

University of Warmia
and Mazury in Olsztyn

FINANCE **and MANAGEMENT**

Volume 2 • Number 2
2017

ISSN 2451-3903 (online)

Finance and Management (ISSN 2451-3903) is published two times a year (June, December) by Faculty of Economic Sciences, University of Warmia and Mazury in Olsztyn.

The Journal is available on the websites: <http://www.uwm.edu.pl/wne/fm.php>

Publishing in Finance and Management: please see our website, <http://center.uwm.edu.pl/fmj/> for manuscript preparation and submission guidelines.

Scientific Committee:

prof. Kim Møller - Department of Sociology and Social Work, Aalborg University (Denmark)
prof. Artur Holda - CICA Cracow University of Economics (Poland)
prof. Jacek Grzywacz - Warsaw School of Economics (Poland)
prof. Jan Komorowski - Warsaw School of Economics (Poland)
prof. Marek Wirkus - Gdańsk University of Technology (Poland)
prof. Nelson Duarte - Porto Polytechnic - School of Management and Technology of Felgueiras (Portugal)
prof. Rytis Krušinskas - Kaunas University of Technology/School of Economics and Business (Lithuania)
prof. Andrzej Buszko, dr h. c. - University of Warmia and Mazury in Olsztyn (Poland)
prof. Radjabov Kuchakovich - Rajab Tajik State University of Commerce (Tajikistan)
prof. Szczepan Figiel - University of Warmia and Mazury in Olsztyn (Poland)
prof. Mirosław Gornowicz - University of Warmia and Mazury in Olsztyn (Poland)
prof. Małgorzata Juchniewicz - University of Warmia and Mazury in Olsztyn (Poland)
prof. Wojciech Kozłowski - University of Warmia and Mazury in Olsztyn (Poland)

List of scientific reviewers in 2017:

prof. Rytis Krušinskas – Kaunas University of Technology/School of Economics and Business (Lithuania)
prof. Rajab Kuchakovich Radjabov – Tajik State University of Commerce (Tajikistan)
prof. Małgorzata Juchniewicz – University of Warmia and Mazury in Olsztyn (Poland)
prof. Renata Marks-Bielska – University of Warmia and Mazury in Olsztyn (Poland)
prof. Jan Komorowski – Warsaw School of Economics (Poland)
dr hab. Wiesława Lizińska – University of Warmia and Mazury in Olsztyn (Poland)

Editorial Board:

Scientific editor – prof. Andrzej Buszko, dr h. c.
Deputy of scientific editors – dr Konrad Szydłowski, dr Marek Szturo
Associate editors – dr Jarosław Skorwider-Namietko, dr Karol Wojtowicz
Statistical editor – dr Anna Rutkowska-Ziarko
Language editor – Michael Thoene
Technical editor – Robert Popiołek

© Copyright by FES, UWM in Olsztyn 2017

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



INSIDE F&M

PART 1: Original Research Papers

THE MECHANISM OF INTERACTION BETWEEN INTERNATIONAL
AND NATIONAL INSTITUTIONS TO PREVENT AND COMBAT CORRUPTION AS
A DRIVER FOR SOCIO-ECONOMIC DEVELOPMENT OF THE COUNTRY 7

Oleg Kuzmin, Olga Melnyk and Marta Adamiv

UNEMPLOYMENT AS A DETERMINANT OF THE VOTING BEHAVIOUR
IN LOCAL ELECTIONS: CASE IN POLAND 24

Paweł Galiński

THE IMPORTANCE OF CLUSTERING IN THE DEVELOPMENT OF THE REGION:
CASE STUDY OF TAJIKISTAN 34

Umar Abdulloev and Alisher Alikulov

THE ROLE OF THE LIFE CYCLE THEORY IN STARTUPS' MANAGEMENT 43

Monika Burżacka

PART 2: Miscellanea, Essays, Announcements, Reviews

PERSPECTIVE OF THE EUROPEAN UNION 2014-2020 – CHALLENGES
AND BARRIERS 52

Joanna Długosz

THE REPORT of the VIth International Scientific Conference Development of the Financial
Services in Tajikistan and Poland 55

Karol Wojtowicz

INFORMATION on the Scientific Conference “Local Governments and Local Development
in the 21st century – Experience and Prospects” 58

Research Team



SUMMARIES

PART 1

7 The mechanism of interaction between international and national institutions to prevent and combat corruption as a driver for socio-economic development of the country

Oleg Kuzmin, Olga Melnyk and Marta Adamiv

Corruption is one of the most dangerous problems across the whole world that threatens development not only one particular state but the entire world. That's why the research is devoted to the development of the theoretical principles and practical guidelines regarding the interaction of international and public institutions with the struggle against corruption to ensure the political stability, economic growth of Ukraine and welfare for its population. The state and the features of corruption activities in Ukraine are identified and analyzed. The state of interaction between Ukraine and international organizations in the struggle with corruption is defined and analyzed. The joint mechanism of interaction between Ukraine and international organizations in order to prevent the corruption is substantiated

24 Unemployment as a determinant of the voting behaviour in local elections: case in Poland

Paweł Galiński

The paper characterizes an influence of an unemployment on a voting behaviour in local elections. First and foremost, theoretical issues of voting behaviour were presented. Furthermore, it was analysed some researches, which studied relationships between an unemployment and the results of the elections. Therefore, the paper shows some different findings in this field. As a result, the author examined an effect of an unemployment rate on the voting behaviour during the elections to the regional assembly in the election district no 34 in Poland in 2014. This district consists of nine counties, in which existed relatively high unemployment rate in this time.

34 The importance of clustering in the development of the region: case study of Tajikistan

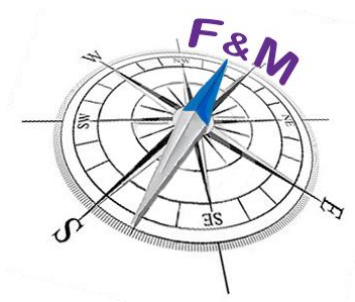
Umar Abdulloev and Alisher Alikulov

Cluster is a specific organizational and managerial form of the local innovation system of interaction between the interrelated economic entities. It can have a potential that exceeds the simple sum of the potentials of individual economic structures. The article examines aspects of the research of development of a building complex of the region and the banking cluster as an initiator of innovation processes in the conditions of the region's economic development. In the article the main ways of with application of the cluster approach are considered, modern and classical essences and concept of a cluster also tools of restructuring are described. Authors justified the advantage and priorities of the formation of the cluster in the region, as well as the main innovative directions of interaction between the real and the banking sector of the regional economy in the conditions of the Republic of Tajikistan.

43 The role of the Life Cycle Theory in startups' management*Monika Burżacka*

The main purpose of this paper is the identification the specifics of startups' life cycle and an indication of the need to apply special methods of managing such an entity. Simply put, as your business grows and develops, so to do your business objectives, priorities and strategies – and that's why an awareness of what stage of the business lifecycle you are currently in may be helpful to aware to anticipate what is coming next and how you can best prepare yourself and your team to maximize your chance of success. Making the right decisions at each stage will require the mix of instinct and practical business sense.

PART 2**52 Perspective of the European Union 2014-2020 – challenges and barriers***Joanna Długosz***55 THE REPORT of the VIth International Scientific Conference Development of the Financial Services in Tajikistan and Poland***Karol Wojtowicz***58 INFORMATION on the Scientific Conference “Local Governments and Local Development in the 21st century – Experience and Prospects”***Research Team*



Finance and Management

Journal of the Faculty of Economic Sciences
University of Warmia and Mazury in Olsztyn

2017 Volume 2(2)

PART I

Original

Research

Papers



THE MECHANISM OF INTERACTION BETWEEN INTERNATIONAL AND NATIONAL INSTITUTIONS TO PREVENT AND COMBAT CORRUPTION AS A DRIVER FOR SOCIO-ECONOMIC DEVELOPMENT OF THE COUNTRY

Oleg Kuzmin*, Olga Melnyk, Marta Adamiv*****

Lviv Polytechnic National University, Ukraine

Abstract. Corruption is one of the most dangerous problems across the whole world that threatens development not only one particular state but the entire world. That's why the research is devoted to the development of the theoretical principles and practical guidelines regarding the interaction of international and public institutions with the struggle against corruption to ensure the political stability, economic growth of Ukraine and welfare for its population. The state and the features of corruption activities in Ukraine are identified and analyzed. The state of interaction between Ukraine and international organizations in the struggle with corruption is defined and analyzed. The joint mechanism of interaction between Ukraine and international organizations in order to prevent the corruption is substantiated.

Keywords: corruption, fight, economics, Ukraine, national and international organizations

JEL Classification: D73, H10, K40

1. Introduction

“In too many countries, people are deprived of their most basic needs and go to bed hungry every night because of corruption, while the powerful and corrupt enjoy lavish lifestyles with impunity.” (Ugaz 2017)

Ever since antiquity, corruption has been one of the most widespread and insidious of social evils. Corruption continues to be a big challenge for Europe - a phenomenon that costs the EU economy around 120 billion euros per year. Europeans are deeply worried about corruption – 76% of them believe that corruption is widespread according to a recent Eurobarometer survey (European Commission 2014). Nowadays corruption is one of the most

* Oleg Kuzmin, Doctor of Economic Sciences, Professor, Director of Educational and Scientific Institute of Economics and Management, 12 Stepana Bandery Street, Lviv, 79013 Ukraine. E-mail: oleg.y.kuzmin@lpnu.ua

** Olga Melnyk, Doctor of Economic Sciences, Professor, Head of Foreign Trade and Customs Department, 12 Stepana Bandery Street, Lviv, 79013 Ukraine. E-mail: olia_melnyk@ukr.net

*** Marta Adamiv, PhD in Economics, Assistant of Foreign Trade and Customs Department, 12 Stepana Bandery Street, Lviv, 79013 Ukraine. E-mail: marta_adamiv@i.ua

dangerous problems at different levels beginning from the international scope, passing through the national dimension and ending with the human factor. We can hear about this problem from different official and unofficial sources not only in our country, but also across the entire world. Why it is so urgent? And what does it mean for different levels of economical, political and social life?

The problem of corruption has become the important subject of scientific researches in different spheres. Representatives of state power are deeply concentrated on the solutions of corruption problems inside of their country. Private sector, as well as civil society is very disturbed about the high level of corruption in the country. In the terms of dynamic spreading of globalization and integration processes across the whole world the problem of corruption can't be left without attention of the most powerful international organizations.

According to the results of specific researches we can affirm that today such phenomenon as corruption exists in all countries across the whole world. But why in one part of states it is at the low level and other countries can't overcome and reduce the high level of corruption? What must the state do to destroy this phenomenon? And where can it find help in the fight against corruption? Answers to these and other questions we try to find in our research.

2. Methods

The methodological basis of the research is a complex of general scientific and specific research methods. In particular, during the research we have used methods of theoretical generalization and systematization for formation of theoretical principles regarding the essence, typology and effects of corruption, as well as the method of statistical analysis for identification and investigation of the state and the features of corruption activities in Ukraine. The methods of synthesis, structural and logical analysis were used for development of the joint mechanism of interaction between Ukraine and international organizations in order to prevent the corruption.

3. Corruption – theoretical view: essence, typology and effects

For the first, let's try to understand what corruption means in general? Today there is a plenty of different definitions developed by lawmakers, representatives of scientific communities, professional expert organizations, international institutions and others. We tried to concentrate on corruption interpretations that are unified for the entire world.

So, according to the Criminal Law Convention on Corruption (Council of Europe 1999), corruption threatens the rule of law, democracy and human rights, undermines good governance, fairness and social justice, distorts competition, hinders economic development and endangers the stability of democratic institutions and the moral foundations of society.

As it is emphasized in United Nations Convention against Corruption (United Nations 2004), corruption is an insidious plague that has a wide range of corrosive effects on societies. It undermines democracy and the rule of law, leads to violations of human rights, distorts markets, erodes the quality of life and allows organized crime, terrorism and other threats to human security to flourish.

The global coalition against corruption Transparency International gives us the general interpretation of this term as the abuse of entrusted power for private gain. Corruption impacts societies in a multitude of ways. In the worst cases, it costs lives. Short of this, it costs people their freedom, health or money. We can also add that these costs could be directed at saving people lives, medical development, environmental protection, etc.

According to the definition of the World Bank Group (1997) the corruption is the abuse of public office for private gain. And the corrupt practice is the offering, giving, receiving or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party. This definition is both simple and sufficiently broad to cover most of the corruption that the Bank encounters, and it is widely used in the literature.

So, we can see that all of above mentioned definitions are very similar and tell us that corruption is characterized by:

- high level of danger;
- widespread in different spheres of life (politics, economics, government and private sectors, society and others) across the whole world;
- extensive and harmful impact on different spheres of life – from international scope through national dimension to human factor;
- multi-scale effects – from material to moral values;
- urgent necessity to be reduced and overcome.

We also tried to show and summarize corruption effects at different levels:

- at mega (international) level – it can threaten the world political, economic and social welfare because of crime raise, poor democracy, economic decline and decrease of social culture within separate states;
- at macro (national) level – it can cause such important negative effects as democracy and independency decrease, violation of law rule and human rights, destruction of authority and power of state bodies, total economic regress, decline of development of social spheres, and others;
- at micro (business) level – it can cause destruction of market competition rules, absence of justice and transparency in doing business, oligarchy prevalence, decline of fair business and others;
- at individual (personal) level – it can cause depreciation of moral values in society, despondency and despair of society, crime raise among citizens and others.

From all above listed effects caused by corruption we can conclude that all levels are deeply interrelated and effects at one level lead to effects at another level. It allows to make a conclusion that fight against corruption must be joint including representatives of all levels. Only joint efforts can give effective results in the struggle against corruption.

For the second, let's try to understand what types of corruption are prevalent across the world?

Corruption takes many forms. It can be active or passive taking into consideration who is the person that has the power of decision making or to whom is requested. Corruption also can be private among particular individuals and public corruption that takes place in the public sphere of politics and government administration (Vargas-Hernández 2009).

A basic categorization considers the sphere of its spread and distinguishes political corruption, economic corruption and public administration corruption. Political corruption results in gaining political power (Vargas-Hernández 2009).

There is political corruption when the behaviors deviate from the principles that guide politics and policies, adapting decisions with abuse of power, which means that the private interests displace the public and common interests. Power is used to service the private interest (Vargas-Hernández 2009).

Economic corruption can be defined as the sacrifice of the principal's interest for the agent's interest. Economic corruption results in making profits. Economic corruption has implications of determining the loss of income, how and how much for the principal, the agent, the state, the consumer, the economy, etc. (Vargas-Hernández 2009).

In the administrative corruption the behaviors of public agents neglect the principles of efficiency, truthfulness and rightfulness. Public administration corruption results in transfer of public benefits to private benefits taking advantage of the entrusted power (Vargas-Hernández 2009).

According to Anti-corruption Glossary of Transparency International corruption can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs.

Grand corruption consists of acts committed at a high level of government that distort policies or the central functioning of the state, enabling leaders to benefit at the expense of the public good.

Petty corruption refers to everyday abuse of entrusted power by low- and mid-level public officials in their interactions with ordinary citizens, who often are trying to access basic goods or services in places like hospitals, schools, police departments and other agencies.

Political corruption is a manipulation of policies, institutions and rules of procedure in the allocation of resources and financing by political decision makers, who abuse their position to sustain their power, status and wealth.

According to the depth, corruption can be individual and systemic. Other typology of corruption also considers commercial scale illegal logging, and legal logging but contributions paid to gain access to concessions of resources (Vargas-Hernández 2009).

Some examples of forms of corruption are bribery, collusion, embezzlement of public funds and theft, fraud, extortion, abuse of discretion, favoritism, clientelism, nepotism, the sale of government property by public officials, patronage, etc. (Vargas-Hernández 2009).

So, we can see that there are many classifications of corruption which are characterized by different signs or have a similar essence and in some cases are repeated. Nevertheless, these classifications help to understand various features of such phenomenon as corruption. But we think that the most important signs of corruption differentiation are the subjects of corruption, as well as the sphere of its appearance and impact. So, according to the subjects of corruption we can distinguish corruption at the level of state and regional power bodies, political subjects, state and private organizations, simple citizens. By the sphere of corruption appearance and impact we suggest to differentiate public administration, political and legal, economic and business, social and cultural, environmental corruption.

