

BANKS AND THE FINANCING OF GROWTH POLICIES CONTEMPORARY MODELS OF SOCIAL AND ECONOMIC DEVELOPMENT

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ABSTRACT

The terms ‘development strategy’ or ‘development model to be supported’ are increasingly taking a greater place in the political debates on the economic and social level of Albania, as well as in the Albanian government programs and policies, donors’ recommendations and suggestions, the analyses on credit performance and orientation, the financing priorities, etc. It is clear that this does not represent only an element of vocabulary modernization or a conformity with contemporary concerns in relation to economic and social policies, but it also constitutes a new stage and poses an essential question that Albania faces: which is the best social and economic development strategy in front of the challenges of integration and the effects of globalization, what are the most effective ways of its financing, what should the role and orientation of the banking system be with regard to the financing? At present, the National Strategy for Social and Economic and Development (NSSED) and the medium-term budget plays the referring and synthesizing role of this process, with a greater involvement and significant role of all the banks that are the main crediting sources for economic growth and development.

At present, Albania faces the challenge of achieving a sustainable economic growth and the most effective ways for its financing.

Many issues require analyses, answers and concrete proposals: Are the directions of financing consistent with a consolidated and long-term development model? Do we employ the financing sources in conformity with our development priorities? Does the adequate partnership among the development actors, businesses and banks exist? Do our monetary instruments and policies ensure the achievement of the priority development objectives?

The purpose of this paper is to analyse the evolution of the contemporary models of economic and social development, seen in the light of world experiences, conceptualization challenges, as well as in the context of the implementation of an efficient system in Albania. Above all, the cooperation and the establishment of an institutional dialogue between banks, businesses and politics with a view to harmonizing the monetary, financial, economic and social policies in order to find and support the best development model for Albania is crucial. Financial stability and economic growth are increasingly representing two elements that should be stabilized as much as possible.

Banks continuously require specific information with regard to the sectors of economy where it is invested and projected to invest in the framework of a long-term development vision. This information would assist banks in the process of examining the demands of the economy and business and at the same time, would assist them in programming their business future.

In this framework, the central bank is not only an institution that 'combats' inflation, but it is also the most important financial institution with a considerable effect in the development of economy; it is an institution that ensures a favourable climate for business development, for the promotion of domestic and foreign public and private investments, for crediting, etc. It ensures a positive climate for the long-term development programs, for the economic policies that are in conformity with the NSSED, the Millennium Development Objectives, the European integration, etc., and it also coordinates and harmonizes monetary policy with fiscal policy as well as the economic policy with a view to developing the economy based on its role as a partner and counselor to government.

THE EVOLUTION OF THE CONCEPTS AND 'DEVELOPMENT MODELS'

At present, all the countries around the world and particularly the developing countries are deeply reflecting on their strategies and policies towards economic and social development under the effect of the phenomenon of globalization and exposure to the Western developed economies and societies. Meanwhile, the 'development concept' itself as well as the ways in which the basic theories on the development or experiences of the wealthy Western capitalist countries have been absorbed from various states and nations, lies at the core of all debates. The issue of designing the 'development model' still poses a big question for many countries or international institutions, and it is normal that in Albania too debates and suggestions of any kind tend to give an answer to this relevant issue.

The issue of the development model and of its theoretical basis – 'the development economy' – emerged as a new branch of economics after the 1950s. The works of the first 'pioneers' focused on two directions: some of them considered the non-development only as a time lag in the process of development; whereas another group called 'structuralists', saw non-development as a historical phenomenon connected to distortions and misbalances in the production structures. The proposed solutions were of an interventionist nature: centralised state projects, strategies of replacing imports (despite their costs) with domestic products. But during the period of 1960-1970, debates on the reasons of non-development and its best model moved toward the idea that 'non-development is a consequence of the big and developed capitalist countries' dominance on the poor ones' and as a result, their development was impossible without their 'consensus' and support.

