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**INTERNATIONAL CONFERENCE ON
Management Business and Economics**



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Edmond Hajrizi

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Editor Speech of IC - BTI

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Congratulation!

Edmond

Hajrizi, Rector of UBT and Chair of IC – BTI 2023

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EMPLOYMENT PRACTICES USING ARTIFICIAL INTELLIGENCE IN HEALTHCARE: A SYSTEMATIC LITERATURE REVIEW

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Abstract. In recent years, human resource management (HRM) has witnessed an increasing awareness of the potential applications of artificial intelligence (AI) technologies. However, the practical integration of AI in HRM, particularly in the domain of employing new members of the workforce in the healthcare sector, remains an underexplored frontier. The proliferation of AI, bolstered by the emergence of user-friendly tools and chatbots, has paved the way for a paradigm shift in employment practices in healthcare. Notably, a conspicuous gap exists in the literature concerning a comprehensive overview of AI's organizational-level impacts on recruiting and managing nurses, doctors, physicians, and other healthcare staff. The objective of this study, therefore, is to fill this gap by systematically analyzing and synthesizing existing academic contributions related to the use of AI for recruitment in the healthcare sector. To accomplish this objective, a rigorous systematic literature review is employed, examining peer-reviewed articles in scientific journals, written in English, and published until 2022. With this, the study will identify the most cited articles, and showcase the main findings, and topic hotspots. The findings of this study offer invaluable insights for both researchers and practitioners in the field of HRM, offering guidance on harnessing AI technologies to optimize employment processes ethically and effectively.

Keywords: Employment, Human Resource Management, Artificial Intelligence, Healthcare, Systematic Literature Review.

Introduction

Information technology (IT) applications have infiltrated the world of human resource management (HRM) recently. Contemporary technological feats, especially those associated with the Fourth Industrial Revolution, have challenged the status quo and the classic HR practices, yet few of them have an impact that can rival the one of artificial intelligence (AI) and its related technologies [1]. While the debate about the public's AI concerns and the onset of opportunities rages on, its growing adoption in HRM is undeniable.

Researchers define AI as a set of algorithms or systems with cognitive and learning abilities that enable it to complete tasks that would traditionally be delegated solely to human intelligence [2]. Even though we are facing a so-called new spring of AI, its effects and usage are projected to significantly increase in the following years with some researchers attributing around a 15% jump in the global gross domestic product in the next decade [3]. In this sense, the HRM landscape isn't immune. So, this technology has begun transforming practices of employment, staff administration, training and development, job design, performance management, and more. An example of this is IBM, which reduced HR costs by more than a hundred million US dollars [4].

Considering healthcare organizations face unprecedented issues concerning new administrative obligations, altering demographic conditions, changes in IT demand, shortage of skilled workers, and similar [1], AI can be used for substituting and automating tasks, diagnosing diseases, managing employee stress and mental health, and aiding clinical decision-making processes [5]. On the other hand, AI's potential dominance in healthcare can negatively impact the job security of some types of personnel [1].

Motivated by this, the study aims to systematically analyze and synthesize published academic contributions related to the use of AI for staffing in the healthcare sector. After a thorough query in the scientific database, a gap in the literature on this topic was identified. As a result, the most prominent articles and academic voices will be identified as well as the key concepts and advances in current literature. This will help the process of investigating avenues for future research, bearing in mind the use of AI in healthcare organizations' HR departments (HRDs) is new. Considering this, the following research questions (RQ) are developed:

RQ1. What are the state-of-the-art publishing trends related to the use of artificial intelligence for recruitment in the healthcare sector?

RQ2. What are the key themes, concepts, and hotspots related to artificial intelligence applications for employment in healthcare?

RQ3. What are potential avenues for future research in the field of artificial intelligence applications for recruitment in healthcare?

The article is structured as follows. The methodological approach is outlined in more detail, including the process for data retrieval, cleaning the data, and acquiring the final sample. Then, the article moves on to the analysis by exploring the trends in the use of AI for recruitment activities in the healthcare sector and identifying pathways for future research endeavors, followed by a conclusion.

Methodology

A systematic literature review is used as a research approach to investigate the dominant literature directions on the use of AI for staffing in healthcare organizations. Moreover, a systematic search was performed in the Scopus database using two pillars of keywords: 1) “Recruit*” AND “Artificial intelligence” OR “AI”, and 2) “Staffing” AND “Artificial intelligence” OR “AI. For the articles to be considered, they had to be written in English and published in peer-reviewed scientific journals. There was not a designated period, so every article on the topic that was published until 2022 was taken into account. The selection process was grounded in the PRISMA protocol (see Fig. 1) [6].

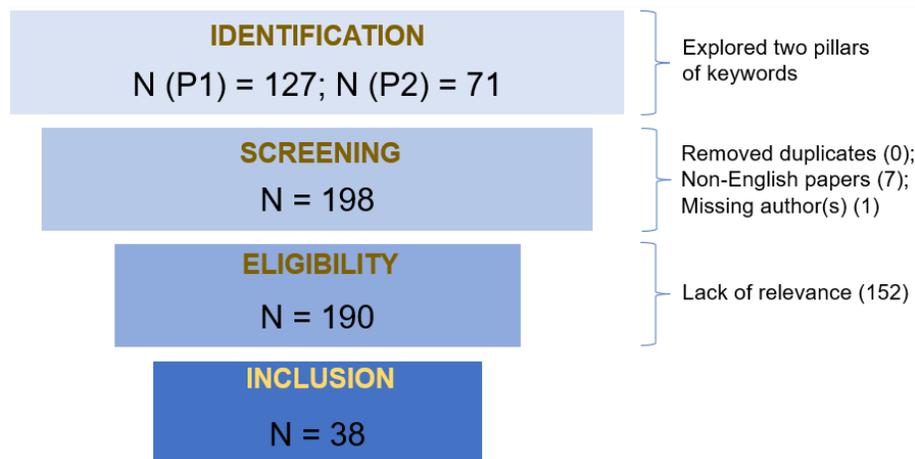


Fig. 1. Data selection process based on the PRISMA protocol.

After the search query was completed, a manual screening was performed to remove non-English articles, duplicate articles, and articles with missing values. As a result, 190 articles entered the eligibility phase, after which followed the thorough reading of the abstracts to determine their relevancy. Eventually, a total of 38 articles from 36 distinct scientific journals were included in the further analysis.

Recruiting with AI

Current Trends and Applications in Healthcare

The first articles detailing the use of this technology for recruiting purposes in the healthcare industry appear at the start of the new millennium. Yet, the number of articles has significantly increased since 2020, which can potentially be attributed to the rising accessibility and interest in AI, which researchers have dubbed the new spring of AI [2]. In that sense, the articles with the most citations are presented in Table 1.

Table 1. Highest-cited articles.

Title	Author(s)	Source	Total citations
The state of the art of nurse rostering	Burke et al. (2004) [7]	Journal of Scheduling	691
Hybrid optimization techniques for the workshift and rest assignment of	Valouxis & Housos (2000) [8]	Artificial Intelligence in Medicine	86

nursing personnel				
An agent based simulation tool for scheduling emergency department physicians	Jones & Evans (2008) [9]	AMIA Symposium Proceedings	Annual	68
HOROPLAN: computer-assisted nurse scheduling using constraint-based programming	Darmoni et al. (2005) [10]	Journal of the Society for Health Systems		18
Artificial intelligence: The opinions of radiographers and radiation therapists in Ireland	Ryan et al. (2021) [11]	Radiography		12

Considering the specificity of the sector, a need-driven implementation of AI is noted in the healthcare sector for employing new medical staff [12]. This technology is often tasked with finding new employees unbiasedly, screening and evaluating resumes and applications, and adjusting schedules and rotations [13]. AI has also proven useful for assessing availability and evaluating employee contribution as well as determining the demand and forecast of nursing staff. From the family of AI technologies, natural language processing, and neural networks are a few of the highlight ones [14]. Some of the main themes and concepts, explaining the wider application of AI for employment practices in the sector in question, are given in Table 2.

Table 2. Key themes and concepts related to AI applications for employment in healthcare.

Approach	Description	Source
Artificial narrow intelligence	The ability for AI to perform a single task.	[14]
Artificial superintelligence	An agent-based system which is smarter than humans.	[15]
Artificial general intelligence	An agent-based system that understands and reasons at a human level.	[14]
AI-powered chatbot	A chatbot can get in touch with potential candidates through messages and emails, have a discussion with them, pre-screen them, answer their queries, point out candidates for the next round of recruitment, and help with onboarding.	[13]
AI-powered administration system	AI-imbued administration software can help in the candidate assessment process, scheduling tests and interviews, validating references, and sending automated emails.	[12]
Natural language processing	This technology can be used for screening resumes, cover letters, and vital healthcare professionals' data.	[16]

While AI's implementation in HRM is new, recruitment has been one of the first functions that was impacted. Thanks to AI-powered chatbots and administration systems, candidates for medical staff can engage personally with the system, which, will in turn, gather data about the candidates' availability, skills and experience, salary expectations, and more [16]. The system can also recall suitable candidates for new positions from the talent pool of previous applicants after assessing the best-fit candidates. Going a step further, AI algorithms can tackle ethics and biases when recruiting doctors and nursing staff as they can calculate candidates' matching points based on the job criteria [17]. Further, this technology can significantly enhance the applicants' experience when applying because it is available on all devices throughout the day [12].

Applying AI in this type of operation in a healthcare institution is often hindered or supported by

contextual factors and conditions. These include technology, organizational, human, and environmental factors. It was found that technology complexity can impede AI's usage in recruitment as opposed to the technology competence of the HR staff in healthcare organizations [18]. Support from the top managers of the healthcare institution and nurturing a culture of innovation can also affect this application of AI [19]. Other facilitating conditions include the need for standardization, budgets and finances, public awareness, technological development, the openness of software and data, and similar [20]. Still, some challenges can obstruct AI's adoption in staffing medical personnel such as the availability of data and its quality, the (non)existence of regulations and laws, ethical considerations, and complexity [20].

Paths for Future Research

The future of AI in recruitment within the healthcare sector holds significant promise. One crucial direction involves researching the possibility of AI algorithms to enhance the identification of specific skills, qualifications, and experiences relevant to healthcare positions. Additionally, there is a growing need for AI systems that can assess candidates' soft skills. Moreover, future studies can focus on adaptive learning systems that can be integrated into the recruitment process to assist candidates in acquiring the necessary skills for specific healthcare roles. The incorporation of diversity, equity, and inclusion (DEI) considerations into AI recruitment tools is another essential research direction. As a result, researchers can explore ways to mitigate algorithmic biases and develop mechanisms for continuous monitoring and improvement. Studies can also empirically test the usage of AI to predict employee turnover, identify high-potential talent, and support career development through personalized recommendations.

Conclusion

The objective of this study was to collect, analyze, interpret, and highlight research that focused on using AI technologies in the employment practices of HRM departments in healthcare organizations. While this application is still in an exploratory phase, the emergence of user-friendly tools and chatbots has set the stage for a transformative shift in healthcare staffing and scheduling shifts. By identifying the most cited articles and presenting the main concepts, and topic hotspots, the research attempts to provide valuable contributions for both researchers and practitioners in HRM and healthcare managers. They can use the synthesized analysis to form a deeper understanding of how AI can be harnessed to optimize employment processes in the healthcare sector and assess the degree to which they would implement it.

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AGRICULTURE DEVELOPMENT STRATEGY IN THE REPUBLIC OF NORTH MACEDONIA: BETWEEN SUBSIDIES, EU SUPPORT AND PRESSURE FROM LIBERALIZATION

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Abstract. Agriculture development differs a lot from the rest of economic sectors. While in a market economy the fate of businesses in each sector is decided by competition leading to the entries, survival and growth of the fittest, in agriculture as a whole there are some exceptions as a result of support from the government with subsidies. The main reasoning behind this direct support with the state funds is made on the grounds that food is necessity and there is no alternative to it. Even in global scale, efforts to support agricultural development in various forms . However, contradictions arise between the states about inequalities and dilemmas that arise in the market, mainly between industrially developed countries and emerging economies. A greater pressure falls on developing countries where a large part of the population deals with agriculture to generate employment and incomes that are less worth to buy more expensive industrial goods from developed countries. Trade liberalization of food continues to be criticized not in its essence, but in a part that someone is benefitting at the expense of another depending on how much agricultural products are subsidized. The Republic of North Macedonia in the 21st century as a developing country, is in transition to transform the agricultural sector from a half-open in international trade, to a more open and liberal sector by a support from inside and outside. As where it is in this process and perspective, the aim of this paper is to make a critical assessment of these supporting measures and find out what would be a better option for agricultural development.

JEL: F53, O24, Q18.

Keywords: Republic of North Macedonia, agriculture strategy, subsidies, CAP, trade liberalization.

Introduction

Subsidies in agriculture are a form of government funding given to support farmers and agribusinesses to promote the production and delivery of products in this sector. The producers intended to increase their opportunities and reduce costs. Such a support to the extent of being increased, is becoming more diversified in many countries of the world. It is estimated that the European Union (EU) as a whole in 2010 spent round €57 billion in support of agriculture, of which 39 billion were subsidies. Most of these subsidies were given to farmers.¹ Large amounts of subsidies were also delivered in other major industrialist developed countries as the U.S. and Japan. In 2009, Japan had \$46.5 billion subsidies given to the farmers.² Japan is a highly developed industrial country, but has small area and large number of inhabitants.

The justifications for agriculture support in developed countries with a market economy, which in principle seems to be in contradiction with the rules of the market due to greater state intervention, are various (Matoshi and Veseli, 2017). Currently, the main reason which is being used, is the increase in prices of agricultural products that forces the population to spend more of their income on food alone. By helping with subsidies, food prices may be kept lower or at least for the difference of subsidies, thus the products can be made more affordable for the consumers. But lower prices have a direct impact on producers who may need funds for reinvestment, and that may come from two sources; either as additional subsidies or loans of more favorable terms and conditions than for other economic activities.

The policy of subsidies remains a controversial issue in international trade. If developed countries continue increasing the subsidies to agriculture, then this situation creates inequalities in the market, where poor countries cannot compete with subsidized agricultural products from developed countries. There are also many cases with the so-called hyper production agriculture in some parts of the world, while in some others there is a shortage of food. In the first case, the markets may easily be exposed to dumping prices or selling the products below market prices, thus gaining competitive advantage. According to mainstream economic wisdom, for a company to operate, remain in business and make profit, the revenues must be higher than the costs. If the opposite happens, then the company may become insolvent. However, the goal dumping prices is strategic. For the same products, the consumers obviously will choose those with lower prices. In this way dumping prices face many other companies out of business. Once the dumping company has gained a monopoly in the market, it starts raising the prices and is now able to compensate the losses it had made when selling the products below market prices. Dumping pricing policy is contradictory and often the subject of disputes between states. In agriculture, dumping prices are often imposed not because the company wants to play this game, but sell certain perishable goods faster at any price rather than throw them as a waste.

Subsidies have their supporters and opponents. The supporters are of opinion that, as stated above, subsidies affect the prices in consumption, and that such a policy of greater reliance should be followed in poor countries by international funds or from developed countries. While this is difficult to come into being, a number of scholars criticize subsidies for causing distortions in the market, and with them putting at a disadvantageous position developing countries which are recommended to follow the policies of economic liberalization and free trade.³ Free trade in unequal conditions benefits more those who are stronger with a likelihood of weakening the weaker. In this kind of neoliberal doctrine crossroad and need for protectionism, the dilemma arises as how to support agriculture and agribusiness to a more balanced development. Loans are a good alternative to subsidies that would encourage farmers and agribusinesses to work harder and with more wisdom, but there is also greater risk. Why? Agriculture is a sector that is subject to external influences, especially climatic conditions more than any other sector. Farmers cannot afford the interest rates like other sectors where the return on investment and income generation is faster. Banks generally do not prefer making large differences in interest rates among businesses. Their goal is to deliver the loans to those capable of paying higher rate of interest. Governments and foundations in

¹ EUR-Lex (2010), '2010 General budget', available at: http://eur-lex.europa.eu/budget/data/D2010_VOL4/EN/nmc-titleN123A5/index.html, 'Title 05 – Agriculture and Rural Development', accessed on 20 August 2013.

² Harada, Youtaka (2012), 'Can the Japanese Farming Survive Liberalization?', available at <http://www.tokyo-foundation.org/en/articles/2011/farming-survive-liberalization>, Accessed on 20 August 2013.

³ See among others, Alston, Julian M. and Jennifer S. James (2002), "The Incidence of Agricultural Policy", Chapter 33 in B. L. Gardner and G. C. Rausser, eds., *Handbook of Agricultural Economics*. Vol. 2., pp. 1689–1749; Anderson, Kim and Will Martin (2005), "Agriculture Trade Reform and the Doha Agreement Agenda", *The World Economy*, Vol. 28, No. 9, pp. 1301-1327; Atilieri, Miguel (2009), "Agroecology, small farms, and food sovereignty", *Monthly Review*, Vol. 61, No. 3, pp. 102-113.

turn make efforts and establish agricultural banks, with special emphasis on supporting agriculture loans on favorable terms, most notable by covering the difference of interest rate, or at least paying a percentage of it to the lender.

The strategy for agriculture development of the Republic of North Macedonia

The Government of the Republic of North Macedonia since the beginning of the XXI century has intensified efforts and commitment to agriculture and rural development. This is confirmed by a number of medium term strategies prepared and implemented from 2003 onwards. Despite the plans in the national strategy, the orientation of the government is the transformation of agricultural development according to the EU principles, so in the future to be able withstand in the European common market as a competitor and partner. It is clear that North Macedonia cannot be competitive in the automotive and aircraft industry, and that is why it paying more attention and importance to agriculture and agribusiness development. Anyone can emphasize the importance of this commitment, but its materialization is not so simple without going into details on how to find better opportunities for growth and development.

The Ministry of Agriculture, Forestry and Water Management (MAFWM) and relevant institutions of the Republic of North Macedonia in charge of supporting agriculture and rural development, in their strategies have envisaged, among others, increasing of cooperation with international organizations and institutions to boost opportunities. In 1994, North Macedonia applied for membership in the GATT (General Agreement on Tariffs and Trade), a process which was finished in February 2003 when the Parliament ratified the agreement and officially became member. In 2001 it signed the Association-Stabilization Agreement (SAA) with the EU. Part of the SAA is the measures for agriculture specified in the standards and rules of Common Agricultural Policy (CAP), as one of the components in the journey towards the EU integration.⁴ The reforms implemented focused on three main segments: agricultural policy, institutional reform, and legislation. All these are done in the spirit and guidance for agricultural and rural development by adapting the reforms to the needs to mitigate the negative effects when North Macedonia will face the EU standards.

In January 2007, the Government adopted the Law on Agriculture and Rural Development (Official Gazette no. 134/07). The adoption of this law, as the highest legal act in agriculture began in the reform and development of not only this sector, but also with the impact on the economy as a whole. The Law on Agriculture and Rural Development of 2010 is an improvement of the 2007 Law to provide opportunities for intervention in the market with alternative measures. The National Strategy for Agriculture and Rural Development 2007-2013 sets out six key priorities for growth and development of the agricultural sector: 1) increasing competitiveness, 2) improving the quality and safety of food, 3) better management of resources, 4) improving living conditions in rural areas, 5) reforming the regulatory and institutional framework, and 6) implementation of institutional reforms in the MAFWM.⁵ The Strategy for 2013-2017 has set the objectives and measures to be taken for their implementation, but lacks a concrete conjunction with the agribusiness sector. This means that although agribusiness dependent on agricultural development requires an exclusive strategy for the development of agribusiness. World Bank continues to help strengthen the capacity of the Ministry of Agriculture and supports agriculture in line with the EU-CAP. This includes improving the ability of the ministry to formulate and implement effective policies and increase the effectiveness of public spending on agriculture.

The policy measures for agriculture and rural development, according to the National Development Plan 2008-2013, envisage a number of strategic objectives: increasing the competitiveness of North Macedonian agriculture in regional markets and the EU, increase the efficiency of agricultural production, agro processing and sale, provide customers easier access to safe and healthier food. The Plan also contains the measures for more reasonable use of natural resources, building sustainable rural communities through integrated urban-rural development to reduce the development disparities, reforming institutions, public and private effective implementation of agriculture and rural development.⁶

The National Program for Agriculture and Rural Development for the period 2013-2017 reflected the continuity of the state interest for sustainable agriculture and rural development through improved policies in order to increase efficiency. Support policies also focus on creating a favorable climate for investment in the agricultural sector as a link to improve the competitiveness of North Macedonian

⁴ Министерството за земјоделство, шумарство и водостопанство – МЗШВ (2003), 'Годишен земјоделството извештај 2003', Скопје: МЗШВ.

⁵ МЗШВ (2007), 'Националната стратегија за земјоделство и рурален развој за периодот 2007-2013', Скопје: МЗШВ.

⁶ МЗШВ (2012а), 'Годишен извештај за земјоделство и рурален развој 2011', Скопје: МЗШВ.

agricultural production, providing equal access to potential customers without preferential treatment. Most of the funds to support agriculture and rural development (around 90 %) are allocated for direct payments, while the rest of rural development measures used to co-finance investment, increasing the volume of production and modernization of agricultural farms. As measures of especial importance are the supporting of farmers and government efforts to promote the establishment of cooperatives, enforcing contracts for the production and implementation of relevant policies for the consolidation of agricultural land. In the past two years, the government has also started to pay special attention to the improvement of marketing infrastructure by providing conditions for investment, logistics, and assist in the marketing of agricultural products. As a result of the introduction of new measures to facilitate access to policy support, the number of beneficiaries has increased from 13,000 in 2005 to 110,000 households in 2011.⁷ The policies of rural development have outlined four priorities to be supported: i) Increasing the competitiveness of the agricultural and forestry sector aimed at promoting knowledge and improving human potential in rural areas, restructuring and developing physical potential to promote innovative practices of agricultural products through economic support of farmers' associations; ii) Protecting and improving the environment and rural areas, aimed at promoting agricultural production practices for sustainable use of agricultural land, protecting the environment in order to preserve plant and animal diversity and improve the quality soil, water and air; iii) Improving the quality of life in rural areas and encouraging diversification of economic activities. Capital investments include the support for the creation and strengthening of micro and small enterprises, investment in rural infrastructure to improve the quality of life, providing support for training and information for individuals and legal entities operating in rural areas; and iv) Promote local rural development implemented through the measures designed to support the implementation of local development strategies in accordance with the law, and working with local groups of residents in rural areas.⁸

The Strategy for Agriculture and Rural Development 2013-2017 has well-defined objectives and measures to be undertaken for implementation, but lacks specific links to the agribusiness sector. This means that, although agribusiness depends on the development of agriculture, it requires an exclusive strategy on its own. An agribusiness development strategy and its implementation is a greater challenge than for agriculture. Agribusiness may be found between the alternative to secure agricultural products from home market, or import them. While the government's determination is support the rise of output in agriculture, agribusinesses will continue to rely on market prices of raw material, irrespective of the origin from home or foreign market.

⁷ МЗШВ (2012b), 'Национална програма за развој на земјоделството и рурален развој за периодот 2013-2017', МЗШВ на Република Македонија, Скопје.

⁸ МЗШВ (2012a), *ibid.* стр.8.

EU supporting programs

Faced with economic and financial crisis of 2008-2009, as well as to determine the strategic framework for development in the period 2010 to 2020, the European Commission has prepared a document, "Europe 2020: a strategy for smart, sustainable and inclusive growth" that was adopted by the European Council 17.06.2010. The strategy explicitly states the same importance for the candidate countries of the EU, as a roadmap for accelerating the reform process in future member states. In North Macedonia, the institutional structure for these reforms include the MAFWM as the competent authority for the creation and maintenance of basic infrastructure, the Farm Register, the Agency for Financial Support of Agriculture and Rural Development, national programs of financial support for agriculture and rural development (including IPARD funds as pre instrument), and the Food and Veterinary Agency responsible for maintaining the database, identification and registration of animals. The system identification of parcels of land in 2012 is used for control of agricultural land plots suitable for areas with limited features (parcels that are located at altitudes above 700 meters). By the end of March 2013, most farms had their parcels digitized. The new Law on Agriculture and Rural Development in 2010 provides a basis for the policies to support agricultural policies adopted widely in the EU-CAP, and includes provisions for public policy management, organization of the markets in agricultural products, programming and implementation of direct support measures for agriculture and rural development.⁹

The government has established a separate agency in charge of coordinating agriculture and rural development as an integral part of coordinating the activities with IPARD (Instrument for Pre-Accession Assistance for Rural Development).¹⁰ The IPARD has been approved by the European Commission for the Republic of North Macedonia as a result of meeting all the basic legal rights of state compatibility with the EU. North Macedonia had financial support from the EU in cooperation with other home agencies, involving many NGOs who were stakeholders in the agricultural and economic area. The IPARD program implemented support measures in all branches of agriculture and rural areas of the Republic of North Macedonia in the period 2007 – 2013, to improve technological and market infrastructure where necessary, to comply with the EU standards in the value of agricultural products quality, health safety, and environmental protection. Another objective of the program is to improve the lives of rural communities, where the population of the area would be able to generate employment opportunities for the rural population through the development of agricultural. The priority orientation of IPARD program in accordance with the National Strategy for Agriculture and Rural Development 2007 - 2013, is to have a common agricultural policy with the CAP as a prerequisite for the membership EU. To use the IPARD funds, the first public call for applications was published on 23.12.2009, for a total value of investment amounting to €4,782,400, of which 15 requests or 26 % of the applications for cattle breeding rejection were approved. For the measure in the processing and marketing of agriculture and fishery products a fund of €9,697,900 was allocated. In total, €1,180,500 were approved as EU funds. The second call for submitting the applications for the funds from the IPARD program was announced on 30.12.2010, with a deadline of 60 days to apply. A total of 112 applications were received and went to processing.¹¹

The EU agrarian policy represents the common interests of individual and group entities of the countries. This makes the agricultural policy of the EU very complex, because it has formed 46 committees of Agriculture, holding frequent meetings (once a week for wheat and sugar , once in two weeks for meat and fruit, every month for agribusiness dealing with chicken and wine, once in three or six months for tobacco, and so on), and many other procedures.¹² With these large differences, the CPA is far from functioning as a common policy until member states want something in common, but it recognizes that different levels of their development currently does not bring balanced benefits. Certainly, criticisms of this policy are evident. The current criticism is related to the provision of excess supply, keeping the prices artificially high (contrary to the economic concept of supply and demand in relation to price). The impact on small farmers, inequalities between the countries and disagreements about the subsidies are also the target of criticism. How the CAP policies are helping or impeding agribusiness in general within the EU, it is difficult to find with accuracy because of the difference in the development of member states.

⁹ Министерство за труд и социјална политика МТСП (2013), 'Национална стратегија за намалување на сиромаштијата и социјалната исклученост во Република Македонија (Ревидирана 2010-2020)', Скопје: МТСП.

¹⁰ More details about this agency can be found at its official site http://www.ipardpa.gov.mk/Root/mak/default_mak.asp, accessed on 10 September 2013.

¹¹ МЗШВ (2010), 'Годишен извештај за рурален и земјоделски развој 2010', Скопје, МЗШВ.

¹² Erjavec, Emil and Dragi Dimitrievski (2006), 'Заедничка земјоделска политика на ЕЗ', Ekonomska Fakulteta: Univerza v Ljubljani, paper presented at Ohrid Conference held on 14-19 September 2006.

The strategic national interest of North Macedonia is to have efficient and well implemented agricultural policies. The role of agriculture and agribusiness strategy allows to achieve the goals such as: generating new jobs, exports to the EU region and third countries, the development of rural areas, production that meets the EU standards, and legal reform to implement agricultural policies harmonized with the EU directives to measure the progress of the Republic of North Macedonia for EU accession. As a priority intervention was recognized the need for gradual and clearer dynamics adjustment to the CAP, primarily because of structural and natural disparities between the various agricultural regions that should implement the policies for quality and safety of agricultural products, adoption of common rules in competition, and constant coordination of different national organized market. Initially, all five goals set by the EU-CAP and reforms were an integral part of this strategy and the development of agro industrial complex of North Macedonia as early as 2001. The five goals, were: i) become more competitive through lower prices of agricultural products; ii) offering agricultural products quality and healthy food; iii) providing a stable income and living conditions of farmers; iv) implementing production methods to preserve the environment; and v) creating opportunities to increase the employment of younger farmers.¹³

The five measures aim to make the agrarian sector more efficient, competitive and profitable to operate in the open market. The evaluation of what is happening in North Macedonia in terms of EU integration, range of support for EU accession, financial benefits and so on, have raised some concerns stemming from the policies and their instruments which were also observed in other post-communist countries. Transition from communism to a market based economy was associated with difficulties in the agricultural sector from 1990 to 2004, requiring deep structural changes not only in agriculture, but also in the entire economic environment. The subsequent losses of agriculture restructuring were inherited from the difficult early years of 1990s where, agriculture output declined, investment fell, growing pressure from foreign competition, and inconsistent agricultural policies.¹⁴ Dealing with and overcoming these challenges was a difficult task for all countries aspiring to implement the EU-CAP in the agricultural sector. Step by step, the countries, including North Macedonia, are going through to the target. Eliminating the trade barriers and implementing the CAP directives opens a clear perspective for agriculture development in North Macedonia in the long-run. Accession to the EU is giving many opportunities and benefits for agriculture to obtain funds as a support. This assistance is designed primarily as one of the measures to facilitate the journey of North Macedonia towards the EU integration, and implement the EU standards in agriculture and food production.

In addition to the EU programs, the Republic of North Macedonia receives support from various development agencies and international organizations for agriculture development. The most notable supporters and donors include the World Bank, American USAID, Swedish SIDA, and German GTZ, among others. Commitment to the development of agriculture and increase competitiveness on the one hand, and orientation for WTO membership in the EU and on the other hand, presents a major challenge for agribusiness in North Macedonia. A study by Ericsson et al highlights that agricultural policy of North Macedonia will face not easy challenges when it joins these two international organizations. North Macedonia will be forced to remove some restrictions or barriers which would endanger the domestic market by the flood of imports. When becoming a union member, the European common market is not merely the customs free zone. The preferential treatment of North Macedonia so far by the EU can fall after accession, and the effects or consequences for agriculture and agribusiness sector can reduce North Macedonia's trade competitiveness versus other countries of the EU.¹⁵ The reason is that most other countries already members of the EU have developed the technology from which modern agriculture and agribusiness depends on. The advanced technology enables production with lower costs (Dauti and Elezi, 2022). If North Macedonia is unable to retain competitiveness in agribusiness, then this may lead her to deal more with the export of raw materials and agricultural products for processing abroad.