The next question is – what effects can corruption bring in different spheres of society? Transparency International divides the cost of corruption into four main categories: political, economic, social and environmental.

On the political front, corruption is a major obstacle to democracy and the rule of law. In a democratic system, offices and institutions lose their legitimacy when they're misused for private advantage. This is harmful in established democracies, but even more so in newly emerging ones.

Economically, corruption depletes national wealth. Corrupt politicians invest scarce public resources in projects that will line their pockets rather than benefit communities, and prioritize high-profile projects such as dams, power plants, pipelines and refineries over less spectacular but more urgent infrastructure projects such as schools, hospitals and roads. Corruption also hinders the development of fair market structures and distorts competition, which in turn deters investment.

Corruption corrodes the social fabric of society. It undermines people's trust in the political system, in its institutions and its leadership. A distrustful or apathetic public can then become yet another hurdle to challenging corruption.

Environmental degradation is another consequence of corrupt systems. The lack of, or non-enforcement of, environmental regulations and legislation means that precious natural resources are carelessly exploited, and entire ecological systems are ravaged. From mining, to logging, to carbon offsets, companies across the globe continue to pay bribes in return for unrestricted destruction.

Although some researchers note about the positive impact of corruption, that gives more freedom to business and less bureaucracy to economy, we can say that it brings only temporary effects in high-developed countries. Some writings of this group argue that corruption can be efficiency enhancing. First, corruption may not distort the short-run efficiency of an economy if it merely entails a transfer of economic rents from a private party to a government official. Second, bribes can theoretically increase economic efficiency if they allow firms to avoid overly restrictive regulations or confiscatory tax rates. To summarize, models purporting to show that corruption can have positive economic effects are usually looking only at static effects in the short run. In the long run, opportunities for bribery are likely to lead public officials to change the underlying rules of the game or their own behavior in the absence of bribes, and the results are likely to be costly in terms of economic efficiency, political legitimacy, and basic fairness (World Bank Group 1997).

Summarized all of above mentioned we can say that corruption is a widespread phenomenon that heavily threatens different spheres of society at national and international levels. It is one of the most urgent problems especially in high-corrupted countries that must be solved by representatives of all levels in society. Otherwise it threatens the stable existence and development of state and reduces the world welfare.

3. Why Ukraine? Real and empirical evidence

“Corruption is public enemy number one in developing countries.” (Yong 2013). To understand the state and the level of corruption in Ukraine it is necessary to measure corruption that is notoriously difficult. We can’t rely only on the internal domestic assessments, because they may be subjective to a certain extent. We suppose that it is more rightly to apply the external international ratings that are recognized across the whole world. Nowadays there are some well-known international corruption indexes that measure the corruption level in the world, regional and country dimensions. To determine and evaluate the corruption level in Ukraine we investigated not only its own level but also in comparison with other countries. In this context we use the comparison methodology of the IMF (2017). According to this methodology the IMF was comparing Ukraine with the average corruption levels in “lower and middle income” countries, in “Central, Eastern and Southeastern Europe” (CESEE), and in the European Union.

The first index is Corruption Index from the International Country Risk Guide (ICRG). This index varies between 1 and 6 (with lower values indicating higher corruption) and captures the extent of corruption within the political system, in particular in reference to “excessive patronage, nepotism, job reservations, ‘favor-for-favors’, secret party funding, and suspiciously close ties between politics and business”. Fig. 1 shows Ukraine’s ICRG in comparison with other groups of countries as of June 2016.

The next index is Corruption Perceptions Index from Transparency International. This index varies from 0 to 100 (with lower values indicating higher corruption). It is constructed by averaging 12 different data sources that capture the perceptions of business people and country experts about the level of corruption in the public sector. In Fig. 2 we showed 2016 Corruption Perception Index for Ukraine and other investigated groups of countries. Fig. 3 demonstrates the dynamics of Ukraine’s Corruption Perceptions Index during 2012-2016.

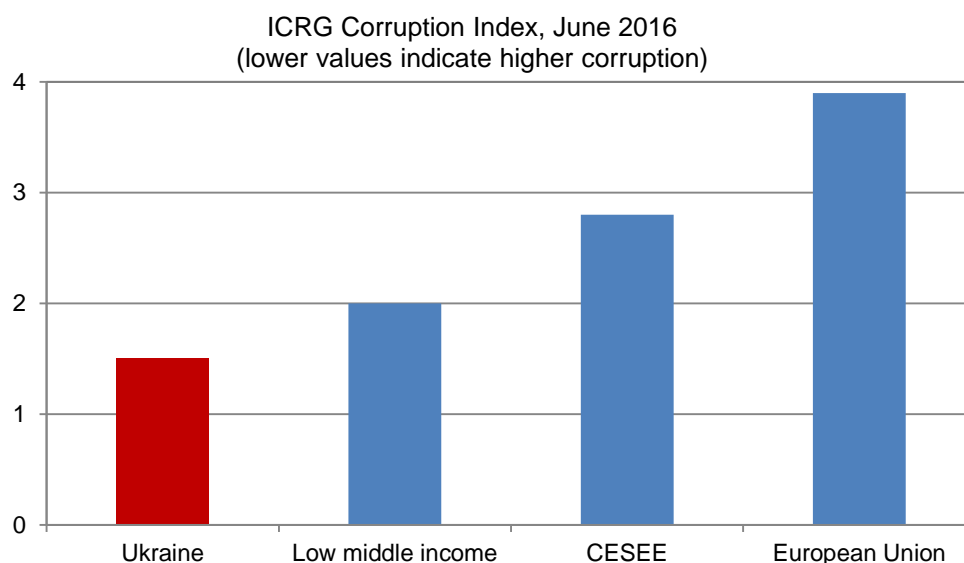


Fig. 1. ICRG Corruption Index, June 2016

Source: The Political Risk Services Group

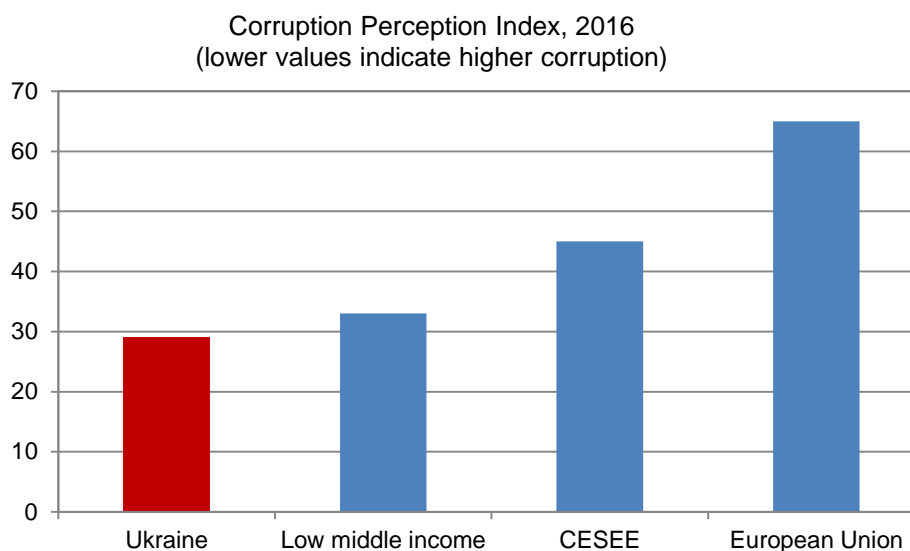


Fig. 2. Corruption Perception Index, 2016

Source: Transparency International

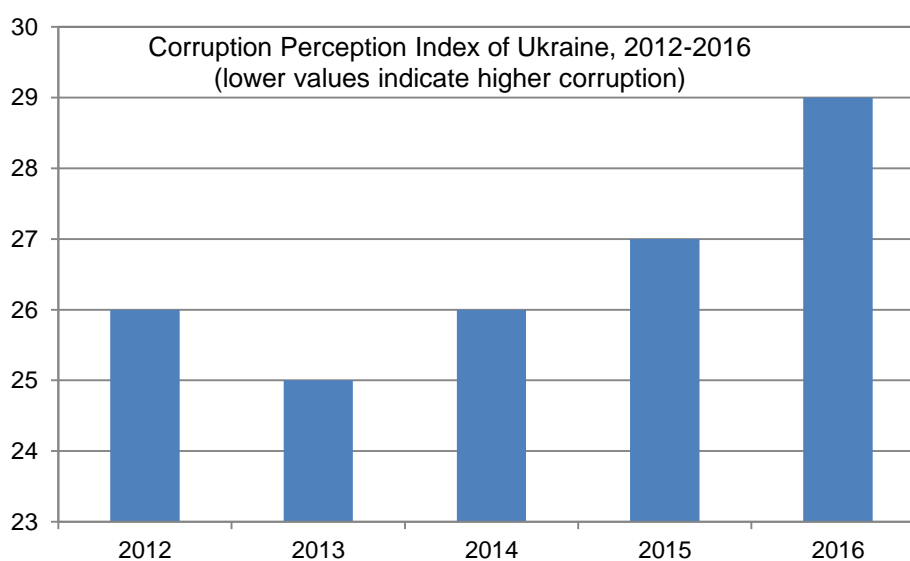


Fig. 3. Dynamics of Ukraine's Corruption Perceptions Index during 2012-2016

Source: Transparency International

The next index is Control of Corruption Indicator from the World Bank Governance Indicators. This index varies from -2.5 to +2.5 (with lower values denoting higher corruption) and is constructed by aggregating multiple underlying data sources. It captures “perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as capture of the state by elites and private interests.” Fig. 4 illustrates Corruption Indicator from the World Bank Governance for Ukraine and other investigated groups of countries in 2015.

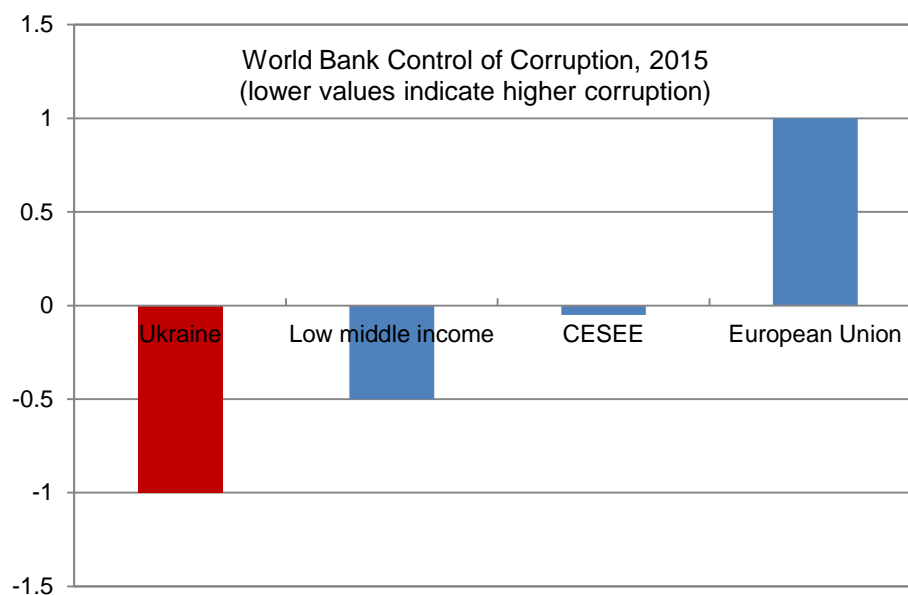


Fig. 4. Corruption Indicator from the World Bank Governance, 2015

Source: Worldwide Governance Indicators of World Bank

Fig. 5 is based on data from the Enterprise Surveys of the World Bank. These surveys are collected about every 3–4 years by interviewing the business owners and top managers of private firms. Fig. 5 demonstrates data from 2013, when the latest survey in Ukraine was conducted. It shows the bribery incidence, i.e. the percentage of firms experiencing at least one bribe payment request.

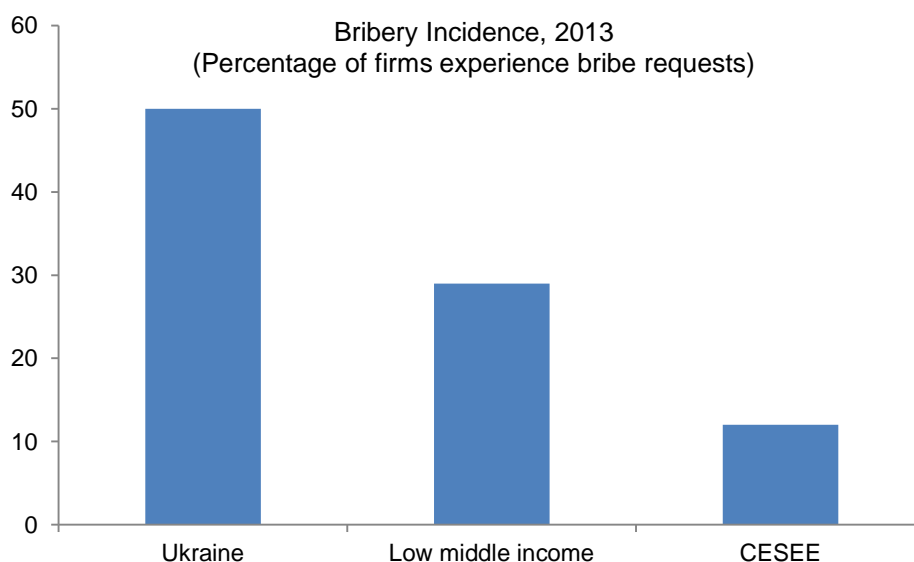


Fig. 5. Bribery incidence, 2013

Source: Enterprise Surveys of World Bank Group

All of investigated indexes (the ICRG Corruption Index, the Corruption Perception Index, the Corruption indicator from the World Bank Governance, and the Enterprise Survey data on Bribery incidence) indicate that corruption is much more prevalent in Ukraine than in other lower and middle income countries. The gap is starker when Ukraine is compared with CESEE countries and in particular with EU countries. All data sources provide a remarkably consistent picture about the severity of the corruption problem in Ukraine (IMF 2017). For addition, as we can see from the dynamics of Ukraine's Corruption Perception Index in Fig. 3, over the last five years there has been no improvement in Ukraine, only the deterioration of corruption situation. It shows the lowest index value in 2013 and the highest in 2016 that indicates the serious aggravation of the problem.

4. International dimension of Ukraine's fight against corruption

Except internal efforts in the fight against corruption at the national level Ukrainian authorities are trying to cooperate with international organizations in this context. So, Ukraine ratified United Nations Convention against Corruption (UNCAC) in 2009, and joined a number of international anti-corruption initiatives: OECD Anti-Corruption Network for Eastern Europe and Central Asia in 1998, GRECO in 2006, Open Government Partnership in 2011, etc. Moreover, the anti-corruption reform has been high on the agenda of the EU-Ukraine relations, being discussed in the first Partnership and Cooperation Agreement (1994), Eastern Partnership (2009), Visa Liberalization Action Plan (2010) and, finally, in the EU-Ukraine Association Agreement ratified by the Ukrainian parliament in September 2014 (Marusov 2016).

Let's take a more thorough look at Ukraine's interaction with key international organizations in the context of its fight against corruption.

Ukraine became GRECO member on January 1, 2006. Since that time Ukraine has passed through three evaluations that were held on specific Evaluations Rounds. By the received evaluation results it was determined that Ukraine had demonstrated some successful attempts in the implementation of GRECO recommendations, but not completely.

In particular, according to the Third Evaluation Round (2015) that was held on April, 11-15, 2011, GRECO welcomed the fact that Ukraine had carried out extensive reforms of its criminal legislation in respect of corruption offences (missing components of bribery offences and trading in influence had been included; sanctions had been strengthened; provisions on the special defense of effective regret had been adequately revised). As regards the transparency of funding, GRECO found that Ukraine had established a new legislative framework which, to a large extent, improved the legal system in this respect (harmonization and improvement of the legislation on transparency of regular party funding with the rules on election campaign financing; better definition of various sources of contributions and income, including donations, in order to prevent circumvention of transparency rules on donations; and introduction of mandatory auditing of party accounts by certified auditors).

According to the results of the Third Evaluation Round (2017) that was held on December, 12-16, 2016 it was determined that Ukraine has implemented satisfactorily or dealt with in a satisfactory manner eleven of the sixteen recommendations contained in the Third Round

Evaluation Report. Moreover, the five remaining recommendations have been partly implemented.