Just at the end of this period, the theories of 'interdependence' between economies, of the 'center-periphery' relations, of the 'unequal exchanges', flourished. But the slowing down of the global economic development after the 1970s and 1980s, accompanied by the so-called 'debt crisis' generated by the adoption of liberal monetary and financial policies, put an end to the illusions created by interventionist policies and prepared the ground towards typical liberal policies. Time

had come to put into practice the 'Washington consensus' which could be summarized by the sentence: development credits can be granted by the World Bank or other financial institutions only in the cases where the financial rigid criteria of the International Monetary Fund are applied. The 'structural adjustment' conditionality, the main objective of which was the integration of the developing countries into the global market that was quickly expanding all over the world, constituted the core of these policies. Albania initiated its first reforms during the period of 1992-1995 within this context. But the reality of the end of the 20th century put into evidence many essential problems in relation to the desired development objectives. Approximately 3 billion people live on less than 2 USD per day; over 880 million among them are starving on a continuous basis every day; the seven richest persons in the world possess financial assets with a value greater than the one of the 49 least developed countries taken together, inhabited by more than 650 million people; it is estimated that it will take 130 years to eliminate poverty in the world if present growth rates persist, etc. Many natural disasters should also be added to these facts that show the failure of the proposed models for a fast and balanced development of the poor countries, only to complete even more the picture of a global economy that has the immediate maximum profit as its own objective.

In front of this situation, at the end of the 20th century, many reactions emerged on debates with a focus on economic and social development.

Firstly, the financial international institutions themselves, and particularly the World Bank and the International Monetary Fund - partisans of liberal policies and structural adjustment – introduced the concept of 'good governance' and the fundamental objective of 'struggle against poverty' into their practices. The credits granted by these institutions are being increasingly conditioned on successes in the fight against corruption and poverty reduction. Within this global context, Albania has prepared since 2001 its strategy on economic growth and poverty reduction (GPRS).

Secondly, the United Nations and UNDP, in total unanimity with more than 150 Heads of State launched the global development

objectives called the 'Millennium Objectives' and endorsed the theory and practices of 'sustainable development' as the main instrument. Poverty reduction and the economic, social and environmental development of each country constitute the core of this global platform. Albania is one of the signatories of this global movement and through the NSSED, is trying to show progress towards the mobilization of all potential sources with a view to achieving these objectives.

Thirdly, in disagreement with these trends, another movement, considered as a 'refuser' of this global trend, emerged during the last years in many countries, arguing that the proposed development models are specific to the West only and point towards increasing its economic, political and cultural dominance on the rest of the world. The supporters of this movement seek the cancellation of the agreements with the World Bank, IMF and WTO, the termination of cooperation between their respective governments and these institutions, the design of policies that are completely independent from global trends and consensus, the proposal of original development models, etc.

THREE ESSENTIAL QUESTIONS ABOUT THE ECONOMIC AND SOCIAL MODEL IN ALBANIA

As for Albania, what would be the most appropriate model of economic development, considering that a global and national experience of more than 50 years exists? It is hard to have a final solution but at least we could try to give an answer to three of the essential questions of an economic model.

1. Economic growth or socio-economic development? What are the mechanisms that transform economic growth into development and can economic growth be considered as the predecessor of development? Hence, we should exactly define the content of growth and the way of its distribution in various parts of territory and population. Albania has carried out a substantial change in this regard. In all debates and documents of a strategic or development nature such as the NSSED, the pride of only being

satisfied with the stability of the growth macroeconomic indicators is being increasingly replaced by the use of real economic and social development indicators such as: the percentage of the poor and of the very poor, the indicators of the satisfaction of the basic needs of population, the indicators of the main education and health services, the development of infrastructure at all its levels and categories, etc. The deepening of this trend with respect to the planning, implementation and analysis of the effects related to the use of the public and private funds accompanied by their structural reallocation would consolidate a good model for the future development of the country. An impulse would be given to the country's development if politics, academic circles, civil society, media, various analysts, etc. would intensely focus on the discussions and debates that tend to answer to the basic questions and challenges of development.

