>1_INF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1_LP</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1_NPLs</td>
<td>0.9358</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1_IL</td>
<td>-0.601</td>
<td>-0.365</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1_IRL</td>
<td>0.3154</td>
<td>0.3103</td>
<td>0.0422</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1_TI</td>
<td>-0.510</td>
<td>-0.395</td>
<td>-0.188</td>
<td>0.7144</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1_GNS</td>
<td>-0.44</td>
<td>-0.316</td>
<td>-0.329</td>
<td>-0.011</td>
<td>0.5320</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1_REM</td>
<td>0.816</td>
<td>0.7914</td>
<td>0.9386</td>
<td>-0.157</td>
<td>-0.055</td>
<td>-0.184</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>1_INF</td>
<td>-0.904</td>
<td>-0.915</td>
<td>-0.742</td>
<td>-0.532</td>
<td>0.4670</td>
<td>0.3130</td>
<td>-0.692</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

Source: Author’s calculation. Note: All data has logged.

The initial statistical data for the regression analysis are indicated in table 3.
Table 3. Basic statistics for the period 2006-2014.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Median</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Std. Dev.</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>L_LP</td>
<td>21.9376</td>
<td>21.8471</td>
<td>21.2118</td>
<td>22.7606</td>
<td>0.497774</td>
<td>0.776019</td>
</tr>
<tr>
<td>L_NPLs</td>
<td>19.9401</td>
<td>20.1362</td>
<td>18.1330</td>
<td>21.4235</td>
<td>1.06011</td>
<td>1.77299</td>
</tr>
<tr>
<td>L_IL</td>
<td>19.1467</td>
<td>18.7059</td>
<td>17.5767</td>
<td>20.7470</td>
<td>1.13136</td>
<td>2.05223</td>
</tr>
<tr>
<td>L_IRL</td>
<td>3.11065</td>
<td>3.11795</td>
<td>2.91777</td>
<td>3.20275</td>
<td>0.0818124</td>
<td>0.0725355</td>
</tr>
<tr>
<td>L_TI</td>
<td>2.84636</td>
<td>2.87051</td>
<td>2.61973</td>
<td>3.09268</td>
<td>0.156151</td>
<td>0.280011</td>
</tr>
<tr>
<td>L_GNS</td>
<td>2.47194</td>
<td>2.59779</td>
<td>1.67485</td>
<td>2.73890</td>
<td>0.335268</td>
<td>0.374454</td>
</tr>
<tr>
<td>L_REM</td>
<td>21.6195</td>
<td>21.6570</td>
<td>20.7419</td>
<td>22.1628</td>
<td>0.465017</td>
<td>0.776625</td>
</tr>
<tr>
<td>L_INF</td>
<td>2.54979</td>
<td>2.52266</td>
<td>1.46948</td>
<td>3.33804</td>
<td>0.646271</td>
<td>1.09005</td>
</tr>
</tbody>
</table>

Source: Author's calculation.

Table 2 gives us possibilities to draw several following conclusions:

1. All the factors indicated in the paper, both external and internal, have rather high correlation coefficients with the dependent variable, which indicates the expediency of their inclusion in the model. The most paper that devoted to a modelling the risks of the bank's credit portfolio, the country-specific macroeconomic factors external to the credit organization is considered as the defining characteristics of this portfolio. Received rest – has a strong correlation among factors, both external and internal to banks, and the volumes of their credit portfolios, revealed in commercial banks of Tajikistan during the reviewed period, can be explained by the weak character of domestic economic entities (including credit organizations) orientation in a making decisions on new external information, and a preferential orientation to the current situation both in the economy and in the organization itself. This can be confirmed by the dependence of the obtained results in the study.

2. It’s important to consider those independent variables that can be associated with the bank's active operations (the essence is the placement of the funds received, in particular, the issuance of loans), and those that correspond to passive operations (various types of credit, both interbank market, and through bonds and bills, as well as deposit operations of customers).

According to the table 2, it’s obvious that the correlation coefficients of the most indicators are higher which indicates a strong influence of factors on the dependent variable.

Therefore, we have a possibility to reduce the number of factors included in the model.
Modeling the volume of the credit portfolio of the commercial banks in Tajikistan. The linear regression model (it is designed by number 2 in table 1) was created for significant factors (model A) that it has several features:

1. Each included indicators is significant, that is, it can be included in the final equation describing the dependence of the volume of credit issued on various factors. The value of the coefficients of determination in the model is 0.995730, indicates an excellent descriptive ability of the model. The high value of F-statistics allows us to note that the coefficients are significant in whole, and therefore it can be used to further study the supposed interrelations between the variables in the work and the results to be obtained using the model.

2. In meanwhile, using the Durbin-Watson criterion makes gives us a possibility to conclude about autocorrelation of the residues, which leads to a shift in the estimates of the coefficients. However, this will not allow us to state with high accuracy whether the coefficient is significant or its significance is due to the autocorrelation of the residuals, upon elimination of which the author can obtain completely different values of standard errors.

3. In a model A, multicollinearity leads to a distortion of standard errors with regression coefficients, which negatively affects the overall quality of the model and does not allow us to speak with high confidence about the significance of a particular factor. In order to eliminate this, it is necessary to us to exclude strongly correlated parameters from model 2\(^1\) (as a result of three factors, 5 and 6 were excluded).

Using logarithm for the remaining factors, the following version of the model was obtained (model B). Similar to the first, he had a high explanatory ability (the coefficients of determination are 0.965) and the Durbin-Watson stat = 3.2139).

The specification of the final model B is shown in table 4. The table indicates that all factors in the final model are significant. The model as a whole is also significant, autocorrelation and multicollinearity it lacks. Completed consistent steps to optimize the model did not lead to a deterioration of its explanatory power, and in the final specification of 97% of the variation explained by the change in the dependent characteristic of selected traits factors.

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\(^1\) Excluding carried out consecutively for each factor, followed by the construction of the remaining regression factor on the rest as long as the index VIF for each of these verification models are not accepted values is less than five.

VIF (Variance Inflation Factor) – a criterion that shows how distorted the values of standard errors when the factors in the model with the presence of multicollinearity, compared with the model, in which the latter is absent. In general, the calculation formula is as follows: \(VIF = 1/(1-R^2)\). VIF value is less than five indicates a lack of correlation among factors, which could greatly impair the quality of the model.
Table 4. Specification of the final model B.
Model B: OLS, using observations over the period 2006-2014 (T = 9)
Dependent variable: l_LP
HAC standard errors, bandwidth 1 (Bartlett kernel)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>Z</th>
<th>P-value</th>
<th>Prob</th>
</tr>
</thead>
<tbody>
<tr>
<td>Const</td>
<td>76.8252</td>
<td>28.5523</td>
<td>2.6907</td>
<td>0.0071</td>
<td>***</td>
</tr>
<tr>
<td>L_NPLs</td>
<td>0.536113</td>
<td>0.130915</td>
<td>4.0951</td>
<td>&lt;0.0001</td>
<td>***</td>
</tr>
<tr>
<td>L_IL</td>
<td>0.967625</td>
<td>0.326677</td>
<td>2.9620</td>
<td>0.0031</td>
<td>***</td>
</tr>
<tr>
<td>L_IRL</td>
<td>-6.14265</td>
<td>3.03934</td>
<td>-2.0210</td>
<td>0.0433</td>
<td>**</td>
</tr>
<tr>
<td>L_TI</td>
<td>-0.272401</td>
<td>0.164664</td>
<td>-1.6543</td>
<td>0.0981</td>
<td>*</td>
</tr>
<tr>
<td>L_GNS</td>
<td>0.598743</td>
<td>0.313004</td>
<td>1.9129</td>
<td>0.0558</td>
<td>*</td>
</tr>
<tr>
<td>L_REM</td>
<td>-2.96906</td>
<td>1.30809</td>
<td>-2.2698</td>
<td>0.0232</td>
<td>**</td>
</tr>
<tr>
<td>L_INF</td>
<td>-0.592916</td>
<td>0.307565</td>
<td>-1.9278</td>
<td>0.0539</td>
<td>*</td>
</tr>
</tbody>
</table>

R-squared 0.995730  
F-statistic 2554.6
Adjusted R-squared 0.965842  
P-value (F) 0.000000  
Durbin-Watson 3.213952

Significant indicators: In the case of * p <0.01, ** <0.05 and *** p <0.1 the level of compliance

Source: Author's calculation.

As a result of the construction of the regression model obtained by the following equation according to the volume of loans by factors internal and external business environment of the credit institution:

\[ \ln LP = \beta_1 NPL + \beta_2 IL + \beta_3 IRL + \beta_4 TI + \beta_5 GNS + \beta_6 REM + \beta_7 INF + \epsilon \]

where:
- \( LP \) – volume of given credits
- \( NPL \) – amount of arrears
- \( IL \) – interbank loans
- \( IRL \) – interest rate on interbank loans
- \( TI \) – volume of investment
- \( GNS \) – gross national savings
- \( REM \) – remittances
- \( INF \) – inflation
- \( \epsilon \) – standard error

The resulting equation with a high degree of reliability describes to how much the volume of loans in the modification of the factors included in the model.

Our results represent a purely academic and practical interest. Utilitarian application at the macro level can be identified by the use of laws to understand the reaction of Tajik banks to
change the environment to identify trends in the market of bank lending, a comparative analysis of the banking systems of different countries, etc.

At the micro level model can be used for decision-making in the credit market or as a tool to inform decisions by management of the credit institution when searching for the optimal response to the actions of competitors and others. This is possible because the model describes the behaviour of the bank on the average, i.e. it can be applied to any market participant.

However, the constructed model, like any other, as a simplified interpretation of the real market situation, has several limitations. This means that during its review of the construction was probably missed some details, which together may also have a significant impact on the assessment and decision-making in a given situation.

We are primarily talking about the limited range of factors considered. Perhaps some of the factors that would improve the explanatory power model were missed at the stage of selection factor. Some aspects cannot be measured quantitatively and included in the study. For example, credit policies of a bank, mostly focus on a specific market segments or actions of top management, which, in different periods, may have different objectives – to achieve maximum profitability, the growth of the client base, launching new products, and others.

It can be assumed that the credit institution reacts to changing market conditions. This is evident, for example, to change the volume of the credit portfolio. However, likely the rare cases where a bank can only act in accordance with their long-term plans, passively reacting to the changing market. All this can lead to substantial deviations of the credit institution position relative to the average position of different indicators and increase the overall performance variation factor in the sample.

According to our view, it is necessary to interpret the proposed model. We found that 10% the volume of increasing in overdue credit leads to 0.05% increase in credits.

By increasing the volume of the credit portfolio is steadily growing, and arrears as a result of the constant policy of banks in the approval of credit applications and the continued availability of unscrupulous borrowers among customers. The dynamics of non-performing loans have a tendency to grow in recent years. The reasons can be factors as the macroeconomic, microeconomic and etc. Increasing the volume of overdue debt claims about the high level of credit risk in commercial banks of the Republic of Tajikistan. At present, the level of arrears in the country's commercial banks is – 27.15% of the total credit portfolio. With regression analysis has not established an inverse relationship between the volume of the loan portfolio and arrears.

Moreover, we found that by increasing the volume of interbank credit by10% the volume of loans will be grown by 0.09%, respectively. The direct link between the factor and the dependent variable is explained by the fact that the inter-bank credit is one of the main liquid assets of commercial banks, as the high level of security and high recurrence rate. This factor has a positive effect on the quality of the credit portfolio of the bank. Thus it does not cause problems with liquidity. The assumption of the feedback factor is not established in the study. However, the next factor, which determines the profitability of this factor can be said about the feedback.
Thus, by the reducing the interest rate on interbank loans at 10%, the volume of loans will be decreased by 0.61%, as evidenced by a direct connection between this factor and the volume of loans, respectively. This relationship can be interpreted as follows. As we noted in the previous chapter, the interest rate on interbank loans is much lower than the rates on loans and deposits in the banking market of the Republic of Tajikistan. Reducing interest rates on interbank credits can directly reduce the yield of the credit portfolio, as well as increasing the risk of interest rates in commercial banks of the Republic of Tajikistan.