Concerning incriminations, Ukraine has carried out rather extensive reforms of the criminal legislation in respect of corruption offences. In particular, various components missing in bribery offences, as well as in respect of trading in influence, have now been included in the amended legislation regarding the details requested in the Evaluation Report. Moreover, the sanctions available for these offences have been strengthened to a large extent and are now in compliance with the requirements of the Criminal Law Convention on Corruption.

As to transparency of political funding, Ukraine has established a new legislative framework which, to a large extent, improves the legal system in this respect. This is particularly true of the new monitoring body, the NAPC, which has started operating in 2016, in respect of party funding. GRECO calls on the authorities to keep under review that, in practice, the independence of the NAPC is guaranteed and that adequate financial and human resources are allocated to it. GRECO also considers it important to provide for a coordination framework between the NAPC and the Central Election Commission (CEC), also competent for election campaign financing, to ensure the efficiency of their monitoring. Whilst welcoming the many positive developments, GRECO considers that the authorities should take all necessary measures to ensure the efficiency of the monitoring of election campaign financing.

So, it should be noted that a comparison of the results of Ukraine's evaluation with the results of other GRECO member states in the Third Round approves that Ukraine does not belong to such states with unfulfilled recommendations.

Ukraine co-operation with the OECD started after the country's independence in 1991, and has been strengthening since, reaching a new level with the OECD's Council's decision of 12 March 2014, in which OECD member countries decided to respond positively to Ukraine's request to deepen existing cooperation.

In particular, Ukraine has been a member of the Anti-Corruption Network for Eastern Europe and Central Asia since its establishment in 1998. The Anti-Corruption Network (ACN) is a regional outreach programme of the OECD Working Group on Bribery. It provides a regional forum for the promotion of anti-corruption activities, exchange of information, elaboration of best practices and donor coordination.

The Istanbul Anti-corruption Action Plan is a sub-regional peer review programme launched in 2003 in the framework of the ACN. It supports anti-corruption reforms through country reviews and continuous monitoring of implementation of recommendations, which promote the international standards and best practice. Since 2004 Ukraine had passed through four Rounds of Monitoring of the Istanbul Anti-Corruption Action Plan for Ukraine. During these Rounds the implementation of recommendations from the previous round is assessed and its progress is updated.

The last Fourth round of monitoring was launched in 2016. According to the First OECD Report of Fourth round of monitoring that assesses the progress of 2016 year in comparison to 2015 year Ukraine has made considerable progress in the area of anti-corruption reform but

faces significant challenges to implement some important tools for combating corruption, according to a recent OECD report.

The OECD Progress Update on Ukraine highlights encouraging steps made by Ukraine to implement essential anti-corruption reforms. These include important institutional improvements to the National Anti-Corruption Bureau and the Specialized Anti-Corruption Prosecutor's Office; the successful launch of the new online public procurement system, ProZorro; the disclosure of information about beneficial owners of publicly registered companies; the adoption of the Law on the National Agency for detection, investigation and management of assets derived from corruption and other crimes; and on-going civil service reform along with the launch of judiciary reform.

Looking ahead, the OECD Progress Update recommends that Ukraine strengthen enforcement of corporate liability legislation and adopt the Law on Administrative Procedure without further delay.

Participants attending a plenary meeting where the report was discussed also raised other areas of concern, including the launch of the new electronic asset declarations system that monitors the incomes and assets of government officials and could be a potential powerful tool to prevent corruption. Further concerns were raised about plans to introduce a so-called one time or "zero" assets declaration that would enable Ukrainian officials to avoid criminal liability for illicit enrichment. But at the same time, participants also highlighted the good work of the Business Ombudsman Office of Ukraine and the key role played by civil society in pushing Ukraine's anti-corruption reforms. The OECD strongly recommends that Ukraine eliminate any obstacles preventing the effective implementation of the electronic assets declarations system, and ensure that it is in line with international standards and in compliance with OECD recommendations.

We should note that in November 2014 in line with the Memorandum of Understanding (MOU) between the OECD and Ukraine, the OECD launched a country-specific project to support Ukraine in its anti-corruption agenda. The project aims to strengthen legal and institutional capacity to effectively detect, investigate and prosecute high-profile and complex corruption in Ukraine. Specifically:

- to provide tailor-made assistance to the Ukrainian authorities for the establishing of the National Anti-Corruption Bureau;
- to provide capacity building assistance to the specialized unit within the General Prosecutor's Office that will work with the National Anti-Corruption Bureau to ensure effective detection and investigation of corruption cases;
- to develop a joint training programme on selected aspects of detection, investigation, prosecution and adjudication of complex corruption cases, including financial investigations, for law enforcement and judicial bodies;
- to help guide Ukraine towards a closer compliance with OECD standards on foreign bribery with the focus on liability of legal persons for corruption offences, confiscation, international cooperation and asset recovery.

The European Commission also cooperates with Ukraine in order to help in its fight against corruption on the basis of specific recommendations and monitoring of their implementation. The main aspect relates to the EU-Ukraine association agreement. This was signed in March 2014 and establishes a political and economic association, including a free trade zone and visa liberalization. The agreement commits Ukraine to a number of reforms before it comes into force, including several anticorruption reforms, such as implementation of the anticorruption package and adhering to the recommendations of the Council of Europe's Group of States against Corruption. This topic was launched within the Action Plan on Visa Liberalization in Ukraine in 2008. Since that time six progress reports by the results of Commission Ukraine's monitoring had been published. The final Sixth Progress Report on Ukraine was issued on December 2015. It was noted that the progress mentioned in the fifth report (May 2015) on anticorruption policies, particularly the legislative and institutional progress, has continued.

While the reforms were passed and the EU has noted in its progress reports that its anticorruption benchmarks have been achieved, questions have been raised over the commitment of Ukrainian politicians and institutions to these reforms. In particular and despite the package, a number of key persons implicated in former corruption cases remain in their positions, prosecutions for corruption have been low and, in some instances, the initial proposals by Ukrainian lawmakers for reform were weak and only improved under international pressure.

A partial explanation for the challenges in the reform process may be due to the lack of engagement of citizens in the process. The degree to which citizen support was maintained through the process has been questioned, with indications that anticorruption reforms in Ukraine since the revolution have been poorly communicated, creating unrealistic expectations on the part of the public.

In 2011 Ukraine joined to the Open Government Partnership (OGP). The OGP was launched to provide an international platform for domestic reformers committed to making their governments more open, accountable, and responsive to citizens. Development of elements of the OGP in Ukraine is one of the ways to strengthen democracy and promote civil society development. A draft National Action Plan had been discussed in the regions of Ukraine. It was finalized by the working group with the participation of representatives of leading civic organizations. By the results of the National Roundtable with the participation of the Prime Minister of Ukraine, the Government approved the National Action Plan on April, 2012. And the detailed Action Plan was approved on July, 2012.

One of the main Ukraine's liabilities is preventing and combating corruption. So as today five laws on preventing and combating corruption were passed, as well as a public discussion of implementation of the National Program for Preventing and Combating Corruption was held and its provisions are to be improved by the results of it.

Both the IMF and the World Bank also deeply cooperates with Ukraine in its struggle against corruption. The main goal of their interaction is to support necessary financial help with confidence of its effective use by Ukraine's state power bodies. That's why both of these institutions have developed a complex of specific tools and recommendations for Ukraine to prevent and combat corruption. The representatives and experts of these organizations systematically conduct monitoring and assessment of Ukraine's compliance with such standards and norms.

So, to summarize all above mentioned we should say that nowadays support of international organizations to all countries of the world, including Ukraine, is very thoroughly, goal-oriented and concrete taking in consideration the actual existing state's problems, weaknesses and threats in its struggle against corruption. In response to this support Ukraine is obligated to form a transparency and effective system of the fight against corruption in interaction of all levels of society with taking into account international standards and norms.

5. Results: a complex joint mechanism of Ukraine's fight against corruption in cooperation with international organizations

Based on the results of conducted investigation we summarize all our opinions, conclusions and recommendations in one complex mechanism of Ukraine's fight against corruption in interaction with international organizations. It is clear that autonomously Ukraine can't solve this serious problem that may strengthen the existing negative phenomena and cause irreparable consequences in different spheres of society. Today Ukraine has a huge support from the most powerful international organizations in the form not only of paper recommendations, but also practical instruments and real financial aid. In the response to such support the entire Ukrainian society is obligated to take initiative and active part in the struggle against corruption under the cover of international organizations.

We suppose that in such mechanism must be included not only the representatives of Ukraine's power bodies, but also subjects at different levels such as business representatives of different economical spheres, professional experts, whistleblowers, journalists, simple citizens, etc. Such cooperation is an example of best foreign practices in the fight against corruption (like Poland, Latvia and Romania). It can help to rethink and realize the participation of everyone at different levels of political, economic and social spheres in making corruption, as well as the own responsibility for negative effects of corruption on the country's future, its own future, and the future of your family. Such integrated cooperation can also enhance the results of fight in terms of synergy effect where the group interaction strongly prevails under the each individual activity.

So, fig. 6 represents the complex joint mechanism of Ukraine's fight against corruption in interaction with international organizations.

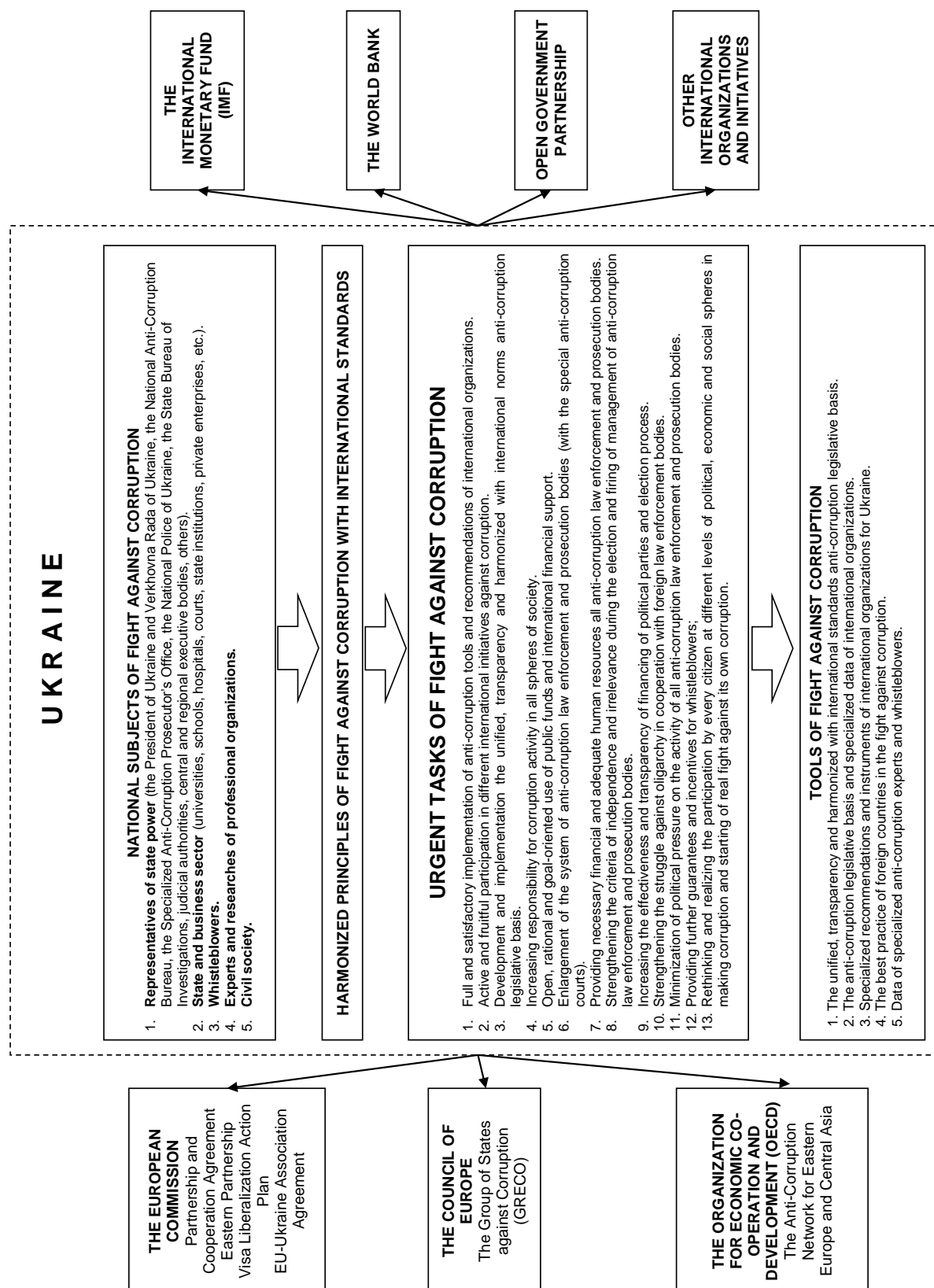


Fig. 6. The complex joint mechanism of Ukraine's fight against corruption in interaction with international organizations

Source: own work on the basis of study and analyzing of literature sources

6. Conclusions

Summarized all above said we want to emphasize that:

- 1) anticorruption reform in Ukraine, as in other countries, is not a short term process;
- 2) recently adopted anticorruption package of laws and adoption of new laws is also a good practice, but unfortunately in Ukraine they haven't necessary force and in some cases they were adopted with consideration of public officials' and oligarchs' benefits;
- 3) in Ukraine there is no effective mechanism of responsibility for corruption actions at all levels, especially for public officials;
- 4) in Ukraine there is a high-developed oligarchy that concentrate public power among small groups of people who implement corruption schemes through unknown companies registered in offshore zones;
- 5) today in Ukraine corruption exists at all levels. It is very difficult to ruin it because corruption is laid on a subconscious level of each citizen from childhood.

That's why to solve corruption problem in Ukraine by only legal reform isn't possible. It is necessary to change society's thinking on the basis of education of a conscious society and popularization of moral values at schools, universities, works, and families or by personal example.

References

- GRECO, 2015. *Third Evaluation Round. Second Compliance Report*. Available on <https://rm.coe.int/16806ca329>. Accessed 19 July 2017.
- GRECO, 2017. *Third Evaluation Round. Addendum to the Second Compliance Report on Ukraine*. Available on <https://rm.coe.int/third-evaluation-round-addendum-to-the-second-compliance-report-on-ukr/168073428e>. Accessed 19 July 2017.
- Marusov A. 2016. *Anti-corruption policy of Ukraine: first successes and growing resistance. Policy Report*. Available on http://rpr.org.ua/wp-content/uploads/2017/02/Renaissance_A4_4Anti-Corruption-Policy.pdf. Accessed 18 July 2017.
- OECD. *Anti-Corruption Network for Eastern Europe and Central Asia (ACN)* [online]. <https://www.oecd.org/corruption/acn/home/>. Accessed 23 July 2017.
- OECD and ACN, 2015. *Anti-Corruption Reforms in Ukraine. Round 3 Monitoring of the Istanbul Anti-Corruption Action Plan. Istanbul Anti-corruption Action Plan country reports*. Available on <https://www.oecd.org/corruption/acn/istanbulactionplancountryreports.htm>. Accessed 23 July 2017.
- OECD and ACN, 2016. *Fourth Round of Monitoring. Ukraine. Progress Updated. Istanbul Anti-corruption Action Plan country reports*. Available on <https://www.oecd.org/corruption/acn/istanbulactionplancountryreports.htm>. Accessed 23 July 2017.
- Open Government Partnership. Ukraine* [online]. <https://www.opengovpartnership.org/countries/ukraine/irm>. Accessed 29 July 2017.
- The Council of Europe, 1999. *Criminal Law Convention on Corruption ETS No.173*. Available on <http://www.coe.int/en/web/conventions/full-list/-/conventions/rms/090000168007f3f5>. Accessed 18 July 2017.