The issue of subsidies

In section two, among others, we referred to the criticisms of subsidizing agriculture and highlighted the specific circumstances why farmers and agribusinesses in many cases cannot survive in the market.

¹³ Македонска Академија на науките и Уметности (2001) 'Стратегија на Развој на Земјоделство во Р. Македонија до 2005', Скопје: Македонска Академија на науките и Уметности, стр,133.

¹⁴ Jerzy, Wilkin (2007), *Agriculture in new member states: expectations and lessons learned*, Warsaw: Warsaw University.

¹⁵ Ericson, Tina, Erik Pelling, and Yves Surry (2009). *Support to agriculture in FYR North Macedonia: an exploratory assessment (1999-2004)*, Uppsala: Institutionen för ekonomi, Sveriges lantbruksuniversitet.

Businesses in other sectors are freely allowed to go bankrupt or redirect their activities whenever it suits them to make profit. But food is a necessity to the population, a strategic sector in which the government steps in by incentive measures and subsidies. If agriculture will be wholly left to the mercy of competition in business activities, it may led to structural deformations in the economy by picking up certain businesses that are less friendly to the environment, e.g. chemical industry, construction to occupy the agricultural land, and other man made premises. Subsidizing agriculture is justified on multiple grounds, the primary one of which to increase agriculture output and provide food. The Republic of North Macedonia has gradually increased the funding as subsidies, though their size remains comparably much than smaller in most European countries.

Table 1: Basic indicators of agriculture in North Macedonia

	2008	2009	2010
Total agriculture land (in ha)	1,064,000	1,014,000	1,121,000
Arable land (in ha)	261,032	266,475	250,016
Employed in agriculture	107,717	116,668	121,521
Share of agriculture to GDP in %	10,0	9,7	10,1
Export	228 331	228 325	268 387
Import	147,701	126,353	164,259
Index of export	100	99.9	114.9
Index of import	100	83.1	118.8
Government subsidies in mil. €	45	70	100

Source: State Statistical Office of the Republic of North Macedonia (2012), North Macedonia in figures 2012, Skopje: State Statistical Office of the Republic of North Macedonia.

As of 2010, about 39 percent of the total area or 1,121,000 hectares, is agricultural land, where almost half of it land is arable, and the other half used for cultivation of different crops (orchards, vineyards and meadows) and permanent pastures. The structure of the agricultural sector is characterized by small farms, mostly family owned. About 80 percent of all farms are estimated to be kind, and are fragmented into small parcels, whose average size is 2.5-2.8 hectares. Nearly half the population lives in rural areas, where its main agricultural activity. 16 The share of agriculture in GDP by 10 percent is much higher than in the EU member states, but lower than in the neighboring Kosovo, Albania, and Serbia (Matoshi and Mulaj, 2019). The overall trade balance remains negative with a large trade deficit. The only sector with a positive trade balance is agriculture, with an increase from 35.3 percent in 2008, to 44.7 percent in 2010, which suggest what a role and perspective this sector can have in the economy if supported. Despite this, agriculture subsidies, although with an increasing trend, are relatively small. The national strategy for agriculture and rural development 2013 – 2017, among the primary measures undertaken to boost competitiveness in this sector, envisaged an increase in subsidies (apart from the figures shown in Table 1) from €130 million in 2012 to €140 million for 2014, and €150 million for the period 2015-2017. Around 60 percent of the subsidies are to be allocated for making the agricultural products more competitive and encourage their export, mainly for tobacco, vegetables, wine, rice and organic food. The rest of the funds will be allocated to increasing of capacities as technical assistance and trainings as part of the measures in response to the changes in IPARD program by 2015, and to manage the funds of other international organizations more effectively. Only a small part, which is not indicated how much, of the subsidies are expected to remain for alleviating potential market failures where, intervention is required only in emergency cases and will be implemented pursuant to the CAP directives.¹⁷ The government has the reasons to support agriculture and rural development as it is faced with the challenged of increased trend of migration from villages to the cities. The small support has continued by increasing the funds as subsidies to the farmers during 2010-2011, despite financial crisis and debts.¹⁸

The so far discussion still cannot tell the real place, importance and impact of subsidies in agriculture of North Macedonia. Their better picture and relative importance may be understood if compared to the subsidies in the neighboring countries, both in size and as a share to GDP. The figure in Table 1 of €100 million in 2010 represented around 4 percent of GDP. In the same year, the corresponding figure disbursed in Serbia was €170 million, or 2.6 of the state budget.¹⁹ It was a much smaller share to GDP than in North Macedonia. Kosovo government in 2010 allocated only €5.18 million in the form of subsidies and grants to agriculture.²⁰ This amount was less than 0.2 percent of GDP. Albania's amount of

¹⁶ European Commission (2011), The former Yugoslav Republic of North Macedonia- Agriculture and Enlargement, European Commission, Brussels, available at: http://ec.europa.eu/agriculture/enlargement/countries/fyrom/profile_en.pdf, accessed on 12 September 2013.

¹⁷ M3IIB (2012b), *ibid*.

¹⁸ Angelova, Biljana and Bojnec, Štefan (2011), "Developments in the Agricultural and Rural Capital Market of the Former Yugoslav Republic of North Macedonia", Center for European Policy Studies, Working Paper No. 9, Brussels.

¹⁹ Maslac, Tatjana (2011), 'Serbian Farmers Protesting over new Government Measures', Global Agricultural Information Network, Belgrade: GAIN Report Number: RB1112, 6/3/2011.

²⁰ Office of the Auditor General (2011), 'Performance Audit: System of Subsidies and Grants in Agriculture', Doc. No: 21.10.9-2009/2010-08, Pristina: Office of the Auditor General of the Republic of Kosovo.

agriculture subsidies in that year was €375 million.²¹ Albania's commitment to agriculture from North Macedonia, Serbia, and Kosovo is distinguished by larger funding as subsidies. The subsidies are provided not only to provide food at home market, but also to encourage agribusinesses towards exporting. The government measures to encourage exporting of agricultural products first of all aim at reducing the overall trade deficit and improve the balance. Apart from Value-Added Tax (VAT) in certain agriculture products, exporting is free of charge across borders with a tendency of further liberalization after CEFTA (Central European Free Trade Agreement) which North Macedonia joined in 2006.²² The next section explores into more details North Macedonia's trade under this agreement.

Foreign trade and liberalization

For North Macedonia, the first major trade liberalization came in 2006 with the signing of CEFTA. Albania, Kosovo, Serbia, Montenegro, Bosnia and Herzegovina, and Moldova joined the following. The aim of CEFTA, as stipulated in its Article 4 and 5, is to abolish customs duties between the countries in Southeastern Europe.²³ The overall objective of CEFTA, which has superseded earlier free trade agreements of North Macedonia with the Western Balkans countries, is to prepare potential candidate countries aspiring to join in the future EU enlargements, thus they would be more suited to do business in the European common market. Its guidelines are prepared to comply with the WTO requirements, in which North Macedonia wants to become a member of. According to the provisions contained in Annex III of CEFTA, agricultural products may further enjoy preferential treatment and concessions in trade between the signing parties in order to fully liberalize the trading of products in this sector. How much this has helped North Macedonia so far in terms of agriculture?

According to the classification in three main sectors of the economy (industry, agriculture, and services), the structure of import of goods in 2008 was dominated by industry sector with 92.3 percent, and this share has remained approximately unchanged in the years following. However, the volume of total exports in this sector grew by over \$3,684,743,000 in 2008 to \$4,109,591,000 in 2011, which means an increase of 10.3 percent. The share of agriculture in total exports increased from 5.7 to 6.0 per cent when compared with the same years (2008 and 2011). In 2010 the share of agriculture in export was even higher reaching to 6.8 percent. If the rate of export growth from this sector is taken into account, then its share increased by nearly 15 percent which, as already stated when referring to the figures in Table 1, implies the highest growth rate than in any other sector and service. The other side in foreign trade or imports, is also dominated by industry with a share of 95 to 96 percent, with agriculture having a share of by 2.3 percent.²⁴ The dynamics of growth in agricultural exports is smaller than the growth of imports. It appears that CEFTA has brought positive changes in agriculture development and trading for North Macedonia. Eliminating the trade barriers under CEFTA enabled North Macedonia to have easier access in the regional market to sell its agricultural products. North Macedonia is a relatively small market, thus the development and growth of its agriculture sector will depend heavily to capabilities in penetrating into foreign markets. Though CEFTA requires that subsidies to agriculture should also be eliminated to enable fuller liberalization, they cannot be removed at this stage of development. Agribusinesses would also like to lower the VAT rate, or even removed completely, and that would bring about faster liberalization by which they raw materials through import at lower prices could be provided. However, the release from taxes in food industry for easier penetration in foreign markets and offering the consumers cheaper food, is not possible as the state needs budget revenues. In principle, this would be a great opportunity for consumers to buy cheaper food and make agribusinesses more competitive in the market with abundant products. In practice, however, the immediate consequences would not bring an excess supply of food with cheaper prices and available to everyone. An uncontrolled liberalization may significantly encourage smuggling and food of lower qualities that may endanger the health of the population. Given the small market and limited competitiveness, in the medium term such liberalization would swallow competition at home and force many agribusinesses out of business, which in turn reduces the opportunities for

²¹ Bernet, Thomas and Kazazi Idris S. (2012), 'Organic Agriculture in Albania: Sector Study 2011', Tirana: Ministry of Agriculture, Food, and Consumer Production of Albania.

²² The standard VAT rate in North Macedonia is 18 percent. Much of agriculture inputs are released from VAT or have it a much differentiated lower rate.

²³ The official site and the text of CEFTA can be found at: <http://www.cefta.int/>.

²⁴ State Statistical Office of the Republic of North Macedonia (2012), *ibid.*, p. 51 and Auhtor's own calculations.

employment and income generation.

But the government of the Republic of North Macedonia despite getting much of the measures to support agriculture and agribusiness on the right track for the strategic aim of regional and EU economic integration, it sometimes does not comply with the rules of friendly relations with the neighboring countries regarding trade. Just recently, on July 2013, it banned importing of wheat from Kosovo, a measure that was to last some two months until mid-September for alleged protection of domestic wheat output. The government of Kosovo in turn sought to retaliate 10 days before this ban was to expire by blocking any export of goods and services from North Macedonia into Kosovo. North Macedonia's main exporting destination after Germany, is Kosovo. Exports to Kosovo in monetary value are nearly ten times higher than imports (Yzeiri et al, 2020). The government in Skopje was not aware how much dearly it could and may cost in the future the adventures in trade discrimination with its main market where it exports. Today, production is not a problem; the problem is the market and selling of products. During the Kosovo blockade, the authorities in Skopje began charging Kosovo citizens and vehicles with a fee for entering North Macedonia. Thus the dispute in the movement of goods and services was furthered by limiting the movement of people, where North Macedonia announced that it can impose visas for Kosovo citizens. Meanwhile, the European Commission called upon the parties to resolve the dispute, and the European Parliament on September 12 voted in favor of a mechanism to cancel the free visa regime, where the Western Balkan countries (where North Macedonia and Kosovo are part of) can be mostly affected. The Kosovo-North Macedonian dispute ended on September 2013, but its main lesson is that protectionism, imposing of quotas, and blocking the movement of goods, services and setting the barriers for travelling of the people, brings only losses to North Macedonia, especially to its most promising sector – agriculture and agribusiness. North Macedonia had suffered during the mid-1990s from a Greek embargo, therefore, it should view and handle the issues of both protectionism and liberalism from the perspective of mutual benefits.

Conclusions

Agriculture and agribusiness development in the Republic of North Macedonia after a hard transition from socialism to a fuller market economy during the 1990s, is making another transition in the 21st century, i.e. to regional and EU economic integration. The current agriculture development is seen as a preparatory phase in making this more competitive in the process and journey towards membership in the EU. The place and importance of agriculture in the economy has been recognized by the Republic of North Macedonia through national development strategies, using of EU support, and increasing the volume of subsidies. In itself, agriculture and agribusiness development appears as the most perspective sector in terms of growth and export. Agriculture policies implemented are in line with the CAP and guidelines WTO requirements, which require further liberalization. CEFTA has further opened a door to increase the volume of trade with SEE countries, though there are still some difficulties and disputes that can be overcome before membership in the EU. After membership in the EU, agriculture and agro processing sector of North Macedonia may face stronger competition. To maintain competition and increase presence in foreign markets, North Macedonia will need to diversify the agro processing industry. The current trend of subsidies should continue, as should also greater gradual liberalization. Trade incidents with the neighboring countries and the perception that protectionism may defend home market, is wrong and can be counterproductive. Moreover, it runs counter to the strategic objective of membership in the EU and the WTO, in other words, it is a step back towards that aim. The experience in the last years has shown the degree in trade liberalization of agriculture products has helped this sector to further improve its positive trade balance. By not underestimating the role of other sectors in exporting, we can conclude that agriculture and agribusiness development in the Republic of North Macedonia, should be managed with a greater care with respect to trade relations with other countries, because this is the sector experiencing faster growth and with more opportunities yet to be exploited.

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THE IMPACT OF IT INVESTMENTS ON THE PERFORMANCE OF LARGEST MIDDLE EAST BANKS

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Abstract. IT investments lately have taken major role in Middle East banks. Hence, this study is adding to the discussion of impact of IT to the financial performance of ten largest Middle East banks, covering the period 2011-2021. The main source of the data is from annual reports of each bank. The study uses CAMELS model as dependent variable, whereas IT investments like Automated Teller Machine (ATM), Mobile Banking (MB), Internet Banking (IB), Point of Sale Terminals (POS) and Telephone Banking (TB) are the independent variables. The findings of the study show that the use of ATM, POS and TB has significant impact on financial performance of banks. Hence, the use of MB, IB does not have significant impact on financial performance of Middle East banks. The study concludes with recommendations for future studies.

Keywords: IT, Bank Performance, CAMELS, Middle East, FinTech

Introduction

With the development of information technology, financial institutions, particularly banks have innovated and improved their financial products and services. This improvement was as a result of automation in financial services that brought by financial technology, shortly Fintech. The progression of Fintech portrays a continuous cycle of same time development of finance and innovation that prompted various steady and unstoppable advancements, for example, online banking, crowdfunding, digital wallet, mobile pay, shared loaning, crypto payments, wire transfer, digital currencies and many more [1]. Banks and trading businesses were depended on utilization of technologies comprising physical significance such as paper and coins and was limiting the services to achievable territorial distances through methods of physical transportation. By advancements in data and technology empowered the physical portrayal to lose value and to communicate quicker in far distances [2]. In light of the advancement of financial technologies, as depicted over, it represents total technological applications in conveying financial solutions. FinTech includes a wide assortment of inventive thoughts and novel business plans empowered through computerized innovations, where the solutions might be found for client communications, for payments through block chain, for crowdsourcing and for insuring [3]. The steady entrance of Tech giants in banking and financial sector is intensely affecting the business. Enormous Technological organizations can exploit a favored connection with customers, recently created during their business undertakings and take advantage of cutting-edge specialized arrangements - like information assortment - to offer financial assistance. Tech companies increase competition in financial service providers such as banks [4].

Various academic research shows clashing outcomes on the investment in financial technology. Organizations keep on investing enormous amount of money in information technology. The reason must be that these organizations feel they receive value since they take this venture, or else they wouldn't do it [5]. Do companies invest essentially in light of the fact that they see different organizations carrying out in investing in high technology? Is investing in financial technology delivering significant worth? There are numerous studies measuring performance on financial institutions from financial technology investments. In fact, [6] affirms that the development of FinTech companies adversely impacts performance of 41 banks in Indonesia. While the outcomes of [7] show that FinTech development diminishes Chinese banks' profitability and the quality of assets in total, it is seeing as more articulated for huge state-claimed business banks, it recovers adequacy of banks' capital and effectiveness of management, however less significantly for policy banks and state-possessed business banks. Actually, [8] demonstrate that technology-based strategies for example, the quantity of given bank cards, the quantity of automated teller machines (ATMs), and the quantity of point of sale (POS) terminals further

developed profitability of banks in 23 countries. The study of [9] stresses that the IT influences on efficiency in Asia-Pacific banks considering the given profitability in their reports throughout the financial crisis in Asia. Overall, the banks in Asia-Pacific increased their productivity, as well as strategic and operational benefits as a result of investing in higher technology. In addition, [10] contends that Banks all over Asia accomplished improvement in productivity over usage of IT. Both retail and wholesale IT items impact in increase of productivity. Additional benefit of IT usage is in expanding yields and diminishing costs. A recent study of [11] showed huge proof of the effect of ICT investment on performance indicators in finance also reflecting positive significance. Moreover, [12] demonstrate that investments in FinTech are positive and significantly related with performance of banks, during the entire considered time frame. Considering the fact that Middle East banks have invested profoundly in information technology in the past few years with funding to reach 2 billion USD at the end of the year 2022 [13] and difficulty in obtaining FinTech investment banks data [14], increases the need for further analyzing the impact of investments in FinTech and banks profitability.

Additionally, there is an absence of literature for the impact of IT investments on the performance of Middle East banks. Thus, there is a requirement for additional investigations to add to the current discussion for the Middle East banks performance and their relation with IT. Therefore, the main objective of this study is to fill this research gap by relying on annual reports of the top ten most performing banks in Middle East. Based on the proposed models, this paper pursues the most convenient dimension for analyzing the changes on profitability of Middle East banks as a result of IT investments. We respect the comprehension coming from this issue as an endeavor for additional examinations by academic world and results of this study to bring benefit to banking sector and by that its management.

The rest of the research is coordinated as follows: the second section assesses related literature to financial technology. The third section discusses the methodology. The fourth section specifies the research findings. Ultimately, the fifth section provides concluding remarks, limitations and recommending possible future research.

Literature Review

Even though the term FinTech is very popular lately, its notion dates with the initial Trans-Atlantic transmission link in 1958, by decreasing the correspondence interval from days to couple of hours, that likewise brought to improvement of worldwide financial services such as SWIFT, ATMs which was shortly considered as Fintech 1.0. Additionally, throughout FinTech 2.0 Internet was developed and during FinTech 3.0 information technology emerged [15]. [16] define FinTech as any creative thoughts that further develop financial service processes by recommending technology solutions as indicated by various business circumstances, while the thoughts could likewise prompt new business plans or also creation of new businesses.

The development of financial technology, resulted to apply diverse and choose most reliable measure by researchers in digital technology as of [17] have measured the impact of financial technology on the financial performance of banks by the number of Automated Teller Machine (ATM) transactions and internet and mobile banking, while bank profitability was measured by Return on Assets (ROA). Similarly, [18] for measuring investment in financial technology used CAMELS model and found that ATM and TB have negative impact whereas MB, IB, BC and POS have positive impact. Additionally, [19] tested the relationship among measures of financial technology like: ATM, Internet Banking, POS terminal, mobile banking and cash holding. They reveal that cash holding is negatively related to four other measures given above. [20] used mixed-method research, qualitative and quantitative approach to analyze the impact of FinTech. Qualitative approach included conducting four semi-structured interviews whereas quantitative approach was based on including annual reports of banks. The study of [21] discloses that Debit card on ATM had a positive significant relationship and significant with ROA, while Credit Cards on ATM and POS Machines were also positively related to ROA but not statistically significant while Prepaid Cards ATM was negatively related to ROA and non-significant.

Additionally, the studies that analyzed the impact of implementation of financial technology in banks resulted in varied conclusions. [22] didn't find a significant relation between FinTech enterprises and profitability of banking area due to impact of FinTech from inside and outside the environment. The study of [23] shows that e-banking impacted in increase of the profitability of banks, by which banks have met own costs and earned profits even in the short period of time. Moreover, [24] found that investment in ATMs impacted in increase of bank profitability. Furthermore, [25] prove the presence of profitability paradox in the Indian Banking sector. Additionally, [26] investigated the relation of improvement in advanced technology in profitability of banks in Saudi Arabia and Jordan. The author proves that as banks advance in investing in higher technology the income of banks increases. As well, [27] denote that Jordanian commercial banks realize higher return on assets, return on equity and earnings per share as a

result of investing in financial technology. Also, [28] study the relation of investment in Information Technology and performance of European banks. The author finds small association between total Information Technology investment and improvement of bank profitability through indicates the presence of a profitability paradox. Besides, [29] indicated that e-banking improved the proficiency of client assistance, empowering clients to utilize the Web to direct business from their homes. Then again, it likewise lessens the administration staff, which diminishes Chinese bank expenses and further develops consumer satisfaction. Likewise, [30] found significant positive correlation between fintech and profitability of 38 European Banks for the period 2013-2015, whereas the number of physical branches and bank profitability show negative correlation. Whereas, [31] confirms that all the automated service quality factors (ATM, internet and telephone banking) had nonsignificant relationships with bank financial performance.

Thus, from the exhaustive and broad assessment of literature, and to affirm the above discoveries the accompanying hypothesis were created:

H1: There is no positive relation between investing in ATM and FP of Middle East banks.

H2: There is no positive relation between investing in MB and FP of Middle East banks.

H3: There is no positive relation between investing in IB and FP of Middle East banks.

H4: There is no positive relation between investing in POS and FP of Middle East banks.

H5: There is no positive relation between investing in TB and FP of Middle East banks.

Research Methodology

The sample utilized for this study is made up of ten best performing banks in Middle East, despite the population being large, still it may be used to draw conclusions. Purposive sampling was used in the study in selecting the necessary sample of banks among total banks operating in Middle East. The researchers used the published data of annual reports from the websites of the banks for ten consecutive years, that is 2011-2021, as this is the period when banks mainly invested in information technology and they experienced their greatest progression.

The influence of Information Technology investments on financial performance across Middle East banks has been examined for the aim of this research using sources from secondary data. As a result, information for the study was taken from the annual reports for the years 2011-2021. As such, Automated Teller Machine (ATM), Mobile Banking (MB), Internet Banking (IB), Point of Sale Terminals (POS) and Telephone Banking (TB) are among the data for independent variables.

Dependent Variable

A detailed examination of the firm performance studies reveals that many methods are used by researchers to gauge its performance. According to [32] financial performance measures show if strategy, application and accomplishment are adding to main concern improvement of the firm. Hence in this study the financial performance as a dependent variable is measured through CAMELS method [33], [34]. The model was first used in USA but later on was viewed as a beneficial instrument by supervisory bodies from many nations to evaluate the stability of financial institutions [35]. The five essential areas of a bank's operations—Capital Adequacy, Asset quality, Management competency, Earning and Liquidity—are represented by the abbreviation CAMEL. The sixth component, "S," was supplementary to the five components in 1996 in order to place a higher emphasis on market risk, transforming the CAMEL method into the CAMELS approach [34]. Additionally, according to [33] Financial performance (FP) was estimated in view of six components of CAMELS technique. Initially, a sub-rating for every component of every distinct yearly report was determined accompanying equations: Capital Adequacy (CA): total deposits/total equity; Asset Quality (AQ): total investments/total assets; Management Capability (MC): admin expenses/interest income; Earning Quantity and Quality (EC): net income/total assets; Liquidity (LQ): cash and cash equivalents/current liabilities; Sensitivity (SN): doubtful debts/loans. Second, a composite score for each distinct yearly report was calculated. Third, evaluating from one to five was designated for every composite rating of every distinct yearly report:

Rating 1: 1.00-1.49/ Strong

Rating 2: 1.50-2.49/ Satisfactory

Rating 3: 2.50-3.49/ Fair

Rating 4: 3.50-4.49 /Marginal

Rating 5: 4.50-5.00/ Unsatisfactory

Independent Variable

Taking into consideration that the purpose of this study is examination of the IT investments effect on the performance of the ten largest Middle East banks, hence IT investments are counted as independent variable. Therefore, the estimation is done according to: installed ATMs by banks. The second estimation is done through MB. The third estimation includes IB. The fourth estimation is POS and the last one is TB. Each component takes own values while calculating them.

Empirical Findings

Descriptive Statistics

In this part is done the description of the dependent and independent variables. As explained in detail in part three, the dependent variable in this research is FP that is estimated according to CA, AQ, MC, EC, LQ, and SN), whereas the independent variable is considered IT investments that also is calculated through these components: ATM, MB, IB, POS and TB. The complete number of observations for every variable is 100. This number is reached because we analyzed 10 banks and covered the time series from 2011 until 2021. Additionally, the data are analyzed according to values of: minimum, maximum, mean and standard deviation (see table 1).

Table 1. Descriptive statistics of dependent and independent variables

	N	Minimum	Maximum	Mean	Std. Deviation
ATM	100	.00	1.00	.5000	.50252
MB	100	.00	1.00	.9000	.30151
IB	100	.00	1.00	.9000	.30151
POS	100	.00	1.00	.9000	.30151
TB	100	.00	1.00	.7600	.42923
FP	100	1.00	2.00	1.2100	.40936

Source: own calculation (SPSS)

The first independent variable analyzed in table 1 is ATM, with mean and standard deviation of 0.5, as well as minimum as zero and maximum as one.

The second variable is MB with mean of 0.9 and SD of 0.3. The minimum and maximum ranges of zero and one respectively.

Besides the descriptive statistics for IB and POS are having similar values, with mean 0.9 and SD of 0.3. Additionally, the minimum has a range of 0 and maximum as one.

The last analyzed independent variable is TB, with mean of 0.76 and standard deviation to be 0.4. While, the minimum and maximum ranges is similar to other independent variables, that is zero and one respectively.

Finally, the dependent variable FP shows higher mean than independent variables, 1.2 and standard deviation of 0.4. Besides the minimum and maximum ranges are also higher, one and two respectively.

Correlation Analysis

Additional analysis in this study is about the correlation between independent variables among each other and dependent variable. As such, the results show that moderate positive relationship exists among independent variables, with the range of 12.5% to 33.3%, with exception of weak or no linear correlation among IB with ATM and MB, 6.7% and 0% respectively. Besides the findings also confirm moderate relationship between ATM and TB (32.8%), MB and POS (33.3%). Moreover, some of the variables are moderately negatively correlated, like ATM and MB (-26.7%), ATM and POS (33.3%), MB and TB (-18.7%), as well as IB and POS (11.1%). Further, table 2 shows important relationship between dependent variable – FP and independent variables ATM, IB, POS and TB, with correlation of 31.9%, 17.2%, 17.2% and 29% respectively. The results confirm that multicollinearity does not occur among the independent variables. In addition, variation inflation factor (VIF) scores also identifies moderate correlation of independent variables (see table 2).

Table 2. Correlation matrix and VIF test

	ATM	MB	IB	POS	TB	FP	VIF
ATM	1						
MB	-.267**	1					
IB	.067	.000	1				
POS	-.333**	.333**	-.111	1			
TB	.328**	-.187	.125	-.187	1		
FP	.319**	.008	.172	.172	.290**	1	

Source: own calculation (SPSS)

Regression Analysis

With the purpose of studying the effect of IT investments on the performance of ten largest banks in Middle East, we have applied a multiple regression analysis with the following model:

$$FP = \beta_0 + \beta_1 ATM + \beta_2 MB + \beta_3 IB + \beta_4 TB + \beta_5 BC + \beta_6 POS + \varepsilon \quad (1)$$

from which: FP: Financial Performance; ATM: Automated Teller Machines; MB: Mobile Banking; IB: Internet Banking; POS: Point of Sale Terminals; and TB: Telephone Banking. Accordingly, the results of the model 1 are summed up in ensuing tables 3-5.

Table 3. Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.514 ^a	.264	.225	.36034

a. Predictors: (Constant), TB, IB, MB, POS, ATM

Source: own calculation (SPSS)

Table 3 shows the results of the model indicating R as 0.514, R Square as 0.264 and adjusted R square as 0.225. This suggests that 26.4% of the varieties in generally speaking Financial Performance of ten largest banks in Middle East is described by the given independent variables (implementation of ATM, MB, IB, POS and TB).

Table 4. ANOVA

Model ^a		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.385	5	.877	6.754	.000 ^b
	Residual	12.205	94	.130		
	Total	16.590	99			

a. Dependent Variable: FP
b. Predictors: (Constant), TB, IB, MB, POS, ATM

Source: own calculation (SPSS)

In table 4 analysis of variance is given which shows p-value of 0.000, indicating that we reject the null hypothesis and confidently confirm that in general our model is statistically significant to predict that IT investments impact positively on financial performance of ten largest Middle East banks. This finding is also verified by [11], [12], [9], but disapproved by [7].

Table 5. Coefficients

Model ^a		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.256	.210		1.217	.227
	ATM	.291	.081	.357	3.612	.000
	MB	.043	.130	.032	.334	.739
	IB	.214	.122	.158	1.762	.081
	POS	.461	.133	.340	3.462	.001
	TB	.212	.091	.222	2.343	.021

a. Dependent Variable: FP

Table 5 represents the significance and coefficients for each independent variable. Overall, all variables

have positive impact, whereas some with higher and some with lower importance. The first independent variable is ATM has coefficient of 0.291 and it is considered to be significant (0.000). Therefore, we reject the first null hypothesis. Hence, ATM has significant positive impact in financial performance of Middle East banks. This outcome confirms the findings of [8], [17], [24], however contradicts with the results of [31], [18] and [6] that concluded with negative impact of ATM banking in FP of banks. The implication from the finding is that with one-unit increase in implementation of ATM equipment, the financial performance of Middle East banks increases by 0.291.

The second independent variable in the study is MB with positive coefficient of 0.043, and it is not considered to be significant (0.739). Consequently, we don't reject the second null hypothesis. Hence, the suggestion is that with one-unit increase in implementation of MB, the financial performance of Middle East banks improves very little by just 0.043. This finding specifies that despite the positive impact of MB on bank FP, still it is not counted as statistically significant variable. This outcome confirms the findings of [18] and [36]. Mobile banking might be viewed as the following stage of banks concerning growing new services to clients in addition to exploiting the most recent technology related to business plans and decrease of expenses [37].