It also should be considered the factor of dependent feedback indicator. Regression coefficient suggests that the volume of investment is negative. We found that 10% reducing amount of fund invested leads to 0.03% decrease in loan grants. And, this factor also has a reverse direct relationship with the volume of the credit portfolio.

Our empirical analysis indicates that an increase in gross national savings by 10% leads to increase the volume of loans by 0.06%, respectively. This factor has a positive relationship with the dependent variable. When the level of gross national savings has growth trends, the commercial banks of the country will be able to attract these funds as deposits for placing them in the credits, in order to profit.

One of the main macroeconomic factors influencing the optimal credit portfolio of commercial banks in the Republic of Tajikistan – is a number of remittances. As we have suggested, this factor has a close and direct relationship with the volume of loans of commercial banks in the country. In the current study, the regression coefficient of this indicator is negative, indicating that the feedback given factor. And we found that a 10% decrease of remittances leads to decrease of loans grants by 0.29%, respectively. To interpret this factor it’s important to note that a decrease in remittances from Tajik commercial banks may deteriorate the quality of the loan portfolio, as well as decrease the probability. The decrease in remittances mostly causes due to the crisis in the Russian economy. Because migrant outflow from Russia has decreased the volume of remittances, in which case the affected commercial banks of Tajikistan, as well as the country's economy, as the majority of migrant workers in Russia, are citizens of the Republic of Tajikistan.

The recent external factor that is included in the regression analysis is inflation. Our empirical analysis shows that 10% increase of inflation leads to 0.05% decrease in loan grants. This factor should be interpreted as follows. As we have suggested, this factor negatively affects the active-passive operations of domestic banks inflation increase is due to several factors. In the first place, there is a devaluation of the national currency - TJS, and foreign currency exchange rates against TJS tend to grow. This increase is a negative impact on foreign currency loans and deposits, whereby the Bank has a loss on foreign exchange risk. Secondly, it occurs due to a sharp rise in prices at the volume of creditors, so that they will not be able to fully and timely repayment of loans to commercial banks. At this point in commercial banks' credit risk will arises, and this risk may affect the risk of loss of liquidity of banks. Thirdly, inflation risk, which affected the economy of the Republic of Tajikistan, affects market risk because of the sharp decline in oil prices on the global stock market. In general, we can say that one risk elements bring other risks inherent in the banking system of the Republic of Tajikistan.
3. Summary

The work produced an econometric model that describes the dependence of the bank's credit portfolio volume on the factors of the business environment on the example of the commercial banks of the Republic of Tajikistan (over the period 2006-2014.).

In assessing the impact of the business environment factors of banks on a number of their credit portfolios are significant internal and external factors;

Making a summary, it should be noted that in spite of the limitations inherent in this model we built it has a high explanatory power and the ability to use in practice for a wide range of applications. Areas of application are not limited to academic interest and contain application component, in particular, tools for the analysis of the situation on the market of bank lending, to identify trends in the variables as a reaction to certain events and, finally, the management decision-making management of the banks.

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THE IMPACT OF BOARD COMPOSITION ON FIRMS’ PERFORMANCE: A META-ANALYTIC REVIEW

Oleh Pasko*, Edward Markwei Martey**

Sumy National Agrarian University, Ukraine

Abstract. The study examined the impact of board composition on firm’s performance based on the agency theory. Through meta-analysis, the study reveals systematic relationships between board composition and four variables of firm’s performance. The result predicts support the agency theory on the impact of board composition on firm’s performance. Since failure to observe the theory creates a potential conflict of interest between managers and shareholders. The study suggested that policymakers should reconsider the size of the composition of the board of a company since it adds up to cost than to performance.

Keywords: meta-analysis; board composition, performance, ownership structure

JEL codes: M11, M50

1. Introduction

Many results from academic research studies centres on an inadequate representation of outside directors as a likely explanation for boards’ failure to fulfil their monitoring role (Finkelstein and Hambrick 1996). According to the findings of Johnson, Daily & Ellstrand (1996), a key recommendation from the agency theory is that any effective board composed of many outside directors. This is because there is the perception that it is unlikely for inside director to monitor the activities of the CEO actions effectively due to their tie with the firm which makes them beholding to the CEO (Patton and Baker 1987). However, according to Baysinger and Hoskisson, 2012) there are many numerous benefits having a representation of inside directors this is because the inside directors have directors’ superior information enables them to better evaluate complex decisions the firm has to make.

Many empirical studies have been produced on the issue of whether board composition matters, one section of research has examined the impact of board composition on firm
The impact of board composition on firms’ performance...

performance, however, the result has been mixed and inconsistent (Dalton, Daily, Ellstrand and Johnson 1998). In relation to these results of mixed and inconsistent findings, several researchers have conducted meta-analytic reviews on the relationship between board composition and a firm’s financial performance. These reviews provide little evidence of a systematic relationship (Rhoades, Rechner and Sundaramurthy 2000). The other section of research explained that it is prudent to examine the discrete decisions that involve a potential conflict of interest between management and shareholders (Sundaramurthy 2000). Moreover, a company’s financial performance is influenced by a multitude of endogenous and exogenous factors beyond the composition of its board (Kosnik 1987). Due to uncertain findings in the extant research, the purpose of the study is to use meta-analysis decision whiles examine whether a systematic relationship exists between board composition and four variables that determine firms performance.

Agency theory and firms performance

The theory rest on three basic assumptions about agents and principals underlie agency theory: Both agents and principals are assumed to be (a) rational and (b) self-interested, whereas the agent is assumed to be (c) more risk-averse than the principal (Jensen and Meckling 1976). In instances there is a conflict of interest between the agents and principals, it is likely to select self-serving actions at the expense of the latter’s welfare (Fama 1980). One line of agency theory, the positivist stream, has focused on the principal-agent relationship between shareholders and top managers of publicly traded, widely held corporations. This stream of research identifies situations in which shareholders’ and managers’ goals are likely to diverge and examines mechanisms that can mitigate managers’ self-serving behaviour (Eisenhardt 1989).

Outside Independent Directors and firm’s performance

It is assumed that Independent non-executive directors from outside the firm may not have the material interest of the firm at heart. Fields and Keys (2003) explained that those independent directors are appointed based. They influence effectively the board’s decisions and ultimately add value to the firm. Independent directors are interested in the responsibility and monitor firm’s financial performance and plays a critical role in risk management of the firm. They questions information asymmetry an make a good recommendation on executives compensation and dismissal of CEO following poor performance (Hermalin and Weisbach 2003). As practically of appointing independent directors are neither employees of the company, nor have they any business relationship with the firm (Hulbert 2003). For the effective role of independent director, their appointment must be transparent and at arms’ length. In contrast, here are controversies of the questions of the independence of the appointment. It is possible that independent directors are known to the CEO or other inside directors prior to their appointments. There are instances where the new outside board
members who are proposed by inside board members may have personal relationships with them (Finkelstein and Hambrick 1996).

However, outside independent director has challenges and limitations. Nicholson and Kiel (2007) argue that “inside directors live in the company they govern, they better understand the business than outside directors and so can make better decisions”. Besides, a lack of day to day inside knowledge by the independent outside director reduces the control role of the independent directors in the firm, and that the independent directors may fail to perform because of appropriate support by the inside directors (Cho and Kim 2007). The values of outside independent directors are questionable as they may not have what it takes to execute their assigned tasks in that they are part-timers and do not have inside information about the firm. (Brennan 2006). The following hypothesis is proposed: \( H1: \) there is a positive relationship between outside independent director and firms’ performance.

**Board size**

Many renowned researchers such as (Linck et al. 2008) have examined board size. Coles et al. (2008) explained that the impact of board size of board size on performance may differ for different types of firms. The size of the board is not only a dependent on characteristics of the firm but also vary from one country to the other. It is believed that large size board do not effectively work well but this differs according to the institutional and legal environment (Franks et al. 2001). UK board size and structure is not determined by the costs and benefits of monitoring, although it is determined by advisory needs (Guest 2008). Therefore, although larger UK firms have larger boards (Guest 2008) our evidence suggests that this is a suboptimal rather than optimal outcome, whereby many large firms could improve performance by moving to a smaller board size. The following hypothesis is proposed: \( H2: \) there is a positive relationship between board size and firms’ performance.

**CEO duality**

CEO duality means one person practising and serving the position of both a firm’s CEO and board chair (Finkelstein and D’Aveni 1994). According to Fernando (2007) combining leadership structure is an unsuitable manner to design the most powerful relationships in an organization. Therefore, it is important to separate the positions of chairman and CEO. Combined ownership structure encourages CEO entrenchment and leads to opportunistic and ineffective behaviour (Rashid 2008). It is appropriate to separate the two positions due to the need to attract external finance (Suryanarayana 2005). Chairman becomes less powerful, more symbolic and ceremonial than the position of CEO when the CEO takes a dual position. With duality, it increases accountability and ensures the shareholder's objectives are given due weight (Baxt, Ramsay and Stapledon 2002). About 70-80 percent US corporations adopted CEO duality where board leadership structure is combined with the roles of chief executive officer (CEO) and chairperson (Rhoades et al., 2001). According to the submission of Zardkoohi (2005), corporate governance practice in Europe separates the CEO and
chairperson, while only 10 percent of UK publicly-listed companies combine these two roles. The following hypothesis is proposed: **H3: there is a positive relationship between CEO duality and firms’ performance.**

**Ownership structure and firm performance**

Zeitun and Tian (2007) explained that “Ownership structure and concentration are considered as important factors that affect a firm’s health.” they found a positive relationship between return on assets (ROE) in Jordan. Kapopoulos and Lazareto (2006) found that higher firm profitability requires a less diffused ownership. Similarly, Jiang (2004) examined the correlation between ownership structure and firm performance among Chinese listed companies as a sample, and concluded that higher ownership concentration causes lower firm profitability. Wei and Geng (2008) explain that state-shareholders and concentrated ownership of listed companies cause incompleteness and ineffectiveness of corporate governance. Sun and Tong (2003) examined the performance changes of 634 equities listed in Shanghai stock exchanges and Shenzhen stock exchanges from the year 1994 to 1998 and find that state ownership has a negative impact on firm performance. The following hypothesis is proposed: **H4 there is a positive relationship between ownership structure and firms’ performance.**

2. **Method Sample**

The research acquired the data and tested the research hypotheses developed from published empirical studies that reported a relationship between board composition and firm performance and any of the four variables that affect firm performance. Studied literature that reported a relevant correlation between the variables was included in the meta-analysis. The researcher used computer-aided searches of the ABI/Inform, Social Science Index, and Journal Storage (JSTOR), Web of Science databases to identify relevant studies. As well as reference lists of studies identified earlier, and cited them. The study ended up with 25 studies with 67 samples (N = 26,230).

Several of these studies include multiple samples that stem from multiple indicators of firms’ performance and different measures of board independence. To analyzed these samples separately researchers divided the sample into four subgroups according to the four critical variables of interest. The number of studies, sample size, and the number of samples included in each subgroup are presented in table 1. The study employed the meta-analyses for this research according to guidelines recommended by Hunter and Schmidt (1990) and used the Comprehensive Meta-Analysis software (Borenstein & Rothstein, 2000) to analyze the data.

