

## **SOCIAL CAPITAL AS A FACTOR FOR ECONOMIC DEVELOPMENT: THE CASE OF THE REPUBLIC OF KOSOVO**

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### **Abstract**

*The economy as science during the journey has had evolution in time along with the demands of industrial and human development. Economic theory until recently has recognized as a factor of economic development the soil, capital and labor but over time as the fourth factor was added human capital as a common denominator for economic development. Human capital as a factor of economic development depends on the professional level and at the same time the social values, in order to give a positive effect on the microeconomic and macroeconomic level. In developed and developing economies, social capital has been a key factor in long-term development because it creates trust and awareness of human capital in the workplace, by working in accordance to the accountability and responsibility in the assigned tasks. Kosovo as a state in the first steps in the market economy with full competition in international and domestic relation, the social capital has been a key factor in economic development. Kosovo has potential for economic development and stability, but the stagnation in economic development based on their reports, has been due to the lack of human capital, adequate professionalism for the workplace and lack of awareness of the task given, and this is evident both in the public and private sectors. Given the importance of social capital, we will try through professional literature and professional reports to contribute in conclusions and recommendations as a scientific contribution to relevant institutions, interest groups and scholars.*

**Keywords:** *Economic Development, Social Capital, Republic of Kosovo, Reliability, Human Capital*

## INTRODUCTION

The issue of economic development took an essential place in classical and neoclassical theory. Moreover, nowadays contemporary economic theory places a particular importance on issues related to economic development. However, in spite of that, in economic theory, there is still no definite definition of what is meant with economic development. Economic development is conditioned by various social, political, economic factors, etc., which, to a large extent, make it harder to define specifically what it means. However, what we firstly need to understand with economic development is the development of a country's production forces. Thus, economic development expresses the level of output of the production forces on a national economy for a certain period of time. Therefore, if at a given period a country has reached a high level of production power, we claim that such country is an economically developed country and vice versa. There are opinions that besides the above mentioned indicators the economic development is also expressed and presented through other economic and social indicators, eg. employment rate and unemployment rate, illiteracy rate, health status, etc. This derives from the fact that the economic development of a country does not only represent the height of the social product and the national income for a resident, but also their formation and economic structure. If a country has a high social product or the highest national income for a resident in the world, this does not mean that country is also the most developed country worldwide. Thus, in 1995, Switzerland had a social product per capita of \$40,630, through which it was ranked as the highest in the world, and for the same year the corresponding value of the social product for the US was \$26,980. However, this does not mean that Switzerland at the same time represents a more developed country economically than the United States. (Limani , 2008, p. 89)

### Economic and social development

Economic and social development has to do with the whole positive changes (technological, demographic, social, sanitary, etc.) that are present in a geographic region (the world, the continent, the country, the region, etc) (Shuperka, 2012). P. Samuelson stresses that "regardless of the economic development of the country, these are the main factors influencing economic development:"

1. Human factor: education, motivation, labor supply,
2. Natural resources: minerals, soil, groundwater,
3. Capital formation: equipment, facilities, roads,
4. Technology: science, technology, leadership, entrepreneurs (Samuelson, D.Nordhaus, 1992, p. 697)

## **The role of human capital in economic growth and development**

Recent empirical studies on neoclassical theory and that of the endogenous growth emphasize the role of human capital in economic growth. Human capital is produced through formal education and informal training, as well as work experience. The problem for developing countries lies in the fact that it is extremely difficult to accumulate factors of production, physical and human capital, at low levels of income, which is a characteristic for these countries. These countries have problems with ensuring the well-being, and at times the bare minimum. In a country where one has to "fight" for existence does not promise favorable results. (Dornbusch, Fischer, 2000, p. 268)