The third independent variable in this research is IB with positive coefficient of 0.214, and it is also not considered to be significant (0.081). As such, we reject the third null hypothesis. Therefore, the advice is that is that with one-unit increase in adoption of IB, the financial performance of Middle East banks improves by 0.214. This finding specifies that despite the positive impact of IB on bank FP, still it is not counted as statistically significant variable. This finding confirms with the results of [18] and [38], however contradicts with the results of [31]. Internet banking has showed up being amongst the most beneficial web-based business application [39].

Regarding the POS terminal, the coefficient is positive (0.461) and is significant (0.001). Accordingly, hypothesis 4 is not rejected. The finding shows that providing POS terminals to customers it influences significantly the financial performance of Middle East banks. The finding harmonizes with the findings of [8] whereas, opposite results are found by [18], [21].

The last independent variable in our study is TB which result is positive (0.212) and is significant (0.021). This specifies that applying TB it has significant impact in financial performance of Middle East banks. As such, hypothesis 5 is not rejected. The finding contradicts with the results of [18] and [31].

Conclusions, Limitations, and Future Research

The study objective was to encompass earlier research and analyze the impact of IT investments on financial performance of ten largest Middle East banks, covering the period between 2011-2021. In particular, the examination intended to lay out if there is a relation among the financial performance as dependent variable, estimated through CAMELS system and independent variables like: installed ATMs by banks, implementation of MB, IB, POS and TB. Additionally, the paper has suggested a conceptual framework that was validated empirically by data from financial reports of the ten banks in Middle East. The findings show significant empirical sustenance for three out of five hypotheses between independent (ATM, POS & TB) and dependent variable (financial performance). Hence, the findings show that no significant relation exists between MB, IB and financial performance of ten largest Middle East banks. The present evidence that ATM, POS terminal and TB are crucial for comprehending financial performance is expanded by the findings of this study. Mobile and internet banking are contemplated as the main factors in influencing financial performance of banks. Consequently, providing high-quality mobile and internet banking services must be accomplished in order to boost financial profitability. The quality of the existing mobile and internet banking service resulted to not have significant relation with financial performance, so expanding these services might consequently improve financial performance.

Answering faster to client necessities, in addition to giving clients the potential chance to direct themselves autonomously online remain additional significant approaches to further developing online excellence of banking. Thusly, banks ought to be in a superior situation to assist the clients with partaking and give a decent component of correspondence. The management could likewise deliberate own financial products with affordable prices online, thus, this could contribute in expanding the financial performance of banks.

Consequently, this study is a significant commitment to the knowledge because has discovered that ATM, POS & TB play important role in financial performance of ten largest banks in Middle East. As of our knowledge, the study is done for the first time covering financial performance of Middle East bank and will make a considerable contribution in increasing the consciousness of all stakeholders in this process. Understanding more deeply the factors of financial performance could help banks to prepare better policies on ideal usage of ICT components. Nevertheless, as other studies, also it has limitations. The

study covered only ten largest banks in Middle East. This research can be of a good guidance for further exploring the issues to other banks in Middle East or in other countries like in North Africa. The financial data of the study was completely based on yearly reports which might have expected predisposition. Hence it is recommended the future studies to collect data from primary sources, like interviews or questionnaires. Additional recommendation for future studies is to deliberate further financial ratios from the uses of the current study.

Conflict of interest statement

On behalf of all authors, the corresponding author states that there is no conflict of interest.

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FOREIGN DIRECT INVESTMENT AND BUSINESS ENVIRONMENT IN WESTERN BALKAN COUNTRIES

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Abstract. This paper is an attempt to estimate the relationship between FDI inflow and improving the business environment through Ease of Doing Business indicators. The research aims to explore statistical significant linkages between improved of overall WB ranking and inward FDI performed on the sample of six Balkan countries - Albania, Bosnia and Herzegovina, Montenegro, Northern Macedonia, Republic of Kosovo and Serbia. The hypotheses are formulated and basic tests performed on data from using the World Bank's Doing Business official rankings from 2010 to 2020. Furthermore, the study shows that the analyzed countries from the Western Balkans region have managed to achieve appropriate levels of the improvement on regulatory reforms in Ease doing Business, however these countries have not been successful enough in attracting Foreign investments.

key words: FDI. Ease of Doing Business Rankings, Balkan Countries

INTRODUCTION

Western Balkan countries (the Republic of Albania, Bosnia and Herzegovina, the Republic of Kosovo, Montenegro, the Republic of North Macedonia, and the Republic of Serbia) are constantly faced with a lack of domestic capital to finance their investments and a constant need for foreign capital in the form of direct and indirect investment. This necessitates the implementation of appropriate policies and strategies to improve their business environments to attract foreign investors. In the last two decades, these countries have comprehensively reconstructed and reformed their economies to become market economies so they can orientate themselves toward the world market.

Government policies are vital for enhancing FDI and realizing its potential benefits. Some governmental policies are general and aim to enhance the attractiveness of the business environment; for example, creating political and macro-economic stability and improving infrastructure and human resources, trade policy, science and technology policies, labour laws, etc.

In this context, to build investment capacities, the governments of the Western Balkan countries implemented economic policies with the assistance of the International Monetary Fund (IMF), the OECD, and the World Bank (WB) that aimed to achieve a better investment climate. In particular, the WB helped transition the economies to improve business environment reforms (BERs) by simplifying administrative procedures and providing better services to investors. These services aimed to reduce the costs and risks of business activity by improving poor government policies, laws and regulations, and by stimulating competition through new market entrants. On this basis, the WB published a "Doing Business" (DB) report at the end of each year, which ranked 190 economies and aggregated the scores for 10 areas in an attempt to assess the absolute level of regulatory performance and how it improves over time. (WBG, 2017)

The primary goal of this paper is to determine the results of business environment improvement reforms in these countries, or more precisely, whether improving the ease of doing business (EBD) index ranking has a positive impact on FDI inflows. The main motive behind this paper is to identify the current state of FDI in Balkan countries, its importance, and its impact on modernizing the economies of the observed countries. It should also be noted that it is important to explain possible ways to encourage and develop FDI, as well as foster a proactive approach to attracting foreign investment.

LITERATURE REVIEW

In particular, the importance of a comprehensive institutional environment is stressed, but there is a lack of information about certain determinants that explain the efficiency of the regulatory environment and EDB. However, early research on this relevant topic that especially focuses on EDB is by Jayasuriya (2011), who investigates if improvements in rankings generate greater FDI inflows. In this study, the author tests empirical data using official DB rankings from 2006 to 2009. The results suggest that an improved ranking has, on average, an insignificant influence on FDI inflow and countries that undertake large-scale reforms relative to other countries do not necessarily attract greater FDI inflows.

A similar question is also asked by Eifert (2009) in “Do regulatory reforms stimulate investment and growth?” Eifert used DB data from 2003–2007, which comprised a five-year panel of data on regulations and procedures from the WB’s DB project. The empirical data reveals some evidence of the positive impact of regulatory reforms in countries that are relatively poor (conditional on governance) and relatively well-governed (conditional on income).

An additional incentive to the elaboration of a regulatory framework and the importance of FDI inflows have been provided by the WB’s EDB project, and several scholars have focused their research on the link between the components that are relevant for business regulation in the EDB ranking and attracting FDI (Bayraktar, 2013; Corcoran & Gillanders, 2015; Mahbub & Jongwanich, 2019). Most studies use an aggregated measure of EDB to investigate the influence of the regulatory framework in the host country and the dynamics of FDI. A few articles have investigated the effects of sub-indicators in certain fields of EDB on the FDI dynamics in the observed host country (Morris & Aziz, 2011).

Three research papers were identified in the literature review that examined the EDB index and its correlation with FDI in ex-socialist countries in the Western Balkans region. One study, entitled “Regulatory environment and development outcomes: Empirical evidence from transition economies,” measured EDB by the aggregate index and 10 sub-indices (Petreski, 2014), and focused on the growth aspects of EDB in 30 ex-socialist countries from 2005–2011. The results suggest that less complex regulation improves growth when combined with better institutions, and more relevant indicators for the entire lifecycle of the firm are protecting investors, contract enforcement, and trade across borders.

Jovanović and Jovanović (2018) investigated if EDB, measured by the WB’s DB 10 indicators, affected FDI in 27 ex-socialist countries and found a lot of uncertainty regarding its effects, with most indicators being either insignificant or lacking robustness. The only aspect of business regulation that stood out as a robust determinant in the two estimations was the ease of trading across borders.

Osmani (2015) analyzed countries from the Western Balkans region and discovered that they managed to achieve appropriate levels of macroeconomic stability and an improved business climate due to the implemented reforms. However, the countries had not been successful enough in attracting FDI as a precondition to ensure a more dynamic economic development and an appropriate fall in the level of unemployment and poverty.

Estevão, Lopes, & Penela, (2021) raised the question of whether the DB indicators were equally important regardless of a region’s level of economic development. The results show that the rankings and the subsequent design of public policies based on them should consider regional specificities, thus refuting the idea that the design of public policies to improve the framework for companies should follow a one size fits all intervention model. Doshi, Kelley, & Simmons, (2019). demonstrated how the WB’s EDB ranking system affected policy through bureaucratic, transnational, and domestic-political channels.

In an article entitled “Business environment and foreign direct investments: The case of selected European emerging economies,” Vučković, Bobek, Maček, Skoko, & Horvat, (2020) used quantitative analysis to identify factors in a business environment that were relevant for attracting FDI, using variables such as the Global Competitiveness Index (relevant for business regulation and institutional framework), macroeconomic performance, market capitalization, and taxation.

Numerous empirical studies have investigated the effects of a regulatory environment, institutions, and the application of the law on attracting FDI inflows to the economy. Bailey (2018) found that political stability, democracy, and the rule of law attracted FDI, while other factors, such as corruption, tax rates, and cultural distance, deterred it. Other studies have examined the institutional determinants of inward FDI (Uddin, Chowdhury, Zafar, Shafique, & Liu, 2019), country institutional environments and international strategy (Xu, Hitt, Brock, Pisano, & Huang, 2021), and the relationship between institutional

factors and FDI flows (Kurul, 2017). More important topics for the business environment and FDI have been addressed by Bouchoucha and Yahyaoui (2019) in a study on governance and FDI, Gnanon (2019) has looked at trade policy and FDI inflows, and Donnelly and Manolova (2020) have examined foreign location decisions.

The above-mentioned studies, and many others, on FDI, EDB, the investment climate, and improving the business environment in developing and transition economies with a focus on Western Balkan countries, provide a qualitative basis for research that includes numerous examples that have been analyzed, and they represent a good starting point in providing recommendations in this paper.

BUSINESS ENVIRONMENT IMPROVEMENT AND FDI IN WESTERN BALKAN COUNTRIES

A favorable investment climate is key to attracting FDI. A poor business environment negatively affects economic development and the attraction of FDI. Therefore, drafting an adequate strategy for attracting investors and/or foreign investors is a very important factor, and it is also relevant to know what their motives are for investing in the host country.

The motives for FDI largely depend on the characteristics of the country and the orientation of economic policy. When deciding on which country to invest in, multinationals are increasingly considering regulatory and institutional factors, whereas previous FDI decisions were motivated more by macroeconomic factors. Since 1990, there has been a sea change in host government attitudes toward incoming FDI, switching from suspicion and barriers to FDI to a more liberalizing and welcoming approach (Contractor, Nuruzzaman, Dangol, & Raghunath, 2021). However, the WB's data on the EDB index reveals that the degree of liberalization has been uneven across nations and different aspects or phases of FDI. For instance, some regulations affect entry and others affect the multinational's ability to appropriate profits once its affiliate is in operation in the country. Finally, in recent years, there has been greater emphasis on easing regulations regarding insolvency or divestment from a nation.

The investment environment is defined by the macroeconomic policy, including fiscal, monetary, and trade, as well as the country's infrastructure, state, and institutions. Other very important factors that are relevant to the investment environment are political stability, the rule of law, macroeconomic conditions, and environmental protection. The most important factors of political stability, according to the OECD (2006), are investment security, the protection and guarantee of investors' rights, legislative stability, transparency, the level of corruption, and a stable government.

The WB has encouraged the improvement of the investment climate by supporting the implementation of business reforms through the DB project and improving business regulations and their enforcement in 190 economies, which can be measured each year.

DB indicators and the determinants of FDI inflow

The Doing Business report measures regulations that encourage or constrain business activity across 10 core areas or indicators in 190 economies (starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency). In principle, the DB indicators address improving the business environment, lowering business costs and taxes, and eliminating administrative and bureaucratic barriers in countries in transition. However, the DB methodology does not incorporate all areas that impact the business environment, and other areas that are important to a business, such as a country's proximity to large markets, the quality of its infrastructure services, the transparency of government, procurement, macroeconomic conditions, financial market regulation, or the underlying strength of institutions, are not measured directly by DB indicators.

Table 1: World Bank's EDB indicators

1.	Starting a business	Procedures, time, cost, and paid-in minimum capital to start a limited liability company
2.	Dealing with construction permits	Procedures, time, and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system

3.	Getting electricity	Procedures, time, and cost to get connected to the electrical grid, the reliability of the electricity supply, and the transparency of tariffs
4.	Registering property	Procedures, time, and cost to transfer property, and the quality of the land administration system
5.	Getting credit	Movable collateral laws and credit information systems
6.	Protecting minority investors	Minority shareholders' rights in related party transactions and corporate governance
7.	Paying taxes	Payments, time, total tax, and contribution rate for a firm to comply with all tax regulations and post-filing processes
8.	Trading across borders	Time and cost to export products of comparative advantage and import auto parts
9.	Enforcing contracts	Time and cost to resolve a commercial dispute and the quality of judicial processes
10.	Resolving insolvency	Time, cost, outcome, and recovery rate for commercial insolvency, and the strength of the legal framework for insolvency

Adapted from WBG, (2020).

Selected Western Balkan countries have made progress in undertaking business reforms, and they have ranked quite well in the WB's DB reports. However, these improvements are not reflected in the increase in FDI inflow.

Republic of Albania

Business environment improvement

As seen in Table 4, over 10 years, Albania had very few changes in its overall DB ranking but did experience significant improvements from 2017–2019. In 2020, eight out of 10 DB indicators worsened, and getting electricity was the only area of improvement. Albania experienced a deep decline in the areas of protecting minority investors, dealing with construction permits, and enforcing contracts during this period. This resulted in a lower overall global rank compared to 2019, and it moved from 63rd down to 82nd (ranking the 190 economies from best to worst). Its position in resolving insolvency and registering property remained the same.

Table 3: Albania's EDB ranking 2010–2020

DB year	Global rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
2020	82	53	166	107	98	48	111	123	25	120	39
2019	63	50	151	140	98	44	26	122	24	98	39
2018	65	45	106	157	103	42	20	125	24	120	41
2017	58	46	106	156	106	44	19	97	24	116	43
2016	97	58	189	162	107	42	8	142	96	37	42
2015	68	41	157	152	118	36	7	131	95	102	44
2014	90	76	189	158	119	13	14	146	85	124	62
2013	85	62	185	154	121	23	17	160	79	85	66
2012	82	61	183	154	118	24	16	152	76	85	64
2011	82	45	170	72	15	15	149	75	89		
2010	82	46	173	70	15	15	138	66	91		

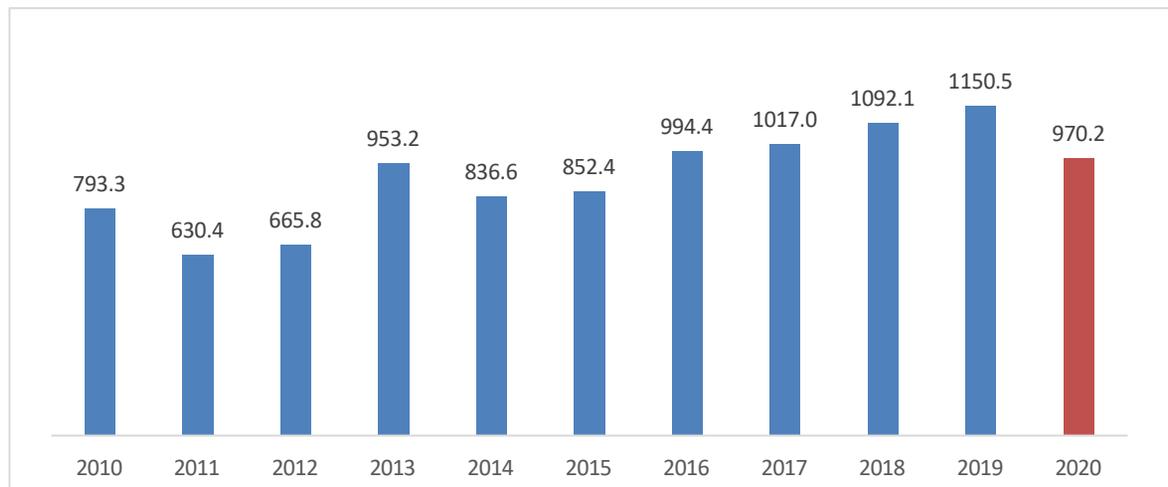
Source: WBG, (2020).

Compared to last year's report, Albania's ranking has dropped, and it remains the weakest country in the Western Balkans region and Europe (along with Bosnia and Herzegovina [BiH]). This unsatisfactory DB ranking means that commitment to improving the business environment is increasingly crucial, not only in this marked area but in the overall performance of the investment climate, as this is a key element in attracting FDI to influence Albanian economic growth and reduce poverty. Albania requires regular structured surveys among entrepreneurs to identify key business trends and barriers, while also monitoring their development promptly to set the picture for policymakers.

FDI inflow

Albania has experienced a steady increase in FDI inflows over the past 10 years, with a marked increase every year from 2015 to reach the value of 1.15 billion EUR in 2019. In 2020, due to the pandemic, there was a slight decrease compared to the previous year.

Figure 2: FDI inflow to Albania 2010–2020 (million EUR)



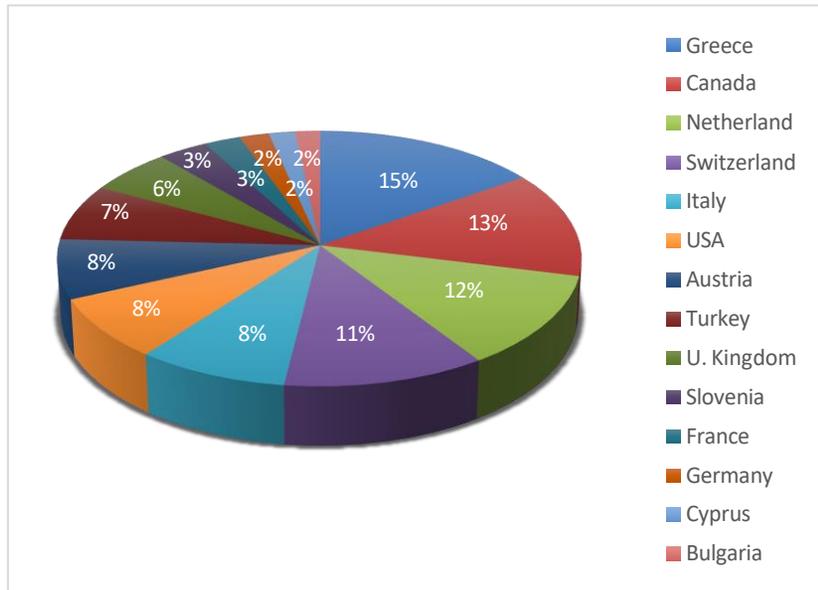
Source: WIIW, (2020).

These investments are essentially in the oil, metal ore, infrastructure, construction, and telecommunications sectors. Investments are concentrated in extractive industries, the energy sector, banking and insurance, information and communication technology, and real estate.

At the end of 2020, FDI stock in the Albanian economy reached 9.95 billion EUR, which marks the highest historical value. FDI stock represents the level of direct investment at a certain time. In other words, FDI stock represents the value of assets owned by foreigners in the Albanian economy in the form of capital and net loans they have given to resident companies.

Figure 3: FDI inflow to Albania by country 2010–2020 (million EUR)

Greece	979.3
Canada	857.6
Netherlands	752.6
Switzerland	722.1
Italy	540.5
USA	497.0
Austria	478.7
Turkey	456.8
UK	363.2
Slovenia	216.1
France	158.5
Germany	128.3
Cyprus	114.4
Bulgaria	108.6



Source: Bank of Albania, (2022).

Figure 4 represents the FDI stock by country from 2010–2020 in millions of euros. The highest stocks during this period were from Greece, Canada, the Netherlands, and Switzerland. According to the Bank of Albania, Greek investments in the country were focused mostly on the banking system, telecommunication, and manufacturing. The overwhelming majority of Canadian investments were represented by Bankers Petroleum, while Swiss investments were mainly in the energy sector, such as the Trans-Adriatic gas pipeline, and other investments included the Ballsh refinery. Investments from the Netherlands mostly came from the oil company Shell as well as from a series of concessionary companies (public–private partnerships).

Italy also represents an important element of the foreign investments benefitting Albania, and their investment stock from 2010–2020 exceeded five billion euros. Italian FDI dominated manufacturing, electricity, gas, water, construction, and other service sectors.

Promotion and attracting FDI

The Albanian Investment Development Agency (AIDA) is the entity responsible for promoting foreign investments in Albania. The agency focuses on enhancing the competitiveness of the private sector, strengthening the export potential of the country, promoting and/or supporting FDI in Albania, and promoting the country’s tourism potential.

The Law on Strategic Investments stipulates that AIDA, as the Secretariat of the Strategic Investment Council, serves as a one-stop-shop for foreign investors, from filing application forms to granting the status of strategic investment/investor. AIDA undertakes all the necessary initiatives for improving the business climate, following and assisting foreign investors in all phases of their business activity through intervention and cooperation with government entities and other bodies.

Albania maintains a liberal foreign investment regime designed to attract FDI. The Law on Foreign Investment outlines specific protections for foreign investors and allows 100% foreign ownership of companies and foreign investors are entitled to expatriate their investments in full or as a contribution in kind.

To attract FDI and promote domestic investment, Albania approved a Law on Strategic Investments in 2015, which outlines investment incentives and offers fast-track administrative procedures to strategic foreign and domestic investors, depending on the size of the investment and the number of jobs created. To promote FDI, the government also passed legislation, creating technical economic development areas (TEDAs) like free trade zones (FTZs) (U.S. Department of State, 2020).

Challenges

Albanian state authorities are taking measures and making significant reforms to improve the business climate in the country and encourage FDI inflow, yet challenges remain; for example, corruption, bureaucracy, property issues, a weak and slow judicial system, poor contract enforcement, tax burdens, and a lack of infrastructure.

Bosnia and Herzegovina

Business environment improvement

According to the WB's 2020 DB report, BiH is among the least attractive business environments in Southeast Europe, with a ranking of 90 out of 190 global economies. The WB report ranks BiH particularly low for its lengthy and arduous processes to start a new business (ranked 184th) and obtain construction permits (ranked 173rd). Both of these issues have impacted its low ranking in the WB's DB report.

Table 4: BiH's EDB ranking 2010–2020

DB year	Global rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
2020	90	184	173	75	96	67	88	141	27	93	37
2019	89	183	167	130	99	60	72	139	37	75	37
2018	86	175	166	122	97	55	62	137	37	71	40
2017	81	174	170	123	99	44	81	133	36	64	41
2016	79	175	171	119	97	42	66	154	66	28	38
2015	107	147	182	163	88	36	83	151	104	95	34
2014	131	174	175	164	96	73	115	135	107	115	77
2013	126	162	163	158	93	70	100	128	103	120	83
2012	125	162	163	157	100	67	97	110	108	125	80
2011	110	160	139	103	65	93	127	71	124		
2010	116	160	136	139	61	93	128	63	124		

Source: WBG, (2020).

BiH was best placed in the trading across borders indicator (27th position), where there was an

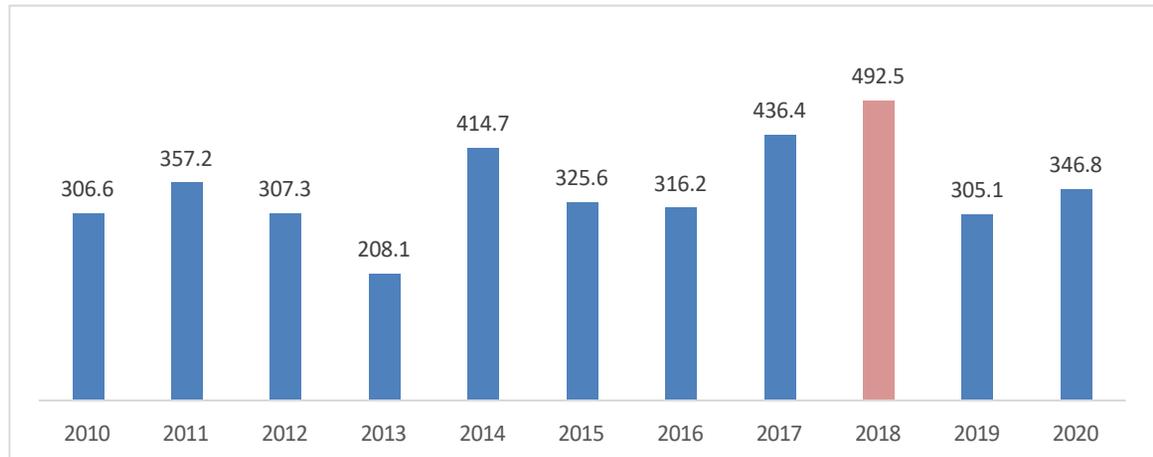
improvement of 10 places compared to last year's position of 37th place. In the area of resolving insolvency, it maintained last year's 37th position, and in getting credit, BiH ranked 67th (ranked 60th in the previous report). In areas that are very important for foreign investors, such as the protection of minority investors, BiH ranked 88th (previously 72nd), and in the field of contract enforcement, it ranked 93rd on the global list (previously 75th).

Certainly, the reasons for BiH's low ranking are mainly political in nature because of political instability and numerous political and security risks. These risks deter investors from investing in a country that has minimal institutional guarantees for the protection and development of businesses as a result of permanent conflicts between institutions at local, regional, and central levels.

FDI inflow

Economic reforms to complete BiH's transition from a socialist past to a market-oriented future have proceeded slowly, and the country has a relatively low level of FDI. Figure 5 shows that the FDI trend from 2010 to 2020 fluctuates. The highest amount of FDI was recorded in 2018 with 492.5 million EUR, which is 12.8% higher than in 2017. FDI in 2019 was 305.1 million EUR, with a decrease of 61.9% compared to 2018. The annual average inflow of FDI was 346 million EUR.

Figure 4: FDI inflow to BiH 2010–2020 (million EUR)



Source: WIIW, (2020).

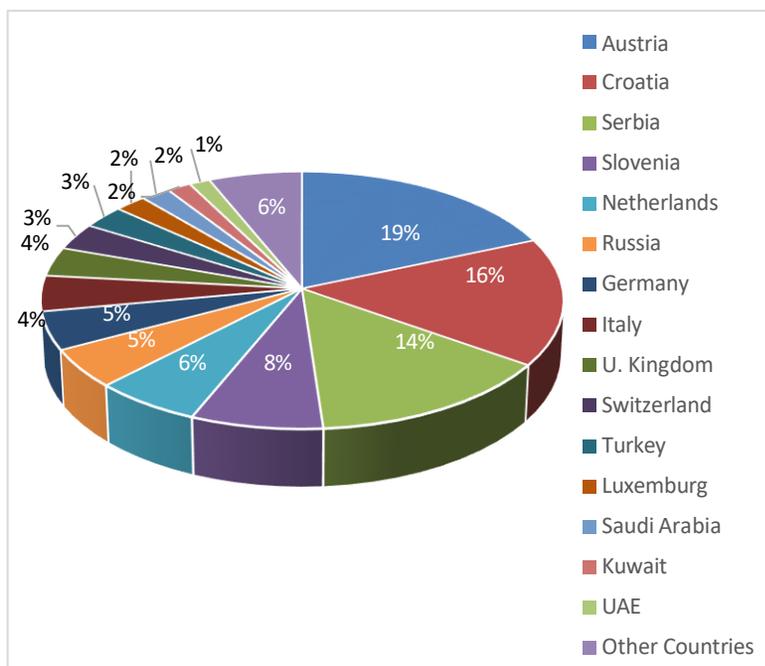
After the decline in 2019, 2020 marked a positive increase in FDI by 13.4%. According to the Foreign Investment Promotion Agency of Bosnia and Herzegovina Investment inflows could be considered as positive, related to the deep global recession that has affected the ability of foreign investors. However, it should be noted that the majority of investments were reinvested earnings from existing companies with foreign investment, while investments in the form of ownership shares were much lower. (FIPA 2022)

According to the same Agency (FIPA), the manufacturing sector achieved the highest level of FDI at 35%, while around 25% of investment went to the banking sector. Telecommunications and trade had 12%, services had 5%, real estate had 4%, with other activities at 3%. The largest share of FDI inflow is from Austria, Croatia, the Serbia, Slovenia, and Russia.

Figure 5: Total FDI inflow to BiH by country by the end of 2020 (million EUR)



Austria	1,360
Croatia	1,172
Serbia	1,035
Slovenia	550
Netherlands	445
Russia	361
Germany	351
Italy	327
UK	267
Switzerland	245
Turkey	211
Luxemburg	158
Saudi Arabia	144
Kuwait	120
UAE	103
Other countries	460



Source: BiH FIPA, (2022).

Figure 6 shows the FDI inflow into BiH from different countries from 1994–2020. Some of the foreign companies that have invested in BiH include Arcelor Mittal, Asamer Baustoffe, Coca-Cola, Gazprom, Heidelberg Cement, Henkel, Intesa Sanpaolo, Lactalis, MANN + HUMMEL, Meggle, Natron -Hayat, PepsiCo, Raiffeisen, Sberbank, UniCredit, Veritas, and Volkswagen, among others.