2. Refusal of the international organizations' prescriptions or complete partnership with them? There are many cases where in the name of a cultural and geopolitical relativism or economic innovation, the conditions of international organisations on the issues related to development are considered as 'obligations' or 'tutelage' for the development of the country, even suggesting the growth of 'resistance' or the non-implementation of mutual agreements. It is clear that each country is sovereign with regard to its choices, but under the conditions of a global economy as well as of an increasingly economic and financial interdependence of all countries in the world, what is mostly required is a world of clear rules as well as the enhancement of transparency and of the regulatory and controlling role of some international institutions (World Bank, IMF, WTO, etc.). The guarantee provided by them in the international arena in respect to the stability and seriousness of the reforms implemented in a certain country as well as the benefits from their global experiences create opportunities for a growth in investments and international capital in these countries. The opposite choice would pose many question marks for each country that would seek in an adventurous way for a utopian individual path outside the international context and global trends. Therefore, a combination of local, national and regional alternatives with a real partnership with these international organizations would increase the credibility of that country and create real opportunities for a rapid and sustainable development.

3. How should we define the relations between enrichment and development? Should we continue to consider the improvement of the revenue per capita as a basic indicator of the economic and social development? And if the answer is “no”, what should be the role of non-monetary indicators, public services, non-governmental commitments, etc. in our debates and strategies on development? The most recent indicators used nowadays to define development and welfare are more significant than the GDP per capita or the level of wages and pensions. We may mention as such: the human development indicator, Gini indicator, public health indicator, economic, social and environmental enrichment indicator, sustainable development indicator, social inequality coefficient, deepening and aggravation poverty indicators, etc. There are exactly these indicators that characterize in a synthesized manner the economic and social development of a country. Therefore, all those persons involved directly or indirectly in the programming or decision-making debates and structures should include these indicators in their analyses and proposals while talking about or projecting Albania’s prospective development model. And this should not be considered as a modernization of terminology or as an expression of knowledge, but it should above all be considered as a concrete endeavour to understand and acquire them and later, to improve the whole statistical and institutional system of the country towards a positive performance of these indicators.

RELATIVITY AND COHERENCE ON THE EVALUATION OF DEVELOPMENT MODELS

The opinions and proposals on the economic systems and development models should be seen in the context within which they emerged or were implemented as well as within their theoretical and scientific framework, meaning the school or the trend they belong to. This happens because nowadays there are many schools or trends of economic thought and platforms on development in the world, which are materialized in specific economic and social policies in various countries and among various populations. Proposals or recommendations that are formulated more or less in the following way (with the exception of providing additional

information and of satisfying reader's curiosity): granting absolute power to the market combined with the Hong Kong's experience on the type of government, with the Chile's experience on the economy, with Nordic social policies, etc., are not considered as real or all-embracing. This can be compared to reading (and understanding) of a text where 4-5 very different types of alphabet have been used. Let us illustrate this concern by using three examples, which show that talking about specific parts without referring to the entirety does not have any positive concrete value; on the contrary, it contributes to the intellectual confusion and to the media and political debates.

When we talk about poverty in Albania, the main argument we use to show how much poor we are is only 'per capita revenue', dividing the population into some groups and meanwhile, we propose concrete measures and policies in a field where other indicators, measures and points of view are required. To be more concrete, there are today in the world three basic schools that analyse and interpret poverty.

The 'economic welfare' school, particularly preferred by the World Bank, according to which it is the level of economic welfare, that is income, that determines the level of consumption and satisfaction of individual needs; the 'basic needs' school, which holds the view that poverty is measured by using a certain level of access to food, drinkable water, health and education services, housing conditions, transport etc.; the 'human capacities' school, recently preferred by the UNDP and some world-famous personalities, 'Nobel prize' winners in economics or social sciences, according to which, a person who does not possess the necessary development capacities in order to be able to be involved in and to benefit from all the economic, financial and social opportunities in the environment where he lives, is considered as poor. Hence, these are the three types of 'glasses' used in the evaluation of how much poor we are, and more significantly, what are the best policies on the fight against poverty. Reducing poverty does not mean only increasing the revenue per capita, but also improving the services for basic needs and above all, enhancing human capacities in order to be able to escape from poverty. Only by combining all these elements, we will estimate the poverty scale in a realistic way, we will propose real and concrete policies or promote and orient the credits and investments of all sorts in a proper way.