Such situation lies in Kosovo, where a large number of scholars have no incentive to return to work in their country. The so-called '*brain revival*' thesis does not work, for the reason above mentioned, and due to some other political factors, as well. In spite of this, empirical evidence (evidenced in developed countries) supports the idea that investment in human capital, education and training yields results in practice and affects the growth rate at least for a transitional period. The government as a maker of macroeconomic policies should form a relevant institution that will take care of the development of the vital economic sectors, which are lacking behind at the moment, for instance: investments in the development of science, and technology, in order to equate the economic and social standards with the developed countries. This is achieved by investing in the development of well-trained staff in relevant areas, since this investment contributes to the future of the country's economic development. (Sistemi i arsimit dhe zhvillimi ekonomik i Kosovës, 2004)

Social capital is an essential factor in the process of human, social and economic development. This concept is becoming increasingly dominant in the context of public policy analysis, and development strategies. The definitions and perspectives of social capital are of the most varied but in a more general sense, it is defined as the capacity and ability of diversified social groups to cooperate and work together in problem solving and the production of common goods. Social capital is considered to be a decisive factor in economic growth rates, welfare level, quality of public health, stability, the social cohesion of a society regarding a state or a territory. (Kapitali social dhe rritja ekonomike, 2012).

## **The theory of investment in human capital**

The motives that pushes a state to undertake the cost of investing in human capital in the form of education varies, since in many countries it is the state that bears such cost. The main reason is that a modern state can not provide a fast economic growth if members of its society are illiterate and do not possess the basics of various sciences. There is an idea that an

investment in human capital, in the form of raising the level of education and in the form of the job training is similar to an investment that is carried out to make an investment in physical capital, for example to buy a car. Adam Smith, in 1776, was the first to note the analogy between raising the stairs, the level of education and investment to buy a car. He stressed that a man who spends a lot of time, hard work, and willingness to learn can be compared to an investment that is made to buy expensive machinery. Similar as the car that will put in place the investment costs and at least ensure a common profit with the work it performs, even the educated man, with the work he will do after his education, must take a higher wage than ordinary wage, in order to cover the expenses he has made for his education and at least receive higher income in the future. A significant part of the investment costs in human capital in the form of education, in many countries of the world, is borne by the state. The laws of these countries require a compulsory investment in education. By law, every individual is obliged to continue school until the age of 16 and firms are legally prohibited by employing children under this age. Addressing the state's cost of compulsory education of children up to the age of 16 enables the acquisition of basic knowledge that all firms need, whether large or small. (Qiriçi, 2005, p. 66)

### **Social capital, an asset and development instrument**

In the last two decades, the role of social capital in the modern society continues to be the subject of research, debate and theoretical discussion. But despite the debates for a relatively new concept, social capital is increasingly becoming formed as an effective social development strategy.

The definitions and perspectives of social capital are among the most varied but, in a more general sense, it is defined as the capacity and ability of diversified social groups to cooperate and work together in problem solving and the production of common goods. If financial capital is deposited in banks, social capital is a "fortune" invested in displaying relationships, interaction and co-operation between different social actors. Experience shows that societies with wealthy social capital are characterized by social cohesion, rapid economic growth, institutional credibility, and sustainable social development. It is social capital that facilitates the mutual interaction between state, business and "third sector" structures, providing financial and financial resources, tools, opportunities and participation of all actors. Social capital is not a static and loose structure. It differs depending on the social, economic, cultural context and the new dynamics of the society's development. Studies and research show that social capital, even where missing or is quite weak, can be promoted, renewed and developed. Good practices evidenced by the World Bank in developing countries prove that in communities

with limited resources, capacities, and assets, social capital can be developed through partnership strategies and synergies between local institutions, community-based organizations, voluntary associations and informal networks extended to the social structure of a community. In this process, the state with its policies affects many directions, but it can not interfere in all the spheres of life where social capital encounters. This is due to the fact that, in many respects, social capital is an overall product of historical-social development, relates to tradition, culture, the role of religion, and other social factors (<http://www.arkivalajmeve.com/Kapitali-social-aset-dhe-instrument-zhvillimi.51037/>).