Promotion and attracting FDI

BiH (and other countries) try to attract FDI through the State Foreign Investment Policy. FIPA was established as a state agency whose mission is to attract and maximize the flow of FDI into BiH and encourage existing foreign investors to further expand and develop their businesses in BiH. Various measures have been undertaken, including laws (profit transfer and investment transfer are free), free economic zones (no VAT or import duties on equipment that will be used for production), adaptation of various financial and non-financial incentives, bilateral investment conventions, and encouraging investment through the Investment Promotion Agency. However, up to now, it has failed to increase FDI interest.

In the past three years, the BiH government has not conducted an investment policy review through the OECD, the World Trade Organization (WTO), or UNCTAD (U.S. Department of State, 2020). BiH is considered an unfavorable destination for FDI mainly because of endemic corruption, complex legal and regulatory frameworks and government structures, non-transparent business procedures, insufficient protection of property rights, and a weak judicial system. The political system in BiH was and continues to be complex, reflecting the provisions of the country’s constitution established as part of the Dayton Accords at the end of the war in 1995. The general government comprises four levels: the BiH (or central) level, the two entities of the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS), and the Brcko District, with a multi-tiered legal and regulatory framework that can be duplicative and contradictory.

Policy cooperation and coordination, the harmonization of business procedures, and more effective

investment promotion efforts are essential for BiH to unlock its untapped potential to attract FDI and help the country achieve its development goals (UNCTAD 2015). European Commission and Group of States against Corruption (GRECO) assessments have repeatedly issued recommendations that BiH do more to curb corruption, a precondition to its accession to the EU.

Republic of Kosovo

Business environment improvement

Kosovo was ranked 57th in the WB's 2020 DB report, and it seems that the country is continuing the reform process to improve its business environment. According to the report, Kosovo has reached plus (+) 2.2% in facilitating business and has made progress in seven out of 10 indicators in total.

Progress in these areas has meant that Kosovo is recognized by the WB as one of the 20 most reformed countries in the 2020 DB report.

Table 5: Kosovo's EDB ranking 2010–2020

DB year	Global rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Payin g taxes	Tradin g across borders	Enforcin g contracts	Resolving insolvenc y
2020	57	12	160	90	37	15	128	48	31	53	48
2019	44	13	100	113	37	12	95	44	51	50	50
2018	40	10	122	106	34	12	89	45	48	49	49
2017	60	13	129	114	33	20	63	43	51	44	163
2016	66	47	136	124	32	28	57	67	48	71	163
2015	75	42	135	112	34	23	62	63	118	138	164
2014	86	100	136	121	58	28	98	43	121	138	83
2013	98	126	144	116	76	23	100	44	124	138	87
2012	117	168	171	124	73	24	174	46	131	157	31
2011	119	163	173	65	32	173	41	130	155		
2010	113	164	176	68	43	172	50	132	157		

Source: WBG, (2020).

Figure 8 shows Kosovo's 2020 WB DB report assessment for the 10 indicators. Its worst ranks are dealing with construction permits (160th) and protecting minority investors (128th).

Figure 6: Kosovo's business indicator ranking in 2020

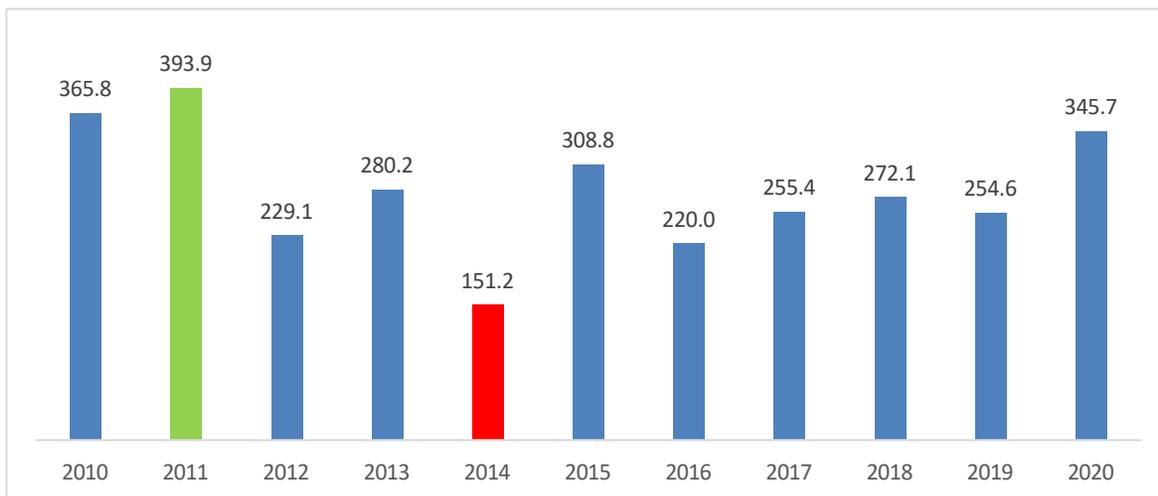


Source: World Bank, (2020).

FDI inflow

The highest amount of foreign investment in Kosovo was 393.9 million EUR in 2011, while the lowest was only 151 million EUR in 2014. As seen in Figure 9, in 2015, FDI in Kosovo amounted to 308.8 million EUR, which is a significant increase compared to the previous year. In 2016, 2017, and 2018 there was a slight increase, and in 2020, despite the pandemic, there was an increase compared to the previous year, thanks to the completion of energy projects launched in previous years.

Figure 7: FDI inflow to Kosovo 2010–2020 (million EUR)

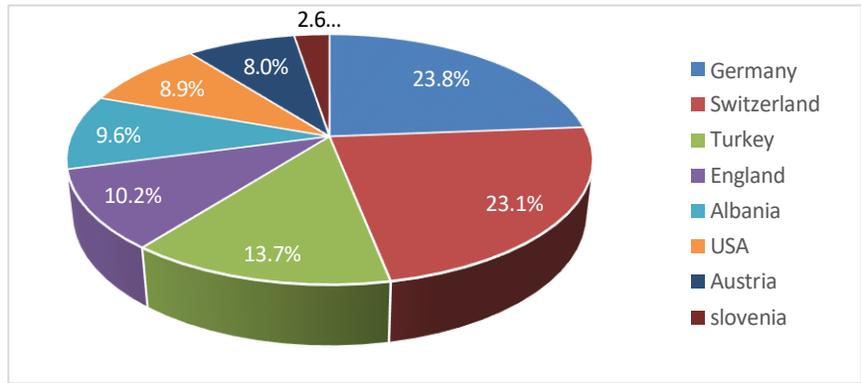


Source: Central Bank of the Republic of Kosovo, (2022).

As presented in Figure 10, from 2010–2020, FDI inflow to Kosovo was mainly from Germany, Switzerland, Turkey, England, Albania, the USA, Austria, and Slovenia.

Figure 8: FDI inflow to Kosovo by country 2010–2020 (million EUR)

Germany	583.3
Switzerland	567.9
Turkey	336.2
England	251.3
Albania	236.3
USA	219.5
Austria	196.3
Slovenia	63.7



Source: Central Bank of the Republic of Kosovo, (2022).

In the observed period, the real estate sector led FDI with over 1.5 billion EUR, while financial and insurance activities brought in 394.7 million EUR, construction brought in 308.4 million EUR, manufacturing brought in 182.7 million EUR, and electricity brought in 137.2 million EUR. However, the structure of FDI inflow is not favorable because the sectors that create new jobs and increase exports are of low value.

Promotion and attracting FDI

Based on the WB report in 2020, Kosovo is moving closer to the best standards of business regulation, but the ranking also shows that reforms need to move faster for Kosovo to be more competitive.

Kosovo has a law that protects foreign investors:

The purpose of this law is to protect, promote and encourage foreign investment in the Republic of Kosovo, to provide foreign investors with a set of fundamental rights and guarantees that will ensure foreign investors that their investments will be protected and treated with fairness in strict accordance with the accepted international standards and practices. (Law No. 04/L-220 on Foreign Investment, Article 1)

The Kosovo Investment and Enterprise Support Agency (KIESA) was established, and together with the National Council for Economic Development (NECD), the Inter-Ministerial Commission for Strategic Investments, and the European Investors Council (EIC), these institutions are responsible for promoting and supporting the investment climate in Kosovo and assisting in the development of adequate policies and actions to support foreign investors.

The Stabilization and Association Agreement (SAA) and the Central European Free Trade Agreement (CEFTA) have also been signed. In this regard, agreements have been signed with some countries for double taxation; however, FDI inflow in Kosovo is extremely low, foreign companies are unwilling to invest, and foreign investors do not have positive perceptions about investing.

Challenges

Foreign investors' low interest in investing in Kosovo is mainly because of the country's limited international integration, political instability, corruption, the largely informal economy, and weak rule of law.

Montenegro

Business environment improvement

Montenegro took 50th place on the list of 190 countries ranked using EDB criteria. Compared to 2019, Montenegro increased its rating by 1.07 points and maintained the same rank (Doing Business report, 2020). Out of the countries in the region, the following countries are ranked better than Montenegro: North Macedonia (17), Slovenia (37), and Serbia (44). The countries with a lower rating are Kosovo (57), Albania (82), and Bosnia and Herzegovina (90).

Table 7 shows that Montenegro improved its WB EDB ranking during these 10 years, from 71st in 2010 to 66th in 2011, and it has continued to improve in the following years.

Table 6: Montenegro's EDB ranking 2010–2020

DB year	Global rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
2020	50	101	40	134	83	15	61	75	41	44	43
2019	50	90	75	134	76	12	57	68	47	44	43
2018	42	60	78	127	76	12	51	70	44	12	37
2017	51	58	93	167	78	7	42	57	43	41	40
2016	46	59	91	163	79	7	36	64	43	42	36
2015	36	56	138	63	87	4	43	98	52	136	33
2014	44	69	106	69	98	3	34	86	53	136	45
2013	51	58	176	69	117	4	32	81	42	135	44
2012	56	47	173	71	108	8	29	108	34	133	52
2011	66	51	161	116	32	28	139	34	135		
2010	71	85	160	131	43	27	145	47	133		

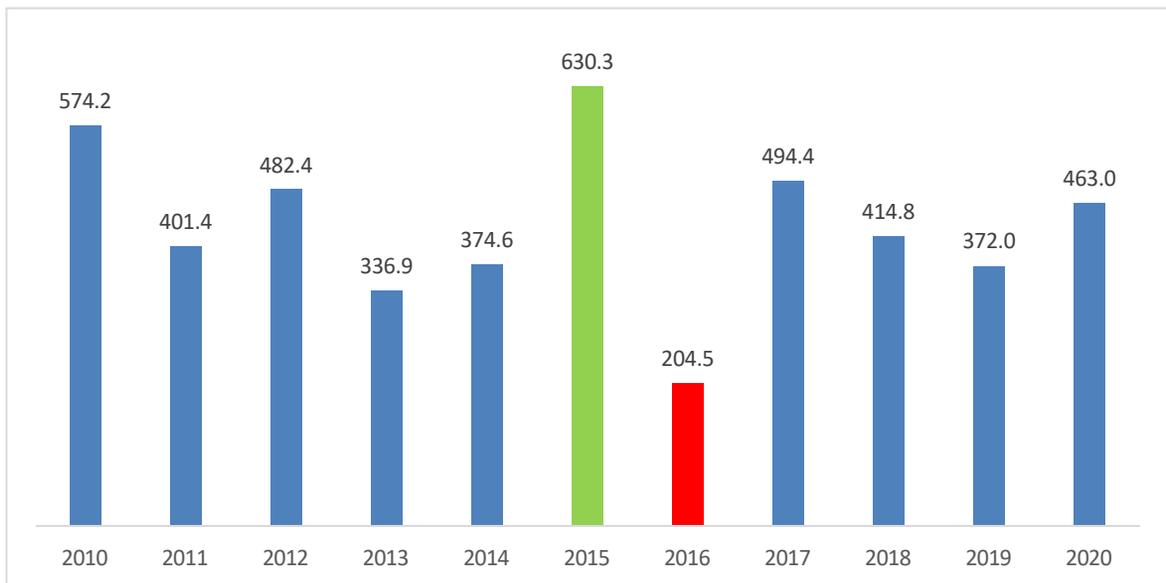
Source: WBG, (2020).

In 2020, the WB EDB indicators suggest that Montenegro improved its ranking for dealing with construction permits and trading across borders. However, lower rankings were observed for starting a business (dropped 11 positions), paying taxes (dropped seven positions), getting credit (dropped three positions), and protecting minority investors (dropped five positions). Compared to the previous report, Montenegro had a lower ranking in the area of registering property and was ranked 83 (76th last year).

FDI inflow

Despite the coronavirus pandemic in 2020, 463 million EUR of FDI went into Montenegro. The highest inflow of FDI recorded during 2010–2020 was in 2015, with 630.3 million EUR (Figure 11), while the lowest was in 2016 with only 204.5 million EUR.

Figure 9: FDI inflow to Montenegro 2010–2020 (million EUR)



Source: Central Bank of Montenegro, (2022).

The largest foreign investors in Montenegro in 2020 were Russians, the Chinese, and the Swiss. In total, NATO members invested the most money, with 230 million EUR. Individually, Russia was convincingly in the lead in terms of investment, with 99 million EUR invested in 2020. This was followed by China with investments worth 71 million EUR and Switzerland with just over 63 million EUR. The inflow of FDI from Italy amounted to 45 million, the U.S. invested 29.4 million, the United Arab Emirates invested 28 million, and Serbia invested 27.8 million EUR. Investments from Germany amounted to 26 million EUR, while Turkey and the Netherlands invested 18 million EUR each.

Researchers at the Vienna Institute for International Economic Studies (WIIW.2020) point out that the COVID-19 pandemic has caused severe damage to the Montenegrin economy, largely due to the country's reliance on its tourism sector. Indeed, the pandemic's strong second wave resulted in the worst tourist season in history. When tourism fails, it has serious consequences for employment and private consumption.

Promotion and attracting FDI

Montenegro regained its independence in 2006, and since then, the country has adopted an investment framework that, in principle, encourages growth, employment, and exports. Montenegro's economy is based on three sectors, with the government largely focusing its efforts on developing tourism, energy, and agriculture.

To better promote investment and foster economic development, in December 2019, the government adopted a new Law on Public-Private Partnerships and established the Montenegrin Investment Agency (MIA) by merging the Montenegrin Investment Promotion Agency (MIPA) and the Secretariat for Development Projects. The MIA seeks to promote Montenegro as a competitive investment destination by facilitating investment projects in the country.

In general, no distinctions are made between domestic and foreign-owned companies. Foreign companies can own 100% of a domestic company, and profits and dividends can be repatriated without limitations or restrictions. Foreign investors can participate in local privatization processes and can own land in Montenegro on the same general terms as locals.

The Montenegrin government offers financial incentives to investors based on the value of their investment. Both Montenegrin and foreign entities or investors can benefit from these investment incentives.

In 2004, Montenegro adopted the Law on Free Zones, which offers businesses benefits and exemptions from custom duties, taxes, and other duties in specified FTZs. Port of Bar is currently the only FTZ in Montenegro. All free zone users benefit from the law and other regulations, such as importing goods free of customs duties, customs fees and VAT, the storage of goods in a duty-free regime for an unlimited time, low corporate tax, and simplified procedures.

According to the Montenegro Foreign Investors Council, the economy in Montenegro will continue to be strongly influenced by investments in the coming years. Therefore, it is of particular importance for the new government to continue implementing effective measures within its rule of law and legal protection as well as improving economic conditions and the business climate (MFIC, 2020).

Challenges

Corruption and the perception of corruption are significant problems in Montenegro's public and private sectors. Corruption is routinely placed high on the list of citizens' concerns in opinion polls in addition to the risks cited by foreign investors.

Republic of North Macedonia

Business environment improvement

In recent years, the World Bank's DB study of the business environment has considered North Macedonia as one of the top reformers in terms of EDB. The following 10-year statistical rankings on DB demonstrate North Macedonia's success from 2010 while also showing its improvements from 2016 when it ranked 12th place. Further success for North Macedonia was achieved in 2019 when it reached 10th place in the top-ranking economies. In 2020, the WB's DB report ranked North Macedonia in 17th place for doing business, down seven spots from the previous year.

Table 7: North Macedonia's EDB ranking 2010–2020

DB year	Global rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
2020	17	78	15	69	48	25	12	36	32	47	30
2019	10	47	13	57	46	12	7	31	29	37	30
2018	11	22	26	53	48	12	4	29	27	35	30
2017	10	4	11	29	48	16	13	9	27	36	32
2016	12	1	10	45	50	42	14	7	26	26	37
2015	30	3	89	88	74	36	21	7	85	87	35
2014	25	7	63	76	84	3	16	26	89	95	52
2013	23	5	65	101	50	23	19	24	76	59	60
2012	22	6	61	121	49	24	17	26	67	60	55

2011	38	5	136	69	46	20	33	66	65
2010	32	6	137	63	43	20	26	62	64

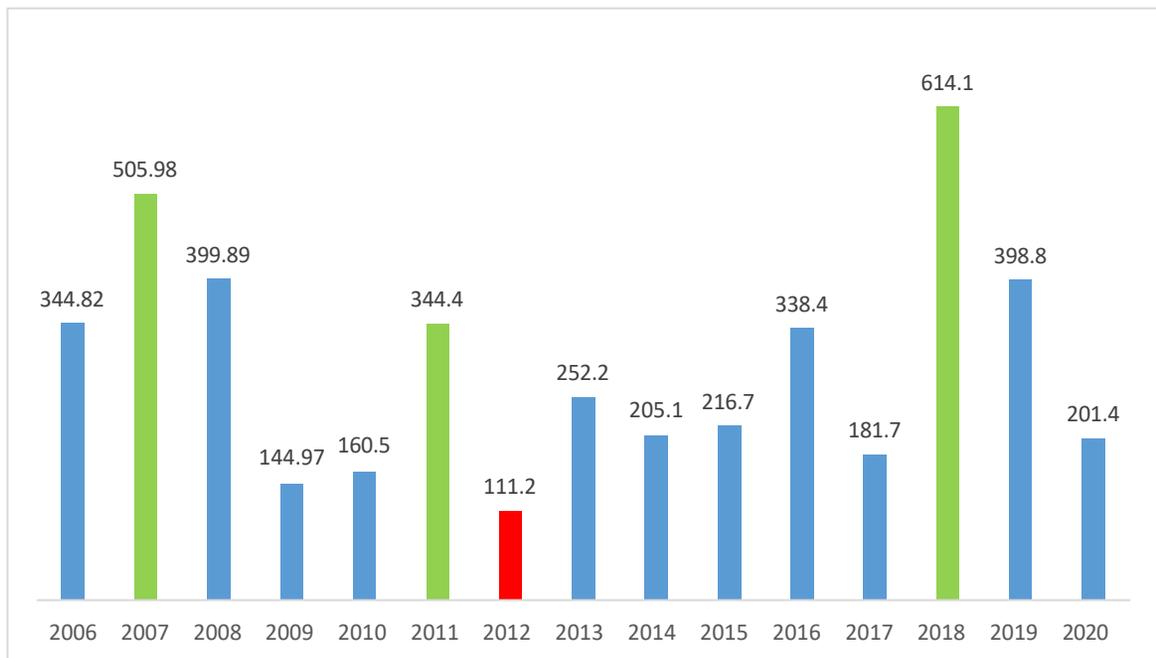
Source: WBG, (2020).

FDI inflow

North Macedonia has pursued an aggressive policy of attracting foreign investment since 2006 when the government invested millions of euros in promoting foreign investment, free economic zones, and other benefits for foreign investors. Figure 12 demonstrates that in the period 2006–2020, the best years of investments were 2007, 2011, and 2016, while the peak of investments was reached in 2018. The first increase in FDI was recorded in 2007, with 507 million EUR.

In 2007, the first foreign companies were established in economic zones, followed by foreign investments that came from the privatization of state-owned manufacturing companies and the energy sector. During 2011 and 2016, economic zones expanded by encouraging investors via various subsidies for certain forms of cash benefits depending on the amount of their investments.

Figure 10: FDI inflow to North Macedonia 2010–2020 (million EUR)

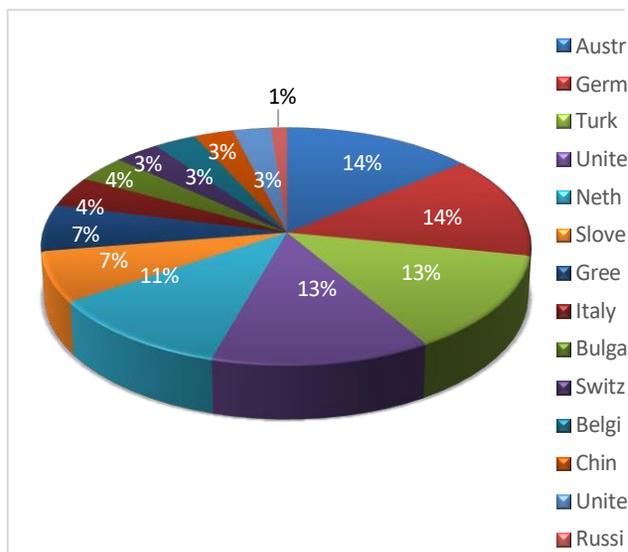


Source: National Bank of the Republic of North Macedonia, (2022).

As seen in Figure 13, FDI comes mostly from Europe, and Austria, Slovenia, the Netherlands, the UK, Germany, and Turkey occupy the top spots for the value of their investments. In terms of investment activities, foreign investments are mainly concentrated in sectors that include vehicle part production, electricity, mining, construction, and trade. Some of the most popular companies in North Macedonia are Jonson Controls and Jonson Meti from the USA, Dreksmaer, Markart, and Kostal from Germany, and Kondevo and Dijatek from Italy, among others.

Figure 11: FDI inflow to North Macedonia by country 2010–2020 (million EUR)

Austria	365.14
Germany	363.69
Turkey	344.3
UK	339.22
Netherlands	291.14
Slovenia	177.09
Greece	165.24
Italy	108.24
Bulgaria	94.03
Switzerland	86.53
Belgium	80.77
China	75.75
USA	72.63
Russia	30.37



Source: National Bank of the Republic of North Macedonia, (2022).

Promotion and attracting FDI

Attracting FDI is one of the government’s main pillars of economic growth and job creation. North Macedonia is now a NATO member and has been invited to begin EU accession negotiations, which will foster increased FDI and economic growth.

North Macedonia continues to take steps to attract FDI, and the country maintains a relatively permissive regulatory framework, as its institutions treat foreign investors and domestic business interests equally under similar circumstances. In 2019, several countries and foreign companies announced investments in the free economic zones known as technological industrial development zones (TIDZ).

The Macedonian government’s Economic Growth Plan has been in force since 2018, and it offers significant incentives for foreign companies operating in 15 free economic zones. Incentives include a range of measures such as job creation subsidies, capital investment subsidies, and financial support for exporters. Three government ministers and multiple agencies promote North Macedonia as an investment destination. Invest North Macedonia is the agency for foreign investments and export promotion and is the primary government institution in charge of facilitating foreign investments. It works directly with potential foreign investors and provides detailed explanations and guidance for registering a business in North Macedonia, analysis of potential industries and sectors for investing, information on business regulations, and publishes reports about the domestic market.

However, despite these measures, corruption remains prevalent in many areas and continues to be a serious problem. The institutional capacity to effectively tackle corruption has shown structural and operational deficiencies, and political interference remains a risk. The government generally enforces laws, but numerous reports suggest that some officials remain engaged in corrupt activities (Europe Commission Report, 2020).

Republic of Serbia

Business environment improvement

Serbia improved four places in 2020 on the WB's DB index and is now ranked 44th globally. Although considerable improvements have been made in the areas of protecting minority investors, dealing with construction permits, and resolving insolvency, Serbia's position slightly declined in the area of tax payments compared to the 2019 report, and the country is now ranked 85th. Tax payments, obtaining electricity access, and starting a business are the three worst-ranked areas.

Table 8: Serbia's EDB ranking 2010–2020

DB year	Global rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
2020	44	73	9	94	58	67	37	85	23	65	41
2019	48	40	11	104	55	60	83	79	23	65	49
2018	43	32	10	96	57	55	76	82	23	60	48
2017	47	47	36	92	56	44	70	78	23	61	47
2016	59	65	139	63	73	59	81	143	73	23	50
2015	91	66	186	84	72	52	32	165	96	96	48
2014	93	45	182	85	44	42	80	161	98	116	103
2013	86	42	179	76	41	40	82	149	94	103	103
2012	92	92	175	79	39	24	79	143	79	104	113
2011	89	83	176	100	15	74	138	74	94		
2010	88	73	174	105	4	73	137	69	97		

Source: WBG, (2020).

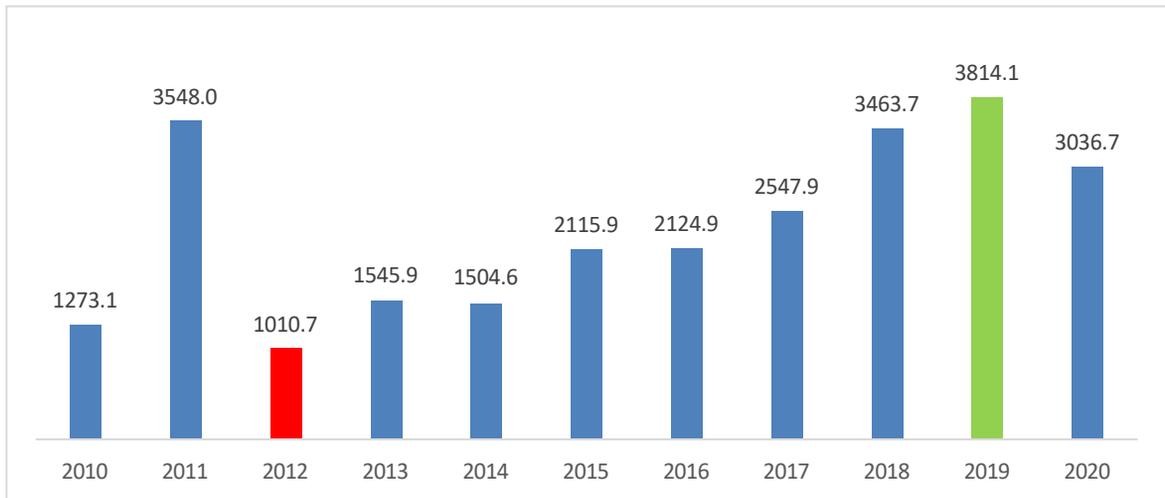
Improvements in DB in Serbia have been noticeable, especially from 2015–2020, when it rose up the rankings from 90th in 2015 to 44th in 2020.

FDI inflow

From 2010–2020, Serbia recorded more than 25 billion EUR in FDI. After a record inflow of 3.8 billion EUR in 2019, a significant inflow to Serbia continued throughout 2020, even during the pandemic. According to the National Bank of Serbia, most of the FDI in 2020 came from the Netherlands (705.5 million EUR), Slovenia (483.3 million EUR), China, including Hong Kong (478.9 million EUR), Germany (331.9 million EUR), Austria (153.4 million EUR), and the UK (106.4 million EUR).

In the last ten years (from 2011 to 2020), FDI inflows to Serbia cumulatively amounted to 24.7 billion EUR, of which the largest investments were from the Netherlands (4.2 billion EUR), Austria (2.6 billion EUR), the Russian Federation (2.2 billion EUR), China, including Hong Kong and Taiwan (2.1 billion EUR), and Luxembourg (1.9 billion EUR).

Figure 12: FDI inflow to Serbia 2010–2020 (million EUR)



Source: National Bank of Serbia, (2022).

A list of leading foreign investors is topped by world-class companies that include Bosch, Michelin, Siemens, ZF, Panasonic, NCR, Microsoft, Gorenje, Brose, Continental, Magna, Cooper Tires, Johnson Controls, Johnson Electric, Leoni, Fiat Chrysler Automobiles, Yazaki, Eaton, Stada, Swarovski, Aunde, Calzedonia, Mei Ta, Schneider Electric, Geox, Tarkett, Ling Long, Adient, Minth, Toyo Tires, MTU, and Barry Callebaut, among others.

Serbia's strong FDI track record is substantiated by internationally recognized awards. The country was ranked first in the FDI 2019 Europe list, based on the criteria of greenfield investments relative to the size of the economy (Greenfield FDI Performance Index, 2019). The implementation of a large number of greenfield projects in the region is considered a form of high-quality FDI. Greenfield investments are a form of FDI where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. The number of greenfield projects in Serbia during 2018 was 157, there were 114 projects in 2019, and 39 projects in 2020.

Promotion and attracting FDI

Serbia's investment climate has been modestly improving in recent years, driven by macroeconomic reforms, greater financial stability, improved fiscal discipline, and an EU accession process that provides the impetus for legal changes that improve the business environment. Attracting foreign investment remains an important priority for the Serbian government. The Development Agency of Serbia is a government organization dedicated to facilitating and implementing direct investments, promoting and increasing exports, and improving the competitiveness of the Serbian economy. It also focuses on improving the reputation and the economic and regional development of Serbia. The 2015 Law on Investment defines Serbia's investment incentives program, and incentives are available to both domestic and foreign investors.

Serbia maintains 15 designated customs-free zones. Businesses operating within these zones are subject to the same laws and regulations as other businesses in Serbia but benefit from tax privileges. These benefits include unlimited duty-free imports and exports, preferential customs treatment, and tax relief in the form of value-added tax (VAT) exclusions. Serbia is undertaking an extensive legislative amendment process aimed at harmonizing its laws with those of the EU's *Acquis Communautaire*, which has created a legal and regulatory environment more consistent with international norms.

Serbia is a member of the CEFTA along with Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro, and Kosovo. It also enjoys a free-trade status for almost all products exported to the EU Customs Union.

Challenges

Despite notable progress in Serbia, challenges remain, particularly regarding bureaucratic delays and corruption. Other risks to the investment climate include unresolved loss-making state-owned enterprises (SOEs), a large informal economy, and an inefficient judiciary. Political influence on the decisions of nominally independent regulatory agencies is also a concern (U.S. Department of State, 2020).

Republic of Slovenia

Business environment improvement

Slovenia ranks 37th out of 190 economies in terms of EDB indicators in the WB's DB report 2020, having moved up three places from 2019. This year, Slovenia has ranked better than Portugal, Poland, the Czech Republic, the Netherlands, and Slovakia.