- The European Commission, 2014. *First anti-corruption report* published. Available on https://ec.europa.eu/home-affairs/what-is-new/news/news/2014/20140203_01_en. Accessed 20 July 2017.
- The European Commission. *Visa Liberalisation Dialogue and Progress reports on Ukraine* [online]. https://ec.europa.eu/home-affairs/what-we-do/policies/international-affairs/eastern-partnership/visa-liberalisation-moldova-ukraine-and-georgia_en. Accessed 27 July 2017.
- The Group of States against Corruption* (GRECO) [online]. <http://www.coe.int/en/web/greco/home>. Accessed 22 July 2017.
- The International Monetary Fund (IMF) [online]. <http://www.imf.org/external/index.htm>. Accessed 21 July 2017.
- The International Monetary Fund, 2017. Ukraine : selected issues, *The IMF Report No. 17/84*. Available on <https://www.imf.org/en/Publications/CR/Issues/2017/04/04/Ukraine-Selected-Issues-44799>. Accessed 28 July 2017.
- The Organization for Economic Co-operation and Development (OECD) [online]. <http://www.oecd.org/>. Accessed 22 July 2017.
- The Political Risk Services Group. *International Country Risk Guide (ICRG)* [online]. <https://www.prsgroup.com/>. Accessed 25 July 2017.
- The United Nations, 2004. *United Nations Convention Against Corruption*. Available on https://www.unodc.org/documents/brussels/UN_Convention_Against_Corruption.pdf. Accessed 18 July 2017.
- The World Bank. Enterprise Survey data on Bribery incidence* [online]. <http://www.enterprisesurveys.org/data/exploretopics/corruption>. Accessed 27 July 2017.
- The World Bank Group, 1997. *Helping Countries Combat Corruption: The Role of the World Bank*. Available on <http://www1.worldbank.org/publicsector/anticorrupt/corruptn/cor02.htm>. Accessed 24 July 2017.
- The World Bank Group [online]. <http://www.worldbank.org/>. Accessed 18 July 2017.
- The World Bank. Worldwide Governance Indicators. *Control of Corruption* [online]. <http://databank.worldbank.org/data/databases/control-of-corruption>. Accessed 26 July 2017.
- Transparency International. *Anti-Corruption Glossary*. Available on <https://www.transparency.org/glossary/term/corruption/>. Accessed 19 July 2017.
- Transparency International. *Corruption Perceptions Index 2016* [online]. https://www.transparency.org/news/feature/corruption_perceptions_index_2016. Accessed 25 July 2017.
- Transparency International. *Corruption Perceptions Index* [online]. <https://www.transparency.org/research/cpi/overview>. Accessed 25 July 2017.
- Transparency International. *What are the costs of corruption?* Available on <https://www.transparency.org/what-is-corruption/#costs-of-corruption>. Accessed 19 July 2017.
- Transparency International. *What is corruption?* Available on <https://www.transparency.org/what-is-corruption/>. Accessed 19 July 2017.

- Ugaz J. 2017. *Corruption Perception Index 2016*, News of Transparency International. Available on https://www.transparency.org/news/feature/corruption_perceptions_index_2016. Accessed 28 July 2017.
- Vargas-Hernández J.G. 2009. *The multiple faces of corruption: typology, forms and levels*. Available on https://spaa.newark.rutgers.edu/sites/default/files/files/Transparency_Research_Conference/Papers/Vargas-Hernandez__Jos.pdf. Accessed 24 July 2017.
- Yong K.J. 2013. *Corruption is “Public Enemy Number One” in Developing Countries, says World Bank Group President Kim*, News of the World Bank. Available on <http://www.worldbank.org/en/news/press-release/2013/12/19/corruption-developing-countries-world-bank-group-president-kim>. Accessed 25 July 2017.



UNEMPLOYMENT AS A DETERMINANT OF THE VOTING BEHAVIOUR IN LOCAL ELECTIONS: CASE IN POLAND

Paweł Galiński*

Faculty of Management, University of Gdansk, Poland

Abstract. The paper characterizes an influence of an unemployment on a voting behaviour in local elections. First and foremost, theoretical issues of voting behaviour were presented. Furthermore, it was analysed some researches, which studied relationships between an unemployment and the results of the elections. Therefore, the paper shows some different findings in this field. As a result, the author examined an effect of an unemployment rate on the voting behaviour during the elections to the regional assembly in the election district no 34 in Poland in 2014. This district consists of nine counties, in which existed relatively high unemployment rate in this time.

Keywords: unemployment, voting behaviour, local elections

JEL codes: J69, P48

1. Introduction

In literature, there are a lot of studies on the impact of numerous issues on the voting behaviour. They concern the analysis of sociological, economic, political or psychological factors which determine the behaviour of the voters and the election results. Simultaneously, these issues might differently affect the voting behaviour in each type of the elections. However, the economic conditions of a country or a region are often indicated as the crucial factors influencing the election results both at the national and the local level. In this field, an unemployment is shown as the one of the main issues. Therefore, this paper is trying to analyse the impact of the unemployment on the voting behaviour in local elections. The study concerns election district no 34 in Poland, which consists of nine counties. So, the distribution of votes to campaign committees in the elections to the regional assembly in 2014 against the background of the unemployment rate were the subjects of the empirical study. For this purpose, the Mann–Whitney U test was applied in order to examine the significance of the unemployment rate on the voting behaviour in the counties of this election district.

* Paweł Galiński, Ph.D., Department of Finance and Financial Risk, University of Gdansk, Armii Krajowej 101, 81-824 Sopot, Poland, e-mail: pawel.galinski@ug.edu.pl

2. Theoretical issues of voting behaviour

The determinants of voting behaviours (models and theories of explaining electoral decisions) can be divided into different methodological approaches and criteria. In this field three main concepts might be distinguished, such as: party identification, sociological and rational choice theory (Zarycki 1997). According to the party identification, the voter has the permanent political identity, often inherited in the family. However, there may be periodic disturbances of preferred electoral trends, arising from extraordinary situations. Nevertheless, they are usually short-term alterations. The permanent loosening of party identification may be due to general changes in the social structure.

In the sociological model, the attention of a particular voter is transferred to the group with particular social characteristics. Thus, electoral preferences may be determined by a position in the social hierarchy. Moreover, there is a significant influence of the media on the process of shaping electoral attitudes, including the inconsistency of electoral decisions with the social position. Hence, in the face of unexpected electoral changes, it pays attention to the function of psychological variables apart from sociological traditions making much of distal-non-political factors (Aiba 2003).

In turn, in the rational choice theory, voters systematically compare and judge the benefits of reaching a particular political option. Hence, they are aimed to reach specific goals. In the process of the voting they take into consideration: ideological schemes, suggestions of the authorities or opinion leaders (various organizations) as well as opinions which are shaped in the various media. The voter is also analysing and assessing the material situation and the determinants, including the electoral programs or the effects of the policy pursued by the public authorities. Thus, this concept underlines the crucial role of the information access. However, the informative power of the campaign might be constrained due to the interest and the attention of the voters. Therefore, the increased political noise level of the election period might disproportionately excite the interest of the politically informed and attentive (Matthews 2010).

Therefore, it establishes a direct analogy between consumers and voters and between enterprises and political parties. So, the voters seek to maximize the utility of their voting behaviour as well as the parties act to maximize the electoral gains. This concept is based on three fundamental premises (Antunes 2010):

- 1) all decisions of voters and political parties are rational and aimed at a maximization of action's utility;
- 2) a democratic political system implies a level of consistency that supports predictions concerning the consequences of decisions made by voters and political parties;
- 3) the democratic system assumes a level of uncertainty, sufficiently important to allow different options.

Apart from the above concepts of voting behaviour there might be distinguished some others, such as (Dolińska 2009):

- thematic vote, which underlines the connection of the topics discussed in the election campaign with electoral behaviour. The voter does not apply the same measurement

to the assessment of the environment or the achievements of the parties in the context of the topics of the campaign. If the party claims that the subject is crucial, then the voters will take them into account more than the other parties;

- economic choice, in which the voter calculates pros and cons of the potential election. Therefore, these opinions are usually formed in a short time. This process is often determined by the statements of the trusted people, experts etc.;
- dominant ideology, where the ruling party gains an advantage in the elections, because it may shape the information/topics, the possibility of reducing certain deficiencies or the atmosphere in the present and future socio-economic situation;
- electoral context, which describes electoral behaviour in the various electoral acts. Hence, not all elections are treated by voters in the same way. So, if the elections for different representative bodies are conducted at the same time, the voter distributes his votes and undertakes various choices as well as the electoral votes might be diffused to the various groups;
- political marketing as an implementation of marketing tools and concepts to understand, respond to, involve and communicate with the political market in order to achieve the major goal – win enough votes in the elections (Lees-Marshment 2017). In this approach a crucial issue is a segmentation of voters. It includes diverse characteristics which might be grouped into two general categories: demographic and psychographic (Cwalina, Falkowski, Newman 2015).

In the marketing concept some issues, which determine the voting behaviour, are distinguished, such as (Dolińska 2009):

- problems, political activities and electoral issues that are aimed at specific groups of voters;
- social imagery, to identify a typical party or candidate voter;
- feelings, as a perceiving the candidate in an emotional way, within some criteria;
- image of the candidate, his perception and credibility;
- current events in the campaign;
- personal issues of the candidate;
- epistemic (cognitive) problems, determined by the opinions of people who are credible to the candidate's electorate, or openness to new developments on the political scene.

Some studies explain the impact of psychological factors on electoral behavior. It is shown that the voters can support candidates in whom they find similarity in terms of the personality (Marciniak 2013).

It should also be emphasized that the electoral preferences of individuals and, consequently, electoral behavior are not fully autonomous. They may be some relationships result from family ties, loyalty, friendship, sense of duty, and even compassion (Annusewicz 2013).

3. Unemployment as an economic determinant of the voting behaviour

Numerous studies analyse the correlation between the economic situation or management of the country or region and the voting behaviour. Simultaneously, there is no consensus as to whether or not economic conditions actually affect election results (Levernier 1992). A. Leigh claims that Australian voters reward good economic management, but appear to regard the parties as equally capable of governing in every economic situation (2005). L. R. Arriola searched that in 2005 in Ethiopia economic and other sociodemographic factors played a part in determining party choice at the district level (2008). A. T Akarca and A. Tansel revealed that Turkish voters are found to take government's economic results into account, whereas not look back beyond one year. Moreover, they consider the major incumbent party liable for both economic growth and inflation but minor incumbent parties, only for inflation. Simultaneously, they appear to vote strategically during the elections, particularly in the local and the parliamentary, to diffuse power (2006). In turn, J-E. de Neve indicates that the US median voter tends to advance a more liberal policy agenda during the good economic times and turns more conservative when the economic situation deteriorates (2014). Other researches underline that a support for the political left falls during the periods of high unemployment (Markussen 2008).

Simultaneously, some researchers underline, as it was mentioned, the variations between socio-economic issues and voting behaviours in view of the level of the elections. In Canada, a significant differentiation between federal and provincial elections in this field was revealed. It was indicated that levels of subjective class voting were higher in provincial elections than in federal ones. Moreover, this relationship was meaningfully strengthened when some determinants, such as: occupation, income and education were added to the model (McGrane 2007).

Furthermore, there are some researches which analyses the relationships between the voting behaviour and the unemployment. K. K. Charles, M. Stephens Jr argues that voters' labour market activity affects voting through two possible mechanisms: by changing the logistical costs associated with those actions; or by changing people's exposure to political information by virtue of alterations in their leisure time (2011). In turn, M. B. Incantalupo, analysing the national elections in the USA, exposed that job loss near the Election Day significantly affects the possibility of turning out to vote, controlling for various other issues that associate with political activity. The direction of this effect is positive in contexts marked by high and increasing unemployment, while negative in low-unemployment contexts. Furthermore, it is driven by involuntary job, not by leisure time. Therefore, the unemployment favour political mobilization (Incantalupo 2015). Moreover, diverse groups react disparately to economic situation. There is a notion that younger, low-income voters who prefer left-wing parties appear sensitive to high levels or an increase of unemployment. Furthermore, Swedes and Canadians seem particularly concerned with the unemployment rate. Whereas Germans accept higher joblessness if the inflation rate is maintaining on the

low level (Andrain, Apter 1995). In any case, in the theory of economics it is underlined that voters might be sensitive both to an unemployment and to an inflation (Lessmann 1987). However, G. H. Kramer and S. Lepper found that numerous economic indicators had a mixed effect on voting behaviour (Natchez 2017).

In Poland, from the beginning of the economic and political transformation, it is seen a growing importance of the economic issues in the process of voting behaviour. Simultaneously, it contributed to the polarization of views, in which some people expect a welfare state economy, but the other think differently (Hajdar 2012). K. Hajdar revealed that in Poland during the parliamentary elections the party results did not strongly correlate with the level of the unemployment (2012). However, some other issues and their interactions should be included. In turn, J. Hausner and A. Sokołowski found the influence of an unemployment on the election results between 1993 and 2001 in Poland. This determinant strengthened left-wing parties, while right-wing ones were weakened (2002). Furthermore, A. Turska-Kawa studied that in Poland economic determinant are more important for the people who vote for the biggest parties (Law and Justice, Civic Platform), and less significant for local electoral committees, which could appeal to a quality of life (2015). Whereas K. Tybuchowska-Hartlińska indicates that in Poland regardless of any criterion (electorate of the party or ideological view) about three fourth of the voters declare taking into account the economic situation of the country (2013).

4. Voting behaviour in local elections in the election district no 34 in Poland against the background of the unemployment

In Poland, election district no 34 is situated in the Warmia and Mazury voivodeship. It consists of city with the county status Elbląg and other eight counties: Braniewo County, Działdowo County, Elbląg County, Iława County, Nowe Miasto County, Ostróda County, Bartoszyce County and Lidzbark County. In 2014 in the elections to the regional assembly the majority of the votes were distributed among four nationwide campaign committees: Polish People's Party (PSL), Civic Platform (PO), Law and Justice (PiS) and Democratic Left Alliance (SLD). In these counties, the local committees did not receive more than 10% of votes together (table 1). In 2014, within these counties the highest unemployment rate was in Braniewo County, where Polish People's Party (PSL) received the largest portion of votes (46,52%). In turn, in 2014 in County Iława, in which was the lowest unemployment rate in this district, Polish People's Party also obtained the largest support - 48,64% of the votes. Simultaneously, this party (PSL) won in the most of the counties of the analysed election district (table 1).

In order to examine the significance of unemployment rate on the results of this voting, all counties of the election district no 34 have been divided into two groups:

- 1) the first group, in which the value of the analyzed variable was higher than the average in the whole district - high unemployment;
- 2) the second group, in which the value of the analyzed variable was lower than the average in the whole district - low unemployment.

Table 1. Distribution of votes within campaign committees in the elections to the regional assembly in district no 34 in Poland in 2014 against the background of the unemployment rates (%)

County	Unemployment rate (%)	Distribution of votes to campaign committees (%)				
		Law and Justice (PiS)	Civic Platform (PO)	Polish People's Party (PSL)	Democratic Left Alliance (SLD)	Other
City of Elbląg	15.3	29.50	34.91	14.35	11.66	9.58
Braniewo County	29.0	15.42	19.01	46.52	11.95	7.10
Działdowo County	23.3	19.05	16.42	51.57	5.25	7.71
Elbląg County	26.0	17.52	32.39	33.16	8.90	8.02
Iława County	8.9	14.95	19.87	48.64	8.73	7.81
Nowe Miasto County	19.3	15.53	12.24	66.04	2.96	3.23
Ostróda County	20.4	11.62	24.65	46.98	9.40	7.36
Bartoszyce County	27.7	28.73	33.30	21.44	7.72	8.81
Lidzbark County	24.8	14.26	51.33	19.95	5.01	9.45

Source: own calculation based on: (CSO, SEC)

Then, a comparative analysis was conducted, whether or not the election results in a statistically significant way differed between two defined groups of the counties. The results were presented on the figures. Using the Mann-Whitney U test, it was verified whether or not differences in distributions of the results differed in a statistically significant way in both groups, i.e. with high and low unemployment.

Furthermore, in the manner described above, it was studied whether or not the defined groups differed in terms of percentage of votes casted for each campaign committee and the fact that the majority of votes casted for one party was higher than 2 percentage points over the votes casted for the other committee.