A worrying issue in this context is also the content of the various programs in our universities, particularly those that are related to economics, finance and development policies. Many of them are not much coherent with firmly established contemporary socio-economic schools and trends. For example, if a lecturer of macroeconomics has studied in an Anglo-Saxon country or in a faculty chair with liberal or neo-liberal inclinations, he will recommend that the market is omnipotent, that state intervention in the economy should be as minimal as possible, etc.; but if a lecturer of microeconomics has studied in another chair which is oriented towards regulationism and interventionism, he will argue that state should be present in the economy, should follow supportive policies, etc., whereas another one who prefers the institutionalist or neo-institutionalist school will give priority to the fact that institutions and their functioning quality are the key of success, that relations between individual freedom and institutions are determined by the institution's performance, that state and market are institutions like many others in a modern society and as a consequence, they should be seen in a single and comprehensive model, etc., and finally, as regards the subjects that cover the development policies, someone having a penchant for Riccardo explains the classical theory of the comparative advantages and the magic effect of market regarding the allocation of resources, whereas another one more familiar to the problems of globalization highlights the fact that nowadays, comparative advantages are created by specific and concrete policies, depending on the new concepts of labour division on a worldwide scale, on the region where a country is situated, on the scale of opening and integration of each country, on the strategic choices or human capacities, etc. As a result, we can easily come to the conclusion that how much coherent will this student be when he completes his studies and is involved in the decision-making or in the debates and proposals on governance and the country's development. Even though we are a small country, it's time to better specialize and model our higher schools in their proper curricula, regarding the trend or school of thought they prefer, and if this is difficult for the time being, at least it should be more clearly put into evidence that there is no single solution, or even worse, there are no 'mosaic' choices as far as a development model or a package of economic and social policies is concerned, but there is a complex system starting from A to Z, which is completely coherent

with its elements. Then, it's up to politics or to a broader social and national consensus to decide which model and policy will be the most favourite in a given moment.

We don't talk very much or at all about the specific 'post-transition' situation and Albania's European integration process seen in its complexity. We have already switched from the stage of the implementation of the 'structural adjustment' policies started in 1992, which intended above all to reduce the budget deficit, to control inflation and to create a free market, in a new stage of economic policies, which mainly deal with structural transformations and a sustainable social and economic development. And all this is accomplished within an intensive context of the adoption of European norms and standards. To join Europe means, *inter alia*, to establish and consolidate a capitalist social and economic system. But, have we ever posed the question: Which is the most appropriate capitalist model for Albania? Everyone could say that it is the « European model ». But, it is not so. Capitalism implies some basic principles and rules, which constitute its core, but on the other hand, each country creates its own profile of capitalism based on its specific choices. France has chosen the model of 'state capitalism', Germany and the Nordic countries that of 'social democratic capitalism', the United Kingdom the model of 'liberal Anglo-Saxon capitalism', etc. Therefore, our experts and politicians should not restrict each debate, analysis or proposal to only some particular elements of the model such as: the market, individual freedom, comparative advantages, social policies or the role of state and its involvement, but they should consider the model in its entirety. This becomes even more important if we take into consideration the fact that we have built the 'market economy', and we have just start to build capitalism and profile its 'model'. And this model does not only start and end to the market and individual freedom, but it is needs to be evaluated and crystallized by also taking into great consideration the establishment and consolidation of specific institutions, the strengthening of democracy and of the legitimating of all the development actors, the political dynamics as well as the psychological factors and the historic memory of each country. Hence, before referring exclusively to a particular element of the model or only to a school of thought such as the 'ultraliberal' one, let us consider more the comprehensive point

of view of the model or of the system, the comparative historical and geographical analysis as well as the experience and problems faced by the other Central and Eastern European countries that have already been integrated into the European Union, which also constitutes our national historical objective.

LONG-TERM VISION AND THE STRATEGY SEEN AS A PERSPECTIVE

The definition of a long-term (15-20 years) vision of the social and economic development represents the main challenge for Albania. Through observing the basic trends of the economic policies that have been followed (the macroeconomic stability, reduction and elimination of absolute and relative poverty, reduction of trade deficit, promotion of domestic production and the strengthening of private sector, the institutional strengthening of the public and non-public institutions, etc., and all these seen from the European integration perspective), it must be intended to define some concrete indicators of this long-term (15-20 years) vision on development. The major part of these indicators should find the consensus of the whole Albanian political and scientific spectrum and simultaneously, should constitute the main path of development as well as the priorities of the medium-term and long-term strategies and budgets, etc., without being influenced by the changes in the political orientation of governance. This will make the typical statement 'the harm of each development strategy consists in the limited terms of government', found in the majority of the books dealing with strategies, start having only some warning and pedagogical values instead of concrete effects.