Table 9: Slovenia's EDB ranking 2010–2020

DB year	Global rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
2020	37	40	119	23	54	119	18	45	1	112	8
2019	40	38	120	23	56	112	30	41	1	110	9
2018	37	46	100	19	36	105	24	58	1	122	10
2017	30	49	80	16	34	133	9	24	1	119	12
2016	29	18	71	35	36	126	7	35	117	1	12
2015	51	15	90	31	90	116	14	42	53	122	42
2014	33	38	59	32	83	109	14	54	48	52	41
2013	35	30	61	31	83	104	17	63	57	56	42
2012	37	28	81	27	79	98	24	87	50	58	39
2011	42	28	63	97	116	20	80	56	60		
2010	53	26	59	108	87	20	84	84	60		

Source: WBG, (2020).

The biggest improvement for Slovenia was in the area of protecting minority investors, and it also holds the highest ranking among all countries for trading across borders. Slovenia maintained its high position for obtaining electrical energy, improved its ranking concerning company registration, and it still has the lowest expense for company registration.

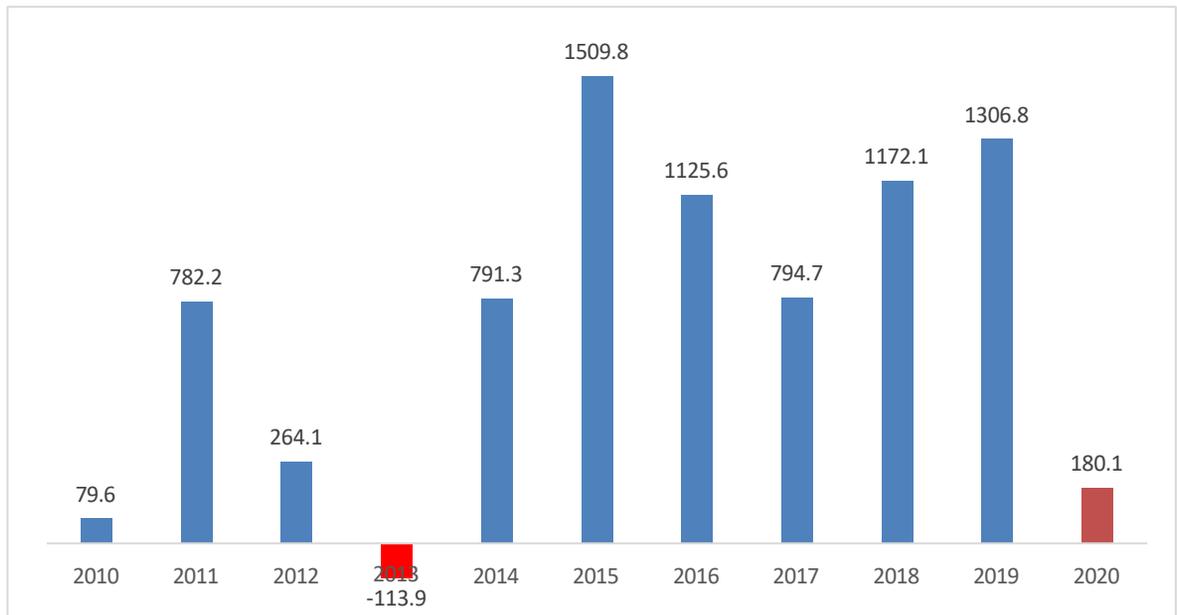
FDI inflow

According to statistics from the Bank of Slovenia, the stock of inward FDI in Slovenia amounted to 16.6 billion EUR at the end of 2020, and there were no major notable transactions in 2020, largely due to the COVID-19 health crisis.

Figure 15 shows that the highest FDI was in 2015, with a value of 1.5 billion EUR, and the second-highest FDI was in 2019 at a value of 1.3 billion EUR. FDI fell significantly in 2020 due to the COVID-

19 pandemic. The majority of FDI stocks came from Austria, Luxembourg, Switzerland, Germany, and Italy, which together accounted for almost two-thirds of all inward FDI in value terms at the end of 2020.

Figure 13: FDI inflow to Slovenia 2010–2020 (million EUR)



Source: The Bank of Slovenia, (2022).

Germany holds the majority of indirect investments in Slovenia via Austrian subsidiaries, while the U.S. is also an important investor, with the majority of the investments being held indirectly via subsidiaries in Luxembourg, Sweden, Germany, and Switzerland. The largest FDI in domestic firms by foreign investors were in manufacturing, wholesale and retail trade, motor vehicle and motorcycle repair, financial and insurance activities, and real estate activities.

From 2014–2020, under the Investment Plan for Europe Program of the European Fund for Strategic Investments, projects were started in the energy sector, rail infrastructure, and a regional center of sewage treatment and waste. The country has a strategic location by the Adriatic Sea, along with developed infrastructures and a well-educated workforce. Slovenia is also a significant investor outside its borders, and the stock of Slovenian outward FDI amounted to 7 billion EUR at the end of 2020. The majority of Slovenia’s outward investments are in the Western Balkans. Croatia is the most popular destination for Slovenian outward investment, constituting 34.5% of Slovenia’s investments abroad, followed by Serbia (13.9%), Bosnia and Herzegovina (8.7%), Russia (6.8%), and 6.3% in North Macedonia (U.S. Department of State, 2020).

Promotion and attracting FDI

Although Slovenia has no formal business roundtable or foreign investment ombudsman, the Slovenian Public Agency for the Promotion of Entrepreneurship, Innovation, Development, Investment and Tourism (SPIRIT) promotes FDI and advocates for foreign investors. Its mission is to enhance Slovenia’s economic competitiveness through technical and financial assistance to entrepreneurs, businesses, and investors (U.S. Department of State, 2020).

According to SPIRIT’s annual survey on foreign investors’ perceptions of Slovenia’s business environment, investors cite the high quality of Slovenia’s labor force as the deciding factor in choosing the country as an investment destination, followed by widespread knowledge of foreign languages,

employees' technical expertise, innovation potential, and strategic geographic position offering easy access to the EU and Balkan markets.

In 2018, the National Assembly passed Slovenia's Investment Promotion Act, defining the types of incentives, criteria, and procedures to promote long-term investment in Slovenia. The act establishes that domestic and foreign investors are equal and mandates priority treatment of strategic investments, defined as investments totaling 40 million EUR or more and creating 400 new jobs in manufacturing and services.

In Slovenia, the only FTZ is the port of Koper. According to the Slovenian Customs Act, those trading in FTZs are not required to pay customs duties and are not subject to any additional trade policy measures until the goods are brought into free circulation. Slovenia has signed several bilateral investment treaties.

State-owned and partially state-owned enterprises are present across most industries in Slovenia. The state has never undergone a wholesale privatization program and has retained significant ownership shares in many large companies since its independence. According to a US Department of State 2020, 37 companies with a total value of USD 12.5 billion and employing 47,000 people were majority state-owned. Most SOEs are in the energy, transportation, public utilities, telecommunications, insurance, and financial sectors. In general, SOEs do not receive a greater share of contracts or business than private-sector competitors in sectors that are open to private and foreign competition.

EDB ranking in Balkan countries

All of the Western Balkan countries have made progress and/or improved their DB rankings, with significant improvements observed throughout 2010–2020. During this period, North Macedonia has made substantial advancements, ranking in top positions in the WB's DB indicators. Table 2 demonstrates that only BiH has not significantly improved in the WB DB indicators among the Western Balkan countries, while Albania has not had major oscillations and maintained its position around 80th for the past few years; however, 2017–2019 marked significant improvements.

Table 2: EDB ranking by country 2010–2020

DB year	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	Rep. of North Macedonia	Serbia	Slovenia
2010	82	116	113	71	32	88	53
2011	82	110	119	66	38	89	42
2012	82	125	117	56	22	92	37
2013	85	126	98	51	23	86	35
2014	90	131	86	44	25	93	33
2015	68	107	75	36	30	91	51
2016	97	79	66	46	12	59	29
2017	58	81	60	51	10	47	30
2018	65	86	40	42	11	43	37
2019	63	89	44	50	10	48	40
2020	82	90	57	50	17	44	37

WBG, (2020).

Kosovo has also made progress in improving DB reforms from 113th place in 2010 to 40th, 44th, and then 57th place in 2020, which can generally be considered a significant improvement during the years of observation. Montenegro has also improved by 20 positions since 2010, and Serbia has leaped from 88th

in 2010 to 44th in 2020. Slovenia has improved its position since 2010 but has also held its position without major movement. We have considered Slovenia more as an example of an EU country to compare the differences with the Western Balkan countries. Each country's progress can clearly be seen in Figure 8, and some noticeable improvements have been observed over the years.

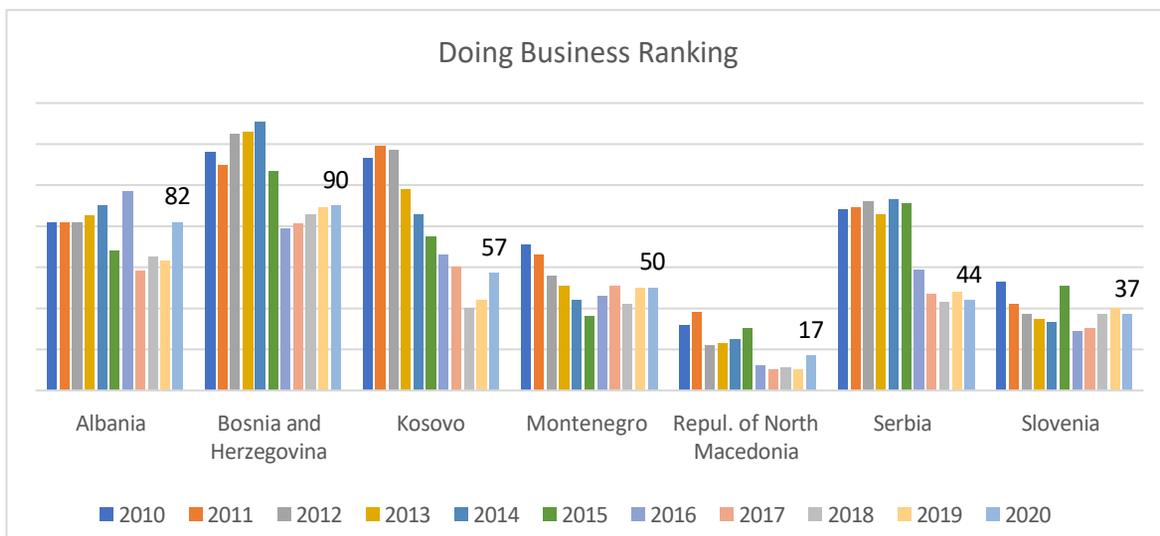


Figure 8: DB ranking in Western Balkan countries and Slovenia WBG, (2020).

The improvement of DB indicators is also assessed via the DTF, and the Western Balkan countries are not far from the top. All of the countries have reached the regional average, except for Albania and Bosnia. As we can see from Figure 9, the regional average for DB is rank 54, and all of the Balkan countries are ranked higher than this. Furthermore, the DTF regional average is 73.1, and only two countries are below this average.

Rep. of North Macedonia (Rank 17)	80.7
Slovenia (Rank 37)	76.5
Serbia (Rank 44)	75.7
Montenegro (Rank 50)	73.8
Kosovo (Rank 57)	73.2
Regional Average (Rank 54)	73.1
Albania (Rank 82)	67.7
Bosnia and Herzegovina (Rank 90)	65.4

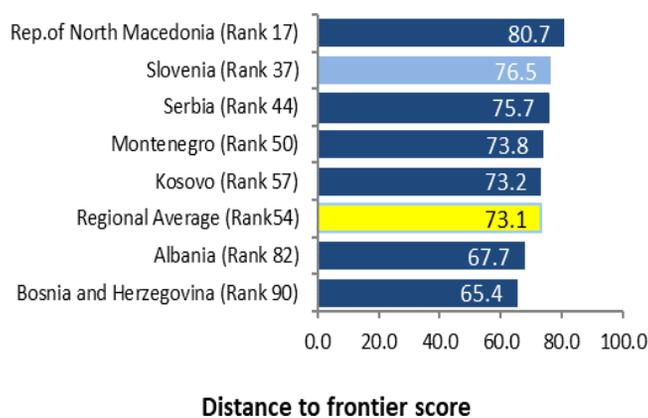


Figure 9: Overall distance to frontier score.

WBG, (2020).

The DTF score illustrates the distance of an economy to the “frontier,” which represents the best performance observed in each DB indicator. An economy’s distance to the frontier is indicated on a scale from 0 to 100, where 0 represents the lowest performance and 100 the frontier.

A combination of the commitment by all Western Balkan countries to improve their investment climates through the WB’s DB ranking and these positive results raise the question of whether this is reflected in the increase in FDI inflow. However, the total FDI inflow of the Western Balkan countries has a low share of Europe’s total FDI, and we can see from the FDI inflow in the observed counties from 2010–2020 in Figure 10. that Serbia and Albania have attracted the most FDI

Comparing the improvements in the business environment or the ranking of the DB ratio with the inflow of FDI, we can conclude that in the Western Balkans, Serbia, although not ranked the highest, has attracted more FDI in the region, closely followed by Albania. It is interesting that from the observed countries, North Macedonia and Kosovo are ranked better in WB DB indicators but have attracted the least foreign investment. The total inflow of FDI for 2010–2020 is illustrated in Figure 10.

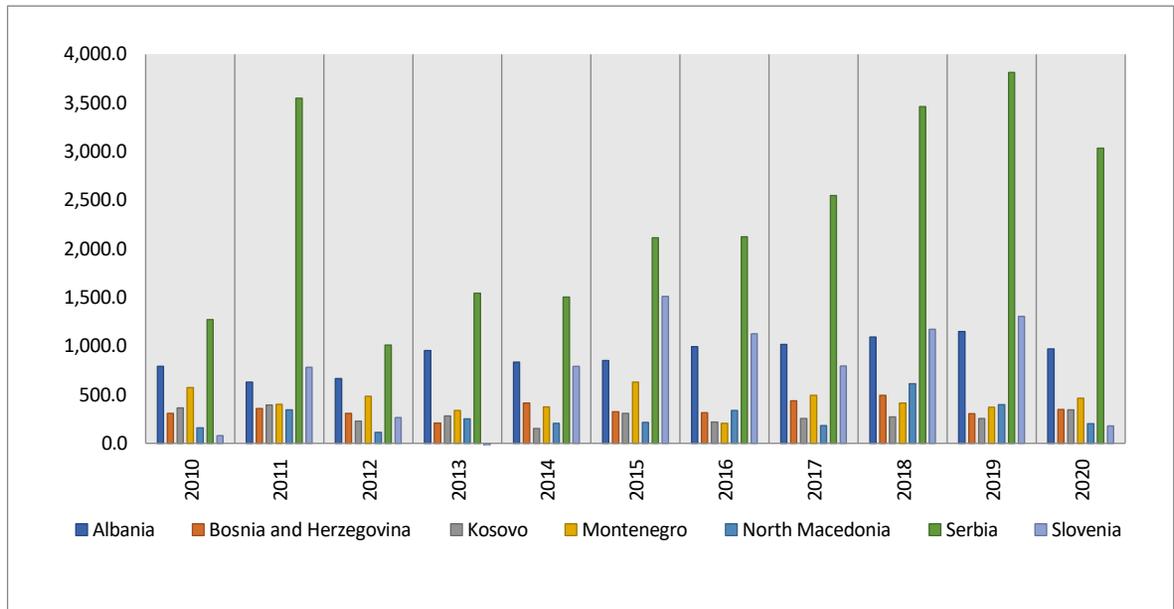


Figure 10: Total FDI inflow to Western Balkan countries 2010–2020

WBG, (2020).

A better illustration of the situation concerning rankings in the WB DB report, which includes improvement in the business environment and attracting FDI, can be seen more clearly in Figure 11.

Country	Total FDI inflow 2010–2020	WB ranking 2020
North Macedonia	3,024.58	17
Kosovo	3,076.81	57
BiH	3,816.65	90
Montenegro	4,748.61	50
Slovenia	7,892.30	37
Albania	9,955.78	82
Serbia	25,985.39	44

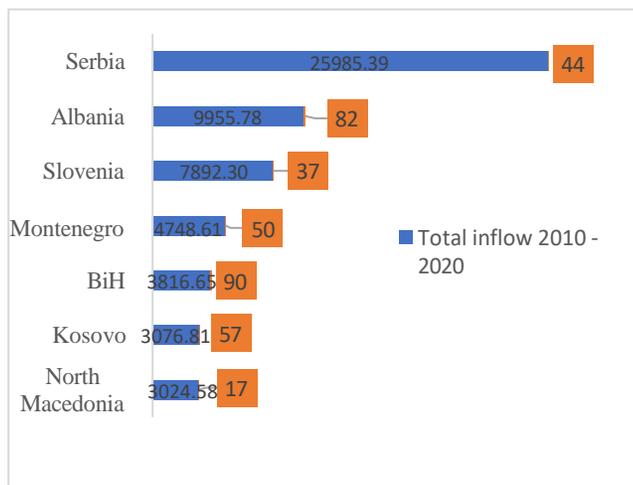


Figure 11: Total FDI inflow 2010–2020 compared to WB ranking 2020

Own work

Figure 11 shows that North Macedonia, although ranked best in the region, has attracted the least amount of FDI. Furthermore, although Kosovo ranks well and has made many regulatory reforms to improve its investment climate, it has the second-least amount of FDI. BiH has a low DB rank and performs poorly at attracting FDI inflow.

However, Albania does not rank well in the WB report, it has attracted the second-highest FDI in the region. Therefore, it can be concluded that improving the investment climate and WB DB ranking does not guarantee the attraction of more foreign investment. In other words, the improvement could be backed up by other indicators that are not part of the WB's 10 DB indicators, such as political stability, law enforcement, and an optimal strategy for attracting FDI.

Furthermore, for clearer analysis, in addition to the total inflow of FDI and its comparison in the Western Balkan countries, Table 3 presents the statistics of FDI per capita, which can be considered a more realistic indicator for comparing countries.

Table 3: FDI inflow in EUR per capita by country 2010–2020

Year	Albania	BiH	Kosovo	Montenegro	North Macedonia	Serbia	Slovenia
2010	272	80	206	927	78	175	39
2011	217	93	219	647	167	490	381
2012	230	80	127	777	54	140	128
2013	329	59	154	542	122	216	-55
2014	290	118	83	602	99	211	384
2015	296	93	173	1013	105	298	732
2016	346	90	124	329	163	301	545
2017	354	125	143	795	88	363	385
2018	381	141	151	667	296	496	565
2019	403	87	142	598	192	549	626
2020	342	100	193	745	97	440	86

WBG, (2020).

Table 3 reveals that Montenegro had the highest per capita FDI in the region, followed by Slovenia, Serbia, and Albania, whereas the countries that are ranked better in the WB's DB report are far behind, as is the case with North Macedonia, which ranks in the top 20 countries in the WB DB report but has one of the lowest FDI per capita in the region. The same goes for Kosovo, while BiH is not ranked well and also has low FDI per capita. Figure 12 supports this, and the FDI per capita in the observed countries can be clearly seen.

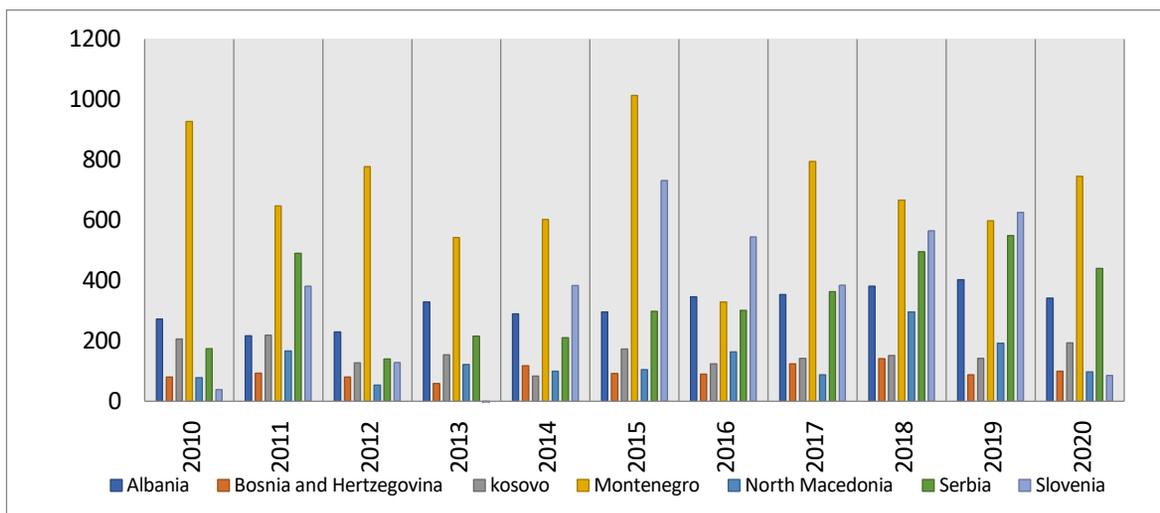


Figure 12: FDI inflow per capita in Western Balkan countries and Slovenia 2010–2020 WBG, (2020).

Although the total FDI inflow or FDI per capita is important for a host country, the quality of FDI or the sector where FDI is invested has a greater effect on its economy; for example, Montenegro has more real estate investments, and other observed countries also have a high percentage of FDI in this sector, which is considered insufficiently stimulating for economic development. Another observation is that North Macedonia and Serbia have more greenfield and foreign investments involving export-oriented production.

As previously discussed, the main problem areas and obstacles in attracting FDI in the Western Balkan countries are undoubtedly corruption, the insufficient functioning of law, and political instability. To gain further knowledge about the Western Balkan countries, we analyzed statistics on the level of perceived corruption by Transparency International, which is a leading global organization of civil society established in 1993. Its mission is to create a healthy society without corruption and improve the standard of living worldwide by undertaking activities to raise awareness and reduce tolerance toward corruption.

The CPI ranks 180 countries and territories according to perceived corruption levels in the public sector. It is an aggregate indicator that combines diverse corruption information sources. The results are given on a scale of 0 (highly corrupt) to 100 (very clean). Two-thirds of countries score below 50, indicating that they have serious corruption problems.

All of the Western Balkan countries surveyed by Transparency International are rated below 50, which suggests poor positioning and the perception of higher levels of corruption (marked in red in Figure 13). An example of good practice is in Denmark, while Slovenia has improved, especially in the last two years. According to these statistics, it is clear that Western Balkan countries should seriously fight against corruption, especially when all of the countries aspire to join the EU.

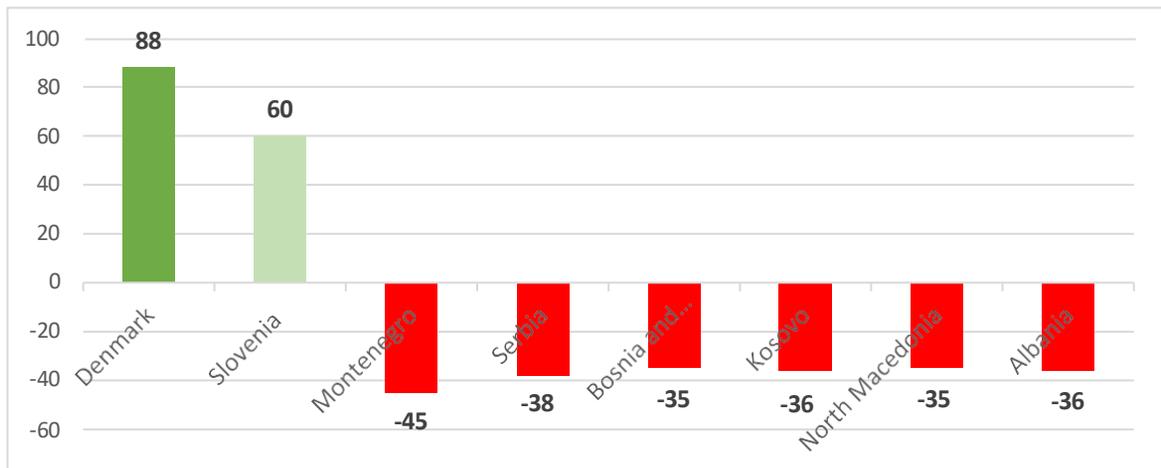


Figure 13: CPI by country 2010–2020

Transparency International, (2020).

The statistics presented and analyzed in this chapter along with the comparison of the Western Balkan countries highlight a marked asymmetry between the WB DB ranking and the inflow of FDI. The ranking in the WB DB report is high for some countries but the FDI inflow is low or vice versa. Undoubtedly, regulatory reforms and the improvement of the business environment according to the WB’s 10 indicators have an impact on the improvement of the business climate and the EDB, not only for foreign investors but also for local businesses. However, they can only work well together with political stability, the functioning of the law, the fight against corruption, and an adequate strategy to attract foreign investment.

Almost all the governments in the Western Balkan countries have tried to improve their ranking in the WB DB report to present it as a government achievement to use as a political campaign for their successful work. However, they have not analyzed which indicators deserve more consideration for regulatory reforms or how much the reforms reflect the inflow of FDI.

This situation occurred within the World Bank Group (WBG) to such an extent that it led to the suspension of the publication of the report in 2021. On September 16, 2021, the WBG’s Senior Management decided to discontinue the DB report and announced that the WBG would work on a new approach for assessing business and investment climates. The new approach would improve on its predecessor and be informed by advice from experts in the WBG, as well as recommendations from qualified academics and practitioners outside the institution, including the External Panel Review on DB methodology. Its design will also take into consideration the views of potential users in government, the private sector, and civil society through an open consultative process (The World Bank, 2021).

RESEARCH AND DATA ANALYSIS

This chapter describes the research approach that has been used to learn more about attracting FDI inflow by improving the WB’s DB indicators. Data were analyzed using a Statistical Package for the Social Sciences (SPSS).

For econometric analysis, secondary data sources were used for the Western Balkan countries of Albania, Montenegro, Kosovo, Bosnia and Herzegovina, Serbia, and North Macedonia. As Slovenia is in the EU, it has been compared to the Western Balkan countries, and how it has achieved economic development and an improved business climate has been analyzed. Statistical analysis and the interpretation of empirical evidence (facts from observation or experimentation) are presented in tables and graphs through descriptive analyses (mean, standard deviation, variance, minimum, maximum, and frequency).

Data source description

Researchers have had different ideas about measuring impacts on FDI as a dependent variable in one country in a respective year. Neuhaus (2006) and Olofsdotter (1998) prioritized FDI stock as a dependent variable, while Herzer, Klasen, & Nowak, (2008) and Johnson (2006) considered FDI inflow as a dependent variable. The research will follow the line of the second group of researchers because their statistics are easier and more accurate than measuring FDI stock, which can be increased by the presence of foreign companies in a country and new FDI entrants from the respective year. Another more compelling reason is that if the evidence of domestic stock (accumulated in the country) is considered, within a certain time, it would be higher than the whole GDP, and the growth rate would be higher than the GDP.

Given that the level of FDI flows in absolute values, it can be influenced by various factors such as the size of the host country in terms of area, the number of inhabitants, the market size, etc., which can result in large differences between countries. Taking this into consideration when analyzing the data in this research, FDI inflows per capita will be used as a measures indicator because it is more unifying between different countries.

Definition of the variables

Table 4: Description of the variables

Variables	Description	symbol
FDI inflows per capita	Represents the total value of foreign direct investment inflows per capita in the host country.	FDI inflows PC
Improvement of global rank	Represents the improvement or deterioration of the global ranking of the host country in the respective year, compared to the base year 2010.	Imp_GR
Improvement of Starting Business	Represents the improvement or deterioration of the ranking of the Starting business indicator in the host country, compared to the base year 2010.	Imp_SB
Improvement of Dealing with construction permits	Represents the improvement or deterioration of the ranking of the Dealing with construction permits indicator in the host country, compared to the base year 2010.	Imp_DCM
Improvement of Getting electricity	Represents the improvement or deterioration of the Getting electricity indicator ranking in the host country, compared to the base year 2010.	Imp_GE
Improvement of Registering property	Represents the improvement or deterioration of the ranking of the Registering property indicator in the host country, compared to the base year 2010.	Imp_RP
Improvement of Getting credit	Represents the improvement or deterioration of the Getting credit indicator ranking in the host country, compared to the base year 2010.	Imp_GC
Improvement of Protecting minority investors	Represents the improvement or deterioration of the ranking of the Protecting minority investors indicator in the host country, compared to the base year 2010.	Imo_PMI
Improvement of Paying taxes	Represents the improvement or deterioration of the ranking of Paying taxes investors in the host country, compared to the base year 2010.	Imp_PT
Improvement of Trading across borders	Represents the improvement or deterioration of the ranking of the Trading across borders indicator in the host country, compared to the base year 2010.	Imp_TAB

Improvement of Enforcing contracts	Represents the improvement or deterioration of the ranking of the Enforcing contracts indicator in the host country, compared to the base year 2010.	Imp_EC
Improvement of Resolving insolvency	Represents the improvement or deterioration of the Resolving insolvency indicator ranking in the host country, compared to the base year 2010.	Imp_RI
Corruption CPI ranking ²⁵	World global corruption ranking: 100 is very clean 0 is highly corrupt In the analysis, an inverse function is performed, 100 is taken as highly corrupt, while 0 - very clean, so that the direction between the independent variable and the dependent variable is in direct proportion.	Corruption ranking CPI

Own work

Main hypothesis

The main hypothesis states that an improvement in the WB's DB overall ranking has a significant correlation with FDI inflow. The hypothesis was tested using the Pearson correlation coefficient, which measures the statistical relationship or association between two continuous variables. It is recognized as the best method of measuring the association between variables of interest because it is based on covariance. It gives information about the magnitude of the association or correlation as well as the direction of the relationship.

Degrees of correlation are:

Perfect: If the value is near ± 1 , then it is said to be a perfect correlation. As one variable increases, the other variable also tends to increase (if positive) or decrease (if negative).

High degree: If the coefficient value lies between ± 0.50 and ± 1 , then it is said to be a strong correlation.

Moderate degree: If the value lies between ± 0.30 and ± 0.49 , then it is said to be a medium correlation.

Low degree: When the value lies below $+ .29$, then it is said to be a small correlation.