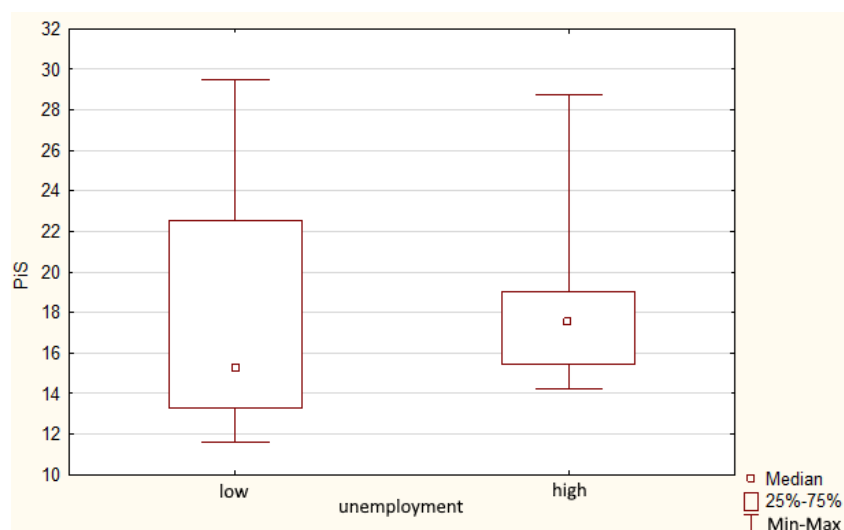


Fig. 1. The percentage of votes casted for PiS in counties with low and high unemployment of election district no 34 in regional assembly elections in Poland in 2014

Source: Own calculation

Hence, in case of the distributions of votes for PiS (sample statistic=0.61237, p value=0.555), PO (sample statistic=0.6134, p value=0.5427), PSL (sample statistic=0.6754, p value=0.54029) and SLD (sample statistic=0.12247, p value=0.987) in the counties of the election district no 34 in Poland during the elections to the regional assembly in 2014 the results of Mann-Whitney U tests showed that counties with high and low unemployment did not differ because of the votes casted for the analysed parties (fig. 1, fig. 2, fig. 3, fig. 4).

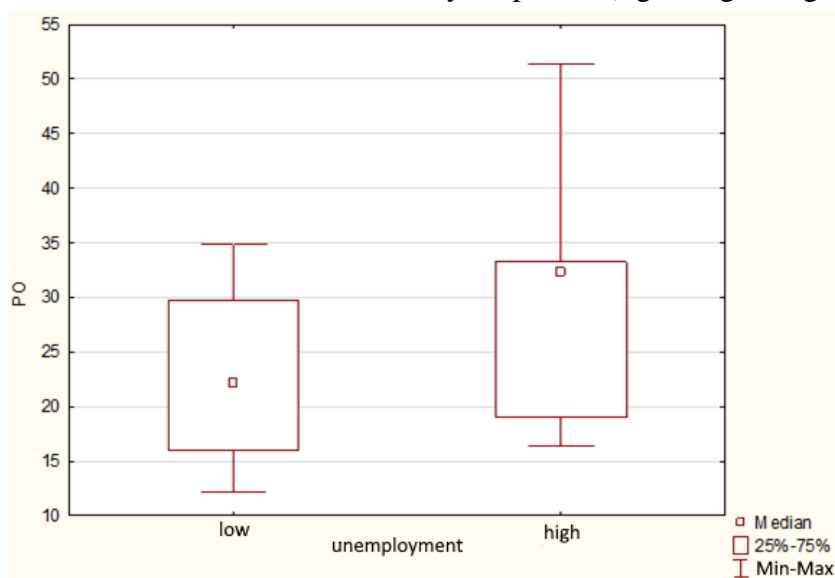


Fig. 2. The percentage of votes casted for PO in counties with low and high unemployment of election district no 34 in regional assembly elections in Poland in 2014

Source: Own calculation

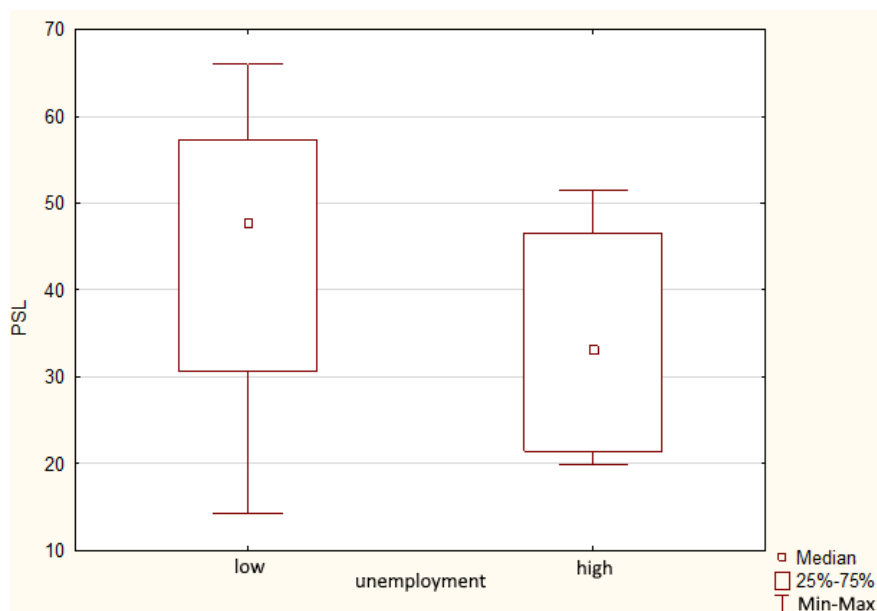


Fig. 3. The percentage of votes casted for PSL in counties with low and high unemployment of election district no 34 in regional assembly elections in Poland in 2014

Source: Own calculation

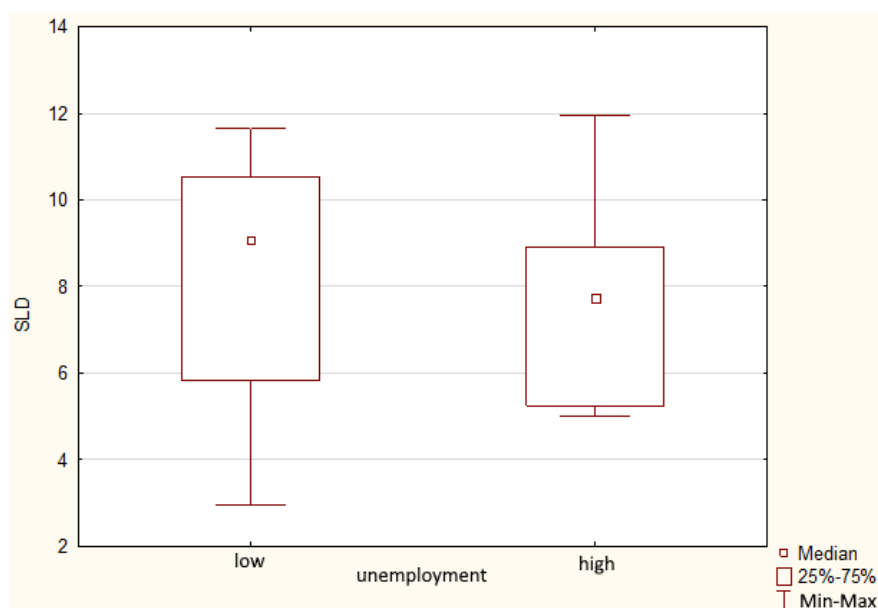


Fig. 4. The percentage of votes casted for SLD in counties with low and high unemployment of election district no 34 in regional assembly elections in Poland in 2014

Source: Own calculation

Moreover, the results of Mann-Whitney U test for the analysis of the advantage of the parties were as follows:

- advantage of PSL over PIS: sample statistic= 9.50, p value=0.9047;
- advantage of PO over PIS: sample statistic=6.00, p value=0.4127;
- advantage of PO over PIS: sample statistic=9.00, p value=0.9050.

Therefore, in each case the differences were statistically insignificant.

5. Conclusion

There are lots of researches which present the determinants of voting behaviour, including socio-economic issues, particularly an unemployment. Some of them indicate different impact of these factors and its strength. It depends on the country, the society or the level of the elections. In Poland there are also some analyses which characterize interactions between the voting behaviour and the situation on the labour market. The scientists especially verify the influence of the unemployment rate.

In this paper it was not found an impact of the unemployment rate on the election results to the regional assembly in the election district no 34 in Poland in 2014. In most of the counties the largest portion of the votes received the Polish People's Party. It was both in the counties with the lowest and the highest unemployment rate. The unemployment rate also did not affect better performance of individual parties. Hence, there were other crucial determinant of the voting behaviour in this district. It should be mentioned that the four nationwide campaign committees received more than 90% of the votes. Hence, in 2014 local campaign committees did not play a significant role in the elections to the regional assembly there.

References

- Aiba J. 2003. *Reviewing the Theories of Voting Behavior*. Memoirs of the Nara University, 31, pp. 285.
- Akarca A. T., Tansel A. 2006. *Economic performance and political outcomes: An analysis of the Turkish parliamentary and local election results between 1950 and 2004*. Public Choice, 129, 1–2, pp. 77.
- Andrain C. F., Apter D. E. 1995. *Political Protest and Social Change: Analyzing Politics*. Macmillan Press, London, pp. 274.
- Annusewicz O. 2013. *O naturze preferencji politycznych, czyli racjonalne i irracjonalne przesłanki decyzji wyborczych*, pp. 3, available at: <http://biblioteka.oapuw.pl/wp-content/uploads/2013/03/annusewicz-racjonalnos-format.pdf> [05.09.2017].
- Antunes R. 2010. *Theoretical models of voting behavior*. Exedra, 4, pp. 157-158.
- Arriola L.R. 2008. *Ethnicity, Economic Conditions, and Opposition Support: Evidence from Ethiopia's 2005 Election*, Northeast African Studies, 10, 1, pp. 137.
- Charles K.K., Stephens Jr M. 2011. *Employment, Wages and Voter Turnout*. NBER Working Paper Series, 17270, pp. 27.
- Cwalina W., Falkowski A., Newman B.I. 2015. *Political Marketing: Theoretical and Strategic Foundations*. Routledge, New York, pp. 83.
- de Neve J-E. 2014. *Ideological Change and the Economics of Voting Behavior in the US, 1920-2008*. Electoral Studies, 34, pp. 35.
- Dolińska D. 2009. *Determinanty preferencji wyborczych na przykładzie elektoratu Platformy Obywatelskiej oraz Prawa i Sprawiedliwości w latach 2000-2005*. Studia Politicae Universitatis Silesiensi, 4-5, pp. 112-116.
- Hajdar K. 2012. *Korelacje poziomu bezrobocia i wyników wyborów do Sejmu Rzeczypospolitej Polskiej*. Środkowoeuropejskie Studia Polityczne, 4, pp. 93-100.
- Hausner J., Sokołowski A. 2002. *Bezrobocie a wyniki wyborów w Polsce*. Studia Politologiczne, 6, pp. 42.
- Incantalupo M.B. 2015. *The Effects of Unemployment on Voter Turnout in U.S. National Elections*, pp. 28, available at: https://scholar.princeton.edu/sites/default/files/mincanta/files/incantalupo_turnout_0.pdf [06.11.2017].
- Lees-Marshment J. 2017. *Political Marketing. Principles and Applications*. Routledge, New York, pp. 2.
- Leigh A. 2005. *Economic Voting And Electoral Behavior: How Do Individual, Local, And National Factors Affect The Partisan Choice?* Economics & Politics, 17, pp. 290.
- Lessmann S. 1987. *Budgetary Politics and Elections: An Investigation of Public Expenditures in West Germany*. Walter de Gruyter, Berlin, New York, pp. 45.
- Levernier W. 1992. *A Two-Stage Model of the Effect of Economic Conditions on Elections Outcomes*. Atlantic Economic Journal, 20, issue 2, pp. 65.
- Local Data Bank of Central Statistical Office of Poland (CSO), available at: <https://bdl.stat.gov.pl/BDL/start> [04.09.2017].
- Matthews J.S. 2010. *Enlightenment, Equalization, or What? Campaigns, Learning, and the Economy in Canadian Elections*. In: *Voting Behaviour in Canada*, C. D. Anderson, L. B. Stephenson (ed.), UBC Press, Toronto, pp. 234.

- Marciniak E.M. 2013. *Podobieństwo osobowości wyborców i polityków jako czynnik poparcia wyborczego*. Annales Universitatis Mariae Curie-Skłodowska. Sectio K, XX, 2, pp. 133-148.
- Markussen S. 2008. *How The Left Prospers From Prosperity*, pp. 2, available at: http://www.frisch.uio.no/publikasjoner/pdf/how_the_left.pdf [06.11.2017].
- McGrane D. 2007. *Socio-Economic Determinants of Voting Behaviour in Canadian Provincial Elections from 1988 to 2006*, pp. 5, available at: <https://www.cpsa-acsp.ca/papers-2007/McGrane.pdf> [06.11.2017].
- Natchez P. 2017. *Images of Voting/Visions of Democracy*. Routledge, New York, pp. 274.
- State Election Commission of Poland (SEC), available at: <http://samorząd2014.pkw.gov.pl/> [04.09.2017].
- Turska-Kawa A. 2015. *Czynnik gospodarczy jako predyktor zachowań wyborczych*. Political Preferences, 10, pp. 46-47.
- Tybuchowska-Hartlińska K. 2013. *Głosowanie ekonomiczne w Polsce z perspektywy deklaracji wyborców*. Political Preferences, 6, p. 99.
- Zarycki T. 1997. *Nowa przestrzeń społeczno-polityczna Polski*. Studia Regionalne i Lokalne, 23 (56), pp. 21-31.



THE IMPORTANCE OF CLUSTERING IN THE DEVELOPMENT OF THE REGION: CASE STUDY OF TAJIKISTAN

Umar Abdulloev^{*}, Alisher Alikulov^{}**

Technological University of Tajikistan, Tajikistan

Abstract. Cluster is a specific organizational and managerial form of the local innovation system of interaction between the interrelated economic entities. It can have a potential that exceeds the simple sum of the potentials of individual economic structures. The article examines aspects of the research of development of a building complex of the region and the banking cluster as an initiator of innovation processes in the conditions of the region's economic development. In the article the main ways of with application of the cluster approach are considered, modern and classical essences and concept of a cluster also tools of restructuring are described. Authors justified the advantage and priorities of the formation of the cluster in the region, as well as the main innovative directions of interaction between the real and the banking sector of the regional economy in the conditions of the Republic of Tajikistan.

Keywords: cluster, building complex, region, banking cluster, innovation

JEL Classification: L26, L52, O38, R12

1. Introduction

The creation of an innovative economy in the country as a whole and even in a separate region in particular is very promising and profitable in terms of state power. Such an economy contributes to building the country's economic potential, strengthening its positions on the world arena. Taking into account the practice of developing countries, cluster structures built on the cooperation of enterprises, financial and credit institutions, educational institutions, etc. should be of great importance in the formation of innovative regions in Tajikistan. The

^{*} Abdulloev U.H., Senior lecturer of Department of System and Information Technologies, Technological University of Tajikistan, N.Qaraboev st. 63/3, Dushanbe city, 734061, Republic of Tajikistan, Ph: (+992)989066464 (m.), email: abdulloev_umar_h@mail.ru

^{**} Alikulov Alisher Raimberdievich, Senior lecturer of Department of System and Information Technologies, Technological University of Tajikistan, N.Qaraboev st. 63/3, Dushanbe city, 734061, Republic of Tajikistan, Ph: (+992)988393838 (m.), email: alisher.alikulov.80@mail.ru

theoretical foundations of the formation and functioning of clusters, the use of cluster models to ensure the competitiveness of the region's economy, their advantages and disadvantages.

The modern construction complex of the regions of the Republic of Tajikistan is rather fragmented, it is not managed from one or several centres, it consists of many self-managing entities with specific features. Clustering the construction complex in these conditions will raise the growth of the region's economy to a new level. Since the construction cluster includes a huge number of production and service enterprises. Integration processes in construction contribute to accelerating economic growth on the basis of innovations, increasing the investment potential of the region and competitiveness. But before considering the clustering of the construction industry, we consider the basic concepts of the concept of “cluster” itself.

In the study the critical literature analysis and documental analysis were used, as well as observation, induction and deduction methods.

2. An overview of literature

According to the classical understanding, the cluster is a geographically concentrated group of interrelated companies, specialized suppliers, service providers, firms in the relevant industries, as well as organizations related to their activities in certain areas that are competing but also working together. From the viewpoint of the system approach, the cluster is a set of economic entities of interconnected different industries, united in a single organizational structure, the elements of which are interrelated and interdependent, and function together for a specific purpose (Larionova 2007). Uniting in a cluster, enterprises can reduce investment costs and facilitate the search for highly specialized specialists, as well as gain access to new technologies, management methods, suppliers and buyers (Shevchenko, Fedotova and Razvadovskaya 2013). It is generally accepted that the enterprises within the regional cluster structure have higher economic indicators. When considering the concept of a cluster, it is necessary to separate the clustering variant, which may be territorial, branch and corporate. Such cluster types operate on the basis of integrated structures, for example, within the framework of public-private partnerships.