To procure the observed correlation-weighted mean and to calculate the observed standard deviation, each correlation obtained from individual studies are weighted by the sample size used in the original study. The total variability across the individual correlations may stem from true variation in the population or statistical artifacts such as sampling error, reliability,
and range restriction (Hunter and Schmidt 1990). Lacking data on potential artifacts, we corrected for sampling error and used a conservative reliability estimate of 0.8. An indicator for a significant relationship is obtained when zero is not included within the 95% confidence interval (Hunter and Schmidt 1990).

Table 1. Studies included in the four meta-analyses

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Source: own work</td>
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</tbody>
</table>

3. Results

The results of the meta-analyses of the percentage of composition of board of directors and each of the four variables were presented in table 2 and 3.

Outside director and firm’s performance

Hypothesis 1 predicted a positive relationship between the percentage of outside directors and companies performance. However, no systematic relationship was found between the two variables. The corrected mean correlation estimate is 0.5, but the 95% confidence interval includes zero; therefore, there is no true relationship between the two variables. The analysis is based on samples from studies (N = 5,764). Outside executive director and firm’s performance.

Board size and firm’s performance

Hypothesis 2 predicted a positive relationship between the percentages of board size and expressed as a ratio of firms performance. However, to this prediction, the results indicate a systematic negative relationship between these two variables. The corrected mean correlation estimate is – 0.7, and the 95% confidence interval does not include zero. This result is based on three samples from three studies (N = 6,235).

CEO duality and firm’s performance

Hypothesis 3, which predicted a negative relationship between the percentages of CEO duality the land level of firms’ performance, was not supported. The results, based on 13 samples obtained from 12 studies (N = 3,830), indicate a positive systematic relationship. The corrected mean correlation estimate is a modest 0.3, and zero is just on the lower boundary of
the 95% confidence interval, indicating that the population value of the relationship under consideration is negative.

**Ownership structure and companies performance**

Ownership structure. Contrary to the prediction of Hypothesis 4, which posits a positive relationship between the percentage of level of ownership structure and a firm’s performance, the results here indicate a positive systematic relationship between these two variables. The corrected mean correlation estimate is 0.5, and the 95% confidence interval does not include zero. This result is based on samples of studies (N = 8,228).

Table 2. Summary of Predictions and Results on the Relationship Between the board composition and firms' performance.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Predicted direction</th>
<th>Actual result</th>
<th>Relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outside Director (H1)</td>
<td>(+)</td>
<td>(-)</td>
<td>(-)</td>
</tr>
<tr>
<td>Board Size    (H2)</td>
<td>(+)</td>
<td>(-)</td>
<td>(-)</td>
</tr>
<tr>
<td>CEO duality   (H3)</td>
<td>(-)</td>
<td>(-)</td>
<td>(-)</td>
</tr>
<tr>
<td>Ownership     (H4)</td>
<td>(-)</td>
<td>(+)</td>
<td>(+)</td>
</tr>
</tbody>
</table>

Source: own work

Table 3. The Relationship between the Percentage of composition of board and Firms’ performance.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Outside Director</th>
<th>Board Size</th>
<th>CEO duality</th>
<th>Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample size</td>
<td>5,764</td>
<td>6,235</td>
<td>60,038</td>
<td>8,228</td>
</tr>
<tr>
<td>No. of studies</td>
<td>5</td>
<td>7</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>No. of samples</td>
<td>12</td>
<td>15</td>
<td>19</td>
<td>21</td>
</tr>
<tr>
<td>Observed R</td>
<td>0.7</td>
<td>-0.6</td>
<td>0.3</td>
<td>-0.05</td>
</tr>
<tr>
<td>Occurred R</td>
<td>0.5</td>
<td>-0.9</td>
<td>0.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Observed SD</td>
<td>0.9</td>
<td>0.7</td>
<td>0.8</td>
<td>0.5</td>
</tr>
<tr>
<td>Corrected SD</td>
<td>0.8</td>
<td>0.8</td>
<td>0.1</td>
<td>0.6</td>
</tr>
<tr>
<td>90% Credibility interval</td>
<td>-0.9</td>
<td>-1.24</td>
<td>0.4-0.7</td>
<td>0.2-0.3</td>
</tr>
<tr>
<td>95% Confidence interval</td>
<td>0.87-0.91</td>
<td>0.65-0.22</td>
<td>0.56-0.93</td>
<td>-0.71</td>
</tr>
</tbody>
</table>

Source: own work

4. **Discussion**

The study evaluated the impact of board composition and other variables that contribute to and firms performance this are issues that lead to a conflict of interest between managers and shareholders, and whether the systematic relationships found are consistent with the predictions of positivist agency theorists. The results provide evidence for the relationships between board composition and four variables examined. For the most part, however, these relationships are not in the direction that was predicted, based on positivist agency theory.
5. Conclusion

The results of the meta-analyses conducted are essential to corporate governance research and practice. The study examined two sections. The first section has to do with the impact of the composition of the board and the section has to do with the impact of the composition of board on the firm’s profit. The findings of the study’s results suggest that the latter stream warrants further exploration. A relationship was found between board composition and firm’s performance and it is the issue in which shareholders and managers’ interests potentially diverge. The relationships found, provide a strong support to the predictions based on positivist agency theory. The study suggested that policymakers should reconsider the size of the composition of the board of a company since it adds up to cost than to performance.

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The impact of board composition on firms’ performance...
PARTICIPATORY BUDGET AS A TOOL FOR LOCAL COMMUNITY DEVELOPMENT IN UKRAINE

Svitlana Zapara*, Oleh Rohovenko**

Sumy National Agrarian University, Ukraine

Abstract. The sustainable development of the local self-government institute in modern democracies, the introduction of the principles of subsidiarity, regionalization and decentralization show a clear need for implementing the systemic reforms aimed at strengthening local initiatives in Ukraine. Therefore, there is a need to increase the role of self-governing structures, to grapple for the ways of adapting governance at the regional level to the long-standing European traditions of democratic governance, and to address the procedural issues of the power distribution, transfer and delegation, in particular, the formation and distribution of local budgets. One of the most effective tools to enhance local communities is a participatory budget, the implementation of which in Ukraine is gaining momentum and needs to be analyzed and to be supported upon its successful realization. This article focuses on the analysis of the implementation of the participatory budget as an instrument of the local community development in Ukraine in the case of the city of Sumy.

Keywords: participatory budget, local self-government, local budget

JEL Classification: H69, H72, H73, K39, K49

1. Introduction

The sustainable development of the local self-government institute in modern democracies, the introduction of the principles of subsidiarity, regionalization and decentralization show a clear need for implementing the systemic reforms aimed at strengthening local initiatives in Ukraine. Therefore, there is a need to increase the role of self-governing structures, to grapple for the ways of adapting governance at the regional level to the long-standing European traditions of democratic governance, and to address the procedural issues of the power
distribution, transfer and delegation, in particular, the formation and distribution of local budgets. One of the most effective tools to enhance local communities is a participatory budget, the implementation of which in Ukraine is gaining momentum and needs to be analyzed and to be supported upon its successful realization. The specified research work is one of the attempts to contribute to the development of local self-government and support for the most successful initiatives in this sphere.

Since its emergence and development in Brazil in 80ies years, participatory budgeting has been spread in many countries of the world. The participatory budgeting characteristics were analyzed in many publications by such authors as R. Abers 1998, B. J. Aitken, A. E. Harrison 1999, Avritzter L. 2006, Sintomer, Herzberg, Rocke 2008, Baiocchi 2001, 2005, M. Bassoli 2010, 2012, J. Hartz-Karp 2012, A. Polko 2015. The analysis of the works of the above-mentioned and other writers enables to study the participatory budgeting institute, the prerequisites for its implementation in Ukraine on the basis of the best practices.

2. Methods

Such methods as analysis (whereby the separation of understanding the category “participatory budget” into individual properties is made), systematic approach (use of available information to build a system of interaction of the research object elements), statistical method (analysis of the statistical data on the participatory budgeting in Sumy), empirical method (involves the sequential implementation of monitoring, measuring, modeling, forecasting and verifying of the forecast associated with the use of participatory budgeting and the like) were used at the time of writing this article.

3. Results and discussion

Today, it has already become obvious that the proclaimed reforms will remain controversial and imperfect without the sufficiently developed system of local self-government and the community’s ability to solve economic, financial, cultural and other issues. The participatory budget has become one of the community’s actual capabilities to have a real impact on the allocation of local funding. The word “participatory” has originated from English, and the word “to participate” means “to take part”. The community is suggested to take an active part in the city life. And most of all, participatory budget is implemented through the use of such tools as the determination of the priorities for municipal spending by the community’s members, the selection of budget delegates – representatives of local communities, the technical support from common councillors, local and regional meetings with the purpose of discussing and voting on priority expenditures, and then the implementation of the ideas that have a direct impact on the urban living quality.

One of the British periodicals “Participatory Budgeting Values, Principles and Standards” states: "The successful introduction and implementation of participatory budget enable to unite and strengthen the community, to increase democratic participation of citizens, and to
affect positively the quality of public services at the local level.” (Participatory Budgeting Values, Principles and Standards, The Participatory Budgeting Unit, 2008, p.4).

Participatory budget is the democratic deliberation and decision-making process in which each village resident decides how to spend part of the municipal budget. The involvement of residents in decision-making on budget allocation for the implementation of their own projects is one of the clearest examples of the direct democracy norm application. The first full participatory budgeting process was developed in the city of Porto Alegre (Brazil) in 1989 (Abers R. from Clientelism to Cooperation: Local Government, Participatory Policy, and Civic Organizing Porto Alegre, Brazil, 1998, pp. 511–537). The point at issue is the annual process of deliberation and decision-making, in which thousands of city residents decide how to spend part of the municipal budget. For the present, the city authorities allocate more than 20% of the municipal budget to local initiatives. During the public neighbourhood, district and citywide assemblies, the citizens and elected budget delegates vote on what priority needs should be funded additionally and at what level. At the first stage, neighbours choose their district and “thematic” delegates, who, subsequently, at informal meetings decide on priority investments giving them a certain number of points, so the more points they give, the more important investments are. The district and “thematic” assemblies which elect deputies to the Participatory Budget Council are held in the second round.

In Europe, this practice gained popularity in the early twenty-first century. Germany and Spain were the first-movers. The practice of participatory budgeting is being actively introduced in the Republic of Poland, where this process is also called “participation budget”. The participatory budgeting in Poland took place in different cities (Dabrowa Gornicza, Lublin, Lodz, Krakow, Sopot, Warsaw), and in several villages, where due to the support of the Batory Foundation and the Association of School Leaders, the task “Village Budget” was implemented under the campaign “Your Vote, Your Choice” (the Foundation of the Laboratory of Social Innovation and Research “Stocznia”, 2015).

Since its appearance in South America, the participatory budget has spread to hundreds of cities around the world, and the number of local communities using it has exceeded 200. In some cities, the participatory budget was introduced in schools, universities, and public construction. The mechanisms for applying participatory budget, adapted to the local context, differ from each other, and the shares in municipal budgets placed in the residents’ service are different as well.

In Europe, the project was picked up by some municipalities in France, Italy, Germany, Spain and the UK, in particular, the districts of Berlin (Kreuzberg) and London (Ladywell). Since 2013 the tool of the participatory budget has been used in Krakow (Poland). Participatory budget is also a very popular method of devoluting the power to the residents in the cities of Canada.