No correlation: When the value is zero.

In the analysis for the Western Balkan countries' WB DB global rankings, 2020 has been deliberately removed because it was not an ordinary year because of the COVID-19 pandemic. Therefore, 2010–2019 has been used for analysis.

The two variables that were tested for correlation are FDI inflows per capita and global ranking in the WB DB report for each respective country.

It is worth noting that for the second variable (ranking the respective country as part of the overall WB DB ranking), an adjustment was made based on the definition of the hypothesis that emphasizes improvement. Subsequently, 2010 was taken as the base year for each country, then the other years were indexed with absolute positive numbers for the number of positions a country improved in the global ranking, or a negative number for the number of positions the country fell in the 2010 global ranking.

Table 5: Correlations

²⁵ *The independent variable in the second hypothesis*

		FDI_InflowsPC	Improvement GlobalRank
FDI_InflowsPC	Pearson correlation	1	.094
	Sig. (2-tailed)		.441
	N	70	70
ImprovementGlobalRank	Pearson correlation	.094	1
	Sig. (2-tailed)	.441	
	N	70	70

Own work

As can be seen from the results in Table 5, the correlation coefficient test shows no significant correlation between FDI_InflowsPC and

ImprovementGlobalRank, so the hypothesis is rejected because their significance indicates a value of 0.441, which is $Sig > 0.05$.

Hypothesis 1

H1 states that an improvement in WB EDB indicators has a positive impact on FDI inflow. H1 was tested in the SPSS program via multiple regression using the stepwise method, which mainly serves to present the variance explained by all the predictors included in the model at once. Stepwise regression is the step-by-step iterative construction of a regression model that involves the selection of independent variables to be used in a final model. It involves adding or removing potential explanatory variables in succession and testing for statistical significance after each iteration. Therefore, the following formula is used to test H1 using a linear equation:

$$FDI \text{ inflowsPC} = \beta_0 + \beta_1 * Imp_SB + \beta_2 * Imp_DCM + \beta_3 * Imp_GE + \beta_4 * Imp_RP + \beta_5 * Imp_GC + \beta_6 * Imp_PMI + \beta_7 * Imp_PT + \beta_8 * Imp_TAB + \beta_9 * Imp_EC + \beta_{10} * Imp_RI + \epsilon$$

Table 6 presents a summary of the model where the following three variables are statistically significant:

Improvement in protecting minor investors

Improvement in paying taxes

Improvement in trading across borders

These three variables explain the pattern at the 50% level (R Square = 0.50), with a confidence interval of 95% or an error margin of about 5% (Sig. F Change = 0.049), which is acceptable.

Table 6: Model summary

Model	R	R square	Adjusted square	R	Std. error of the estimate	Change statistics				
						R square change	F change	df1	df2	Sig. F change
1	.553a	.306	.291		191.33218	.306	20.694	1	47	.000
2	.674b	.455	.431		171.36555	.149	12.590	1	46	.001
3	.707c	.500	.467		165.88788	.045	4.088	1	45	.049

Own work

Predictors: (Constant), Imp_PMI

Predictors: (Constant), Imp_PMI, Imp_PT

Predictors: (Constant), Imp_PMI, Imp_PT, Imp TAB

These three variables also pass the analysis of variance (ANOVA) test, as seen in Table 7, and the significance is 0% (i.e., Sig. less than 5%).

Table 7: ANOVA test

Model		Sum of squares	df	Mean square	F	Sig.
1	Regression	757570.602	1	757570.602	20.694	.000a
	Residual	1720576.069	47	36608.001		
	Total	2478146.671	48			
2	Regression	1127303.727	2	563651.863	19.194	.000b
	Residual	1350842.944	46	29366.151		
	Total	2478146.671	48			
3	Regression	1239801.178	3	413267.059	15.018	.000c
	Residual	1238345.493	45	27518.789		
	Total	2478146.671	48			

Own wor

Predictors: (Constant), Imp_PMI

Predictors: (Constant), Imp_PMI, Imp_PT

Predictors: (Constant), Imp_PMI, Imp_PT, Imp_TAB

Dependent variable: FDI_InflowsPC

Table 8 shows the impact of the three variables on FDI inflows per capita, and as a result, the following linear regression equation is formulated:

$$\text{FDI inflows PC} = \beta_0 + \beta_1 \text{Imp_PMI} + \beta_2 \text{Imp_PT} + \beta_3 \text{Imp_TAB} + \varepsilon$$

Table 8: Coefficients

Model		Unstandardized coefficients		Standardized coefficients	T	Sig.	95% confidence interval for B		Collinearity statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	175.160	40.704		4.303	.000	93.275	257.046		
	Imp_PMI	2.496	.549	.553	4.549	.000	1.392	3.599	1.000	1.000
2	(Constant)	103.009	41.743		2.468	.017	18.984	187.034		
	Imp_PMI	4.111	.670	.911	6.137	.000	2.763	5.460	.538	1.859
	Imp_PT	1.951	.550	.527	3.548	.001	.844	3.058	.538	1.859
3	(Constant)	50.942	47.917		1.063	.293	-45.568	147.452		
	Imp_PMI	4.073	.649	.902	6.278	.000	2.766	5.380	.537	1.861
	Imp_PT	1.853	.535	.500	3.466	.001	.776	2.929	.533	1.875
	Imp_TAB	1.181	.584	.214	2.022	.049	.005	2.357	.990	1.010
a) Dependent variable: FDI_InflowsPC										

Own work

Independent variables with a significance of <0.05 can be considered to have an impact on the dependent variable, which in this case is FDI_InflowsPC. Variables with a significance level of >0.05 are not thought to have an impact on the dependent variable. Based on multiple linear regression analysis, it follows that Imp_PMI, Imp_PT, and Imp_TAB have an impact on FDI_InflowsPC.

We replaced factor B for each of the variables that had an impact and obtained the following values from the test:

$$\text{FDI inflows PC} = 50.942 + 4.073 * \text{Imp_PMI} + 1.853 * \text{Imp_PT} + 1.181 * \text{Imp_TAB} + \varepsilon \quad (1)$$

To avoid the constant (β_0), we standardized (Z) the variables to get:

$$\text{ZFDI inflows PC} = 4.073 * \text{ZImp_PMI} + 1.853 * \text{ZImp_PT} + 1.181 * \text{ZImp_TAB} + \varepsilon \quad (2)$$

Even the collinearity and tolerance test statistics did not indicate the presence of multicollinearity, as the variance inflation factor (VIF) was less than 5, and tolerance was no greater than 2.

Regarding the correlation coefficients of the dependent variable FDI_InflowsPC with the independent variables, it only has a strong positive correlation with the improvement in protecting minority investors to a very significant statistical level at 0.553. FDI_InflowsPC has a moderate correlation with the improvement in resolving insolvency variable at a 0.252 statistically significant level, and there is a slight negative correlation of -0.387 with improvement in getting credit.

Some of the independent variables have significant positive or negative relationships, i.e., improvement in starting a business has a good positive relationship with improvement in getting credit, Imp_PT, Imp_TAB, Imp_EC, and a negative relationship with Imp_PMI (the table of correlation coefficients are shown in Appendix 3).

The Imp_GE variable has a good positive correlation with Imp_RP and a negative correlation with Imp_GC. The Imp_RP variable has a good positive correlation with Imp_PT and a negative correlation with Imp_PMI. The Imp_GC variable has a negative relationship with both Imp_PMI and Imp_RI, and a positive relationship with Imp_EC. The Imp_PMI variable has significant negative correlations with Imp_PT and Imp_RI. The Imp_PT variable has a negative correlation with RI_Imp, and Imp_TAB has a positive correlation with Imp_EC.

In conclusion, it can be said that the first hypothesis can be partially accepted and partially rejected because three indicators have an impact, but the other seven have no impact on FDI_InflowsPC.

Hypothesis 2

H2 states that the corruption level has a significant negative impact on FDI inflow per capita. This hypothesis aimed to measure whether the level of corruption in the host country had a negative impact on FDI inflow and if so, what was the impact. The measurement of the corruption assessment index, according to the world estimates for a country, is presented on a scale from 100 being very clean to 0, which is highly corrupt.

To explain this phenomenon, an inverse function was performed (opposite), so 100 was considered highly corrupt and 0 was considered very clean. This meant that the direction between the independent variable and the dependent variable was in the right proportion. Based on descriptive statistics, it follows that the analyzed countries were above average in their levels of corruption, except for Slovenia.

Table 9: Descriptive statistics

Descriptive statistics			
	Mean	Std. deviation	N
FDI_InflowsPC	297.6314	232.60850	70
Lev_Corruption	60.60	5.747	70

Source: Own work

Based on the Pearson correlation coefficient test presented in Table 10, the level of corruption in the host country has a statistically significant negative correlation of -0.363 with FDI_InflowsPC.

Table 10: Correlations

Correlations			
		FDI_InflowsPC	Lev_Corruption
Pearson correlation	FDI_InflowsPC	1.000	-.363
	Lev_Corruption	-.363	1.000
Sig. (1-tailed)	FDI_InflowsPC	.	.001
	Lev_Corruption	.001	.
N	FDI_InflowsPC	70	70
	Lev_Corruption	70	70

Own work

Hypothesis testing was conducted by simple linear regression, which measures whether the independent variable, corruption level, has a negative impact on the dependent variable, FDI_InflowsPC. Hence, a simple linear regression equation was formulated:

$$\text{FDI inflows PC} = \beta_0 + \beta_1 * \text{Lev_Corruption} + \epsilon$$

It should be noted that, based on the test, the level of corruption participates in determining FDI_InflowsPC by about 13.2%, as shown in Table 11 (R square = 0.132). However, it is not defined further because it was concluded from the previous hypothesis that only three from 10 other variables determined the level of FDI_InflowsPC by about 50%.

Table 11: Model summary

Model	R	R square	Adjusted square	R	Std. error of the estimate	Change statistics				
						R square change	F change	df1	df2	Sig. change
1	.363a	.132	.119		218.31962	.132	10.328	1	68	.002

Own work

a. Predictors: (Constant), Lev Corruption

The variable included in the model also passed the ANOVA test because the analysis of the variance of the level of corruption is significant at a level of 0.002 (i.e., <0.05).

As can be seen from Table 12, the level of corruption has a statistically significant negative impact on FDI_InflowsPC, as the Sig of the level of corruption is 0.002, which is within the Sig limit of <0.05.

Table 12: Coefficients

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Std. error	Beta		
1	(Constant)	1188.291	278.374		4.269	.000
	Lev_Corruption	-14.697	4.573	-.363	-3.214	.002

Own work

Dependent variable: FDI_InflowsPC

Based on the results from the linear regression analysis, it can be said that Hypothesis 2 is accepted. Therefore, we can formulate the following linear regression equation:

$$\text{FDI inflows PC} = 1,188.291 - 14.697 * \text{Lev Corruption} + \varepsilon \quad (3)$$

To analyze the level of corruption if we take its average level (60.6) in the observed countries and abstract the standard error ε , then we will have:

$$\text{FDI inflows PC} = 1,188.29 - 14.697 * 60.6 = 1,188.29 - 890.64 = 297.65, \quad (4)$$

which is approximately the same result as the average FDI inflows obtained for the countries and years under analysis.

DISCUSSION AND RECOMMENDATIONS

The main hypothesis, “The improvement of the WB’s DB overall ranking has a significant correlation with FDI inflow,” was rejected because the examination of the linear relationship between variables that determine whether the correlation coefficient is significant did not pass the test.

However, the Pearson correlation of 0.094 was very close to zero, which indicates no linear relationship between the variables. Furthermore, the significance was greater than 0.05, which indicates that the correlation was not statistically significant.

Table 13 presents the average values of FDI_InflowsPC and the average WB DB ranking for the observed countries, and it is evident that there is no linear relationship between the variables.

Table 13: Average FDI inflows per capita by country

Country	Rank of country by FDI_InflowsPC	FDI inflow_ EUR per capita (€)	Global rank of country	Global rank
Albania	4	314.473	5	77.636
Bosnia and Herzegovina	7	96.793	7	103.636
Kosovo	5	155.959	6	79.545
Montenegro	1	694.776	3	51.182
North Macedonia	6	132.847	1	20.909
Serbia	3	334.494	4	70.909
Slovenia	2	346.780	2	38.545
Total		296.589		63.195

Own work

North Macedonia is the highest-ranked country in the WB DB report and ranked first in the observed countries, but it is one of the worst in the region in terms of FDI inflow and FDI inflow per capita. Montenegro is ranked third in the observed countries for DB but has the most FDI inflow per capita. Although Slovenia and Serbia are not ranked at the top of the list for DB, they are near the top for FDI inflow and FDI_InflowsPC. Therefore, it is clear that there is an obvious asymmetry between the WB DB ranking and the FDI inflow per capita in the observed countries.

In hypothesis 1, “The improvement of WB EDB indicators has a positive impact on FDI inflow,” we noticed that an improvement in the 10 WB DB indicators does not have the same impact on attracting and increasing FDI inflow. Although stepwise regression methods were selected, only three indicators correlated with FDI inflow per capita. Therefore, we realized that some indicators are not very relevant to foreign investors; for example, it is not that important if it takes three days or two weeks to register a business. Also, some indicators are more important based on the sector in which foreign investments are made; for example, in the manufacturing, financial industry, energy, or tourism sectors. However, the improvement of indicators has an impact on a better investment climate, not just for foreign investors but for local businesses, but this does not mean they are crucial determinants of attracting FDI inflow. In this context, this was also the reason why the hypothesis was partially accepted.

As pointed out earlier, the results of the statistical analysis concluded that H2 is accepted. The survey results showed that more corrupt countries have a lower FDI inflow. Similar results were found by Habib and Zurawicki (2002) who examined the impact of corruption on FDI inflow and found that foreign investors generally avoid corruption because it can create operational inefficiencies. Jovančević and Šević (2006) emphasized the importance of the fight against corruption because such governmental actions create a positive reaction among foreign investors. Therefore, the fight against this negative phenomenon is inevitable, and only a serious proactive approach and concrete actions can contribute to improving the economy and reducing corruption.

The observed countries in the Western Balkans region were assessed as highly corrupt, and they ranked worse in terms of the CPI. EU membership and the pre-accession processes toward EU membership require an improvement in the ranking of the CPI and a serious attitude toward fighting corruption. Statistical analysis shows that Slovenia is an example of a better CPI-ranked country than the observed countries.

CONCLUSION

This paper reviews the theoretical literature explaining FDI and the business environment. It focuses primarily on the importance of the business environment in attracting FDI inflows as well as the empirical results on the relationship between 10 WB EDB indicators and FDI inflows.

The research was conducted by analyzing countries in the Western Balkans region (Albania, Bosnia and

Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia), and it provides a systematic review of the improvement in DB indicators for 2010–2020. For comparative reasons, Slovenia was included in the analysis as it is in the EU.

The empirical results show:

An improvement in the WB's DB overall ranking has no high significant correlation with FDI inflow.

An improvement in the WB's 10 DB indicators does not have the same impact on attracting and increasing FDI inflow.

Countries with a high level of corruption have a low FDI inflow.

Based on the research, it can be concluded that the countries of the Western Balkans region made tremendous progress during the observed period in improving regulatory reform and, for some, their ranking in the WB's DB annual report. This gives the impression that the Western Balkan countries were in the race to be ranked higher in the WB report without employing any strategy in terms of which indicators were most important or recognizing that the reforms should be forwarded to other areas outside the 10 WB DB indicators.

However, despite the improvement of the business environment in the Western Balkan countries, this positive trend of ranking in WB's EDB index has not been accompanied by an increase in FDI inflow. This is probably because the main obstacles to attracting the flow of FDI to the countries analyzed stem from factors such as corruption, bureaucratic delays, political influence on the decisions of nominally independent regulatory agencies, large and informal economies, weak and slow judicial systems, poor enforcement of contracts, insufficient protection of property rights, and political instability.

Therefore, improving the above-mentioned obstacles and the fight against corruption are challenges for the countries of the Western Balkans region as they need to make efforts to undertake activities that improve their image and increase their confidence in attracting foreign investors. These actions will have positive consequences for the development of their economies and are the only way for Western Balkan countries to increase their chances of joining the EU.

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PREDICTION OF HOUSING PRICES USING MACHINE-LEARNING ALGORITHMS

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Abstract. In the evolving landscape of real estate valuation, the integration of machine learning (ML) algorithms has emerged as a transformative approach. This literature review delves into the application of various ML techniques in predicting property prices, comparing their efficacy with traditional methods. Drawing from global research, the study underscores the potential of ML in enhancing accuracy, adaptability, and objectivity in property valuation.

Introduction

The real estate sector, a cornerstone of global economic stability, has long relied on traditional appraisal methods to determine property values. However, the increasing complexity of property markets, coupled with the need for unbiased and rapid valuations, has necessitated the exploration of innovative techniques. Machine learning, with its data-driven algorithms and predictive capabilities, offers a promising alternative. This literature review aims to explore the depth and breadth of ML applications in real estate valuation, highlighting its advantages, challenges, and potential future directions.

Literature review

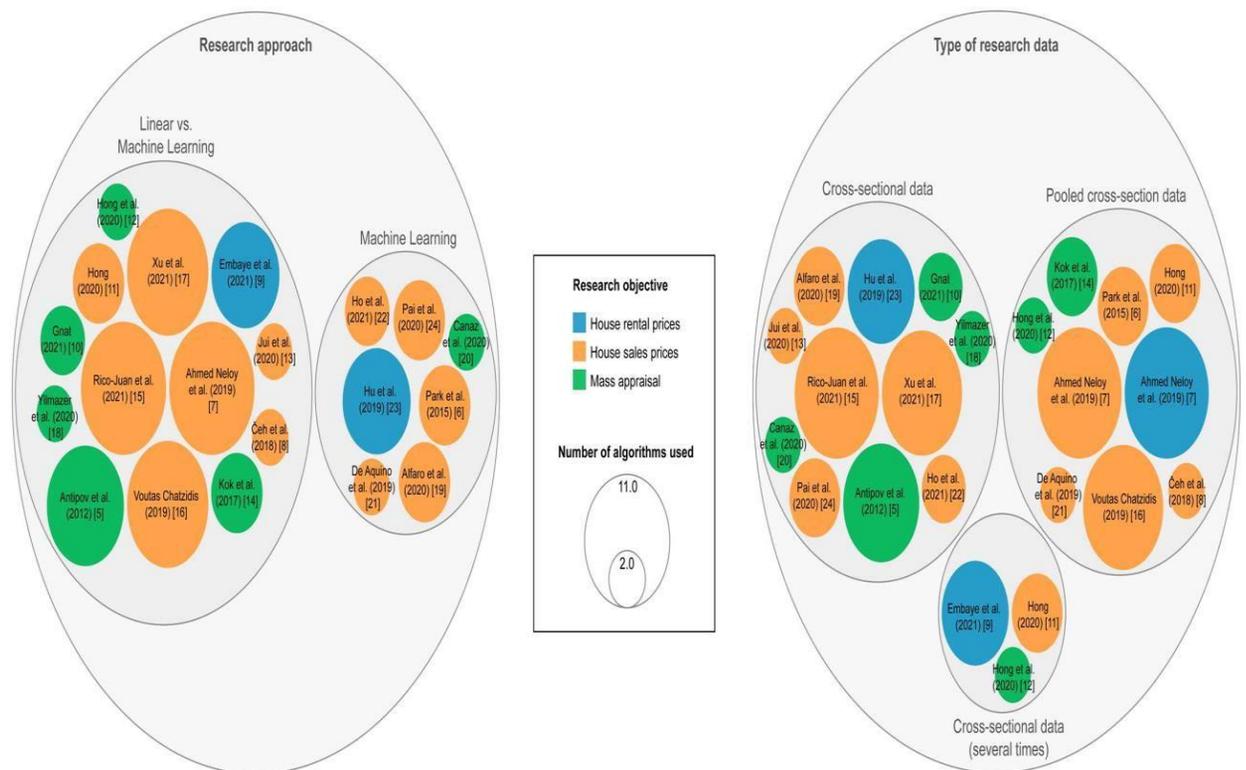
Machine learning algorithms (hereafter ML) are increasingly being used for mass valuation of real estate and in automated valuation models. In mass valuations, standardized procedures are used in which data from real estate offers are collected and used to make valuations of values for large groups of properties, ensuring that valuations are carried out in a standardized and impartial manner (Kauko, d'Amato, 2008).

The advantage of using these systems is that a large number of valuations can be carried out at a low cost for valuation and in a short period of time. Typically, massive valuations are used using automated systems in the collection of repeated annual taxes, but can also be used for sporadic taxes on real estate (property transfer taxes, capital gains taxes, and inheritance and gift taxes), banks (loans, mortgage risk), real estate portfolio valuation, and among others real estate traders. For a mass valuation model to be uniform and accurate in valuing real estate prices, it is necessary for the data to be accurate, complete, and updated. There is a large number of literature where ML algorithms are used in massive valuations (Wang and Li, 2019).

In recent years, machine learning methods have been widely applied to housing price valuation, making these relatively new methodological technologies. Authors such as Antipov & Pokryshevskaya (2019) used the random forest technique with machine learning to value 2,695 properties located in St. Petersburg (Russia) and implemented algorithms such as the regression tree (CART), as well as the automatic interaction detector with chi-square known internationally as (chi-squared automatic interaction detector CHAID) and among others the nearest neighbors (nearest neighbors K-NN). The results concluded that this technique could be much more effective. Some of the other advantages shown with the application of this technique are that it allows valuation even with incorrect, peripheral data, categorical variables, and high heteroskedasticity in data (Antipov and Pokryshevskaya, 2012).

Therefore, there are many approaches related to the application of machine learning algorithms in mass valuation of real estate. Such a summary is presented as in the figure below. In the first approach, the predictive behavior of classic regression models (mainly hedonic price models-HPMs) is compared with ML models using various types of algorithms based on decision trees, logistic regression, Bayesian algorithms, etc. The results show that HPMs are less accurate when predicting housing prices compared to machine learning algorithms. Hence, authors like the ones below have used this strategy. Regarding the second approach, the authors studied the ML algorithms that best predict the real estate price (Park and Bae, 2015, Embaye et al., 2021, Pai and Wang, 2020).

Figure 1. Classification of articles by research approach (left), and by type of research data (right).



Source: Antipov, Pokryshevskaya, 2012; Pai, Wang, 2020

From the figure, we can see that according to the authors, the classification of articles was made according to the research approach (left), and according to the type of research data (right). The legend

(center) shows the research objective in colors, and the circle size indicates the number of algorithms used by the authors.

Housing Prices and Machine Learning

Authors like Park & Kwon (2015) conducted research, focusing on which ML models were most accurate in determining housing prices. For this purpose, they used a sample of 5,359 neighboring houses in Virginia. They used two techniques; the first was solving a classification problem using the RF technique, and the second was using regression, using the naive Bayesian algorithm. The results showed that the RIPPER algorithm significantly improved price prediction (Park and Kwon, 2015).

In response to the classification problem in the direction of determining whether housing prices would rise or fall, authors like Banerjee & Dutta (2017) analyzed several machine learning algorithms. For this purpose, they used a dataset published on the Kaggle.com website and used various machine learning techniques such as; support vector machines (SVM), neural networks (NN), and techniques (RF). The results showed that RF techniques were more accurate and at the same time had more adaptation. Conversely, the SVM technique was more consistent and, therefore, more reliable (Banerjee and Dutta, 2017).

Regarding real estate valuations, Kok, Koponen & Martines (2017) analyzed the performance of several machine learning techniques. They examined 84,305 observations from states such as California, Florida, and Texas, during the period 2011-2016, and compared different learning techniques such as; ordinary least squares regression (OLS), RF, GBR, and XGBM techniques. The results showed that, in general terms, XGBM was the best-performing algorithm.

Ceh et al., (2018) compared the RF algorithm against the hedonic price model with the aim of analyzing which technique would get better predictions. The authors used a sample of 7,407 properties during the period between 2008 and 2013 in Ljubljana (Slovenia). The results showed that the RF model had better predictive performance.

In a competition organized by Kaggle.com, in which participants had to propose an algorithm for predicting housing prices, and regarding this, authors like Fan, Cui & Zhong (2018) used predictive algorithms based on regressions such as RF, SVM (some kernels), XGBM, ridge, and linear regression. The data was provided by Ames Housing in Iowa, with data from 2006 to 2010. The results showed that ridge, LASSO, and XGBM had a lower prediction error (Fan et al., 2019).

Also, Hu et al. (2019) analyzed the predictive performance through supervised learning algorithms for rental prices of houses in Shenzhen (China). The authors used RF, ETR, GBR, SVR, multilayer perceptron neural network (MLP-NN), and k-NN algorithms. The results showed that the RF and ETR algorithms had better predictive performance (Hu et al. 2019).

To predict apartment rental prices in Dhaka (Bangladesh), Ahmed Neloy et al., (2019) compared several algorithms. They chose different algorithms: MLP-NN, RF, SVM, decision tree (DT), LASSO, ridge, and elastic networks. The results showed that the RF algorithms had a lower mean square error (Neloy et al., 2019).

Voutas Chatzidis (2019) used various machine-based regression algorithms to predict housing prices in the Netherlands. The author used LGBM, XGBM, CatBoost, and RF algorithms, with CatBoost getting

the best results with an accuracy rate of 90% (Alfaro-Navarro et al., 2020).

In a study that examined all of Spain, Alfaro-Navarro et al., (2020) proposed a new methodology to perform automated housing price prediction. A slightly different model was created for each municipality and a sample of 790,631 properties for the municipality. 433 municipalities analyzed were reached. The models were made using bags (Alfaro-Navarro et al., 2020).

Author Hong (2020) compared the predictive behavior of HPM against machine learning using three algorithms (XGBM, LGBM, CatBoost) to predict the transaction price of apartments in Seoul. For this purpose, the author used a sample of 620,617 observations for the period between 2009 and 2019. The results showed that ML algorithms had more predictive power than OLS. Furthermore, it was noted that the CatBoost algorithm was superior in terms of price prediction even when external values were included. Furthermore, the ensemble model consisting of three algorithms was found to have higher accuracy than individual algorithms (Hong, 2020).

Discussion

The literature reveals a growing trend towards the adoption of ML algorithms in property valuation, especially in mass appraisals. Traditional methods, while reliable, often fall short in handling vast datasets, leading to potential inaccuracies. ML algorithms, on the other hand, have demonstrated superior predictive accuracy in various studies, from Antipov & Pokryshevskaya's work in St. Petersburg to Hong's research in Seoul. Techniques such as Random Forest, XGBM, and CatBoost have been particularly noteworthy in their performance. However, the efficacy of these algorithms is not universal and often depends on the specificities of the dataset and the region under study. Furthermore, while ML offers enhanced prediction capabilities, it also brings forth challenges, especially in terms of interpretability and the potential for overfitting.

Conclusion

Machine learning, as evidenced by the literature, holds significant promise in revolutionizing the realm of real estate valuation. Its ability to process vast datasets, adapt to regional specificities, and offer unbiased predictions makes it a formidable tool for future property appraisals. However, as with any technological advancement, it is crucial to approach its adoption with caution, ensuring that the algorithms are fine-tuned to the unique challenges of the real estate sector. As the field continues to evolve, further research and collaboration between data scientists and real estate professionals will be pivotal in harnessing the full potential of ML in property valuation.

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Machine Learning Approaches for Modelling Real Estate Systems

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Abstract. In the intricate domain of real estate, precise property valuation remains paramount for a spectrum of economic endeavors. The 2008 global economic downturn spotlighted the limitations of conventional valuation methods, prompting the exploration of innovative, objective techniques. This paper investigates the incorporation of machine learning in modeling intricate real estate systems. We discuss the evolution from traditional appraisal methods to Automated Valuation Models (AVM) and the subsequent challenges these models face. Drawing from global research and case studies, we highlight the adaptability, accuracy, and potential of machine learning techniques in real estate valuation. Our findings underscore machine learning's transformative role in enhancing property appraisal, offering a forward-looking perspective on the future of real estate valuation.

INTRODUCTION

In the ever-evolving landscape of real estate, the valuation of properties remains a cornerstone for various economic activities, from individual purchases to large-scale investments. With the global economic downturn of 2008 serving as a backdrop, the traditional methods of property valuation have been put under scrutiny, leading to the exploration of more advanced and unbiased techniques. This paper delves into the integration of machine learning in modeling complex real estate systems, examining its efficacy, challenges, and the potential it holds for the future.

LITERATURE REVIEW

Since 2008, the global economic crisis has led to an economic slowdown resulting in a decline in real estate prices. The appraised value of a property is a key factor for any transaction related to the property, especially when it comes to its sale or mortgage application. Therefore, it's crucial that the price reflects its true value.

While the physical presence of an appraiser can significantly aid in providing an accurate property valuation, there's still a possibility of bias from interested parties such as buyers, sellers, or even banks, which might lead to subjective evaluations. Hence, there's a clear need for the development of an unbiased and realistic predictive model (Navaro et al., 2020).

The International Association of Appraisal Officers (SNOV) defines mass appraisal as the process of evaluating a group of properties using common data, standardized methods, and statistical procedures. These appraisal methods have been implemented through models known as Automated Valuation Models (AVM) and have enabled the valuation of large real estate portfolios without the intervention of an appraiser (Kontrimas, Verikas, 2011; Schulz, Wersing and Werwatz, 2014)

Typically, appraisals for mortgage purposes are conducted by professional appraisers who visit the property. However, this method is time-consuming, costly, and unsustainable for evaluating large real

estate assets.

This level of information allows for the application of increasingly sophisticated statistical techniques to develop higher quality and accuracy appraisal procedures. AVMs allow for mass property price evaluations without the need for an appraiser's physical presence, using computer-assisted appraisal systems. In many cases, the presence of an appraiser is only required for exceptional valuations (Mooya, 2011)

Appraisal techniques include parametric regression analysis and non-parametric learning or machine learning methods, such as neural networks, decision trees, random forests, fuzzy logic, etc. These techniques are primarily used with three objectives in mind: to evaluate the price of a property, to discover the impact of a house's feature on its price, and to create a hedonic price index. Over the past decades, the most commonly used procedures have been based on hedonic-based regression (Bin, 2004; Shabana et al. 2015)

However, these models present fundamental problems related to model assumptions: residuals' normality, homoscedasticity, independence, and absence of multicollinearity. This situation has led to increased use of model recognition techniques, often known as data mining techniques, which include machine learning. These techniques are more flexible regarding data distribution assumptions, easier to interpret, and allow for the analysis of linear and non-linear relationships (Pérez-Rave et al., 2019)

Moreover, they manage both categorical and continuous variables. While these techniques were initially used more as classification methods, their application has recently been used in determining variables influencing house prices and in evaluating house prices. Pérez-Rave et al., (2019) offer a two-phase methodology to analyze data within the machine learning approach for both predictive and inferential purposes.