### **Education as a Poverty Reduction Tool**

Experience in economic development issues from the 1960s to 1980s showed that economic growth did not automatically disappear social inequalities. Consequently, after the 80s of the 20th century, the preoccupations in the field of economic development were expanded from the notion of growth to that of "distributing the fruits of economic growth", extending shortly thereafter in "the preoccupations for the reduction of poverty ". Since 1980, the World Bank stressed that the fight against poverty goes through human resource assessment, which requires particular attention on education and vocational training. But it was UNDP (the UN Development Program) that made a micro-revolution in the 1990s as an indicator of the progress of the nations, the "Human Development Indicator" (IDH), which was not only calculated on the basis of the income of each country, but on the basis of longitude and global education indicators: the level of education and the length of the school years. Opportunity and quality of education became thus a determining factor of economic and social development. Poverty, which by then was only considered as a revenue shortage, under the influence of the work of prominent Indian economist A. Sen was looked at and judged under a different original angle: "as a lack of functional elementary capacities" (Sen 1976).

The limit of "functional capacity" may be "physical", for instance: food, clothing, housing conditions, vaccination against diseases, etc., or subjective as "the right to express opinions", the opportunity to get different knowledge, etc. According to A. Sen, education should not be considered as a quality dimension of life, indispensable after guaranteeing basic needs, nor simply as an "obligatory path" to achieve a certain level of economic growth, but should be considered "as a fundamental right integrated into the entire functional capacity system". According to this viewpoint: a poor person is considered poorly equipped with the necessary development capacities to be able to get involved and benefit from all economic-financial and social opportunities in the environment where he lives. Generally, today it is acknowledged by all that education, besides creating opportunities to acquire basic knowledge (reading, writing,

articulating thoughts, calculations, etc.), should create opportunities for the acquisition of "technical and professional knowledge "to prepare for the practice of a certain profession, to develop adaptability to reality, to promote the spirit of initiative and the capacity to work in a group". At the heart of the educational policies of developed countries lies the stimulation of skills to adapt quickly to change, especially to technical-technological ones. "We have entered a new century in which learning will determine our lives as never before. If we have success or salvation, either as individuals or as a state, it will depend on our knowledge, wisdom, skills and understanding". The concept of "getting used to learning continually" to prepare to live in a world of permanent change is now dominating modern education policies. Accumulation of knowledge and skills of purely technical nature are now considered less of a priority than "critical intelligence, openness to change, and rapid adaptation to new ones, social skills, the logic of sustainable development, etc.". Modern experience is showing that globalization does not distribute spontaneously progress and well-being, but they should be sought through strategic policies and solutions from any country. Avoiding or simply seeking protection from it is not considered an intelligent solution because it means depriving yourself of the effects and opportunities that modern capitalism offers. Globalization is a consequence of the revolution of information and communication technologies as well as of the liberal system of trade exchanges. In essence, globalization is the development of the knowledge economy and knowledge management. The international competition growth resulting from this process is much stronger than the classical competition of goods and products the world has faced so far. Its coping is closely linked to a permanent innovative process based on profound scientific knowledge and quality education, and above all in the ability to distribute and absorb them to large scale for many social groups and categories. Under these conditions, the acceleration of the intellectual content of the process of conception, fabrication and distribution of the product or service on all elements of modern development makes "the economy and the management of knowledge and information" an essential factor of economic and social development for each country (<http://www.uetcentre.org/portal/images/pdf/Economicus9.pdf>, pp. 88,90).