The research and practice of the cities using this form of direct democracy (participatory democracy, democracy of joint participation) indicate that it results in more equal allocation of public resources, higher quality of life, more satisfaction with public services, greater
transparency and credibility of public authorities, greater citizen involvement (especially those on the fringes of society) in public life. Participatory budget is the mechanism involving the highest level of citizen participation, and the tool enabling citizens to participate actually in decision-making regarding the fund allocation from the local budget. It can be implemented at different administrative levels: from the region in general, cities and towns to residential areas. The use of such budgeting is possible with the elaboration of the budget of a separate public institution. Participatory budget is not a “matter of fact” tool for the management of community at the self-government level. It is the tool enabling to apply a special approach when it comes to thinking on the functioning of local communities, the local community governance, and the formation of their development directions. However, one should not exclude the likelihood that the capabilities of the participatory budget are rather illusory and such that create a “false” democracy.

It is important that the process of participatory budgeting involves a series of the principles and values, thanks to which the actual joint determination of the local community form is made by residents, and which is an expression of the innovative and open way of thinking about the community development. The key principles and provisions, which compliance and implementation make, in our opinion, talking about participatory budgeting possible, are provided below. Their conscious avoidance often leads only to superficial, so to say “frontal” processes, which are closer to a plebiscite than to the actual attempts to increase the influence of residents on their self-governing community (Encyclopedic Dictionary of Public Administration 2010). These key principles and provisions include the following: transparency and openness of procedure; open and inclusive process, provision of space for discussion (debate) with the resident participation; support for the resident involvement; strategic (long-term) thinking; procedure results are binding.

Participatory budget is the tool strongly influenced by the process of “personalization”, that is the final form of the procedure called participatory budgeting, may be different and depend on where it is implemented (it is necessary to take into account not only the size of the area, the existing legal procedures and local context, but also the term of this procedure implementation in community). With regard to the main principle, every process that receives this name should include several mandatory steps, which are described below (the Foundation of the Laboratory of Social Innovation and Research “Stocznia”, 2015).

Ukraine is only beginning to acquire practical skills and knowledge on participatory budgeting. Even the legislation provides only for “the budget of local self-government”, but not for engagement of communities in the implementation of local initiatives. Everything changed in 2015 when the representatives of the Polish and Ukrainian Cooperation Foundation PAUCI arrived in Chernihiv, Cherkasy and Poltava with the project “Participatory Budget – Opportunities for Increasing Public Activity and Establishing Appropriate Partnerships with Government Authorities” (Martel 2015).

Over the past year, this simple mechanism of influence on power has gained popularity in many cities of Ukraine. The participatory budget has been already operating, in addition to the
initiators (Chernihiv, Cherkasy, Poltava, Lutsk), in 20 cities, and is in the process of implementation in 13 cities and towns. For urban residents, this opportunity is a test of the community potential to be mobilized in establishing the partnership with authorities.

The Ukrainian experience in Sumy has become quite a positive example of the participatory budget implementation. Since 2017 for the first time the implementation of the public (participatory) budget, providing for the funds of the Sumy public (participatory) budget for 2017 in the amount of 5000.0 thousand UAH, for 2018 – 6,000.0 thousand UAH, for 2019 – 7,000.0 thousand UAH, for 2020 – 8,000.0 thousand UAH, has begun in Sumy in order to increase the level of the city authority openness and to put in place the innovative mechanisms of involving the public in the municipal budget allocation. In order to harmonize the procedure for the project implementation the Regulation on Public (Participatory) Budget in Sumy (hereinafter – “the Regulation”) No. 504-MR, which determined the basic principles of the process of interaction of the Sumy local self-government authorities and citizens in the implementation of the innovative mechanisms of the public involvement in the allocation of certain part of the city budget defined by the Sumy City Council, was prepared and approved on March 30, 2016. According to this Regulation, the Sumy public (participatory) budget is a part of the Sumy municipal budget, the amount of which is determined by the Sumy City Council, and the funds of the Sumy public (participatory) budget are allocated for the implementation of the best projects on the city development, which have been submitted to the Sumy City Council by the residents of the Sumy territorial community. The competition is held, and the projects submitted are put to the vote (the process of deciding on the winning projects by the residents of Sumy (the Ukrainian citizens aged from 16 years who are registered or reside in the territory of Sumy that is confirmed by official documents (certificate of the place of work, study, office, or other documents confirming the fact of residence in the city) among the selected projects by filling in the ballots for voting in paper or electronic form) in order to implement the project (The Regulation on Public /Participatory/ Budget in Sumy 2016). The Regulation has stipulated that the city-wide and local projects can be implemented at the expense of the Sumy public (participatory) budget. In this case, the amount of expenditure for the implementation of city-wide projects shall not exceed 1000.0 thousand UAH, and for local projects – 500.0 thousand UAH (about up to 40 thousand dollars for the municipal budget, and up to 20 thousand dollars for local budgets).

This is hardly the first time the community has received a real opportunity to offer the authorities the projects supported “from below” and being able to address the relevant local issues. In particular, 75 projects (20 city-wide and 55 local projects) were submitted to the Sumy City Council under the project implementation in June 2016.

According to the officially published information (fig. 1), the majority of the citizens have received information from their friends, acquaintances and the Internet resources. And to a lesser extent, the citizens have used the information provided by print media and television and radio resources (On Public /Participatory/ Budget in Sumy).
Fig. 1 Distribution by information on public budget.
Source: own work based on data from Sumy City Council

Most of the project authors are the people in work (fig. 2). The persons who attained pension age rank second among the project initiators. The smallest number of the projects has been prepared by the persons who have no permanent place of work and students.

Fig. 2. Distribution of projects by status of their authors.
Source: own work based on data from Sumy City Council
An interesting finding is that the first wave of initiatives has been supported by some authors as the percentage of the projects solely submitted have amounted to 55% (fig. 3). This may indicate the low activity level of public organizations or their distrust of this proposal.

Fig. 3. Distribution of projects by authorship.
Source: own work based on data from Sumy City Council

Age distribution among the project authors has turned out to be uneven (fig. 4). The most active attitude in this question has been displayed by young people aged between 19 and 40. However, the persons over 60 years of age have appeared to be quite active.

Fig. 4. Distribution of projects by author age.
Source: own work based on data from Sumy City Council
The gender indicator of the activity in question is in favour of women (fig. 5). Thus, 63% of the authors have appeared to be female.

![Gender Indicator Chart](image)

**Fig. 5.** Distribution of projects by gender indicator.

Source: own work based on data from Sumy City Council

After the consideration and analysis of the projects by the specialists in the structural division of the City Council jointly with the authors, 59 projects (among which 11 projects are city-wide and 48 projects are local) were submitted to the vote. One could vote at one of the 43 polling stations with the use of a paper ballot from October 24 to November 6, inclusively. Every citizen could choose two projects (one city-wide project and one local project), or one of these two categories. The voting was also on the website [http://initiativ.e-dem.in.ua/sumy](http://initiativ.e-dem.in.ua/sumy). The winners of the voting became the projects with the highest number of votes according to the rating system. The voting results shall be approved by the Sumy Public (Participatory) Budget Coordination Council. The projects supported by the city people shall be implemented by the city authorities in 2017. In parallel, a new cycle of the public budget (discussion of the rules and regulations, project submission, expert assessment, voting, winner determination) will be launched next year. This project implementation has become possible with the participation of the foreign investors, in particular, such as the East Europe Foundation, which is funded by the Swiss Confederation and operates under the program “E-governance for Government Accountability and Community Participation (EGAP)”.

The e-voting analysis has shown the following. Only 1110 votes have been found on the website. Unfortunately, 10 of the 59 projects have remained with a “0” in the line. In general, the Sumy community has chosen the projects related to the arrangement of recreational areas. The TOP-10 overall rating is as follows:

- 021. Dome of Visions - 151
- 017. Healthy Nation-Strong Community, Wealthy Ukraine - 94
- 024. Sports area - 92
- 057. I love Lake Czech - 62
Concerning the leaders by the project types, the TOP-5 rating is as follows (among the citywide projects):
- 021. Dome of Visions -151
- 057. I love Lake Czech - 62
- 049. Social (free) English language school - 55
- 036. ECO PARK - 53
- 062. Playgrounds for mini-football, badminton for children and young people in the Children’s Park “Skazka” - 25

The TOP-5 rating among the local projects is as follows:
- 017. Healthy Nation-Strong Community, Wealthy Ukraine - 94
- 024. Sports area - 92
- 010. Sport and recreation centre “CROSSFIT- Open Sports Area” - 61
- 035. Sports ground for children and adults “Zorianyi” - 58
- 031. Construction of public garden near the house 81B in Kovpaka Street in Sumy – 56

(On Public /Participatory/ Budget in Sumy).

The analysis of the experience of implementing the participatory budgeting in Sumy has enabled to establish that the successful implementation of participatory budgeting depends on the careful execution of the stages of its introduction. For example, outreach campaign and evaluation should accompany the process as a whole and each of its separate stages. The places where the chart shows these actions and activities indicate the process stages on which there is a need for an increased focus on these actions and activities (for example, the most active educational and promotional activities should be carried out at the initial stage of the process, however, it is necessary to plan more actions and activities related to the evaluation after the procedure is completed in a given year).

The detailed implementation of compulsory stages (e.g., the length of each stage, the implementation tools, in particular, the voting method or formula by which the project will be discussed) should be defined at the local level, taking into account the existing needs and possibilities (B. Martel, 2015). The range of the methods applied at different stages (e.g., the communication channel selection under the outreach campaign) may be different – from standard to the most complex and innovative ones. However, without regard to the scale or local variant of the process, it should be always carried out following the general principles developed for participatory budget and described above.

Participatory budgeting has the nature of process – its separate stages are interrelated, and the results of each previous stage influence the shape of the next one and together form a coherent whole (the Foundation of the Laboratory of Social Innovation and Research “Stocznia”, 2015). The participatory budget should not be a one-time event but have a cyclical
nature. It should also be part of the normal cycle of the local self-government operation, starting from the identification of needs and the discussion of priorities for next year, the selection of projects for their implementation and consideration in the next year’s budget, and complete with the implementation of the projects selected under this procedure.

An important prerequisite for the successful introduction of the participatory budgeting process should be the discussion of the idea of using this mechanism at the local self-government level. It should be an attempt to answer the question regarding the need to implement the participatory budget in this area, assessment of the community readiness for this process, as well as the availability of the political will which would enable to introduce this process and consistently implement it, focusing on the long-term perspective. This stage has, primarily, “internal” nature and is implemented at the level of the Council and the community bodies which in practice will be, so to say, the owners of this process, and therefore, should prepare for it in the best possible manner (from the organizational and administrative point of view as well).

It is expected that the process of participatory budgeting will involve residents not only at the stage of the project proposal submission but also for the whole period of its implementation – it will promote the residents’ sense of joint responsibility for the process in which they could directly affect the appearance of what surrounds them. Residents should be involved at the stage of the discussion of needs and until the completion of the actual implementation of the selected proposals. That is why, it is extremely important that the residents’ participation in this process should not come to an end with the delegation of tasks for their further implementation to the local authorities, but be continued, and residents would be able to observe the process implementation in due course and, to some extent, “monitor” what happens with the results of their participation, that is to say, to monitor how the results of this procedure are becoming a reality, and affect the functioning of their community. It is also essential that the procedure process will be subject to monitoring, as in this case residents will be assured that they participate in the process with the clearly defined rules and regulations and know the reasons for the adoption of particular decisions at different stages of the process.

The monitoring of participatory budgeting shall be implemented at two levels:
– at the level of the participatory budgeting progress (in working order, in the process of implementing the next stages of the procedure),
– at the level of the implementation of the projects selected under the participatory budgeting procedure.

The monitoring of the participatory budgeting process should be performed by the public monitoring group, consisting of the residents and/or independent experts, selected under the transparent and clear procedure specifically developed for this purpose.