Accurate and efficient prediction of real estate prices has always been essential, affecting various economic actors such as buyers, sellers, commission agents, governments, and banks. Today, the big data paradigm offers exciting opportunities for more accurate predictions and is a primary approach for data handling in machine learning.

These machine learning methods have been applied to real estate valuation in very specific places. Research has been conducted by Jaen (2002) in Coral Gables (Florida, USA); Fan et al., (2006) in Singapore; Ozsoy & Sahin (2009) in Istanbul (Turkey); Del Cacho (2010) in Madrid (Spain); Pow et al., (2014) in Montreal (Canada); Ceh et al., (2018) in Ljubljana, (Slovenia); Nguyen (2018) in 5 US counties; and Dimopoulos et al., (2018) in Nicosia (Cyprus).

Conversely, Pérez-Rave et al. (2019) deal with housing price valuation for an entire country like Colombia, using independent variables, identifying the city in which each property is located, thus proposing a unique model for the entire country (with a sample of 61,826 properties).

DISCUSSION

The global economic crisis of 2008 underscored the importance of accurate property valuation, as it plays a pivotal role in transactions, especially in sales and mortgage applications. Traditional methods, while valuable, often come with inherent biases and subjective evaluations. The International Association of Appraisal Officers (SNOV) introduced the concept of mass appraisal, which leverages common data and standardized methods. This paved the way for Automated Valuation Models (AVM), which have revolutionized the way large real estate portfolios are evaluated.

However, as with any innovation, AVMs are not without their challenges. The assumptions underlying these models, such as residuals' normality and homoscedasticity, have been points of contention. This has spurred the exploration of machine learning techniques, which offer flexibility, ease of interpretation, and the ability to handle both linear and non-linear relationships. These techniques, from neural networks to decision trees, have been applied globally, with research spanning from Coral Gables in the USA to Nicosia in Cyprus. Notably, the work of Pérez-Rave et al., (2019) stands out, offering a comprehensive methodology that caters to both predictive and inferential purposes in the realm of real estate valuation.

CONCLUSION

The integration of machine learning in real estate valuation marks a significant stride towards more accurate, unbiased, and comprehensive property appraisals. While traditional methods have their merits, the adaptability and precision offered by machine learning techniques underscore their potential in addressing the challenges of modern-day real estate valuation. As the real estate sector continues to grapple with the complexities brought about by global economic shifts, technological advancements, and

changing market dynamics, machine learning emerges as a promising tool, poised to redefine the future of property valuation.

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A PEST analysis for some of the Western Balkans countries towards Green Economy

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Abstract. The Green economy refers to an economic system that aims to promote sustainable development, reduce environmental impact, and ensure the efficient use of resources. In the case of the Western Balkans region, there are several key aspects to consider regarding the green economy like renewable energy, energy efficiency, sustainable agriculture, circular economy green Infrastructure, education and research. It is essential for governments, businesses, and civil society in the Western Balkans to collaborate and prioritize the development of policies, incentives, and investments that promote the green economy. Such efforts can not only drive economic growth but also preserve the region's natural resources and contribute to a more sustainable future.

The Green Agenda for the Western Balkans has the potential to drive the transition towards a Sustainable, carbon-neutral economy oriented towards planetary health and human well-being.

The goal of the Agenda, which comes as part of a 9 billion euro Economic and Investment Plan for Western Balkans, is to stimulate the economies in the Western Balkans by bringing region in accordance with EU environmental standards and climate objectives, reducing corruption and strengthening democracy

The Green Agenda and the Economic Investment Plan must be aligned with the EU's environmental and climate objectives. It should also strengthen environmental protection, it should also improve vulnerable groups and contribute to tackling the root causes of inequality. In particular, it focuses on women, the young and the elderly, low-income and rural groups.

The region has shown a poor record in implementing the EU environmental acquis and state aid legislation, even under binding instruments such as the Energy Community Treaty. We therefore emphasize that the Green Agenda in its current format lacks sufficient emphasis on legal enforcement that would ensure its integrity.

Through a PEST analysis we will see the political, economic, social, technological constraints and barriers in the countries of the Western Balkans (Albania, Serbia, Bosnia Herzegovina, North Macedonia, Montenegro). Kosovo is not included in the analysis due to lack of data. On the other hand, Croatia was left out of the analysis due to its greater development compared to other countries, not allowing a balanced comparison.

At the end of the paper, we will give some recommendations for a better progress in accordance with the objectives of the Green Agenda towards green growth.

Keywords: Green Economy, Green Agenda, Western Balkans, PEST analysis, carbon-neutral economy

Jel Code: Q55, Q56, Q57, Q5

Introduction:

The concept of a green economy is closely linked to sustainable development, which seeks to balance economic, environmental, and social objectives. Achieving a green economy requires collaboration among governments, businesses, civil society, and individuals to transition to a more sustainable and environmentally responsible way of living and conducting business. The aim is to ensure that economic growth and prosperity are not achieved at the expense of the planet's health and future generations' well-being.

The concept of a green economy is relevant and important in the Western Balkans, just as it is in other regions of the world. The Western Balkans is a region in Southeastern Europe consisting of several countries, including Albania, Bosnia and Herzegovina, Croatia, Kosovo, Montenegro, North Macedonia, and Serbia. Like many parts of the world, the Western Balkans faces environmental challenges and opportunities related to sustainable development and the transition to a green economy. Here are some key considerations for the green economy in the Western Balkans:

Environmental Challenges, Energy Transition, Sustainable Agriculture, Circular Economy, Biodiversity Conservation, Green Infrastructure, International Cooperation, Economic Diversification, Policy and Regulation, Education and Awareness.

The Western Balkans, like many regions, faces a unique set of challenges and opportunities when it comes to transitioning to a green economy. International cooperation, investment, and a commitment to sustainable development can contribute to the region's progress in achieving environmental and economic sustainability goals. Additionally, local and regional efforts should consider the specific needs and circumstances of each country in the Western Balkans. The Western Balkans has been undergoing a process of European integration, with the European Union (EU) as its main partner. As part of the EU's enlargement policy, the Western Balkans has been granted access to the Single Market, financial support and other resources. One of the major challenges for the Western Balkans is to achieve sustainable economic growth while reducing corruption and strengthening democracy. The Green Agenda for the Western Balkans, which comes as part of a 9 billion euro Economic and Investment Plan for the region, is designed to stimulate sustainable economic growth by bringing the region in line with EU environmental standards and climate objectives. The purpose of this paper is to explore the potential of the Green Agenda for the Western Balkans and to identify the challenges and opportunities for its implementation. The Green Agenda for the Western Balkans is a policy framework aimed at aligning the region with the EU's environmental and climate objectives. The agenda is based on three main pillars: environmental protection, social inclusion, and economic development. The environmental protection pillar aims to promote sustainable development and protect the natural environment, while the social inclusion pillar seeks to improve the lives of vulnerable groups, such as women, the young, the elderly, low-income and rural groups. The economic development pillar focuses on stimulating sustainable economic growth and creating new job opportunities.

Challenges:

The Western Balkans faces several challenges in implementing the Green Agenda. Firstly, the region has a poor record in implementing EU environmental and climate legislation. Secondly, the region is facing economic challenges, with high unemployment rates and low levels of economic development. Thirdly, the region lacks the necessary infrastructure and technical expertise to implement the Green Agenda effectively. Fourthly, there is a lack of political will and commitment to environmental protection, which poses a significant challenge to the implementation of the Green Agenda.

Opportunities:

Despite the challenges, the Green Agenda for the Western Balkans presents several opportunities. Firstly, the implementation of the Green Agenda could help to stimulate sustainable economic growth and create

new job opportunities. Secondly, it could help to protect the natural environment and promote sustainable development. Thirdly, the Green Agenda could help to improve the lives of vulnerable groups, such as women, the young, the elderly, low-income and rural groups. Fourthly, it could help to align the region with EU environmental and climate objectives, which could facilitate the region's European integration process.

A PEST analysis is a framework for identifying and analyzing the political, economic, social, technological, factors that may affect the implementation of the Green Agenda for the Western Balkans.

Political factors: The political environment in the Western Balkans is characterized by a history of conflict and instability, which has hindered the region's economic development and European integration process. The political situation in the region is also marked by a lack of political will and commitment to environmental protection, which poses a significant challenge to the implementation of the Green Agenda.

Economic factors: The Western Balkans is facing several economic challenges, including high unemployment rates, low levels of economic development, and a lack of investment in infrastructure. The implementation of the Green Agenda could help to stimulate sustainable economic growth and create new job opportunities, but the region lacks the financial resources to implement the Green Agenda effectively.

Social factors: The Western Balkans is characterized by a diverse population, with significant differences in language, culture, and religion. The region is also home to vulnerable groups, such as women, the young, the elderly, low-income, and rural groups. The implementation of the Green Agenda could help to improve the lives of these vulnerable groups, but the region lacks the necessary social infrastructure to support their development.

Technological factors: The Western Balkans is lagging behind in terms of technological development, with a lack of investment in research and development. The implementation of the Green Agenda could require significant technological upgrades, such as the development of renewable energy sources and the implementation of energy-efficient technologies. The region may need to rely on external partners for technological support.

Overall, the PEST analysis highlights several challenges and opportunities for the implementation of the Green Agenda for the Western Balkans. While the region faces significant political, economic, social, technological, environmental, and legal challenges, the implementation of the Green Agenda presents opportunities for sustainable economic growth, environmental protection, and social inclusion. The region may need to rely on external partners for financial and technological support to implement the Green Agenda effectively.

Results of analysis and comparison

SERBIA

In the case of Serbia's green agenda, the following PEST analysis can be conducted:

Political factors:

Serbia's government has made a commitment to sustainable development and has implemented policies to support the green agenda. However, the country still faces challenges related to corruption, bureaucratic red tape, and political instability.

Economic factors:

Serbia's economy has been growing in recent years, but the country still faces high unemployment and poverty rates. The green agenda could provide new opportunities for economic growth and job creation through the development of renewable energy and sustainable agriculture.

Sociocultural factors:

Serbia's population is generally supportive of environmental protection, but there are also cultural attitudes that prioritize economic development over environmental concerns. Education and awareness

campaigns can help shift attitudes towards greater sustainability.

Technological factors:

Serbia is relatively underdeveloped in terms of technology and infrastructure for renewable energy and sustainable transportation. However, there are opportunities for innovation and investment in these areas.

Overall, the green agenda in Serbia has both opportunities and challenges. The government will need to continue to prioritize sustainability and work to overcome obstacles in order to achieve its goals.

ALBANIA

In the case of Albania's green agenda, a PEST analysis could be conducted as follows:

Political:

Albania's government has demonstrated a commitment to sustainability and green initiatives, including the development of a National Strategy on Climate Change and the ratification of the Paris Agreement.

However, political instability and corruption have been ongoing issues in Albania, which could hinder progress towards a green agenda.

Economic:

Albania is classified as an upper-middle-income country, but economic growth has been slow in recent years.

Investment in green infrastructure and renewable energy could create new job opportunities and stimulate economic growth.

However, the costs associated with implementing green initiatives may be a challenge for the country's budget.

Sociocultural:

Albanians have a strong connection to their natural environment, with a culture that values traditional agricultural practices and respect for the land.

Public awareness and support for green initiatives are growing, but there may be resistance to change from those who rely on industries that are harmful to the environment.

Technological:

The adoption of new technologies such as renewable energy sources and energy-efficient building design could play a crucial role in the green agenda.

However, the country's technological infrastructure may not be advanced enough to support the implementation of these initiatives.

Overall, Albania has the potential to make significant progress towards a green agenda, but there are also challenges that need to be addressed. Policymakers will need to balance economic and environmental concerns while navigating political and social obstacles to achieve their goals.

NORTH MACEDONIA

In the case of the green agenda in North Macedonia, a PEST analysis can be done as follows:

Political factors:

The political factors in North Macedonia can have a significant impact on the implementation of the green agenda. The government's willingness to prioritize environmental issues, create policies and regulations that promote sustainable development, and allocate sufficient resources for the implementation of the green agenda can affect its success.

Economic factors:

The economic factors that can affect the green agenda in North Macedonia include the availability of funding for environmental projects, the cost of renewable energy, and the level of investment in the green economy. The country's economic stability and level of development can also impact the feasibility of

implementing green policies.

Social factors:

The social factors that impact the green agenda in North Macedonia include the level of environmental awareness and activism among the general population. The willingness of individuals to adopt eco-friendly practices can also affect the success of the green agenda.

Technological factors:

Technological advancements in renewable energy and other green technologies can play a significant role in the implementation of the green agenda in North Macedonia. The availability and affordability of such technologies can make or break the adoption of green practices.

Overall, a PEST analysis can help identify the external factors that may impact the green agenda's implementation in North Macedonia. By understanding these factors, policymakers and businesses can take steps to address them and promote a sustainable future for the country.

MONTENEGRO

When considering the green agenda in Montenegro, the following PEST factors should be taken into account:

Political factors:

Political landscape in Montenegro plays a crucial role in the green agenda. Government policies, regulations, and incentives can encourage or discourage businesses and individuals from adopting environmentally-friendly practices. Montenegro has made some strides in this area, such as the adoption of the National Renewable Energy Action Plan and the implementation of energy efficiency measures.

Economic factors:

The economic factors that impact the green agenda in Montenegro include the availability of resources, funding, and investment opportunities. Montenegro has a small economy and limited resources, so funding and investment in green initiatives may be challenging. However, Montenegro has received support from international organizations, such as the European Union, to support its efforts.

Social factors:

Social factors, such as public awareness and education, can influence the adoption of environmentally-friendly practices. Montenegro has a relatively low level of public awareness about environmental issues, but there is a growing interest in green initiatives and sustainability.

Technological factors:

Technological advancements can facilitate the implementation of green initiatives. Montenegro has a limited technological infrastructure, but there are opportunities for innovation and adoption of new technologies to support the green agenda.

Overall, while Montenegro faces some challenges in adopting a green agenda, there are also opportunities for progress and innovation in this area. By considering these PEST factors, policymakers and stakeholders can develop effective strategies to support sustainability and environmental protection in Montenegro.

BOSNIA AND HERZEGOVINA

Here's how PEST analysis applies to the green agenda in Bosnia and Herzegovina:

Political:

The political instability in the country could be a barrier to the implementation of the green agenda.

The government's willingness and ability to implement policies that promote sustainability could affect the green agenda's success.

Economic:

The country's economy heavily relies on fossil fuel-based industries such as coal mining and thermal

power plants.

A shift towards green industries could lead to job losses and economic instability in the short term.

Access to funding for green initiatives could be limited due to the country's economic situation.

Social:

The general public's awareness and willingness to adopt sustainable practices could impact the success of the green agenda.

There could be resistance to change among individuals and communities, especially those who rely on fossil fuel-based industries for their livelihood.

Technological:

Access to advanced technologies that promote sustainability could be limited due to the country's economic situation.

The lack of technological infrastructure in certain areas could hinder the implementation of green initiatives.

In summary, Bosnia and Herzegovina faces several challenges in implementing a successful green agenda, including political instability, a heavy reliance on fossil fuel-based industries, limited access to funding and technology, and inadequate environmental regulations. However, there are opportunities for progress, such as raising public awareness and increasing government commitment to sustainability.

Discussions and Recommendations

The Green Agenda for the Western Balkans has the potential to drive the transition towards a sustainable, carbon-neutral economy oriented towards planetary health and human well-being.

However, the implementation of the Green Agenda faces several challenges, including a lack of political will, poor record in implementing EU environmental and climate legislation, and lack of necessary infrastructure and technical expertise.

To address these challenges, greater political will and commitment, focus on infrastructure and technical expertise development, greater cooperation and coordination, and exploration of innovative financing mechanisms are recommended.

By addressing these challenges and seizing the opportunities presented by the Green Agenda, the Western Balkans could achieve sustainable economic growth while protecting the natural environment and promoting social inclusion.

To address the challenges and seize the opportunities presented by the Green Agenda for the Western Balkans, several recommendations are proposed.

Firstly, there is a need for greater political will and commitment to environmental protection at both the national and regional levels.

Secondly, the region should focus on developing the necessary infrastructure and technical expertise to implement the Green Agenda effectively.

Thirdly, there is a need for greater cooperation and coordination between the Western Balkans and the EU in implementing the Green Agenda.

Fourthly, the region should explore innovative financing mechanisms to support the implementation of the Green Agenda.

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DRIVERS OF GREEN INNOVATIONS IN WESTERN BALKAN COUNTRIES

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Abstract

The countries of the Western Balkans, whether considered separately or within their regional framework, confront a series of existing and potential environmental issues with significant impact on sustainable development. These issues include air pollution, inappropriate water and waste management practices, loss of biodiversity and habitat degradation, climate change and exposure to natural disasters. By addressing environmental problems through the adoption of green innovations, countries in the region can ensure sustainable development while also conserving their natural resources, protecting ecosystems and improving the well-being of their citizens. This article investigates the key drivers behind the adoption of green innovations in the countries of Western Balkans. Understanding the role of these determinants is essential for effectively tackling the environmental challenges, promoting sustainability, and advancing integration into the European Union. Through a critical review of contemporary literature and empirical data analysis, this article identifies the primary political, legal, economic, technological, and social factors that influence the implementation of green innovations in the region. Employing both theoretical and empirical approaches, this study contributes to a relatively unexplored area of green innovations, encompassing technologies, practices, and environmentally friendly policies shaped by various interconnected factors in the context of the region. The paper provides noteworthy findings that can be of great value for businesses, policymakers, and other stakeholders interested in promoting green innovations and sustainable development in the Western Balkans region.

Keywords: green innovations, drivers, Western Balkans, environment, sustainable development

Introduction

While the Western Balkan countries experience relatively high economic growth, their economic model does not sufficiently adequately account for the environmental and social impact. This is particularly concerning, as these countries grapple with both current and potential environmental problems and challenges in terms of water and air pollution, high risks of natural disasters, deforestation and loss of biodiversity.

The paper aims to analyse the green innovations in the Western Balkan region. The qualitative review of the literature, statistical analysis of firm-level empirical data from Flash Eurobarometer 498 Survey (2021), along with secondary data from international institutions and organizations provides insights to the main research question: What are the most significant green innovations in Western Balkan countries, and which are the drivers and barriers that individual firms are facing in their green path? The results of this paper hold significance within the context of the limited contemporary literature related to green innovations in the region and in the practical context as they enable the comparison between the countries of the region.

This analysis provides insights into the numerous factors that impact green innovations in the Western Balkans. The identification of internal factors analysed in terms of strengths and weaknesses and external factors in the context of opportunities and threats empowers companies to make informed decisions regarding development strategies and goals, adjust the structure and internal resources. Furthermore, these insights also serve as recommendations for policymakers to address the challenges of transitioning to a more environmentally sustainable economy and the creation of the regulatory framework and appropriate mechanisms for the promotion of green innovations at the national and regional level.

Green Innovations: Literature Review

The concepts of eco-, green and sustainable innovations all revolve around the idea of introducing new or improved technologies, products or practices that are geared toward reducing or eliminating negative impacts on the environment, while concurrently fostering sustainability from economic, social and environmental standpoints. Different researchers define green innovations as technologies or practices used mainly in manufacturing and transportation that aim to minimize the use of chemicals, materials or harmful practices, while eco innovations are defined as new products or process that offer value to consumers and firms (Fussler & James, 1996). These innovations typically focus on reducing the environmental footprint of products or services and mainly related to the development of decomposable materials, waste reduction or environmentally friendly packaging.

Sustainable innovations are mainly related to the long-term promotion of sustainability, in terms of the development of environmentally friendly products, services or practices, the implementation of circular economy principles, waste minimization and recycling promotion. In the scope of this work, green innovations will encompass technologies, practices, products and services related to conserving and enhancing the efficient use of natural resources, including water, energy, raw materials with the aim of reducing adverse environment effects and promoting sustainability.

Green innovations can be defined as inputs, processes or outputs. Leiponen & Helfat (2010) define green innovations in the context of the development of technologies, products or services aimed at reducing pollution, minimal use of non-renewable resources and promoting environmental quality. Breuer et al. (2018) approach green innovations as a multidimensional process that encompasses product innovation, organizational and social innovation, as well as innovative and more sustainable economic approaches to doing business. On the other hand, UNCTAD (2023) examines green innovations in the context of the outputs of adoption, implementation and dissemination of environmentally friendly technologies, products or practices that ensure sustainable development.

According to OECD (2009), green innovations can be analyzed in the context of the target, which includes products, processes, marketing methods, organizations or institutions. It can also be considered from the perspective of the mechanism through which it is adopted or implemented (modification, redesign, new) and the impact on the environment. Kemp et al. (2019) suggest that green innovations include a wide range of activities such as green technology, organizational changes, part of the circular economy and low-carbon economy.

Green innovations can be classified in different ways based on contemporary literature in terms of their nature and characteristics. Green innovations can be related to products in terms of the development of environmentally friendly products or services, in process innovations related to innovations that reduce the negative environmental impacts of industrial processes through the development of cleaner and more efficient production methods or innovations green organizations that focus mainly on the development of new management systems and practices that promote sustainability. Green innovations can also be innovations based on sustainable production and consumption systems, social innovations that address environmental and social issues through the development of new business models or innovations driven by environmental policies.

Green innovations encompass improvements in existing products, marketing or processes or the introduction of new products, processes or management and marketing that use resources more efficiently with the aim of minimizing negative environmental impacts. Green innovations are determined by a series of factors that can be classified into:

Regulatory factors related to environmental policies and regulations, which aim to reduce negative environmental impacts and promote sustainability by encouraging firms to invest in environmentally friendly practices. Environmental regulations and policies can encourage the adoption and development of green technologies and innovations, resulting in reduced costs for firms, mainly in those firms characterized by high levels of research and development expenditures (Popp et al., 2009) and as a result to improve their economic and environmental performance (Porter & van der Linde, 1995). The effectiveness of environmental policies and regulations is influenced by the type of regulations, the industry, the characteristics of firms (Lanoie et al., 2011).

Economic factors related to market forces that affect the demand for green products and services. The increase in demand for sustainable products, the increase in the price of energy and the creation of green markets are among the main economic factors that promote green technologies, the implementation of sustainable practices by companies (Triguero et al., 2013)

Technological factors are related to advances in technology, which enable the improvement of existing products or processes or the introduction of other green solutions such as renewable energy sources, sustainable material, environmentally friendly production processes (Arranz et al., 2019)

Social factors are related to attitudes, values and behaviors towards the environment and sustainability, which motivate firms to adopt green technologies and practices. Social factors are related to consumer preferences (Jaiswal & Kant, 2018), pressures from major actors, the desire to demonstrate corporate social responsibility and improve image (Hahn et al., 2015), engagement in improving public health and greater awareness for environmental issues (Kolk & Pinkse, 2008).

2. Green Innovations in Western Balkans: Drivers and Barriers

The Western Balkans region presents numerous opportunities for green innovations, including access to EU funds, untapped potential in renewable energy production, a growing market demand for green products and services, heightened awareness of environmental issues, strong political will, and the presence of a qualified workforce. Citizens in the Western Balkans are increasingly becoming aware and concerned about environmental problems, particularly those related to pollution and climate change. Furthermore, the governments of the Western Balkans have taken concrete national and regional initiatives to address climate and environmental challenges while promoting sustainable development within the framework of the circular economy. The region is notably characterized by a relatively qualified workforce, with a significant number of graduates in science, technology, engineering, and mathematics. Based on the above, it is evident that companies in the region can capitalize on real opportunities by embracing green technologies and offering eco-friendly products and services. This approach can yield numerous benefits, including increased income, reduced production costs, and access to new markets.

Despite the existence of these opportunities, the level of green innovations in the Western Balkans remains relatively low. There are disparities among the countries in the region regarding the initiatives undertaken by individual firms to enhance resource efficiency and decrease their environmental impact. Notably, the region heavily relies on energy generated from non-renewable fuels, a substantial portion of which is imported from neighbouring countries. The adoption and implementation of sustainable technologies and practices could significantly enhance the region's energy security. However, most firms lack the necessary financial resources for investments in green technologies. According to firm-level data from the Flash Eurobarometer 498 Survey (2021), the majority of companies in the region heavily rely on their internal financial and technical resources to undertake environmentally friendly actions, as external public and private financial and technical resources are limited. A significant portion of the firms in the region lacks the necessary knowledge and awareness of green innovations. Even though all the countries in the region have established National Strategies and initiatives focused on green economy, sustainable development, and business support, the institutional regulatory framework remains weak. There's a shortage of clear policies and regulations to support the development and implementation of green innovations. Additionally, companies in the region contend with challenges stemming from political instability, insufficient infrastructure for green innovations, particularly in renewable energy sources, and inadequate waste management systems. The emigration of qualified professionals to developed countries results in the loss of expertise and qualifications, leading to reduced capacities for innovation and green entrepreneurship in the region. Moreover, the limited cooperation between businesses, academia, and government, coupled with the scarcity of existing networks, hinders the development and diffusion of green innovations and the promotion of the green economy in the region.

Based on the micro-level data from Flash Eurobarometer 498 (2021), Western Balkans firms have undertaken various actions to enhance resource efficiency, with the following percentages for each category: saving water (23.3%), saving energy (35.7%), using predominantly renewable energy sources, including self-generation through methods like solar panels (11%), saving materials (29.8%), switching to greener material suppliers (15.7%), minimizing waste (33.8%), selling their own residues and waste to other companies (33.2%), recycling and reusing materials or waste within the company (22%), designing products that are easier to maintain, repair, or reuse (14.6%), and other actions (1.6%). Notably, green innovations in Western Balkans firms primarily focus on product and process improvements.

Table 1: Resource efficiency action taken by firm size, sector and country

Indicator		Percentage
Resource efficiency action	no action	20,18%
	at least one action taken	79,92%
Sector of Activity	Manufacturing	90,42%
	Retail	79,5%
	Services	74,2%
	Industry	78%
Firm size	1 to 9 employees (micro)	70,2%
	10 to 49 employees (small)	84,4%
	50 to 249 employees (medium)	92,7%
	250 or more employees (large)	88,1%
Country	Albania	65,4%
	Montenegro	86,1%
	North Macedonia	73%
	Serbia	88,4%

Source: Based on data from Flash Eurobarometer 498 (2021)

Based on the data, it appears that only 65.4% of Albanian companies have taken at least one action related to the efficiency of resources during the last two years compared to 73%, 86.1% and 88.4% of Macedonian, Montenegrin and Serbian firms, respectively. A more in-depth analysis of the data reveals that companies in the manufacturing and retail sectors exhibit a greater inclination to adopt environmentally friendly practices compared to those in the industry and service sectors. Additionally, the data suggests that medium and large-sized firms are more likely to engage in these actions than micro and small firms. Furthermore, companies with a longer presence in the market demonstrate a greater propensity for changes and resource efficiency initiatives.

"The efforts of Western Balkans firms to achieve climate neutrality are less prevalent compared to actions focused on resource efficiency, with only 31.6% of the total number of firms having undertaken such actions in the last two years and implemented strategies to reduce their environmental footprint. These climate-neutral actions include a reduction of carbon emissions (30.1%), the adoption or purchase of new technological solutions to reduce emissions (46.9%), the development of new technological solutions to reduce emissions (32.5%), or offsetting carbon emissions through the purchase of carbon credits or funding equivalent carbon-saving elsewhere (4.3%). Another 4.3% of firms reported different actions, while 12% of firms have not taken any action to become climate neutral or reduce their carbon footprint.

The drivers of green innovations are multifaceted and closely related to both the internal and external environments of firms. Regardless of a firm's size, sector, or the country it operates in, green innovations in the Western Balkans are propelled by a combination of endogenous and exogenous factors. Notably, according to Table 2, the primary source of investments in green innovations is the firm's own internal

resources. Conversely, external support in the form of government subsidies or grants, along with assistance from other entities, remains limited in the region, particularly for small and medium-sized enterprises. Another significant determinant is the company's internal expertise, while information and advice from public administration, private companies, or business associations exert a relatively modest influence.

The surveyed firms have identified several factors as the most necessary and statistically significant measures to support their green transition: grants or subsidies (two tailed Pearson Coefficient = 0,175**), advice on funding possibilities and financial planning for resource efficiency investments (two tailed Pearson Coefficient = 0,085**), demonstration of new technologies or processes to improve resource efficiency (two tailed Pearson Coefficient = 0,132**), better cooperation between companies across sectors so that new processes to re-use waste and by-products can be developed (two tailed Pearson Coefficient = 0,105**), clearer rules on the use of secondary raw materials (two tailed Pearson Coefficient = 0,150**).

Table 2: Financial and non-financial support for resource efficient actions in Western Balkans by firm size

Support for resource efficient action	1-9 employees	10-49 employees	50-249 employees	250 or more employees
Its own financial resources	73%	75.1%	75.29%	78%
Its own technical expertise	34.5%	33.4%	50%	49.15%
External support	14.76%	23.61%	32.76%	35.6%
Public funding such as grants, guarantees or loans	8.36%	13.53%	18.97%	20.34%
Private funding from bank, investment company or venture capital fund	5.29%	5.04%	10.92%	5.08%
Private funding from friends or relatives	1.95%	1.06%	1.72%	1.7%
Advice or other non-financial assistance from public administration	2.79%	5.57%	11.49%	10.17%
Advice or other non-financial assistance from private consulting and audit companies	1.67%	4.51%	9.77%	8.47%
Advice or other non-financial assistance from business associations and clusters	2.51%	3.98%	10.34%	11.86%
Advice or other non-financial assistance from supply chain partners	2.51%	3.45%	9.2%	11.86%
Other external support	0.56%	1.06%	0	0
Other	0.28%	0.53%	0.58%	0

Source: Based on data from Flash Eurobarometer 498 (2021)

Integrating green innovations into firm's strategy is a complex process that involves various challenges and barriers. In the Western Balkans, businesses encounter several common obstacles on their path to a green transition, including:

Costs and Investments: the initial implementation of green innovations necessitates subnational investments in research, development, technology acquisition, and process changes. For businesses in the Western Balkans, these upfront costs present a financial challenge given their limited resources.