Cluster as a specific organizational and managerial form of the local innovation system of interaction between the real and the banking sector of the regional economy is a sustainable partnership of interrelated economic entities. It can have a potential that exceeds the simple sum of the potentials of individual economic structures. This increment arises as a result of cooperation and effective use of innovative capabilities and capabilities of partners, a combination of cooperation and competition. National borders in the globalized economy do not always work as economic regulators, therefore new forms of business organization and its interaction with authorities and society are required. The influence of clusters on the economic policy of the region is shown in Figure 1.

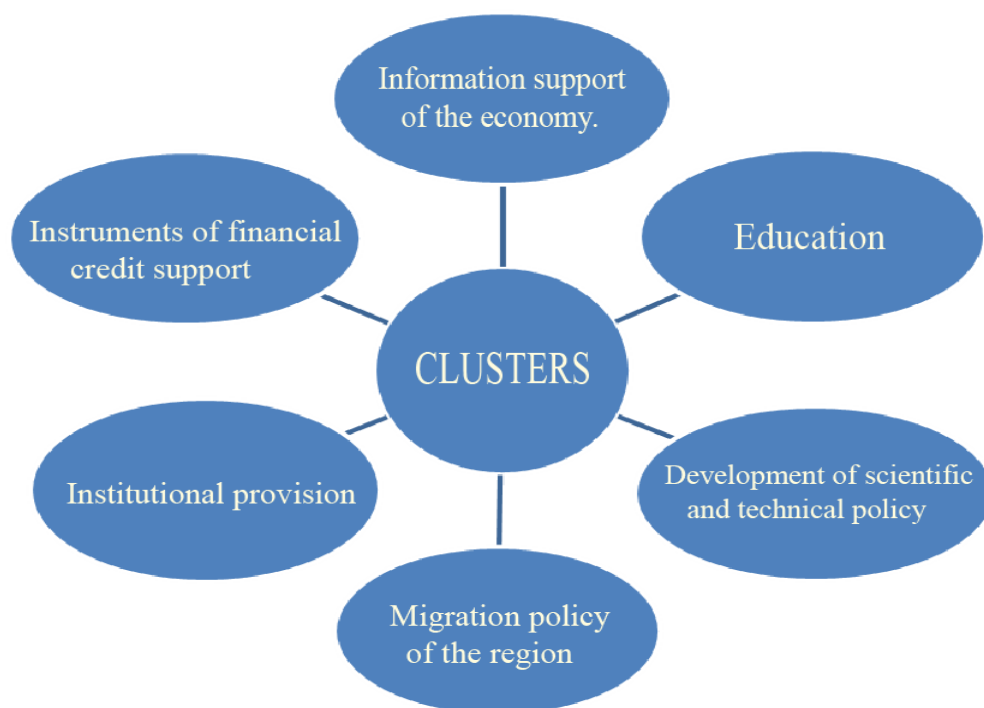


Fig. 1. The impact of cluster entities on the economic policy of the region

Source: own work

The development of clusters stimulates a change in the social structure of the post-industrial society, which causes the emergence of new forms of organizational and consumer behaviour of people. Its essence lies in the fact that in specially developed regions, territories are specifically designated where state, local authorities, the corporate sector and foreign investors form clusters that become “growth poles” (centres of development) for these territories. M. Porter defines the cluster as a group of geographically adjacent interrelated companies and related organizations operating in a certain sphere and characterized by commonality of activities and mutually complementary (Porter 2000). At the same time, he emphasizes the special role of clusters in the formation of state policy, not so much at the macro level, as at the level of individual territories, cities, etc. A similar point of view was held by the founder of the concept of regional clusters M. Enright, who scientifically substantiated the basic principles and forms of state support for the formation of clusters (Enright 1996).

There is a significant difference between industrial policy and cluster policy. Industrial policy implies the selection of priority sectors for state support. Cluster policy, on the contrary, states that all existing economic agglomerations are prioritized. The reality is that in any region there is space for many different successful clusters, where each of them can play its unique role. Thus, cluster policy, appealing to the existing structure of the economy, contributes to a more complete disclosure of the potential of the region.

A sound financial policy creates prerequisites for the formation of a banking cluster. The understanding of financial and cluster policies as complementary to each other is particularly

characteristic in a situation where economic agglomerations and clusters are then created purposefully in a relatively short period. Initially, it is necessary to create financial zones, under which the conditions necessary for the provision of financial services are formed, first of all, the physical infrastructure, public-business institutions, human resources and the social environment that determines the quality of life.

Favorable conditions in the financial zones attract key companies. Key companies (anchor firms) are companies that encourage the emergence of other firms or even entire sectors of financial services providers. When the economic agglomeration is formed, there is a turn of cluster policy, the task of which is to make the localized organizations innovatively active. Moreover, as experience of realization of cluster projects across the world shows, cluster projects that rely on strong economic agglomerations are successful. In this regard, the first step in implementing the cluster policy should be to identify the existing economic agglomerations and analyze the potential for clustering.

The place of the state in the process of activation and development of clusters is that the state acts as one of three equal parties, each of which performs its specific functions. This approach in the foreign literature is called the Triple Helix concept. The meaning of this approach is that innovative development can be most effectively achieved through joint activities of the state, business and the scientific community. In practice, attitudes about the creation or use of innovations often have the character of a “double helix”: the state – science, business – science, the state – business. Intensification and complication of innovative processes in society have led to the fact that bilateral relations lose their effectiveness.

3. Result of the research

3.1. Development of the Construction Complex of the Region on the Basis of the Cluster Approach

Clusters can be formed both within the construction industry, and at the junction of construction and other related industries. However, it should be noted that inter-industry clusters are the most common. They are formed as a result of the close relationship of the construction industry with other industries in the region. Buyers and manufacturers of products of the construction complex are united along the chain of creation of added value and reflect the possibility of a synergetic effect in deepening their partnership relations. A close connection between them creates conditions for the formation of cluster structures at the intersection of industries. The inter-sector approach to the clustering of the construction complex is the most common in the identification and analysis of cluster structures in the economy of the region. Consequently, the construction cluster represents a new organizational form, which is intended to enhance the competitiveness of the region. Clustering of the construction complex along with various industries has developed effectively in many countries of the advanced world, such as Austria, Great Britain, Germany, Italy, Canada, USA, France and Japan. The intensive development of building clusters is also observed in some developing countries.

A distinctive feature of the construction cluster is targeted entrepreneurial activity. Combining the efforts of construction companies, executive authorities, financial institutions,

research institutes at the regional level increases the efficiency of the construction complex development, contributes to the rationality of production processes, the redistribution of risks and the implementation of a flexible policy required in the rapidly changing market conditions. Such an alliance of efforts in developed countries was quite successful.

The number of participants in the clusters of the building complex is not limited to only such organizations, but also covers a large number of manufacturers of building materials, suppliers, engineering and consulting firms, research organizations and universities, design and landscape design enterprises, credit organizations and banks, infrastructure, administrations regions and professional and public organizations. Thus, the construction cluster covers a set of enterprises performing the basic construction works, with enterprises for the production of construction materials and raw materials, basic and auxiliary equipment, rendering transport, logistics services, repair and installation works, services in the areas of market research, trade, consulting, training qualified personnel. Such clustering of the construction complex on the territory of the region will allow developing to other branches and a lot of specialized enterprises of small and medium business, which will ensure the growth of competitiveness due to dynamism in development and constant changes.

The building cluster as a model of integration of entrepreneurial structures has distinctive specific features, due to the fact that they have a broader functional and target decomposition. It unites all components of the production process within the investment cycle from suppliers of material and technical resources to consumers of final construction products, including the service sector and specialized infrastructure (Subbotin and Builders 2011). However, the construction cluster as a set of organizationally interrelated independent economic entities has a more complex management model than the traditional general contract scheme. The building cluster unites all blocks of the organizations of the construction complex, which consists of enterprises for the production of building materials, organizations for the erection of facilities, enterprises supplying the appropriate equipment and construction technologies, preparing human resources, design organizations, architectural offices, organizations that purchase and sell objects of real estate.

In our opinion, the construction cluster is a special form of the cluster model, since construction is a kind of activity focused primarily on the domestic market, the main product of which is the construction of modern comfortable housing. The social effect of clustering the construction complex is expressed in the increase in the level of affordability of housing for the population. In the regions where construction clusters are created, the volume of housing construction is much larger. The presence of a servicing element in the cluster in the form of banks, legal state regulation, stability of the cluster system allows to increase this indicator by providing the population with affordable mortgage loans with guaranteed terms of commissioning of housing (Matveeva and Vaslenok 2014).

Thus, for the clustering of the building complex, a group of geographically adjacent interconnected enterprises and related organizations should act together in the creation of construction products, and complement each other. For the effective development of the regional construction complex, it is necessary not only to conduct an effective economic policy in this area, but also a qualitatively new structure of the relations of the participants in

the construction complex. The efficiency of building clusters is achieved due to the synergetic effect, and as a result of this growth in investment in innovative development of production and formation of new companies, strengthening of export potential, increasing employment and product quality, developing new technologies, enhancing competitiveness and productivity of cluster members, developing close ties between science and production, infrastructure development, raising the educational level of employees (Azhimov 2015).

That is why the identification of existing or potential clusters in the region's economy, as well as the provision of state support for their development, is a prerequisite for the further development of the region's economy. The difference between cluster analysis and traditional industry analysis is that when analyzing clusters, chains of value added, production and sales of the product are fully traced, and all those participating in this structure are singled out.

The development of the regional construction complex should be aimed at increasing the efficiency of the activities and development of construction enterprises by adopting a set of measures and measures based on the introduction of innovations and the formation of future regional clusters. Restructuring of the construction complex requires cooperation between large and small businesses, authorities, universities, research institutes, etc., and here the cluster approach can provide the necessary tools. The use of the cluster approach will allow small and medium-sized businesses to develop. The barriers to market entry can be significantly reduced by unifying the requirements within the cluster. Small and medium-sized firms can get access to orders, purchase hardware and software products, enjoy the reputation of participants (brand), effectively train staff. Regional innovative and other programs can take into account the interests of the cluster. Thus, the creation of a construction cluster as one of the tasks of the program of socio-economic development of the territory becomes, in modern conditions, a strategic tool for the systemic transformation of the regional socio-environmental complex to improve the investment attractiveness and competitiveness of the territorial economic system as a whole.

3.2. Bank Cluster as Initiator of Innovative Processes of the Region

Today, the Republic of Tajikistan is taking real action to create a new financial environment. Using cluster policy as an instrument of innovative development, it is necessary to determine the target parameters of large clusters. On this basis, the government will be able to determine the place and role of each region's economy in the socio-economic and spatial development of the country. Business and the region will see specific goals and priorities for economic development, feel concrete support and interest of the government. It is necessary to form a legislative and financial base for the support and development of clusters. The mechanisms of the state cluster policy should ensure maximum use of the existing competitive advantages of specific regions, stimulate the creation of new competencies (Alikulov 2016).

In our opinion, the banking cluster can ensure: the successful allocation of investment funds, the pooling of interests and an optimized combination of regional and republican regulatory instruments. The modern banking cluster implies the availability of a variety of

services to its customers: from traditional cash operations that characterize the basis of banking, to the new configurations of monetary and financial instruments used by banking institutions. A regional banking cluster is a collection of geographically localized credit institutions, regional administration bodies and a territorial institution of the National Bank of Tajikistan that jointly stimulate the region's economic growth based on the transformation of savings into investments with minimal transaction costs, the financial balance of the reproduction cycle, the development of internal competition, consolidation of interests. Thus, an institutional association of the following participants is observed in the regional banking cluster: the territorial institution of the National Bank of Tajikistan, representing the interests of the central administrative apparatus; regional authorities in the person of the relevant Department responsible for the work of the banking sector in the region and implementing regional interests; regional commercial banks; branches of commercial banks operating in the region; branches of foreign banks; non-banking credit organizations.

In our opinion, the need to study and develop cluster forms of innovative interaction between economic entities and the banking sector of the regional economy is based on the following reasons:

- firstly, the dis-functionality of the capital market, which caused the manifestation of regional voids for full-fledged financing and lending to the real sectors of the economy;
- secondly, the presence of innovative and investment "traps", which are pursued by business entities in the implementation of projects;
- third, the uneven distribution of economic potential, as well as the asymmetric allocation of resources;
- fourth, the ineffectiveness of instruments for regulating the capital market.

Despite the existence of various models for modernizing economic development (revolutionary, organic, catching up), they all need adequate financial support. And with the catching-up model, which is more applicable now in Tajikistan, the role of the banking system is decisive, as the experience of the countries that passed this path (Japan, South Korea, Taiwan) showed. It should be noted that the lack of financial resources in the economy leads to restrictions on competition, production growth, stimulating a high level of inflation and a decrease in the purchasing power of the national currency – Somoni.

We believe that the most productive organizational form of local innovative systems of interaction between the real and the banking sector of the regional economy is clustering, which is oriented toward the reproduction of goods in order to obtain communicative and synergistic effectiveness. The banking cluster policy, which implements the functions of innovative interaction of economic entities in cluster formations, leads to an increase in the competitiveness of the regional economy. Regional bank clusters can play the role of domestic market growth points. After the first, new clusters are formed. This update is possible with innovative interaction between sectors, spheres and sectors of the economy.

4. Conclusions

Clusters are a link in the implementation of large-scale investment projects, optimally combining the processes of regional development with the development of all sectors of the national economy. By concentrating in its activities, both production and sales of products, clusters create conditions for the introduction of innovations, the development of knowledge-intensive and labor-intensive industries that ensure the stability of the regional economy in a dynamic market environment. Cluster formations serve as the foundation for the implementation of priority national projects. Thus, it is necessary to intensify the process of clustering in the construction sector, since the functioning of enterprises under conditions of delocalization, isolation or another form of combining entrepreneurial structures in a market economy is ineffective. Enterprises in the cluster demonstrate strong relationships. The flow of goods and services between geographically concentrated industries in a cluster is stronger than the flow linking them to the rest of the economy. Clustering facilitates cooperation to overcome common problems and obstacles.

The formation of a modern financial system that meets international standards and effectively affects all sectors of the economy, contributes to the increase in revenues to the budget, will transform the business infrastructure and living conditions of the population. Proceeding from the fact that the banking cluster is the localization of banking and non-banking organizations created with the aim of achieving a positive effect, we will conclude that in practice the use of the cluster direction in the financial markets is the key to the high development of the economic system and the natural stage in the development of the modern economy. The formation of clusters becomes a reliable means for banks to maintain their competitive advantages in the market. But there are a number of problems that hamper the development and development of banking clustering, such as the distrust of potential members of the cluster, the low level of funding, the lack of a culture of information transparency and openness. Therefore, it is advisable to involve the state in this process, which should promote the development of financial associations and bring the national economy to a high level of development on the international market. It is financial clusters that allow state structures in the regions to specifically regulate the directions of social and economic development of the territories, to forecast and correct the trends of economic development through coordination and efforts of interested parties.

References

- Alikulov A.R. 2016. *Formation of the banking cluster as a factor in the innovative development of the region*. Modern problems of social and humanitarian sciences. Scientific and Theoretical Journal, No. 2 (4).
- Azhimov T.Z. 2015. *Analysis of the clustering potential of the investment and construction complex of the Republic of Tatarstan*. UEKS(84), 11 (2), p. 12.
- Enright M. 1996. *Regional Clusters. Economic Development: A Research Agenda*. In: Staber U., Schaefer N., Sharma B. *Business Network: Prospects for Regional Development*. Berlin, p. 190-213.

- Larionova N.A. 2007. *Cluster approach in regional competitiveness management*. Economic Bulletin of the RSU, No. 1, p.128.
- Matveeva O.A., Vasilenok V.L. 2014. *Realization of the cluster approach in construction*. Scientific Journal of NIU ITMO. Series "Economics and Environmental Management", No. 1, 2014.
- Porter M. 2000. *On Competition*. Harvard Business Press.
- Shevchenko I. K., Fedotova A. Yu., Razvadovskaya Y. V. 2013. *Regional clusters as a mechanism of territorial and sectoral development of the economy*. Proceedings of SFU. Engineering, No. 6(143), pp. 108-113.
- Subbotin A.S. and Builders S.B. 2011. *Clusters, technological platforms, euro-codes. Prospects for their use in construction*. Technology and organization of construction production, No. 5, p. 24-26.