Albania needs to crystallize a development model that is appropriate for its concrete conditions and situations, and should make it part of the activity of all its structures and institutions. We should give as soon as possible an answer to the selection of the strategic model to be adopted:

(i) a balanced or proportional development, which implies a proportional distribution of financing and investments in all sectors

of the economy, whereas the realization of a 'Big Push' would require an active state intervention in the framework of a complex development program and of substantial financial sources, including the big question: should we develop all the sectors or should we concentrate on those sectors that present a comparative advantage in the context of the opening to the regional or global economy ?; or

(ii) a misbalanced development, which implies a development in several stages, with selective priorities concerning domestic financing and foreign investments. This type of selection has produced very good results in those developing countries that have privileged the opening of markets and their rapid integration into the global economy, but on the other hand, they have faced also strong social tensions and political crises.

While defining this strategic model, we have to take into consideration three principal points: (i) opening a wide debate between specialists, experts, academicians, civil society, etc., on the definition of this model; (ii) conducting a detailed national study on the growth factors and the real potential for the development of the country; (iii) establishing a specialized institution for the design of strategic development policies and the coordination of this process on a national level. In its development process, Albania should start to consistently implement the principles of 'sustainable growth' and should make them a part of the everyday thinking of development. The territorial development logic, otherwise known as the horizontal thinking, should be privileged more than the sectoral or vertical thinking that prevails nowadays. This also requires a change in the structures and in the activity of public and non-public institutions themselves in order to give more room to the institutional thinking of the 'cross-cutting' type. The better and stricter coordination of donors, of financing and foreign assistance, etc., constitutes another factor in favour of the balanced and sustainable development.

SUSTAINABLE GROWTH AND THE ORIENTATING AND STABILIZING ROLE OF THE FINANCIAL SYSTEM

In an evaluation on the performance and the problems of transition in Albania conducted by the World Bank (2005), while expressing

its optimism about the economic performance of Albania, the World Bank raised also its concerns about the maintenance of the sustainability of this growth in the medium and long run. Even though Albania has had an economic growth of 6 per cent during the last 7-8 years, representing the highest growth rate in the whole Eastern Europe, an in-depth analysis of economic growth and its trends shows that it should be seen in the context of two aspects or factor groups: extensive and intensive ones. Based on the World Bank report, it is estimated that after a long transition period, Albania is approaching to the end of the extensive exploitation of the resources and factors that condition the economic growth and naturally, we pose the question: what should be done in order that this growth remains as much sustainable in the future? Intensive factors such as the growth of the capital accumulation rate, the promotion of investments and not of consumption, deep structural reforms, the deepening of the economic opening and the increase in the competitive capacities, the deepening of fiscal discipline, the transfer of the growth effects into poverty reduction, the improvement of education quality and professional training, the improvement of public infrastructure, the quality of institutions and good governance, etc. should be privileged more, as far as current and future reforms are concerned.

The banking sector is playing an increasingly significant role in the encouragement of the economic growth in the country. Only during 2004, banks have extended approximately ALL 100 billion new credits, giving so the necessary 'fuel' to the economy, although this amount is still not sufficient to sustain the dynamic requirements of the Albanian economy. During the last year, the crediting system highlighted two very positive phenomena: first, the growth in the credit in Lek, which already represents about 33 per cent of the total amount. The growth in the weight of the credit in domestic currency constitutes a positive development because it represents a growth in the participation of the major part of the monetary assets of economy in supporting the production and trading activity. At the same time, this development will be accompanied by the improvement of the efficiency of monetary policy, which will have a more rapid and direct effect on economic and financial markets; and second, the growth in the credit to the production businesses and the relative decrease in the credit to trade activities represent a good basis for the economic

growth in the future. Hence, the trade sector has absorbed until 2002 more than 40 per cent of the total credit granted by the banking sector, during 2004 it absorbed only 23 per cent of this amount, whereas the credit to the production sectors and new technologies expanded considerably. The positive trend of this structure relates to the sustainable economic development, in which the production businesses are considered as the backbone of the economic growth. At present, a more positive atmosphere prevails in the relations between banks and businesses, which are developing in the direction of the increased crediting to the economy. Banks are increasing their presence all over the country and are being consolidated, banks are trying to be healthy to the largest possible extent and are reinvesting their capital in technology, and what is most important, they are creating a wide payment and service network, aiming at reducing as much as possible cash in the economy as well as the informal economy.