The assessment should be made step by step, that is, during the entire process (e.g., in the form of the accumulation of data on the implementation of the individual stages of the process).

The assessment of participatory budget should be carried out at two levels:
at the level of the participatory budgeting progress – the assessment of the effectiveness of the solutions, techniques and tools used at various stages of the procedure (a special focus on these elements should be made during the first year of the process implementation),

– at the level of the process objectives (a special focus on these elements should be made in the subsequent years of the process implementation).

The activities and actions in the assessment should be conducted with the participation of the organizers and the persons involved in the process (groups of government officials involved at different stages of the process) and stakeholders (residents), as this approach will enable to evaluate the process from different sides.

The assessment result should be the recommendations for any changes and corrections to be made before the procedure – the participatory budget organizers should be open and provide for the possibility of amending the rules and regulations regarding the process for future years.

An active role of residents should be considered in the assessment process. For example, it is worth creating a group that will carry out the assessment and include residents – “socialized body”, which will also be involved in this process, for example, to analyze the data collected under the process implementation.

Participatory budget is the process that requires a lot of time and efforts (in particular, the organizers at the level of the gmina local authorities), especially in the first years of its implementation. The procedure should be based on mutual trust of citizens and representatives of local authorities (gmina or city council). The successful process of participatory budgeting requires a responsible approach to the process in general and the participation of each party in it. The extremely important facts are the local authority’s fair and proper provision of the information about the gmina financial situation, which enables to allocate certain amount of funds for the implementation of this process, as well as a the residents’ understanding of the possible procedural limitations (provided that the authority and officials will make efforts to reduce such restrictions as much as possible, and will not use the procedures that exist in local self-government as a smear) (B. Martel, 2015).

The whole process of participatory budgeting should be accompanied by openness and transparency about the existence of “different views and opinions” and also a conscious provision of the residents as the real experts on local issues with the right to decide on the areas of focus, which the allocated funds will be spent on.

The main purpose of the activities and actions that take place under participatory budgeting is to establish connections between people, to unite them around the shared ideas and initiatives presented under participatory budget at the local level.

Ultimately, the participatory budget implementation should result in the greater resident involvement in the local community’s affairs and create the opportunities for collaborative decision-making regarding the community development through, for example, the participation in public consultations or public hearings, the use of the civil initiative mechanisms when making decisions or local initiatives.
Local self-government authorities should try to use the knowledge gained in the framework of the participatory budgeting process, in other processes or actions that are not associated with a participatory budget (for example, such elements as the analysis/diagnosis of local needs).

Thus, the obtained experience of implementing the participatory budgeting in Sumy, the analysis of the sequence of its introduction creates the necessary preconditions for sharing this experience with other communities.

Among the positive results of the participatory budget implemented in Sumy, it bears mentioning its unusual but effective form of the involvement of individual citizens (which has occurred hardly for the first time in Sumy) in the solution of the city’s problems. After all, partial transparency of the procedure has been achieved, and the residents’ support has been obtained.

However, there remain a number of the issues regarding the procedure of participatory budgeting itself. The voting has taken place in two ways (electronic one used only by 1110 residents due to the procedure specificity, and voting at the polling stations). If the electronic voting was transparent, because almost all citizens had the opportunity to monitor the voting process, the results of voting at the polling stations made public only in a general way (by declaring the winners), without specifying the number of the received votes that could create atmosphere of distrust in such budgeting in the future.

Another point which should be taken into consideration is the community’s ability to accept proposals and select the projects that are of strategic importance for the city. The first experience shows that the citizens have chosen entertainment facilities, and barely touched upon the important infrastructure problems of the city. However, in our opinion, in the long run, the annual positive results will lead to the formation of strategic thinking among the residents of the community which should learn to initiate exactly what it needs and select the necessary projects.

Thus, the participatory budget is an important tool for the “active” management of community and the direction of the native city/territory development. The city residents not only are involved in the process of the city governance but also join the processes of discussing its problems and together find solutions to them. Participatory budgeting leads ultimately to the joint responsibility for publicly adopted decisions that correspond to the philosophy of self-governing democratic thinking. The latter is particularly relevant, as for a long time the Ukrainian statehood has been formed on the background of ignoring the capacity of local communities, artificially creating any unnatural barriers to the existing initiatives. The events of recent years have proved that changes are possible with the availability of the real, properly planned and implemented projects, such as the participatory budget. Participatory budget is intended to minimize the dissonance between the available options and the basic inability of the population to adapt to the environment of the community’s influence on the municipal administration.
4. Conclusions

The main idea of participatory budgeting is to involve community residents in the process of the city or region governance, and to use the element of the discussions at this point, that is, the discussions in a wide range of the community members who are “the experts in their field”, know their needs and join the conversation about the community priorities with a view to the public welfare. This openness and the desire to involve residents are not the goals in itself: all of this should lead to the efficient use of local budget funds and establishment of the relationships with the local community. The properly planned and implemented process of participatory budgeting has the potential to become the instrument through which residents could feel the actual joint responsibility for the life of their communities, as well as via which they will “practise” the cooperation for their benefit (developing projects, conducting debates/discussions and, as a consequence, mobilizing the efforts to make a responsible selection of the projects to be implemented in the future).

The success of participatory budgeting depends on the development of a clear procedure and its consistent implementation. The analysis of the experience of the participatory budget implementation enables to emphasize the need to create the coordination group that will be responsible for the process directly in the self-governing authorities or to choose the person who will coordinate this process from among the employees of the local authority.

The implementation of participatory budgeting in the certain city may provide for a certain feature attractive to a particular community. In particular, the implementation of the participatory budgeting process could be a good opportunity to introduce the participation elements in the work of the council/government body, for example, the procedures for the application acceptance and verification could be developed with the participation of the council /government employees who will further participate in these processes. During the process presentation, both the representatives of the local authorities and offices and “ordinary” residents should use the “language of benefits”, indicating, primarily, a variety of potential positive changes that could be achieved through this process. The awareness of the process stakeholders of the implications of potential changes to which this process could lead as in the form of increased activity of residents in the community’s life, and in the form of the additional responsibilities of the self-government authorities and administrations involved in this procedure is important for the successful implementation of participatory budgeting.

Participatory budget may be a great instrument of education and training in the self-government sphere – it encourages residents to become acquainted with the mechanisms of forming and spending local budgets, forces them to make decisions in relation to choice of priorities for spending funds and to think of the prospects and a shared vision of the development of the area. All this is reflected in the way of budget forming. Thus, the participatory budget should be considered not only as the tool that may be applied in all circumstances but also as a specific element of the philosophy of self-government communities, i.e. combination of power and residents of one territorial unit collaborating for the development of the latter.
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EMPLOYMENT POLICY IN THE CONTEXT OF EUROPEAN INTEGRATION OF UKRAINE

Nataliia Klietsova, Nataliia Volchenko

Department of Foreign Economic Activity and Eurointegration, Sumy National Agrarian University, Ukraine

Abstract. Nowadays the urgent question is the employment intensification of persons who have reached working age. The purpose of the study is to investigate the real causes that reduce the employment of the working population on the level of enterprises and promoting their employment policy in the context of European integration. Comparison of the data on employment in the European Union (EU) and Ukraine revealed that the presence of the gap in employment levels in the EU countries – 28 percentage points, in Ukraine – 22 ones. Analyzed and found out that the rather low level of employment in the candidate countries for EU membership in Turkey and Macedonia, which reached 53.2% and 51.3% respectively. The employment rate in Ukraine (56.6%) is only better than the figure in Greece (53.3%). Determined that the problem of the unemployment of working population is formed under the influence of definite factors, among which the availability of the process of structural change in the economy, seasonal fluctuations in the production of enterprises, insufficient aggregate demand, imperfect labor legislation, poor training of employees as well as the insufficient level of employment programs in the country. The employment rate of the population that associated with staff turnover organization is proved. The efficiency of the employees’ usage of the agricultural enterprises of the plant growing specialization in certain areas of North-Eastern region of Ukraine in the 2015 year is studied. Revealed that the average number of staff is not always affected the increase of the annual organization’s profit. Shown that reducing the staff sometimes leads just not to its costs’ optimization, but also contributes to sales markets’ expansion of products or services, increase products’ prices and so on. Recommended for all countries in the world should be inherent “inclusive growth”. Taking into account by the managers of enterprises the effects of general staff turnover, that were proposed by the authors, will facilitate the efficient recruitment in the future and at the same time will reduce the time to identify the causes of employees’ turnover within the organization. Considering the methodological approach for calculating the indicators of the efficiency of the employees’ usage at the enterprise will give the possibility for owners and managers of the organizations to forecast their profits, identify future partners, determine the reserve enterprises’ staff.

Keywords: employment policy, European integration, staff turnover, effects of Turnover, employees’ efficiency.

JEL Classification: D41, F02, F15, J23, J43
1. Introduction
As a rule, speaking about the real employment of the country, most researchers begin their investigation with macro issues, including processes that impede the stable country’s development. And only some scientists immediately start their research with the employment policy’s obstacles at the micro level. We mean the enterprises’ motivation policy or the so-called “energetic forces” (Broeck et al. 2016, p. 50) that initiate the employees’ behaviour at their position. It is from these “energetic forces” will depend on the period of the staff’s efficiency at the enterprise, directions of further professional development. As a result – for enterprises, this approach ensures the welfare and prosperity of national as well as international levels. But we can only agree or criticize, taking into consideration the current trends of enterprises in various industries and ownership. So, the urgent question is the employment intensification of persons who have reached working age, the reorientation of the working population to those organizations that provide decent working conditions while maintaining domestic production in the context of European integration of Ukraine. This accordingly determines the relevance of the chosen research topic.

2. Brief literature review
The issue of employment both at the national and at the enterprise’s levels is the subject of research scientists around the world. They are highlighted in the works of foreign scientist-practitioners such as A. Broeck (2016), J. Nunley (2015, p. 37-46; 2016, p. 1093-1126), A. Pugh (2016, p. 37-46), G. Passaretta (2016), N. Romero (2015, p. 1093-1126), A. Seals (2016, p. 37-46), M. Wolbers (2016), and others. As well as in the works of domestic scientists: T. Kharchenko (2016, p. 87-93), L. Mikhailova (2012, p. 87-93; 2016, p. 897-904), L. Yarova (2016, p. 752-755). However, today uncommon urgency takes the issue of young specialists’ employment – the university graduates. It’s also very important the investigation of efficient employees’ usage in the enterprises of different economic sectors as well as the question of the staff turnover at the macro and micro levels.

3. The purpose
The purpose of the article is to investigate the real causes that reduce the employment of the country’s working population on the level of enterprises and promoting their employment policy in the context of European integration.

4. Research Methods
The theoretical and methodological basis of the research is general scientific and special methods of certain economic phenomena and processes’ cognition. In particular, we have used abstract and logical investigation method. Thus, the analysis and synthesis were used to identify the causes and effects of employees’ turnover in agricultural enterprises of Ukraine. The dialectical method was used in the synthesis of theoretical and methodological foundations of employment policy in the European Union and Ukraine, as well as formulating
conclusions. Economic and statistical methods were used for comparing the level of employment in the European Union and Ukraine during 2010-2014 years.

5. Results

Summary of the main objectives, directions and priorities in a common European Union’s (EU) policy concerning the employment began in 1997. It is clear that the formation of a common policy on employment was to lead to the fact that the EU countries will increase employment, the number of jobs and improve working conditions. The similar goals set a Strategy of the state staff policy for 2012-2020 years. The declared objective of the Strategy is to ensure all spheres of the state by the qualified staff, which is necessary for the realization of national interests in the context of Ukraine as a democratic, social state with a developed market economy (Legislation of Ukraine 2012). It is obvious that democratic values will be achieved by the equal opportunities for all members of society to get jobs with adequate working conditions and remuneration for it.