THE ROLE OF THE LIFE CYCLE THEORY IN STARTUPS' MANAGEMENT

Monika Burżacka*

Warsaw University of Technology, Branch in Płock, Poland

Abstract. The main purpose of this paper is the identification the specifics of startups' life cycle and an indication of the need to apply special methods of managing such an entity. Simply put, as your business grows and develops, so to do your business objectives, priorities and strategies – and that's why an awareness of what stage of the business lifecycle you are currently in may be helpful to aware to anticipate what is coming next and how you can best prepare yourself and your team to maximize your chance of success. Making the right decisions at each stage will require the mix of instinct and practical business sense.

Keywords: Startup Life Cycle (SLC), managing risk, start-up strategy

JEL Classification: G32, O31

1. Introduction

Startup companies are newly born companies which struggle for existence. These entities are mostly formed based on brilliant ideas and desire to succeed. These phenomena are mentioned in the literature of management, organization, and entrepreneurship theories. However, a clear picture of these entities is not available.

The knowledge of life cycle of the company provides an opportunity of effective management, where that entrepreneurs are able to predict the future and successfully use the tools of optimal management. Unfortunately, theory shows many different approaches to life startups' cycle models existing in literature with differentia number of stages. There is therefore no one universal approach to the issue. Additionally, the typical life cycle model doesn't work with startups, as that group of companies are not stable systems. As we know, startup is a very fast process of setting an idea in motion with no guarantee of success. Entrepreneurial research must be fast and flexible on each stage of growth where be strategy, structure, decision-making, but also organizational, administrative, marketing issues arise through the stages strategy, structure, decision-making, organizational, administrative,

* Monika Burżacka, PhD, Warsaw University of Technology, Branch in Płock, Poland, contact: +48 517 771 112, email: monika.burzacka@gmail.com

marketing issues arise important, sometimes crucial. In the environment of risk, instability there is crucial to use dynamic management strategy and Lean Startup meet expectations.

2. Startups' Life Cycle Theory (SLCT)

The process of management of a startup companies is already conditioned by its specificity reflected in their definition. The definitions existing in the literature is not exact (Zepek 2013:7). From a formal point of view, these are firms have been already registered that operate on a small scale or a while before sales on a larger scale. The most often this is a micro or small enterprise. These are certainly young companies in the early stage of their development.

On the other hand, Reiss (2011) describes startup as a new operator existing in extreme uncertainty that refers mainly to unstable needs of potential customers. The entrepreneur creating start-up knows the needs of customers, but never can be sure whether the resulting product, the service will meet their expectations.

Another approach present Wagneri and Sternberg (2004), who determine the company start-up as a new company, founded by the entrepreneur, in order to maximize usability. Economists say that the main motive for the creation of start-up is to achieve optimal profit.

All the mentioned approaches have common denominator. Definitely, startup and its process of development is dynamic, nonlinear and unpredictable. Bygrave (1989) suggested that chaos theory can be applied to the startup or new product development process and it never achieves the type of equilibrium point, so a new startup constantly creates new order.

Eggers, Leahy and Churchill (1994) noticed that 30% of businesses don't grow in progressive and way determined by life cycle theory. That was also confirmed by Slevin and Covin (1998) who found that this phenomenon concerns even more than 40% of businesses. While development of a new startup is subject to varied, inhomogeneous, dynamic, and complex phenomena, theories of the developmental stages of startups fail to account for the dynamism of this process.

Life cycle theory, that regards organizations as stable systems that can achieve a state of balance and fails in case of startups. Startup is a very fast the process of setting an idea in motion with no guarantee of success. Entrepreneurial research must be fast and flexible. That's some kind of creation not equilibrium confirmed by: Bygrave (1989), McKelvey B. (2004) or Eggers, Lehey and Churchill (1994).

Also Tsai and Lan, in their research confirm that although the future cannot be predicted, a vision can provide the members of an organization with a direction inspiring effort and teamwork. A vision can also guide the actions of managers. Entrepreneurs should maintain a flexible, open attitude towards all market opportunities and niches. They should grant members decision-making authority and autonomy, encourage them make experiments, and be tolerant of their mistakes. Lean startup management method created by Eric Ries after Steve Blank may be accurate in such circumstances. If entrepreneurs can use new methods to manage startups, they will be able to maximize their chance of success.

Summing, it can be stated that startup are organizations of dissipative structures, always in a state of imbalance, acting in chaotic and unpredictable environment where the most import

ant rule is the change. There are constantly new opportunities that offer a chance of discontinuous rapid growth. In such conditions, entrepreneurs can rely on their intuition, however, to guide the actions of other members of the organization and maintain flexibility with regard to future development. However, startups are diversified and complex in nature, these entities have their lifecycles presented in figure 1.

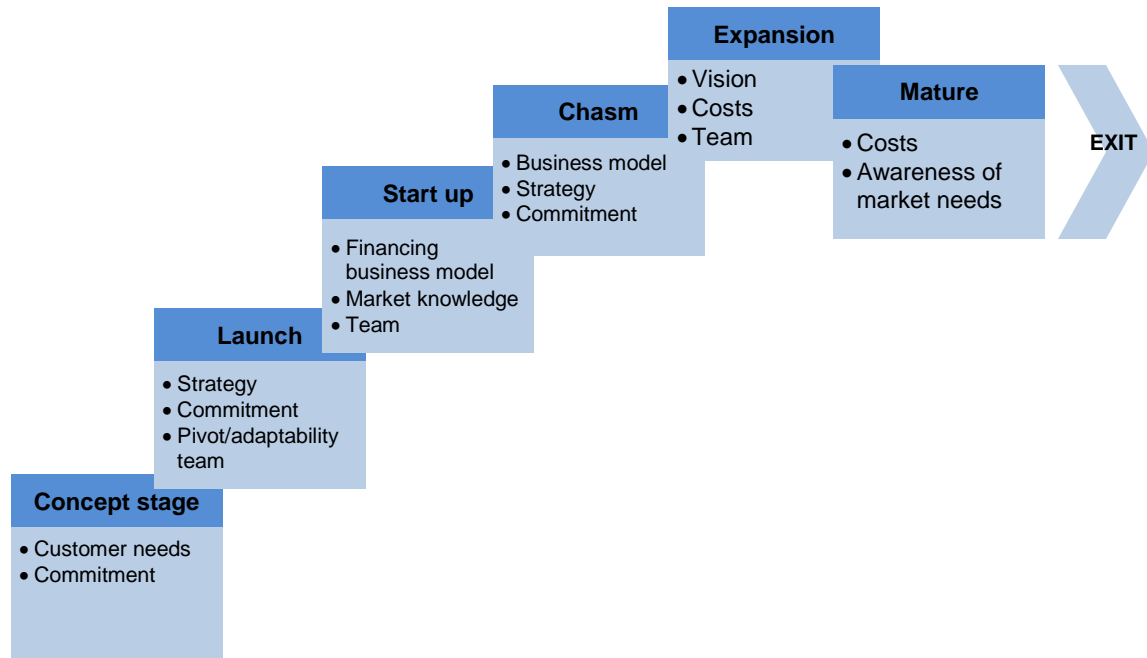


Fig 1. Lifecycle of startups

Source: Own study based on: Startup genome report 2017

Although some exceptions exist (see, for example, Matthews and Scott 1995; McGrath and MacMillan 2000), the prior literature generally contends that business planning offers little advantage to new venture founders (Bhide 2000; Carter, Gartner, and Reynolds 1996). Arguing that planning interferes with the efforts of firm founders to undertake more valuable firm organizing actions to develop their fledgling enterprises, the extant literature views business planning as a form of administrative behavior' that is harmful to new venture creation (Bhide 2000). Instead of engaging in business planning, the literature generally argues that firm founders should move directly to action-buying facilities and equipment, seeking external capital, and initiating marketing and pro-motion (Bhide 2000, Carter et al. 1996).

According to startups, specially tech startups have two main stages: a great idea and a spectacular payoff. In reality, the startups have a lot of work to do between those points.

For most startups that reach maturity, there are six distinct stages, each with specific needs in terms of growing internal competencies, building an adviser team and creating a scalable infrastructure to support growth and get to the finish line – whether that's running as a profitable standalone business, going public or being acquired.

In general the first stage is for each start up is the same, it's about building the first version of your product or service and try to validate your customer's need. The startup is just a thought or an idea.

Second stage is launching that's the time of matching the business opportunity with skills, experience, passion and deciding on a startup ownership structure, finding professional advisors and building first strategies. With no proven market or customers and financing, there is no confident of success. Generally, this start up stage is the moment of verification of accepted business model.

The third stage is about growth and efficiency, because we know the need is there and sales can be accomplished, it's time to be as efficient as possible in order to service the customer.

According to statistics, the first three stages are the riskiest ones of the entire lifecycle. In fact, it is believed that mistakes made at this stage impact the company years down the line, and are the primary reason why 25% of startups do not reach their fifth birthday.

The fourth stage is chasm understood as aggressive investment before being a important player on the market. The biggest challenge for entrepreneurs in this stage is managing the time – dividing the time between a whole new range of demands requiring your attention – managing increasing levels of revenue, attending to customers, dealing with the competition, or accommodating an expanding workforce.

Expansion means conquering new markets and offering new products or services to existing markets that needs additional funding sources like: licensing, banks loans, profits, investors and government, new investors and partners. When this stage is over, the startup becomes formal and matures, and can therefore scale and grow with the market and guard it's position.

Mature – comfort stage where sales and profits become stable, however competition remains fierce. Eventually sales start to fall off and a decision is needed whether to exit or expand the company. Generally, businesses in this stage often see rapid growth in both revenue and cash flow as the blueprint has now been established, but be warned about getting too comfortable. In business, if you are not moving forward you are moving backwards, and without a constant, almost nervous itch or desire to expand, complacency can set in, and you might get caught off guard. Having a successful business model is undoubtedly an advantage, it is not a guarantee that it will work elsewhere within other markets, or that new offerings will result in the same success. The business graveyard is littered with organizations that took on too much and failed. The point is to take on new challenges to constantly expand, but measure the risk and do the best to secure the company for all eventualities.

Each stage in the SLC is different because of factors like: strategy, structure, decision-making, but also organizational, administrative, marketing issues arise through the stages. Definitely the number of stages and length of the startup life cycle depend on the range of factors that can be different for each branch. This issue may be the subject of further research.

Not all businesses will experience every stage of the business lifecycle, and those that do may not necessarily experience them in chronological order. For example, some businesses

may see an enormous growth right after startup, and the founders may decide to cash out right away, jumping straight to that “exit” stage.

For many companies, though, there will be some sort of resemblance to the stages, and awareness may help you anticipate what is coming next and how you can best prepare yourself and your team to maximize your chance of success. Making the right decisions at each stage is another thing altogether, however, and that will require your usual mix of gut instinct and practical business sense.

According to the recent Startup Genome Report (2017), an estimated 90% of those startups that fail do so primarily due to self-destruction. It was their founders' own bad choices or lack of preparedness rather than so-called “bad luck” or market conditions that were out of their control. Understanding your position in the business lifecycle just might help you stay a bit ahead of the game here and defy the odds, as you anticipate the potential challenges and obstacles that are upon you or are on the way depending on what phase you are in or about to transition to.

The company's life cycle theory has been already described in literature deeply. Gradually we can observe modified theories in that area that can be the basis for the analysis of current and future situation of the company. Definitely, they cannot be a panacea for all the problems in the various stages of development of the company, but may provide a clear diagnostics tool to assist in analyzing a firm's present situation. The experience provides new perspective from which we can observe the development of new business startups, and allows us to discover that the development of new startups is indeed a nonlinear but definitely chaotic process.

3. Management strategy for fast growing startups

The high risk of failure for new ventures is a major concern. More than half of business startups never survive more than 5 years and in highly turbulent markets less than half survive to reach their 3rd birthday. As it was emphasized many times in this article, a startup is a company designed to grow intensively Fast In the environment of extremely high risk. In the literature we can find a plenty of tips how to realize a business promotion, marketing, and sales strategies. However, when it comes to strategic planning for running an startup company, the entrepreneurs are often found groping in the dark.

Among proposals of management strategies, most of them fail. There is one, that seems to be successful, called Lean Startup (Ries 2008). A core component of Lean Startup methodology is the build-measure-learn feedback loop (Figure 2).

It helps to accelerate the process of growing, meant as getting a desired product to customers' hands faster by using data loop. The first step is figuring out the problem that needs to be solved and then developing a minimum viable product (MVP) to begin the process of learning as quickly as possible. It may be beneficial for entrepreneurs not to use all resources at once, but instead try out a scaled down version of the business first and await market feedback before engaging more resources.



Fig. 2. Lean startup loop

Source: Ries 2008:7

Once the MVP is established, a startup can work on turning the engine. This will involve measurement and learning and must include actionable metrics that can demonstrate cause and effect question. Lean star-up strategy helps to create order not chaos by providing tools to test a vision continuously.

4. Conclusions

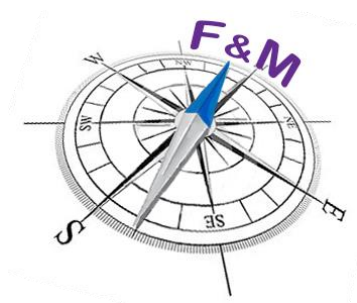
Theory shows many different approaches to life cycle models existing in literature with different number of stages. There is therefore no one universal approach to the issue.

Regardless of that, however, most of them agree, that knowing life cycle of the company provides an opportunity of effective management. Thanks to that entrepreneurs are able to predict the future and successfully use the tools of optimal management. Unfortunately, typical to life cycle model doesn't work with startups, as that group of companies are not stable systems. Startup is a very fast process of setting an idea in motion with no guarantee of success. Entrepreneurial research must be fast and flexible on each stage of growth where be strategy, structure, decision-making, but also organizational, administrative, marketing issues arise through the stages strategy, structure, decision-making, organizational, administrative, marketing issues arise import ant, sometimes crucial. In the environment of risk, instability there is crucial to use dynamic management strategy and Lean Startup meet expectations.