### **Development of human capital in Kosovo**

Economic development, education and health care should be the three main priorities that would provide important support and knowledge on interrelationships between employment, work and human development in Kosovo. In 2010, a number of groups faced with high social exclusion were identified: long-term unemployed, disadvantaged children and young people, rural women, Roma, Ashkali and Egyptian minorities (RAE), and persons with special needs. Particularly for RAE communities and persons with special needs, it is concluded that the

barriers to labor market participation are structural and start at very early age. Both groups have limited access to basic education: only 10% of children with special needs in 2010 have been enrolled in regular education mainly due to the lack of physical infrastructure that suits their needs, while RAE children have even higher rates low attendance rates in education, especially in secondary education (53.4% compared to 90.4% of Kosovo's average). In addition, 13.3% of RAE Kosovo adults are illiterate compared to 1.6% of Kosovo-Albanians and 0% Kosovo-Serbs. In addition to experiencing multiple deprivations in housing, education, health services, information, participation, etc., both groups also face barriers to discrimination in access to basic public services and the labor market. 40.6% of Roma, Ashkali and Egyptian community members are excluded from all relevant markets (ie land, capital and adequate skills) needed to secure employment, which is added to their vulnerability and further hampers their ability for human development. Poverty resulting from the lack of access to employment income has been seen as a major obstacle to human development. Along with the young age, gender and place of residence, unemployment is considered to pose a risk to human development for future generations as well. Attractive and driving factors of migration, listing among others employment shortages and job opportunities as the main determinants for migration. Kosovo has the highest rate of poverty (30%) and unemployment (35%) in the Western Balkans. Although both poverty and unemployment are widespread and the incidence of poverty is high among the unemployed in general, women and young people have benefited less from economic growth compared to other groups. More than three-fourths of women do not participate in the labor market at all - they are neither employed nor looking for jobs - while those who are employed remain overrepresented, to date, in the informal economy, the public sector, and professions associated with traditional roles of care. Traditional norms and values, lack of access to capital and discrimination in the private sector as a result of labor law enforcement problems pose considerable obstacles to women's participation in the labor market and employment. For young people, job shortages, outdated education and training programs that do not match labor market needs, lack of practice and opportunities for practical experience, and labor supply pressure from other age groups pose obstacles great for successful participation in the labor market. Given the demographic composition of Kosovo where half of the population are women and more than half of the population under the age of 29, improving the labor market outcomes for both groups should be at the top of the list of priorities for policy and development strategies of Kosovo, to provide a better future for sustainable development in Kosovo ([http://apr.krs-gov.net/Uploads/Publications/7/UNDP\\_HDR\\_ALB\\_web.pdf](http://apr.krs-gov.net/Uploads/Publications/7/UNDP_HDR_ALB_web.pdf)).



## CONCLUSION

Institutions of a country have a direct impact on the social capital of citizens, especially of economic and human capital, which are indissolubly linked to each other. Given that our country aims, among other aspirations, to integrate into the European Union, social capital has a major role in the performance of the Republic of Kosovo. Therefore, this research aims to analyze social capital in Kosovo and its compatibility with the market economy. This research contains relevant scientific data and reports on social capital as well as a brief scientific analysis of social capital in Kosovo. The methodology used in this paper is based on the analysis of scientific documents and relevant institutions. At the end of this scientific paper, some concrete recommendations regarding the social capital problem in the Republic of Kosovo are also provided.

## RECOMMENDATIONS

Kosovo is in a complex economic position determined by the economic situation, so all the macroeconomic and social indicators place Kosovo among the poorest countries in Europe with high unemployment, as well as with an informal economy. In order to improve the image and long-term perspective Kosovo's governments need to take steps to improve social capital as a factor for economic development.

- The Government of Kosovo should be more careful, but at the same time more active in designing economic and educational policies that would help create conditions for raising social capital as a factor of economic development.
- Governments should create a favorable business environment through economic, fiscal policies, development of education at all levels, including the professional in increasing the capacity of social capital.
- Governments should focus on workforce orientation (human capital)

This situation should guide the Government of Kosovo towards the development and diversification of the labor market towards more favorable development policies and the development of professional potentials in function of Kosovo's economic development.

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