Nevertheless, the comparison of the Ukrainian and European positions concerning the development of employment’s sphere shows that a special emphasis in the Strategy of the state staff policy in Ukraine for 2012-2020 years is made on providing basic needs of the state, while the European Employment Strategy brings to the forefront the employees’ interests. In particular, we are talking about the increasing demand for the labour force, improving the educational level as well as the functioning of labour markets, and the most important – to ensure the equal opportunities of employees, including their wages.

Exploring the problem of the Ukrainian’s population employment, we found out that in the scientific reports of the National Academy of Public Administration under the President of Ukraine on the topic “The State Staff Policy in Ukraine: Current Conditions, Problems and Prospects of its Development” were determined the basic problems of human resources and human potential in the conditions of Ukraine’s modernization (Kovbasiuk et al. 2012, p. 5). In particular, it should be admitted, the authors have summarized that the most negative influence concerning the staff issues in Ukraine suffers from the socio-economic conditions, the decline of production in various sectors of the economy, demographic problems and so on.

We agree with the reporters’ opinion, because according to the State Employment Service of Ukraine the situation on supply and demand in the labor market at the beginning of the 2016 year can be characterized by the phenomena such as regional imbalances and disparities in the demand for employees in different regions; reducing the number of vacancies; imbalance between supply and demand; low level of wages regardless of the employees’ qualifications (State Employment Service…).

Comparison of the data on employment in the EU and Ukraine shows that the national figures are much worse than those that have already got the member states of the European Union today, not to mention those that might be achieved in accordance with the Strategy of Europe-2020 (fig. 1). Note, this Strategy involves the achievement of three key complementary outcomes, particularly referred to “smart” growth based on the knowledge and innovation, “sustainable growth” with more effective, compared to the present usage of resources, more efficient and ecological economy.
Fig. 1. Employment rate in the European Union and Ukraine for 2010-2014 years [%].

Source: Compiled by the authors according to (Eur-Lex, State Statistic Service, Eurostat)

Special attention is paid to the “inclusive growth”, that foresees strengthening the economy of full employment, social and territorial cohesion. These results could be achieved in case of specific goals’ implementation.

Objectives relating the employment, foresee the achievement of its level mark 75% (for people from age 20 to 64). We realize that this goal will go along with educational challenges because education will provide the option of further employment. The goal for the 2020 year should be to reduce the proportion of people who left early education in schools, up to 10%; and increasing the share of people aged from 30 to 34 with higher education – up to 40%. After all, these results will reduce the number of people that live in European countries below the poverty line – by 25%.

The presence of the gap in employment levels in the EU countries – 28% points and in Ukraine – 22% points, as well as the availability of stable upward trend in employment in the EU and reduce the similar index in Ukraine shows a significant imbalance in the labour market. In the context of European integration measures Ukraine should overcome the major current problems, among which, in our opinion, the most urgent is: the problem of migration, the problem of providing young specialists by their first job after graduation of various certification levels, the problems of social security of workers in the workplace, official workplace design and so on.

To our mind, for Ukraine, the problem of young graduates’ by their first job is an essential one at this stage of country’s development. We can explain such a position by the fact that graduates are considered to be the vary from people that don’t have enough experience for the diligent performance of their duties at the enterprise. More of that, there is a dilemma: to employ experienced, but the elderly person or to give a real opportunity for the development
and training of young graduate professionals. If internal managers’ “Ego” allows being risky and employs a young employee, it means that at such an enterprise will appear a real chance to start an absolutely new stage of development.

The confirmation of this approach are the positions of the Italian scientist Giampiero Passaretta (2016), the Dutch scientist-practitioner Maarten H. J. Wolbers (2016), American scientists John M. Nunley (2015, 2016), Adam Pugh (2015, 2016), Nicholas Romero (2015, 2016), R. Alan Seals (2015, p. 39; 2016, p. 1114) that actively researching employment issues really inexperienced employees in the enterprises of different economic sectors. In particular, G. Passaretta (2016) and M. Wolbers (2016) focus on what is for university graduates would be appropriate employment on temporary or fixed-term contracts. This period of time will be enough for the employer to identify if the employee talented or not, at the same time for the employee will appear the possibility to get an experience in his or her area of specialization. In addition, according to our investigation, it was found out that at the job market of Ukraine this method of employment has already implemented in the enterprises with foreign capital in the 2013 year. It was determined that this was not only a chance for young employees but also was a way to optimize staff costs for managers.

Thorough research of American scientists John M. Nunley (2015, 2016), Adam Pugh (2015, 2016), Nicholas Romero (2015, 2016) and R. Alan Seals (2015, 2016) concerning the employment of young people (graduates and students enrolled in the final year at university) in various countries have shown that more effective full employment of inexperienced employees for a fixed term than part-time. Thus, these scientists determined that underemployment reduced the level of employees’ productivity up to 30% (Nunley 2016, p. 42; Nunley 2015, p. 1118). We can explain such results by the fact that for the hired young professionals imposed equal responsibilities, tasks and working conditions, as well as for those workers who have already got the experience in this area. Thus, a limited amount of time, the tense atmosphere in the team, not always perfect working conditions, tight staff competition within the enterprise – all these make recently hired workers to become confused and not always easily fulfil their tasks. Moreover, sometimes restrictions in working hours even prevent employees to concentrate on work, because in a couple of hours they might already be in another location and do absolutely other tasks.

After overcoming the primary employment human resources’ problems in Ukraine, the urgency will have to gain the question of identifying the causes and consequences of turnover in the enterprises of different economic sectors. For example, we have done research concerning the turnover of employees at the level of agricultural enterprises in Ukraine in late of the 2014 year (Klietsova 2014, p. 79). It was found that the effects of general staff turnover of enterprises in the agricultural sector caused by the most common primary reason – primitive mistakes when hiring employees. Over time, the head of the company can really understand that even a properly selected employee for a specific position, will affect the mood of other employees at the enterprise (fig. 2).

Special attention should be paid for the employment to Ukraine and the EU in the comparison to individual countries. Specifically, data that were obtained during our research shows that the national figures are similar to the lowest level in the EU. So, among the EU
countries, the highest level of employment observed in Sweden (80%), Germany (77.7%) and the UK (76.2%), (Eur-Lex, State Statistic Service, Eurostat). It’s really so that on the average the high employment according to the integration grouping observed for the last in the 2008 year (70.3%). After the fourth and fifth enlarged of the EU as well as the world economic crisis, the employment level began to fall down to a mark of 68.4% in the 2012 year, after which the situation has stabilized. The employment rate in Ukraine (56.6%) slightly higher than only in Greece (53.3%), which is currently, has got the worst indicators of the labour market in the EU.

Taking into account the data concerning the candidate countries for accession to the EU, we can notice quite low employment rate in Turkey (53.2%) and Macedonia (51.3%). At the same time.

Fig. 2. Causes and effects of employees’ turnover in agricultural enterprises of Ukraine

Source: Author’s own research, published in (Klietsova 2014, p. 79)
We know, that not only in Turkey and Macedonia but also in other countries, including the Ukraine, the unemployment is considered to be a macroeconomic problem that eventually spreads quickly and can take other forms in the micro level. Thus, as noted by domestic scientists L. Mikhailova, T. Kharchenko, L. Yarovaya, such a problem is influenced by the following factors: a structural shift in the economy, economic slowdowns, scientific and technological progress, the ratio of prices for the factors of production, seasonal fluctuations in production, insufficient aggregate demand, inflation, imperfect labor legislation, poor training and retraining, insufficient employment programs, demographic processes, etc. (Mikhailova and Kharchenko 2016, p. 90; Mikhailova 2012, p. 899, p. 752).

In our opinion, the level of employment in any country of the world is closely associated with staff turnover in the organization. So, we set the actual task for ourselves: to investigate how efficiently have been used the employees at the agricultural enterprises of the plant growing specialization in certain areas of North-Eastern region of Ukraine in the 2015 year (tab. 1).

Tab. 1. The efficiency of the employees’ usage of the agricultural enterprises of the plant growing specialization in certain areas of North-Eastern region of Ukraine in the 2015 year.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Ltd. AF “Semerenky”, Sumy region</th>
<th>Ltd. “Savintsy”, Poltava region</th>
<th>Ltd. “Peremoha”, Kharkiv region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average number of staff, persons</td>
<td>98</td>
<td>226</td>
<td>173</td>
</tr>
<tr>
<td>Hired staff during the year, persons</td>
<td>24</td>
<td>7</td>
<td>30</td>
</tr>
<tr>
<td>Those staff who left the enterprise during the year, persons</td>
<td>11</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Number of dismissed on their own and for violation of labour discipline, persons</td>
<td>2</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Turnover ratio of the hired staff</td>
<td>0.24</td>
<td>0.03</td>
<td>0.17</td>
</tr>
<tr>
<td>Turnover ratio of the left or dismissed staff</td>
<td>0.11</td>
<td>0.03</td>
<td>0.05</td>
</tr>
<tr>
<td>Staff turnover ratio</td>
<td>0.02</td>
<td>0.02</td>
<td>0.03</td>
</tr>
<tr>
<td>Total staff turnover ratio</td>
<td>0.36</td>
<td>0.06</td>
<td>0.23</td>
</tr>
</tbody>
</table>

Source: Calculated by the author according to the financial reporting of the surveyed enterprises

Thus, analyzing the data presented in table 1, we can conclude that despite the lowest average number of employees in the researched Ltd. AF “Semerenky” Sumy region, the turnover ratio of the hired staff here is the highest one. In particular, it is 0.24 points, while at Ltd. “Savintsy” Poltava region, where the average number of staff is more than doubled, this figure reaches only 0.03 points, at Ltd. “Peremoha” Kharkiv region (the average number of staff is more than 1.8 times in comparison with Ltd. AF “Semerenky”) – 0.17 points. It should also emphasize the fact that at Ltd. AF “Semerenky” almost all indicators reach the highest points (except the staff turnover ratio), compared with Ltd. “Peremoha” and Ltd. “Savintsy”. We can explain this situation by the fact that the vast majority of employees Ltd. AF
“Semerenky” was in the retirement age, and as a result – retired, some employees were dismissed by reducing the amount of work due to the partial automation of the production at the agricultural enterprise.

Regarding the efficiency of employees at the surveyed enterprises Ltd. “Savintsy” Poltava region and Ltd. “Peremoha” Kharkiv region, the relatively low points of the studied parameters show that these enterprises increased their profits that depended on many factors. In particular, there took place the expansion of sales markets and a significant price increase for the plant products.

6. Conclusions

Thus, due to our research, recommended for all countries in the world should be inherent “inclusive growth”, which foresees the strengthening economy with full employment. But the employment rate should comprise 75% of the population aged from 20 to 64. Proved to achieve such a measure in Ukraine it’s necessary to avoid major current problems, among which the problem of young people’s employment from different schools accreditation is considered to be the most important one at the present stage of country’s development.

Found out, after elimination of the priority issues concerning the employment of labour in Ukraine, urgency should take the question of identifying the causes and effects of the employees’ turnover in the enterprises of different economic sectors. Proved that the effects of general staff turnover are a result of incompetent companies recruiting employees at the initial stage of employment. Taking into account such a conclusion by the managers of enterprises will facilitate the efficient recruitment in the future and at the same time will reduce the time to identify the causes of employees’ turnover within the organization.

Considering the methodological approach for calculating the indicators of the efficiency of the employees’ usage at the enterprise will give the possibility for owners and managers of the organizations to forecast their profits, identify future partners, determine the reserve enterprises’ staff.