References

- Adizes I. 1979. *Organizational passages: diagnosing and treating life cycle problems in organizations*. Organizational Dynamics, 8(1), 3-25.
- Baron R.A., Shane S. 2005. *Entrepreneurship: A process perspective*. Mason, OH: Thomson.
- Block Z., MacMillan J.C. 1985. *Milestones for successful venture planning*. Harvard Business Review, 63(5), 184-196.
- Boland P., Riggio B., Phelan S.E. 2013. *Lean startup: opportunity discovery or opportunity creation?* November 20, available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2534139
- Bruce R. 1976. *The entrepreneurs: Strategies, motivations, successes, and failures*. Bedford, UK: Libertarian Books
- Bygrave W.D. 1989. *The entrepreneurship paradigm (II): Chaos and catastrophes among quantum jumps?* Entrepreneurship Theory and Practice. 14(2): 7-30.
- Christensen C.R., Scott B.R. 1964. *Summary of course activities*. IMEDE, Lausanne. Cited in: Scott, B.R. 1971. *Stages of corporate development – part 1*. Case note no. 9-371-294. Boston: Harvard Business School Case Services.
- Delmar F., Shane S. 2003. *Does business planning facilitate the development of new ventures?* Strategic Management Journal, 24(12), 1165-1185.
- Eggers J.H., Leahy, K.T., Churchill, N.C. 1994. *Stages of small business growth revisited: insights into growth path and leadership management skills in low- and high-growth companies*. In: Bygrave, W. D., et al., (Eds.), *Frontiers of Entrepreneurship Research 1994*, 131-144. Babson Park, MA: Babson College
- Filley A.C. 1962. *A Theory of Small Business and Divisional Growth*. Unpublished doctoral dissertation, The Ohio State University.
- Flamholtz E.C. 1987. *Making the transition from entrepreneurship to a professionally managed firm*. Oxford, UK: Jossey-Bass
- Hernández von Wobeser L. 2016. *Life Cycle In Organizations: A Stationery Shop Case Study*. Journal of Business Case Studies – First Quarter, Volume 12, Number 1, 1-6, Available at: [file:///C:/Users/Monia/Downloads/9561-35972-2-PB%20\(1\).pdf](file:///C:/Users/Monia/Downloads/9561-35972-2-PB%20(1).pdf)
- Lavoie D., Culbert S.A. 1978. *Stages of organization and development*. Human Relations, 31(5), 417-438.
- Levie J., Lichtenstein B.B. 2009. *A Final Assessment of Stages Theory: Introducing a Dynamic States Approach to Entrepreneurship*. College of Management Working Papers and Reports. Paper 17. Available at: http://scholarworks.umb.edu/management_wp/17
- Mckelvey B. 2004. *Toward a complexity science of entrepreneurship*. Journal of Business Venturing. 19(3): 313-343.
- Reiss E. 2011. *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses*. Crown Publishing Group, a division of Random House, Inc., New York.
- Salamzadeh A., Kesim H.K. *Startup Companies: Life Cycle and Challenges*, 4th International Conference on Employment, Education and Entrepreneurship (EEE), Belgrade, Serbia, 2015. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2628861

- Scott M., Bruce R. 1987. *Long Range Planning*, Vol. 20, No. 3, pp. 45 to 52, 1-58
- Startup genome report*, <http://fincrease.co/wp-content/uploads/2016/10/Why-Startups-Fail.pdf>, <https://www.techinasia.com/startup-genome-startup-ecosystem-ranking-report-2017>
- Torbert W.R. 1974. *Pre-bureaucratic and post-bureaucratic stages of organization development*. *Interpersonal Development*, 5, 1-25.
- Tsai S.D.H., Lan T.T. *Development of a Startup Business – A Complexity Theory Perspective*. Available at: http://www.bschoo.cuhk.edu.hk/asia-aom/05_paper/10_tsai.pdf
- Wagner J., Sternberg R. 2004. *Startup activities, individual characteristics, and the regional milieu: Lessons for entrepreneurship support policies from German micro data*. *The Annals of Regional Science* 2004, Vol. 38.
- Zelek A. [red.]. 2013. *Nowoczesna inżynieria finansowa dla firm startup w Polsce w latach 2009-2012 – raport z badań screeningowych*. Wyd. Naukowe Zachodniopomorskiej Szkoły Biznesu w Szczecinie, Szczecin, available at: <http://docplayer.pl/2135611-Nowoczesna-inzynieria-finansowa-dla-firm-start-up-w-polsce-w-latach-2009-2012-raport-z-badan-screeningowych.html>



Finance and Management

Journal of the Faculty of Economic Sciences
University of Warmia and Mazury in Olsztyn

2017 Volume 2(2)

PART II

Miscellanea

Essays

Announcements

Reviews



PERSPECTIVE OF THE EUROPEAN UNION 2014-2020 – CHALLENGES AND BARRIERS

Joanna Długosz*

Foundation for the Development of Warmia and Mazuria, Poland

Companies, local governments and non-governmental organizations were eagerly awaiting the calls for proposals for co-financing under the new EU funds granted to Poland for the perspective 2014-2020. The budget for this perspective is 82,5 billion EUR. Programs under which enterprises and institutions can apply for funding are often a continuation of instruments from the previous perspective (2007-2013), but the applying rules are slightly more complicated.

The years 2014-2020 are the last period of such intensive support of the Polish economy. The main purpose of the programs (at the national and regional level) is the development of Polish science, including the increase of its importance in the scale of Europe and the world. A very important goal is to support the creation and development of links between the science and business sectors, mainly supporting the implementation of the entire innovation process: from the idea creation phase, through the research and development phase, prototype preparation, to the commercialization of research results. Research and development projects with a high potential for commercialization have the greatest chance to be granted. As a result of this kind of projects new technologies, products and services, as well as new research and development infrastructure, will be created.

A very important program objective of the 2014-2020 perspective is the protection of the environment, in particular the increase in energy efficiency and in the share of energy from renewable sources.

The priority under regional programs is to support small and medium sized companies aimed at increasing their competitiveness by conducting innovative investments in production facilities. Regions are interested in stimulating interest in sales on foreign markets, hence there is the possibility of obtaining support for promotion on foreign markets, computerization (creation of e-services) or implementation/development of ERP, CRM information systems.

* Joanna Długosz, Ph.D., Chairman of the Board, Foundation for the Development of Warmia and Mazuria.

The role of local authorities in the implementation of regional programs is to support the development of their strengths. Although in principle, the priorities are similar, each province has its own "strategy" of funds allocations. For instance, Lubuskie Province allocates the largest part of funds to development and increase the competitiveness of enterprises belonging to the SME sector. Lodz Province invests in research, development and innovation, transport improvement and low-emission economy. Malopolska allocates large funds to regional energy policy, because the challenge for the province is to improve air quality. For Wielkopolska Province the key problem is to support economic growth, innovation and employment. In turn, for Mazovia region, the priorities are research and innovation, the development of the transport system, as well as the transition to a low-carbon economy. The labor market is important for Lubuskie, Warmia-Masuria and Podlasie Provinces.

In the current perspective, it is important to use the available resources during the implementation of projects, as well as consolidation of entities within the network of connections and joint projects (e.g. partner).

At the beginning of 2014 the European Commission has adopted the final version of over 120 changes simplifying entrepreneurs to apply for UE funds, including shorter time of archiving project documentation and shortening the time of funds realising after the decision on granting. However, there are still many critical remarks about barriers to raising funds. The key ones include unclear criteria for the assessment of submitted applications and very poor assessment of these criteria. Potential beneficiaries identify them as unfair, meaningless, unrelated to a given sub-measure, based on historical statistical data that do not reflect reality, not taking into account the specificity of the industry. It is also too long time of examining applications (about 6 months from the moment of submitting the application to the moment of signing the co-financing agreement), too difficult procedures of applying for funds (very high level of bureaucracy, including the necessity to submit the paper version of the entire application), overly complicated rules for the settlement of projects (expenditure eligibility rules are too complex) and incompetence of officials. Beneficiaries also indicate the lack of appropriate programs tailored to the needs of entrepreneurs, low diversity or even absence of non-innovative investment programs, a large number of required collaterals, high costs of obtaining funds and low level of accumulation capacity (limited investment capital).

A very important issue that does not allow to finalize the project in the planned time is the tendering procedure and competitiveness principle. Beneficiaries are not able to select contractors effectively, the procedure by direct agreement is burdened with high risk, the price is still the most important criterion.

In the case of local government units, there is a lack of well-qualified employees, low involvement of the authorities in the creation and implementation of projects (in some cases projects are considered as a problem, not an advantage), conflicts related to additional duties of employees delegated to the project.

The problem is also the ambiguity and instability of Polish law and the interpretation of EU regulations, adverse legal regulation (including labor law), complicated guidelines for tenders, frequent amendments to legal acts, numerous changes to implementing regulations and the obligation for the contractor to possess many formal documents e.g. quality certificates, attestations.

Beneficiaries also criticise the problem of partnership in a project that is currently additionally awarded in the assessment process. Many of them emphasize that independent implementation of the project is much less risky, because the partner can always withdraw from the contract.

Despite many barriers, more and more applicants submit applications. Approximately 3/4 of applications that were submitted by companies in the previous perspective, received EU funds and implemented projects. Novices are afraid of application procedures. From their point of view barriers seem insurmountable. That's why they prefer long-term accumulation of equity instead of a hard and available but attractive source of financing.



THE REPORT of the VIth International Scientific Conference Development of the Financial Services in Tajikistan and Poland

Karol Wojtowicz*

On December 26-27th, 2017 was held the 6th International Scientific Conference – Development of the Financial Services in Tajikistan and Poland. Co-organizers of the event were the Ministry of Education and Science of Tajikistan (МИНИСТЕРСТВО ОБРАЗОВАНИЯ И НАУКИ РЕСПУБЛИКИ ТАДЖИКИСТАН), Tajik State University of Commerce (Таджикский государственный университет коммерции), and the Department of Finance and Banking, University of Warmia and Mazury in Olsztyn.

The Conference was attended by over 40 people, including representatives of the Ministry of Education and Science of Tajikistan, the scientific community TGUK in Dushanbe and the UWM in Olsztyn, as well as representatives of business practice. Participants, for the sixth time, had the opportunity to present the results of scientific research, exchange views and discuss current problems related to the financial market of both countries. The main goal of the Conference was to identify needs and determine the directions of development of financial services in Tajikistan and Poland.

The conference was opened with speeches by prof. Rajabov – Pro-Rector for Science and

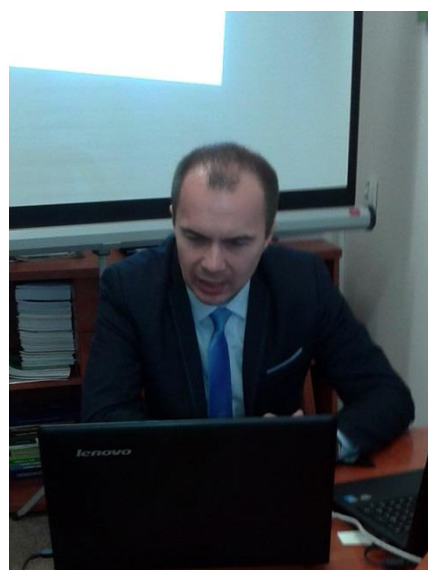


Innovation of the Tajik State Commercial University and prof. Buszko – Head of the Department of Finance and Banking UWM in Olsztyn. Prof. Buszko introduced the participants, presenting the threats related to the financial services market resulting from the functioning of the shadow economy. In his speech on the critical approach to the traditional way of measuring the shadow economy, he pointed out the positive and negative aspects of selected methods. The main aim was to present a new proposal to measure the shadow economy, which, as the Author emphasized, should be treated as an attempt to improve

* Karol Wojtowicz, PhD, Department of Finance and Banking, The Faculty of Economics, University of Warmia and Mazury in Olsztyn.

the existing tools and focus on solving problems related to the shadow economy.

In the next speech, prof. Rajabov referred to selected approaches for forecasting financing health care in a market economy (Некоторые подходы к прогнозированию финансирования здравоохранения в условиях рыночной экономики). He emphasized the important role of forecasting the national economy, while pointing to the existing needs in some areas, especially in the health care sector. The Author pointed out that up to now, in the health care system in Tajikistan, the activities of medical institutions were planned by higher-level bodies. However, in recent years, due to the sharp reduction of budget resources and the aggravation of internal contradictions in the healthcare system, there have been difficulties in planning the activities of medical institutions, with the exception of those financed from the allocation of budgetary funds. In the conclusion, the professor stressed the necessity of verification the state of the health care system, and then based on the forecasts, he postulated the development of priority directions for the development of the medical services system in the Republic of Tajikistan, its regions and cities.



In turn, dr Szydłowski presented the results of research on the impact of monetary policy on the capital structure of small and medium-sized enterprises in Poland. He gave special attention to one of the basic monetary policy transmission channels – the interest rate. Dr. Szydłowski showed the relationship between the central bank's interest rate volatility and the capital structures of enterprises. The increase or decrease in interest rates caused changes in the analyzed financial ratios. He also pointed out that these trends were also observed in relation to other financial instruments, including leasing, factoring and bonds.

Issues related to the development of small and medium-sized enterprises were also raised by Zoirsho Sultonov. The Author focused on the need to create an effective infrastructure system to support the development of small and medium enterprises (ФОРМИРОВАНИЕ ЭФФЕКТИВНОЙ СИСТЕМЫ ИНФРАСТРУКТУРНОГО ОБЕСПЕЧЕНИЯ РАЗВИТИЯ МАЛЫХ ФОРМ ПРЕДПРИНИМАТЕЛЬСКОЙ ДЕЯТЕЛЬНОСТИ). He pointed out that the creation of an effective infrastructure system and the development of recommendations will significantly improve small business activities development. But it requires research on the role and importance of financial and credit infrastructure. In his speech, Sultonov stressed that an effective infrastructure for supporting entrepreneurship should ensure, i.a.: increase in income

and reduce risk, create new jobs, as well as reduce the shadow economy and administrative barriers.

The last presentation of the session concerned the alternative possibilities of capital allocation. In his presentation, dr Wojtowicz referred to issues related to the benefits and



limitations of investing in alternative assets. The Author presented a case study of investment in wine, and the main goal was to assess the profitability and risk of alternative investments, as well as the possibilities of diversifying the investment portfolio.

At the end of the session, Professor Buszko and Professor Rajabov thanked all the speakers, as well as other participants and organizers for their involvement in the preparation of the Conference, and then submitted New Year's wishes.

The conference was not only an important scientific event but also create the opportunity to integrate the scientific community of Poland and Tajikistan. The Organizers and Participants expressed their will to organize the next edition of the Conference next year.



INFORMATION ON the Scientific Conference “Local Governments and Local Development in the 21st century – Experience and Prospects”

The scientific conference titled Local Governments and Local Development in the 21st century – Experience and Prospects, which took place on 21st to 22nd September 2017, had been organized by the Department of Economics and Regional Policy in collaboration with The Marshall's Office of the Province of Warmia and Mazury, Department for the Coordination of Promotional Activities. The conference was held under the aegis of the Rector of the University of Warmia and Mazury, Prof. dr hab. Ryszard Górecki, and the Marshall of the Province of Warmia and Mazury, dr Gustaw Marek Brzezina, and provided media coverage by the Polish television channel TVP3 Olsztyn.

The conference was attended by representatives of fifteen science centres from Poland (The Białystok University of Technology, The Koszalin University of Technology, The SGGW Warsaw University of Life Sciences, Warsaw School of Economics, Poznań University of Economics and Business, Jan Kochanowski University in Kielce, Cardinal Stefan Wyszyński University in Warsaw, The University of Life Sciences in Poznań, The University of Life Sciences in Kraków, Szczecin University, Białystok University, The University of Warmia and Mazury in Olsztyn, the Pope John Paul II State School of Higher Education in Biała Podlaska) as well as representatives of local governments, business environment institutions and entrepreneurs.

The conference was divided into two parts: a discussion panel and a series of discussions held in several sections. The first part, titled Efforts for the Improvement of the Efficiency of Local Governments in Basic Activity Areas, enabled an exchange of opinions between researchers and people engaged in real-life practice, that is representatives of the local government authorities, the Regional Audit Office, The Warmia and Mazury Agency for Regional Development, the Polish Agency for Investments and Commerce, Ministry of Internal Affairs and Administration, and The Suwałki Special Economic Zone. The second part was dedicated to discussions on reports which revolved around three main axes, i.e. local development, institutional efficiency of local governments and local governments in relation to their surroundings.

One of the objectives of the conference was to present selected results of the research funded from the grant *Institutional Efficiency vs. Local Economic Development* -

Determinants and Interactions^{*}, awarded by the National Science Centre, which was headed by dr hab. Renata Marks-Bielska, prof. UWM, and participated by dr hab. Wiesława Lizińska, dr Karolina Babuchowska and dr Magdalena Wojarska.

For the purposes of the above project, it was assumed that an efficient local government is one which aims to improve the socio-economic situation and to this aim it employs the endogenous potential of a given community to the highest possible degree, using an optimal combination of various tools. It builds partner relationships with a variety of categories of stakeholders (entrepreneurs, residents, potential investors, non-government organisations), and is able to respond promptly and competently to the needs they signal. An efficient local government sets aims skilfully, while engaging the local community in this process, and once the aims are defined, it undertakes decisions promptly and without undue delay so as to achieve the set goals. An efficient local government is also able to respond appropriately to exogenous factors – it can fully take advantage of opportunities and minimise the impact of threats as much as it is possible.

For a local government to be a carrier of development, it must attain an adequate level of effectiveness in its executive actions, which among other things depends on possessing adequate administrative capacity. Moreover, to meet this challenge, local governments must be very active, particularly because their daily operations collide with constant shortages of funds and other resources, including real assets and human labour. This is the reason why we must continue to search for solutions which will allow municipalities to act more efficiently. Thus, the research which can contribute to the improved institutional efficiency and socio-economic development on a local level seems both important and useful, while the transfer of knowledge from science to local governments is justifiable and essential.

[Detailed research results are contained in the Research Report and accesible on: http://www.uwm.edu.pl/konferencjakpgir/pliki/raport_z_projektu.pdf]

Research Team

^{*}Project was financed from the funds of National Centre of Science according to decision number DEC-2013/09/B/HS4/03039