The achievement of a sustainable economic growth, expected to be 6 per cent for the medium-term period (2005-2008), is ambitious but nevertheless realistic, since within the framework of the NSSD the objective is based on specific policies that aim at encouraging the economic growth, better mobilizing the basic sources of growth as well as reducing the obstacles that have a negative impact on it. In concrete terms, as it was also pointed out in the last report of the World Bank, the economic growth in Albania continues to be determined by some principal factors such as: the macroeconomic stabilization, the performance of structural reform implementation, the level of productivity in some of the sectors that affect significantly the GDP, the effects of immigration and remittances, etc.

In this context, bearing in mind the trends observed during the last 3-4 years, we might realize a positive trend that is expected to continue in the medium-term period (2005-2008).

(i) Macroeconomic indicators, not only have become stabilized but some of them are expected to improve: inflation is expected to be kept under total control within the 2-4 per cent targeted range, internal and external debt be further reduced, Lek's value be constant, budget deficit against the GDP be decreasing, provision of better

fiscal stability and performance as well as main support ensured by tax revenues, increased level of national savings, etc.

(ii) The achievement of important structural reforms such as: the privatization of Albtelecom, Armo, BIA, etc., reforms in KESH (Albanian Electro-energetic Corporation), privatization of INSIG (Insurance Institute), restructuring of some important public enterprises, reduction of barriers to investments accompanied by institutional reforms, continuous improvement of economic and financial statistics, etc.

(iii) It is expected that in the future the Albanian economy be credited by 30-40 per cent more each year; some of the principal commercial banks such as “Raiffeisen Bank”, “Tirana Bank”, “ProCredit Bank”, etc. have projected high amounts of credits to be extended mainly to businesses, starting from 2005 and beyond, in the fields of trade, industry, construction and food processing, thus supplying the ‘motor’ of economy with the necessary ‘energy’.

(iv) Some of the relevant sectors of the economy are expected to follow the positive trends of 2004, for example: tourism, which increased by 15 per cent during 2004, is expected to continue growing; the mineral extraction industry of chrome, copper, etc., which are returning to exports again; the production of steel, iron; the growth in the imports of machinery, equipment and technology during the last 2-3 years; the increased surfaces of greenhouses, vineyards and fruit plantations, etc.; the support from the EU, Germany, Italy and many other countries for the business, SMEs, decentralization, services, etc., is expected to continue in the future, and finally, though they will show a long-term downward trend, immigrants’ remittances are not expected to experience negative changes in the short and medium run.

The main challenges to the long-term sustainable growth are as follows: the balanced distribution of its effects in all the regions of the country and among various groups of population; direct impact in poverty reduction; the achievement of growth through the mobilization and involvement of many sectors, activities and branches of the economy, such as the development of agriculture and agro-

industry, etc. Meanwhile, some of the risks and obstacles that should be taken more into consideration or that should be minimized are: the negative impact of political tensions; the still low competitive capacity of the Albanian economy; the efficiency in transforming the process of trade opening and liberalization into a sustainable economic growth; the elimination of the market informality and the enhancement of market institutionalization; the creation of a competitive environment for businesses; uncertainties about land property; good governance in the wide meaning of the term; the level and the absorbing capacity of foreign direct investments; the level of banking supervision; delays or deviations from the pace and degree of structural reforms, etc. A potential risk that could harm the growth rate is the non-favourable conjuncture of the global economy, the oil price, the prices of the strategic raw material, interest rates, etc., which are expected to rise, thus increasing even more the competition in the international markets and as a consequence, affecting, directly or indirectly, the whole Albanian economic and financial system.

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ENDNOTES

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