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PART II

Miscellanea

Essays

Announcements

Reviews
THE ROLE OF THE SHADOW ECONOMY IN INVESTMENT EFFECTIVENESS OF PUBLIC GOODS. Critical approach to Andrew Warner conceptualization

Andrzej Buszko*

Faculty of Economics, University of Warmia and Mazury in Olsztyn, Poland

Abstract. The article deals with the problem of the shadow economy. The main roots of the shadow economy were presented. The aim of this article is the try to identify the role of the shadow economy in public effectiveness investment. The following hypothesis was accepted – the shadow economy modifies the effectiveness of public goods investment. The close attention was paid to Andrew Warner conceptualization.

Keywords: shadow economy, roots, public investment, effectiveness, government

JEL Classification: H49, E29

1. Introduction

The shadow economy exists in any country. The differences are related to the size of it, determinants, factors of fostering, the level of acceptance, only. The roots of shadow economy are more or less similar. Popular factors are based on the high taxes. If the taxes are high some of the entrepreneurs go to the shadow economy. They are not so willing to pay all such taxes. But this factor in some countries is a minor one. The most important are related to the complicated legal system. Quite often this system is overloaded by the law, and the law is complicated, hard to be explained and very difficult to be carried out. The result of it is the fact that people found themselves in the shadow. Sometimes they are not willing to be in such place, but they do not have the choice. Shadow economy is related to the level of corruption. In some countries, corruption is obvious so almost all entities are in the shadow economy. Sometimes shadow economy is connected with the high rate of organized crime. Where the level of organized crime is high – the level of shadow economy grows up. Very important factor is based upon the level national acceptance. For example in Poland entities engaged in shadow economy are generally accepted and regarded to be as even as the hero.
Talking on shadow economy one general remark must be done. There is no one definition of the shadow economy. Based on the review of the literature we can distinguish: irregular economy, grey zone, hidden economy, underground economy, not registered and so on. Whenever we name the economic category in a different way, in different ways we can discuss (estimate) different economic effects. So the first step should be done with creating one definition. Generally one can recognize black economy and the shadow economy. The black economy is charged by criminal law, shadow economy generally by trade or civil law. We can divide shadow economy from the monetary and non-monetary point of view.

Generally, it is said the shadow economy hammers the economy. In many cases it is true. But there is some activity which shadow economy might be accepted. For example, if the level of the shadow economy is reduced the unemployment rate increases. The budget expenses increases. If there is the budget deficit more expenses can kill the public finance. But whenever this employment rate is still the same, and people from shadow economy sooner and later the money will be spent in the official economy. In this way, the budget will be loaded with more taxes like VAT. This tax is very important and its basic from the importance as the source of budget income.

2. The goal of the article
The aim of this article is the try to identify the role of the shadow economy in public effectiveness investment. The text is based upon the updated literature review. The reduction method of scientific thinking was used. The following hypothesis was accepted: the shadow economy modifies the effectiveness of public goods investment.

3. The idea of public goods
Based on the literature review, economists and politicians discuss on public goods. In this part of the article, I refer to the article written by Stanisław Kwiatkowski on public goods. Part of theorist recognizes, that situations exist, in which (who) though goods are beneficial, production would add its society of benefit, premises appear suggesting, that it will not be provided goods in market conditions to the optimal amount. They present example of public good. It is defined as the goods, each should have access to it. It is expected to supply of it by state. However, there is not an economic definition, that takes place source of misunderstanding. Politicians and journalists try to cancel the economic theory of public goods. Unfortunately, ordinary awareness happens simultaneously. However, precise definition exists – a public good which allows evaluating, we can use theory with reference to that goods. Nobel prize winner Samuelson in 1954 provided the concept of public expenses. The author distinguishes public from private good. Conclusion presents with his analysis thesis, that it is obliged to intervene on market state and supply public good. However, it does not result from data of goods from generally comprehend benefit for whole society. So, economists consider profits not only, and also cost of undertaken decisions. Many private
goods are socially beneficial, however, by that reason, it is not affirmed, that state will produce them effectively. The essence of argumentation sticks in distinguishing from public and private good. In order to apprehend difference, they let's envisage a situation, two persons want to consume typical goods - a private slice of bread. Both are not in a state of integrity by one consumer for second lose eat – scrap become irrevocably. So, economists say, that consumption is a rival case of a produced scrap of bread. Otherwise, the thing has with goods (right) public, it is proper to discuss which (who) on a classic example of light-house. It does not require consuming of favour of light-house with other consumers contest. Time shows produced light-house optional favour, number passing the boat, without damage it. So, benefits are not brought public feature all consumers characterizing good, but unrivalled consumption in the main measure (Kwiatkowski 2014). Externalities occur when one person's actions affect another person's well-being and the relevant costs and benefits are not reflected in market prices. A positive externality arises when my neighbours benefit from my cleaning up my yard. If I cannot charge them for these benefits, I will not clean the yard as often as they would like. A negative externality arises when one person's actions harm another. When polluting, factory owners may not consider the costs that pollution imposes on others. Policy debates usually focus on free-rider and externalities problems, which are considered more serious problems than non-rivalries consumption (Tyler 2014). Markets and states are two of society’s mechanisms for coordinating economic activity. Each plays a role in providing private as well as public goods. Sometimes one mechanism works better, sometimes the other. It all depends on the good (or service) to be provided. Curious, then, that there is hardly any debate on how to strike the right balance between private and public goods. Yet that is essentially the balance on which people’s well-being depends (Kaul and Mendoza 2014).

Whenever we talk about effectiveness in public goods we have to admit that the first step in evaluating potential public investment projects is to determine whether they are worthwhile on the basis of standard cost-benefit criteria. This involves assessing economic and social returns to the project. The extent to which the government can capture the economic returns– directly through user charges or indirectly through higher taxes–then has to be assessed. Finally, the net (economic or social) returns should exceed the government’s marginal cost of borrowing (Warner 2013)

4. The role of government in public goods investment

Always it is the great discussion on the role of government in public goods investment. From one side there are economists who stand for minor activity of government, but from the other, there are economists who are willing to engage government almost in all activity. The role of the government is also essential to provide means whereby we can modify the rules, to mediate differences among us on the meaning of the rules. The government must enforce compliance with the rules on the part of those who would otherwise not play the game. Absolute freedom is impossible, as Milton Friedman recognizes in his classic “Capitalism and

1 Note that the free-rider problem and positive externalities are two sides of the same coin.
Freedom”. The existence of a free market does not eliminate the need for a government. On the contrary, the government is essential both as a form for determining the rules of the game and as an umpire to interpret and enforce the rules decided on. Adam Smith in his “Wealth of Nations” states that the main tasks for the governments are allocation of resources, redistribution of income, stabilization of economic activity and promotion of growth and employment. The degree of governmental intervention will be given by the level of achievement in all these tasks and by the externalities. Of course, it’s sensible to say that undeveloped and developing countries need a higher degree of governmental interference than a developed country, considering both submitted to the same external conditions. Developing and undeveloped countries’ redistributing income programs tend to require more resources and governmental interference. These governments tend to spend more on public services, as education, health and bureaucracy, leading to a bigger taxation in order to support the so-called “welfare state” (Sparapani 2000).

Competitive markets have contributed greatly to our material well-being, but they are not without their flaws. A still higher level of material welfare can be obtained if the government operates in consort with the market system, mending its flaws and moderating its harsher tendencies. The government has two well-defined functions in this partnership. The government's first potential role follows from the observation that actual economies do not satisfy the requirements of the first theorem. Since this theorem describes the least restrictive conditions under which competitive markets are efficient, actual market economies must be inefficient. The allocation of resources in a market economy is imperfect, and the government might be able to improve it. The second function follows from the observation that competitive markets can give rise to very unequal distributions of material welfare. There is a broad consensus in many societies that extremely unequal distributions are undesirable. Such extremes can be partially mitigated by charitable acts on the part of the rich, but the charity has the attributes of a public good, and hence will be underprovided. If a consensus in favour of redistribution exists, adequate redistribution can occur only through government action (Leach 2003). Anyway, the government at least should be responsible for the following activity:

- National Security,
- Education,
- Foreign Affairs,
- Social Security,
- Medical Care,
- Justice.

It is hard to imagine that without such government supervision the country can survive successfully. So the investment in such activity is required. We can discuss on the level of such activity, only. Whenever we discuss on investment, the effectiveness of it must be evaluated. Otherwise, we have to face the loss of money.
5. Effectiveness of public goods investment

Following scientific discussion (I do believe that it is so) will be based on an interesting paper written by A. Warner titled “Framework for Efficient Government Investment”. At figure 1 the Private and Social Rates of Return for Investment were presented.

![Diagram of Private and Social Rates of Return for Investment](source)

**Fig. 1. Illustration of Private and Social Rates of Return for Investment**


The low return and high term return of social rate were put down on the vertical line. Private rate of return was put on a horizontal line. The rate of interest rate was foreseen. Taking this into consideration positive and negative externality was evaluated. I fully agree with A. Warner statement that society includes the private sector, the social return is the sum of the return as perceived by the private sector and a positive or negative externality adjustment. Pure public goods are shown as cases where private returns are zero but social returns are positive (Warner 2013).

Developing this idea at figure 2 the matrix of state investments was presented. This matrix does not include the role of the shadow economy. We can recognize six regions – as the options for further investments. Region A is characterized by negative externality, but it is socially beneficial projects which can be realized by the private sector. It could be regarded as profitable. Region B is the same positive externality and recommended for realization since the social return is a high one. Region C lies below the rate of interest that why it is not recommended. The same story is with region E and F.
Region F is far above the rate of interest and from the profitability of private point of view looks very promising. But from the other hand social rate of return is a low one, that why it is not recommended for consideration. Conclusion Region B is the best option for project investment. The shadow economy changes of above-mentioned approach. First of all rate of interest will be higher, since we have to take into consideration risk of the activity. The second assumption is connected with the return of one party. This party is a private one. So, in this case, there are two general options. One connected with changing the origin of money. Thanks to such investment in the public goods private sector can wash money. The dirty become clean and official one. The second option is based on the close relationship between the private sector and government one. It does not matter who operates in the shadow economy. The matrix of state investment with the impact of shadow economy changes substantially. We can consider again possible regions of investments, but their role is totally different one. Additionally one must admit that shadow economy reduces competitiveness and innovativeness. Based on this assumption – finally, the public good quality will be lower one, hard accepted in the market-oriented economy. Local companies will choose domestic markets – since their offers will not be attractive for foreigners. However, the economic and social impact of public investment critically depends on its efficiency. Comparing the value of public capital (input) and measures of infrastructure coverage and quality (output) across countries reveals average inefficiencies in public investment processes of around 30 percent. The economic dividends from closing this efficiency gap are substantial: the most efficient public investors get twice the growth “bang” for their public investment “buck” than the least efficient (International Monetary Fund 2015).
The role of the shadow economy in investment effectiveness of public goods

First of all the externality is changeable. The course of it depends on the key player of the shadow economy. So first conclusion the true economic calculation cannot be managed. The result depends upon the size and animators of the shadow economy. If the size is bigger the wrong economic calculation is provided. Region C is social profitability but under interest rate. So this region is not recommended for investment. Even though such assumption is logical one in some circumstances can be postponed. If the key player in the shadow economy is officials they can persuade other economic entities to invest. Sooner or later private business must be profitable. If they faced one loss in the project investment in public goods so in another one attempt they should earn far more. This is because they must cover previous loss and earn some profit for present activity. If this is not happening, private entity goes into bankruptcy. Region B is regarded to be social profitable and sometimes profitable for private investors. It is important that it is situated above the interest rate, even though it is quite a high one. A general remark is connected with the level of interest rate in public goods. We have to admit that quite often public goods should be calculated under specific economic conditions. The interest rate must be adjusted to such situation. Region A is profitable from the private perspective and low profitable from a social point of view. If there is an impact of shadow economy such project will be carried on. There are two general results. First one is connected with low effectiveness and practically useless public good offer. A few will take benefit of that. The second one only private sector wins. The business must be profitable for both partners not only for one. This happens because of the impact of the shadow economy. Another very important issue is born. Is it possible to calculate efficiency in public goods in the country where there is a high rate of shadow economy? If we take only one aspect of shadow economy – corruption. Corruption pushes good companies from the market away. In
this place the high costs, low-quality companies come in. Efficiency is lowered quite sharply. So again - the key question is related to efficiency. In what way and which level is affected by the shadow economy. The investment in public goods can be considered also from public infrastructure, and human capital. Public infrastructure (this is not directly calculated by A. Warner) Public infrastructure is the network of physical assets created by public investment. These fixed assets include economic infrastructure (e.g., highways, airports, roads, railways, water and sewer systems, public electric and gas utilities, pipelines, and telecommunications).

We do not have differences between foreign and domestic investment. Right now we have added new economic category foreign public investment. There is a change of foreign direct investment, especially on the higher level. The change is related to the role of the government. The host country government supposed to arrange the good base for infrastructure. Such costs must be borne by the government. The investor receives quite big financial support, even though this step is associated with lowering taxes and other obligations. The following doubts should be discussed:

1. Should such benefits be or not considered in efficiency calculations?
2. How should be calculated the whole costs of investment?

Answering the first question we have to remember that in many ways the quality of infrastructure is government duty. The infrastructure is used at least by the locals as well, not only by investors. So this is a discussable question. In order to calculate the efficiency properly, this diversification should be done. Very important issue is related to human capital. This is not the education level, skills, but ability to cooperation. This problem in Poland occurs. Polish generally are educated, their skills are considered to be on the high level, but the ability to cooperation is on the low level. Individually they are even innovative, creative but unfortunately, these skills are devoted to shadow economy. That way the size of Polish shadow economy is kept on relatively on the high level ca. 30% of GDP (Buszko 2016). Government tries to reduce this level but this is extremely difficult. First, the shadow economy includes very different activity and from a legal point of view its difficult to categorize such activity. Secondly, quite well-educated people are entrepreneurs in the shadow economy. The perform quite clever, more clever that police and revenue departments officers. The third issue is related to acceptance. In Poland, there is quite a high rate of acceptance for shadow activity. Cross-country regressions suggest that the growth dividend of investment is larger for high efficiency than for low-efficiency countries regardless of the relationship between public investment efficiency and growth across countries, improving efficiency within any given country has an unambiguously positive impact on growth.

6. Conclusions

As discussed in the main text, the most efficient public investors see twice the growth impact compared with the least efficient, in line with the results in IMF (International Monetary Fund 2015, op. cit). So the goal of the article was reached and hypothesis confirmed. The article just generally describes the missing points of A. Warner conceptualization of public goods.
investment. That’s why some further studies are required, especially on an empirical basis. Furthermore, some the public efficiency will vary upon the economic model of the country and the size of the economy. Just from rough theoretical view, the shadow economy can hammer the investment and efficiency. From the other hand if shadow economy exists there are low entry costs for business activity. So more entities are willing to invest.

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REVIEW OF THE BOOK
„Model doradztwa w obszarze finansów osobistych w Polsce na tle doświadczeń międzynarodowych”
(„The model of personal finance consulting in Poland in the context of international experience”) by Krzysztof Waliszewski,
Publisher: Poznan University of Economics and Business, Poland

Marianna Dębniewska*

The increase in popularity of different ways of investment and borrowing revealed a new segment of the financial services market known as financial advice. Households often face the choice of the best variant of investment or financing their needs. These needs have come from financial advisory institutions working with many banks, insurance companies and other market intermediaries enabling households to access multiple financial products and services simultaneously.

A financial advisor is a rather general term, as employees of the financial institutions are involved in both savings products, credit insurance, as well as others. It proves that they do not specialize in one area of counselling. This means their knowledge in this area is quite general, and therefore their expertise and knowledge transfer to the customer may be limited.

The financial advisor is a relatively young profession, which applies not only to Poland but also to the financial markets in the world. The beginning of the financial advisory business in the world has adopted in 1969. The development of financial advisory services in Poland has been not until the beginning of the 21st century. Many advisory firms operating during this period were only profit-oriented and did not take care of long-term relationships with customers, which led to market failure.

Krzysztof Waliszewski in the book titled: The model of personal finance consulting in Poland in the context of international experience, Poznań 2016, sought a model of personal finance advice, including its determinants, elements and implications, as well as future expectations for its development. The paper hypothesizes that personal finance consultancy in Poland is at an early stage of development, which is a transitional stage between the sale of financial products and independent financial advice.

Among clients' financial advisors there are two groups - independent and independent advisors. The desired status is the development of the latter group, i.e. advisors who are not related to the financial institution whose products are in the advisory offer, and the company

* Professor Marianna Dębniewska, Department of Finance, Institute of Management and Finance, WSB University in Gdańsk.
they represent has no cooperative and capital ties with the bidders. The consequence of such a solution is to bear the cost of counselling by an individual client. It is unacceptable in many cases by the Polish customers.

Empirical research conducted by the author confirms the small scope of services. Product consulting dominates, without complex financial planning. As the main problem, the way of selecting staff is indicated - employees are preferred to increase their sales volume rather than increasing the level of satisfaction of the customer's needs, the way of remunerating the customer and lack of building long-term relations with the customer. The results of the research show the dissonance between customer expectations and service offerings. It confirms that the financial advisory market is in the early stages of development. Competitive advantage will be gained by those who will adopt the trust strategy in the customer relationship and make the customer return to them.

Literature studies as well as empirical research, based largely on the opinions collected in the conducted surveys, have allowed the author of this work to present a very interesting scientific material. Financial advisory as a new branch of activity is relatively young but develops very rapidly during economic development of the country as well as the financial markets. In my opinion, more emphasis should be placed on the co-responsibility of the advisor for the result of the investment. Also, his salary should depend on the rate of return on the investment. The presented monograph is an interesting item recommended for use by academics, students and practitioners preparing strategies for providing financial advisory services to households.
INFORMATION ON
the XI National Conference “Information in the Social World”

Wacław Szymanowski*

On 21-22 June 2017, the 11th National Conference on Information in the Society of the 21st Century organized by the Institute of Informatics and Digital Economy, College of Economic Analysis of the Warsaw School of Economics and the Department of Quantitative Methods, Faculty of Economic Sciences, University of Warmia and Mazury in Olsztyn.

The scientific conference was established in 2003 and was held on a regular basis until 2008. Renewed in 2015 every year. The results of subsequent editions of the conference were published in the Scientific Bulletin of the College of Economic Analysis of SGH: in nr. 36 of 2015 (39 publications), No. 40 of 2016 (43 publications) and no. 44 and 45 of 2017 (46 publications).

His Magnificence Rector of the University of Warmia and Mazury, Professor Ryszard Górecki, Warmia and Mazury Governor, Olsztyn Mayor, Statistical Office in Olsztyn and KPMG.

This year's conference consisted of three parts. The first one in English addressed the determinants of changes in the mega-environment and their impact on the digital economy. Very interesting was the guest lecture from Manchester Metropolitan University Dr Dimitrios Syrrakosa and Prof. Chris Pyke on the economic consequences for the UK economy will be the exit of Britain from the European Union. Nevertheless, the intriguing lecture by Professor Nelson Duarte, professor of Porto's Polytechnic, concerned the changing industry in the selected Business Information Systems Portugal region. The last three presentations of this session concerned the results of the digital economy assessment conducted by Professor Tarnopolska National University Professor Oksana Lyschenko. Presentation by Prof. The University of Liege Professor Philippe Burny and Professor Leszek Nieżurawski from the Banking School in Toruń together with the team focused on measuring the selected areas of Sustainable Development in the European Union. The session ended with the presentation of Dr Rutkowska-Ziarko and Professor Chris Pyke from Manchester, presenting the risk assessment measures on the stock market based on the research. There were four-panel sessions (16 speeches in Polish) on topics such as Information Security, Change in Information Economy and Directions of Information System Development.

The second part of the conference covered changes in Public Statistics on the monitoring and evaluation of EU cohesion policy at the regional level, led by the Director of the

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*Wacław Szymanowski, professor, Department of Quantitative Methods, The Faculty of Economics, University of Warmia and Mazury in Olsztyn.
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Statistical Office in Olsztyn Marek Morze. Representatives of the 5 Regional Statistical Offices in Katowice, Szczecin, Poznan, Lublin and Olsztyn presented selected problems concerning the impact on the implementation of cohesion policy: regional accounts, use of information technologies in public administration, coherence of statistics within the EU, and the impact of cohesion policy on entrepreneurship on the example of the province. Lublin and the importance of migration for shaping the regional labour market.

The third part of the conference was devoted to Foresight as a new approach to predicting the future. This session featured 5 speakers. Professor Waclaw Szymanowski from the University of Warmia and Mazury in Olsztyn presented the concept of Foresight, its origin and importance in a rapidly changing mega-environment. There is a need to implement a new approach to explore alternative options for the most likely future, to analyze their understanding by stakeholders, and on this basis formulate recommendations to reinforce positive trends and mitigate negative. So Foresight is understood as a systematic way of reaching out to information about the future in order to build a medium- or long-term development vision, as illustrated by the example of the National Foresight Program “Poland 2020”. Another lecture by Professor Lech Zacher, Professor Koźmiński Academy, addresses the particular role of sociological and cultural changes in the information society. This change is accompanied by the transformation of communication systems in the information society. This talk was devoted to the lecture of professor Jerzy Kisielnicki, professor of the Faculty of Management at the University of Warsaw. The construction of a new communications model favours the creation of new cloud computing technologies and the processing of large data sets (Big Data). The network model will replace the existing hierarchical and inefficient model of the communication system. In order to make these changes, a new generation of researchers with specific attitudes and skills must be prepared for this change. This issue was devoted to the next lecture by Professor Irena Hejduk, Professor at the Warsaw School of Economics. The lecture focused on the objectives and purpose of the forthcoming Higher Education Act 2.0, which addresses the question of how the changing challenges of new innovations and technology, the growing knowledge resources, can affect changing learning models. The new education system should support the development of a knowledge-based economy in the context of globalizing competition. These phenomena force them to move away from the classic German model of education in search of a new one, taking into account the increase of competitiveness between universities, young academics and significant students. Support for the above-mentioned transformations should be the construction of a new administration model based on the use of new information technologies. Professor Józef Oleński Professor of the Lazarski University presented two different concepts of constructing a future model of the state. The first is the construction of the N model, based on Standards - an information and infrastructure environment. The social information environment is based on the civilized standards of information quality and the information technology of the controlled (managed, managed) information infrastructure by the state apparatus. The second approach - Model P should be created on the basis of procedures – the law – the Communication and Information Systems (“CIS”). The social information environment should be shaped as a group of administrative procedures determined by the legislative
process, interpreted and enforced by the state apparatus. At the end of this session Prof. Dariusz Dziuba, Professor at the Faculty of Economic Sciences of Warsaw University, gave a lecture on new financing tools as sources of long-term development. Analysis of the segment of social lending, and in particular the Chinese market, shows a rapid increase in the importance of this market in financing long-term development.

The conference, which gathered over 90 people, was accompanied by a number of events, such as the poster session of young researchers at the Chair of Accounting and the Department of Quantitative Methods. These forms of inclusion of young people and students in the field of research into a change in the information society will continue.