Lack of Awareness and Knowledge: some businesses, especially micro- and small firms lack awareness about the potential benefits of green innovations or might not fully understand the technical aspects of integrating these innovations into their operations. Often, firms prioritize short-term financial gains over long-term sustainability goals, especially when they perceive green innovations as currying uncertain returns.

Technology and Infrastructure Gaps: access to advanced green technologies and infrastructure in general is limited in the region. Firms often struggle to find suitable technologies that align with their operations and market demands.

Regulatory and Policy Barriers: inconsistent, incomplete or unclear regulations related to environmental standards and incentives for green innovations create uncertainty and difficulty to comply with international environmental requirements for firms in the region. While all the countries of the region have drawn up national strategies and are dedicated to environmental issues, the regulatory framework, support programs, supervisory institutions face numerous problems related to concrete action plans

regarding sustainable development and the circular economy.

Market Demand and Consumer Perception: generally, there is low consumer awareness or demand for environmentally friendly products and services. Firms are often hesitant to invest in green innovations. The economies of the region are relatively small in terms of population and purchasing power, while the participation of firms in the global value chain is below potential, affecting limited export capacities, which cause limitations in the growth of green industries and opportunities for economy of scale.

Skill Shortages: firms encounter a shortage of skilled workers and experts capable of effectively implementing and managing green innovations. The lack of a qualified workforce in sectors, particularly in sector related to renewable energy or waste management, poses a significant challenge to the region's green transition.

Table 3. Barriers of Western Balkan firms to green transition related to resource efficiency

Difficulties	Micro	Small	Medium	Large
Complexity of administrative or legal procedures	19.8%	27.6%	31.25%	40,3%
Difficulty to adapt environmental legislation to your company	8.83%	11.78%	16.7%	13.4%
Technical requirements of the legislation not being up to date	10.75%	17.6%	22.4%	28.4%
Difficulty in choosing the right resource efficiency actions for your company	8.45%	10.7%	16.7%	17.9%
Cost of environmental actions	7.5%	13.6%	19.8%	22.4%
Lack of specific environmental expertise	9.8%	16%	28.1%	16.42%
Lack of supply of required materials, parts, products or services	16.3%	17.3%	24.5%	29.85%
Lack of demand for resource efficient products or services	10.9%	12.4%	18.22%	23.9%
Complexity associated with environmental labelling and certification	5.6%	9.3%	14.6%	13.4%
Other	2.3%	1.6%	2.1%	0%

Source: Based on data from Flash Eurobarometer (2021)

Based on the provided data, it can be concluded that companies in the Western Balkans face numerous barriers, irrespective of their size. Some of the primary obstacles to green innovations include the complexity of legislation and regulations related to environmentally friendly practices, the lack of demand for sustainable products or services, the lack of supply of raw materials, parts and materials necessary for sustainable actions and operations.

Conclusions

Green innovations comprise improvements in existing products, marketing or processes or the introduction of new products, processes or management and marketing that use resources more efficiently with the aim of minimizing negative environmental impacts. This not only enables companies to reduce production costs, but also to use more efficiently the scarce resources, to access new markets, improve their corporate image, have higher profits and longevity in the market. Green innovation presents a significant opportunity for Western Balkans to steer their economies towards a green transition to sustainable development. Currently, they grapple with economic inefficiency, environmental challenges,

high risks of natural disasters, and social inequality. These countries experience low levels of green innovations undertaken by firms, primarily due to limited internal resources and capacities of firms, access to finance, consumer demand, regulatory changes, workforce qualification, research and development expenditures, speed of technology transfer, cooperation between different actors in ecosystem, as well as infrastructure limitations.

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THE IMPACT OF GREEN PUBLIC PROCUREMENT IN WESTERN BALKAN COUNTRIES

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Abstract: The sensitivity to environmental preservation toward ethical and sustainable economic growth has been at an all-time high in recent decades. Green public procurement (GPP) is a procedure in which public entities, such as governments or municipalities, purchase goods and services that have a lower environmental effect than conventional alternatives. GPP is gaining popularity in the Western Balkans as a strategy for promoting sustainable development and addressing environmental issues.

The demand for recyclable products, energy-efficient systems, clean technology and fuels, is driving the adoption of ecologically responsible business practices. Private consumers are also encouraged to focus on green purchases. Considering that European public institutions consume 1.8 trillion euros per year (14% of European GDP), their involvement in a constant process of purchasing goods and services with low environmental impact can decisively influence sustainable development in Europe and stimulate eco-innovation.

In this article, we will examine the adjustments that Western Balkan enterprises must adopt in order to take advantage of the possibilities of Green Public Procurement, as well as their capacity to do so. One of the important points that will be examined in this article is related to the innovation of the procurement process, taking international best practices that can be adapted to the characteristics of the countries of the Western Balkans, as well as to the innovative processes that these countries can compose and promote.

Keywords: Green Public Procurement, Western Balkan region, government, Innovation, impact, benefits.

Introduction

Green public procurement (GPP) is the process of including environmental factors in public procurement methods. Green Public Procurement (GPP) is the practice of purchasing commodities, and services. It works with a reduced environmental effect throughout their lifecycle than goods, and services, and works with the same main purpose that would otherwise be acquired, (European Commission, 2008).

Green Public Procurement initiatives (GPP) include the purchase of energy-efficient office equipment, the use of renewable energy sources for public infrastructure projects, the use of environmentally friendly cleaning products, and the implementation of sustainable transportation solutions. National, regional, or local legislation, guidelines, or policies frequently govern GPP. These frameworks include criteria and standards for evaluating the environmental performance of products and services and methods for incorporating environmental concerns into the procurement process.

According to the authors Hasanbeigi A., et al. (2019), the European Commission defines GPP as “...a process where public authorities seek to procure goods, services and works with a reduced environmental impact throughout their life cycle when compared to goods, services and works with the same primary function that would otherwise be procured” (Interreg Europe 2018).

Some of the positive effects of GPP are the reduction of the level of environmental pollution, sustainable development, improving green production, encouraging the formation of a green supply chain, the projection of a positive image of environmental protection for the government as well as the orientation of green consumption by the public (Liu J., et al., 2019).

Different authors emphasize the fact that public authorities can use their purchasing power through Green Public Procurement to assist green technologies and products to become competitive in the private market (Bryngemark E, et al, 2023). Policies that prioritize making purchases that are socially and environmentally responsible can influence markets toward sustainability (Hasanbeigi A., et al. 2019).

Public procurement accounts for a significant portion of GDP in numerous industrialized nations. In several cases, procurement expenditures account for 10% to 15% of total GDP (Hall et al., 2016). For example, the European Union spends 14% of its GDP on publicly acquired goods and services (Bryngemark E. et al., 2023), approximately EUR 1,8 trillion is spent annually.

One of the benefits that we can mention of Green Public Procurement is the financial savings on the part of public authorities if we take into consideration not only the purchase price but also the full life-cycle costs of a contract (OECD, 2023).

The aim of the study is to analyze the challenges that the Western Balkan Countries have to face to get an advantage from the possibility of green public procurement and if they have the capacity to implement the practice of green procurement. Also in this paper, we will examine some of the good practices of those developed countries that are part of the European Union that have embraced green practices in public procurement. In this work, we have selected several countries that will serve as good practices.

1.2. Case studies on Green Public Procurement.

Since January 2010, the European Commission has been pushing good practice examples of GPP. The aim of publishing these cases also affords some 'lessons learned' for others who want to emulate their experiences (Good Practice Library, European Commission).

One of the many successful case studies on Green Public Procurement (Good Practice Library, European Commission), that can be mentioned, is the case of Copenhagen, Denmark. The City of Copenhagen spends around 2.1 billion euros each year on products and services, therefore public procurement is a useful instrument for nudging the market in a more sustainable path.

Copenhagen enacted the CPH 2025 Climate Plan (2012)²⁶, a comprehensive approach in four key areas:

²⁶ CPH 2025 Climate Plan – English (2012)

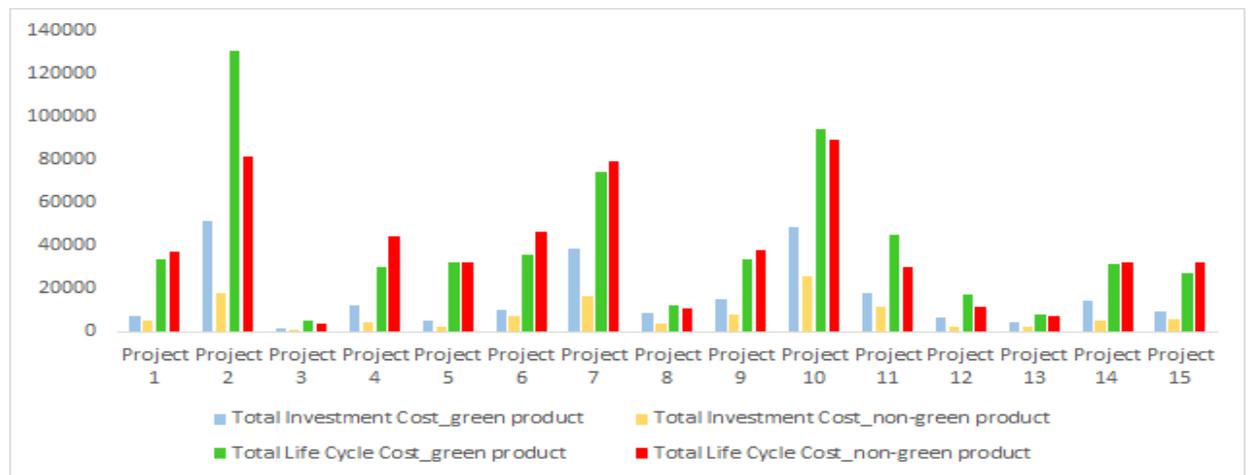
energy consumption, energy production, mobility, and city administration. The City of Copenhagen sought window cleaning services for buildings under the jurisdiction of its Child and Youth Administration in 2022. The city decided to include green vehicle criteria in the tender. The tender was awarded to two suppliers and the four-year framework agreement began on September 1, 2022. The agreement worth approximately 1.6 million euros, covers three districts in Copenhagen and the contract award criteria were only price-related. Copenhagen, through this procurement, has taken environmental parameters into consideration while addressing the effects of its vehicles and cleaning supplies.

Here is presented an example of a work carried out by the authors Orfanidou V. et. al. (2023). In this paper, the authors have taken a case study of the public sector in the case of Greece (Case Study from the Greek Public Sector”, pg.8/15)²⁷.

The aim of their study was to evaluate the results of the Life Cycle Costs (LCC) tools implementation in the context of Green Public Procurement (GPP) and to study the economic impact of GPP in public organizations in Greece. In this paper, the authors analyzed 15 projects in different municipalities in Greece for Indoor/Outdoor lighting.

In graphic no.1, we can see that 7 out of 15 projects turned out to have investment costs of green products at higher levels than conventional products, but in these cases, their LCC is lower. The fact that the LCC is at the lowest level in these 7 projects, is an indicator of efficient investment. But in the other 8 projects, the investment cost and Life Cycle Cost (LCC) are at high levels. In these cases, the investment appears to be unprofitable.

Graphic nr.1: Investment costs and Total Life Cycle Costs (LCC) of green and non-green products in Greece.



Source: Orfanidou V. et. al. (2023)

In the case of project no. 5, the case of the University of Patras, for Indoor lightning, the total investment cost for the green product is 4983.4 and the total investment cost for the non-green product is 2153.98. In this case, the green product costs 2.3 times more than the non-green product.

The total Life Cycle Cost (LCC) for green products is 32456.69 and the total Life Cycle Cost for non-green products is 32240.7. In this case, the LCC difference is 1%. If the award was based on the lowest price, then non-green products would have been selected, by leveraging product life cycle assessment the selection would have been different.

1.3 Green Public Procurement in the Western Balkan Countries

Public procurement in the countries of the Western Balkans is about 5% and 9% of the country's GDP in

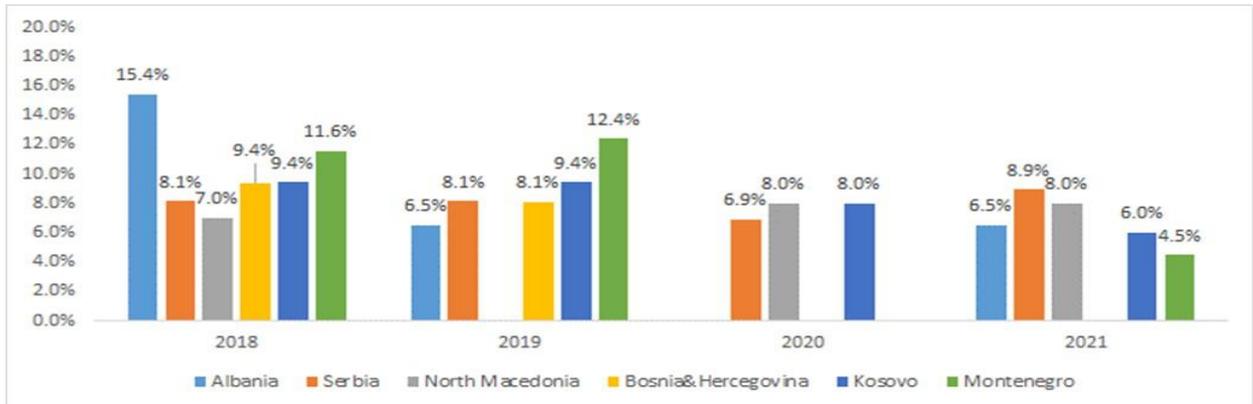
https://kk.sites.itera.dk/apps/kk_pub2/index.asp?mode=detalje&id=983

²⁷ Orfanidou et. al. (2023), “Life Cycle Costing Implementation in Green Public Procurement: A Case Study from the Greek Public Sector”, pg.8/15. <file:///C:/Users/user/Downloads/sustainability-15-02817-v2.pdf>

2021 (see graph no. 2). Although the GDP per capita is not as high as the EU country, since the Western Balkan countries have a GDP per capita that is about 30%-60% of the EU average, this data is a significant indicator to understand that even Western Balkan governments possess significant purchasing power. Furthermore, this means that they have the ability to influence the market with their requirements.

In the graph below, we have placed the data regarding the Percentage (%) of Gross Domestic Product as Public Procurement Expenditure in Western Balkan Countries. The data was obtained from the Global Public Procurement Database (GPPD) for the period 2018-2021.

Graphic nr. 2: Percentage (%) of Gross Domestic Product as Public Procurement Expenditure in Western Balkan Countries.



Source: World Bank, GPPD 202328

Developed countries have enterprises that invest in Research and Development and have a high level of technology. Small and developing countries, such as the countries of the Western Balkans, have production facilities that do not yet operate with the most modern technologies, but in many cases produce non-green products that cost less.

The adoption of EU directives will, on the one hand, increase the costs for replacement with green products, and on the other hand, this risks excluding the enterprises of Western Balkans countries from public tenders. This is because these enterprises often do not have sufficient funds to adopt their production equipment with the latest technologies.

Cause of the conditions that governments impose on businesses force them to spend more funds on Research and Development in order to produce products that pollute less, according to the principles of environmental protection. On the other hand, business costs increase, and new products could cost more for the state coffers and for the taxpayers' pockets.

The Green Agenda for the Western Balkans (GAWB29) in accordance with the European Green Deal, is focused in five main thematic areas, such as decarbonisation, circular economy, depollution of air, water and soil, sustainable nutrition and the protection and restoration of eco-systems. This implies a new growth strategy for the region which aims to transition from a traditional economy to a sustainable economy.

Below we will list some information about the current situation of some countries of the Western Balkans. This information is obtained from the annual reports of public procurement of these countries

²⁸ [Global Public Procurement Database \(GPPD\): https://www.worldbank.org/en/topic/governance/brief/global-public-procurement-database](https://www.worldbank.org/en/topic/governance/brief/global-public-procurement-database)

²⁹ [file:///C:/Users/user/Downloads/factsheet_wb_green_agenda_en%20\(1\).pdf](file:///C:/Users/user/Downloads/factsheet_wb_green_agenda_en%20(1).pdf)

and from the Green Agenda for the Western Balkans Action Plan - Implementation Report 202230.

The economies of the Western Balkans countries are at different stages of the EU membership process and have a different path to the green transition.

Albania has built the Public Procurement Agency (APP- Agjensia e Prokurimit Publik³¹) and the highlight of the Annual Report 2022³² was the Green Procurement Roadmap. The country has finalized and published the green procurement roadmap³³.

Transparency Improvements in SPE (Electronic Procurement System):

Continuous improvements in SPE, including enhancement of the dynamic system.

Creation of mini-contracts. Implementation of filters to identify the use of evaluation criteria based on cost and green procurement criteria.

Cooperation with Foreign Institutions. Close collaboration with SIGMA/OECD on new legal initiatives in public procurement.

Cooperation with the World Bank on projects related to green public procurement and the preparation of methodologies, legal frameworks, and procurement procedures for responding to natural disasters.

Kosovo has opened the Public Procurement Regulatory Commission (Komisionin Rregullative Prokurimit Publik – KRPP³⁴) its mission is the development, operation, and supervision of the public procurement system in Kosovo, including electronic public procurement (E-Procurement). The promotion of basic procurement principles is transparency, accountability, fair competition, equal treatment, and value for money.

Capacity improvement through:

Advancement of a monitoring system for legal framework implementation.

Human resources development, training, and education.

Advancement of public procurement management procedures.

Improved communication among all actors in public procurement.

Integration of socio-economic and environmental objectives in green and socially responsible public procurement policies.

Adoption of contemporary methods like electronic and centralized procurement.

Raising awareness of officials about the functioning of the public procurement system in Kosovo.

Both countries are focused on aligning their public procurement systems with international standards, incorporating green procurement practices, and collaborating with foreign institutions for expertise and support in enhancing their procurement frameworks.

The report's³⁵ (GAWB) data indicates that although legislative frameworks have included regulatory instruments and green public procurement initiatives to assist enterprises in their greening endeavors, their implementation is still lacking.

In Montenegro, North Macedonia, and Serbia, laws and plans related to public procurement call for the inclusion of environmental impact criteria, such as life-cycle costs.

³⁰ [Green-Agenda-for-the-WB-Action-Plan-Implementation-Report-2022-WEB \(1\) \(1\).pdf](#)

The report provides insights for the seven thematic Roadmaps: climate action, sustainable energy, sustainable transport, circular economy, depollution, sustainable agriculture, and protection of nature and biodiversity.

³¹ <https://app.gov.al/>

³² <https://app.gov.al/GetData/DownloadDoc?documentId=83d7547a-e8c9-4458-9321-e6eeef5324e6>

³³ <https://app.gov.al/legjislacioni/prokurimi-publik/udherrefyes/>

³⁴ <https://krpp.rks-gov.net/njofimet>

³⁵ the Green Agenda for the Western Balkans Action Plan - Implementation Report 2022

However, according to the report, North Macedonia has planned a few events in this area, and this alternative has not been utilized enough in practice. Whereas in the case of Montenegro and Serbia, several activities have been carried out to encourage the use of green public procurement.

In the case of Montenegro, the government has implemented a project that was oriented towards increasing the awareness and capacities of public administrations and enterprises to facilitate green public procurement.

In Serbia, to facilitate the implementation of green public procurement the Office of Public Procurement conducted a workshop to acquaint contracting and provide them with various case studies and useful tools. According to the Office for Public Procurement 2021 Report, in 2021 were conducted 650 green public procurements.

International donors have made major financial contributions to the Western Balkans region in order to promote sustainable development and green growth, notably through programs like the Regional Environmental Reconstruction Programme (REReP).

Opening markets to investments from well-established green enterprises can bring capital, knowledge, and technology transfer. This can accelerate the adoption of sustainable practices in the Western Balkan countries. Providing financial support and accessible credit for enterprises involved in public tenders aligns with the idea that the state, banks, and businesses form a collaborative triangle. This approach can facilitate the implementation of greener technologies and practices.

Conclusion and Recommendation

Encouraging joint regional initiatives promotes collaboration among Western Balkan countries. By fostering enterprises that operate beyond national borders, regional economic exchanges can increase, creating a more integrated and interconnected economic space.

Facilitating cross-border operations of enterprises within the Western Balkan space enhances regional economic cooperation. This can lead to shared resources, knowledge transfer, and the development of joint solutions to common challenges.

Supporting the development of skills and expertise in green technologies is crucial. Educational programs and training initiatives can prepare the workforce for the demands of environmentally conscious industries.

Ensuring that national policies align with sustainable development goals and promote green practices is essential. This includes regulatory frameworks that incentivize eco-friendly initiatives and penalize environmentally harmful practices.

Implementing mechanisms for monitoring and evaluating the effectiveness of green procurement and sustainable development initiatives is vital. This ensures that strategies are adjusted based on real-time data and feedback.

Raising awareness among the public and businesses about the benefits of green practices can create a supportive environment. Public buy-in and demand for sustainable products and services can further drive the adoption of green technologies.

Emphasizing that technological development should not cease is crucial for ensuring ongoing progress in environmental sustainability. This aligns with the global trend towards innovation that minimizes environmental impact. Encouraging R&D, especially for existing enterprises, is key. Incentives, grants, or collaborative programs can stimulate innovation, enabling businesses to adopt greener practices and technologies.

Nowadays, economic development is accompanied by a high level of pollution that has had negative effects on people's health and on the destabilization of the ecosystem. Specifically, fossil fuels burning in order to produce energy, as well as the manufacturing industry, have meant economic development with an increasingly expensive bill.

The change in the conception of economic development, starting from the role of the state and the obligations of the private sector, brings complications and costs at the same time.

In addition to the environmental benefits, an immediate adoption of green procurement could risk alienating the region's enterprises and driving them into bankruptcy, increasing unemployment and making the economies of the Western Balkans more fragile.

In the long term, GPP constitutes a positive decision-making achievement addressed by the European Union and Western Balkans countries towards a stable and sustainable economic development. The preservation of human health, in this case, will not be endangered by economic development. The growth of the economy will be ensured without damaging the earth's natural resources and maintaining the balance of our existence.

Managing a just transition is complex and challenging, and we have the opportunity to implement it in the right way.

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GREEN TOURISM AND ITS IMPACT IN ENVIRONMENTAL DEVELOPMENT

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Abstract. Green tourism is one of the newest types of tourism industry development. This type is very important as it is closely related to the natural potential that a tourist destination offers, it is also related to economic development and environmental protection, tourist culture, climate change as well as migration and population growth. Green tourism is the main pillar of the development of sustainable tourism, therefore in this scientific paper we will present the development methods and the effects during the use of these methods for the improvement and promotion of green tourism, also during the research we also have used the methods that affect the improvement of the living environment and economic development based on green tourism. Through this we present the real possibilities of developing green tourism in Sharr Mountain, as a national park and we also focus on the tourist center Kodra e Diellit.

From all this we will conclude that the development of new types of tourism industry always aims at the utilization of natural potentials taking into account the preservation of the living environment.

Keywords: green tourism, environment, economic development, climate change.

Introduction

The concept of green tourism development is very different from the previous economic concepts; this concept of sustainable development offers new ideas about how to organize the foundations of a sustainable economy in these difficult global economic moments where there are various difficulties towards industries that are developing above.

Economic development offers citizens a development that will be able to meet the needs of the present, but without damaging the capacity to meet the needs of future generations.

The attractiveness of undeveloped touristic places is creating an advantage in terms of the increase in the number of foreign tourists who come and increase the interest of visits to some of the touristic destinations that are developing in North Macedonia. The motive that appears from foreign tourists is because they like to enjoy untouched places as new destinations. This expressed interest encourages even

more the decision to increase the development activity towards the existing destinations and those that are being discovered above. The latest approaches to green tourism affect the destination of tourist offers towards the international tourist market.

There are some methods that play a huge role on economic development³⁶:

Green tourism offers the possibility of saving cultural heritage, preserving living environments by carefully using natural potentials

Green tourism is known as the newest tourism game that highlights all the development opportunities that nature offers and the focus of the development of this type of tourism is the reduction of the misuse of natural potentials.

Through green tourism, the aim is to create a balance between economic development and environmental and social development, which means the utilization of natural potentials to the point that we do not damage the environment.

2.1 Green tourism and its dimensions

Green tourism is developed in every country where there is tourism potential and development opportunities, however there are some elements that must be fulfilled: 1. notification and involvement of the local community in the design of strategies and their fulfillment, 2. Raising and awareness of the population for the initiatives taken, 3. Cooperation of governmental and non-governmental organizations for the development of sustainable tourism.

Sustainable development (SD) which is an indicator of green tourism is also a combination of two different objectives of sustainability and development. In simple words, this theory is a mixture of development and sustainability theories³⁷ until the end of the 20th century; ecologists were concentrating on the ideas of the conservation movement of the 19th century³⁸. Tourists with environmental knowledge loathe ecological and social damage. The sustainability factor has been appropriated irrespective of the fact that the tour operating companies were motivated by promoting ecological vacations. Ioannides ³⁹ was of the opinion that the International Federation of Tour Operators (IFTO) used sustainability as a marketing tool with the intention to maximize profit. Currently, efforts are being made for a reduction in poverty through pro-poor tourism. In attaining the UN Millennium Development Goals, the UN WTO (2005) report blatantly supports the role of community tourism through the local private sector.

The tourism industry is quite sensitive to all aspects of the environment - a positive driving force because:

It constitutes a motive for the preservation of natural and attractive resources and gives them economic value;

Increases mass public awareness for environmental protection;

It plays an important role in providing environmental information;

It helps to create campaigns for environmental protection.

Creates extra income for agriculture by constituting a "diversifying" element for farm territories and keeping them in vital condition;

The income from tourism is managed and encouraged towards the financial contribution to the preservation of the environment;

It offers new uses for cities, buildings, environments or other entities by increasing attention to tourists and turning them into tourist attractions,

Tourism encourages the creation of other activities as important alternatives and with an active impact on the environment.

According to UNWTO sustainable tourism should⁴⁰:

Make optimal use of environmental resources that constitute a key element in tourism development, maintaining essential ecological processes and helping to conserve natural heritage and biodiversity.

Respect the socio-cultural authenticity of host communities, conserve their built and living cultural heritage and traditional values, and contribute to inter-cultural understanding and tolerance.

Ensure viable, long-term economic operations, providing socio-economic benefits to all stakeholders that are fairly distributed, including stable employment and income earning opportunities and social services to host communities, and contributing to poverty alleviation.

The idea of sustainable development is based on these principles:

1. Commitment and care,

2. Risk prediction,

3. Prevention of the causes of degradation,

4. New Assessment of the Living Environment,

5. Changes in behavior,

6. Creation of necessary institutions and processes.

All these principles are linked in a chain in the development of green tourism, starting from commitment and care, which means the commitment to development and care throughout the development in natural areas, then we have the prediction of risk, which means balancing the negative effects that can appear during the development of green tourism, where through forgotten plans to avoid negative effects, we can protect tourist areas from the risk of destruction. Through the prevention of the causes of degradation, we can prevent the

³⁶ Arta.K.,2020, Алтернативен туризам, Тетово.

³⁷ Lele S.M. Sustainable development: A critical review. *World Dev.* 1991;19:607–621. doi: 10.1016/0305-750X(91)90197-P

³⁸ Hall C.M. *Historical Antecedents of Sustainable Development and Ecotourism-New Labels on Old Bottles.* Addison Wesley Longman Ltd.; Harlow, UK: 1998. pp. 13–24.

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⁴⁰ UNWTO

causes of degradation during economic development and tourism development. New assessment of the living environment, here we are dealing with the development of tourist areas which are unknown to the population and are predetermined as tourist destinations in higher development, and then promoted as tourist destinations based 100% on green tourism. Changes in behavior occur when we have proper education regarding the behavior of tourists, whether local or foreign, who visits a tourist destination. And finally, we have the creation of the necessary institutions and processes, which means that the development of tourist areas cannot be improved if we have not created institutions that will influence the positive development in the compilation of projects and the implementation of plans to overcome the hindering processes during the development of further.

2.2 Economic development

The five stages of BUTLER's life cycle theory⁴¹ clearly express the tourist area evolution (Figure 1).

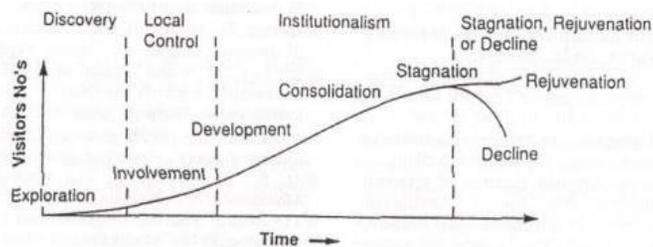


Figure 1 – Hypothetical tourist area life cycle.

The first stage, exploitation, is characterized by small numbers of adventurous visitors, simple facilities, unspoiled natural, cultural and environmental resources, and undisturbed local communities.

In the next stage, involvement, the local community is engaged in tourism activities:

Facilities and infrastructure are built; different agencies, authorities and organizations are involved in the development, management and implementation of tourism industry; the tourism market is defined and maintains a balance with other economic activities.

By the development stage, the area is experiencing an exciting and dynamic period of growth and evolution. The destination is clearly defined: attractions have been developed, and planning tourism is undertaken as part of overall development plans for any area. Large numbers of new visitors continue to arrive, fuelling growth and, at peak periods perhaps equaling or exceeding the numbers of local inhabitants.

In the consolidation stage, the volumes of tourists are still increasing, but at a declining rate. The destination is now strongly marketed and tourism is seen as a main instrument for regional and local economy, with an identifiable recreational business district containing the major franchises and chains.

In the stagnation stage, the highest number of tourists is achieved. The tourist area is no longer attractive and fashionable. It relies on repeat visits and business use of its extensive facilities and major efforts are needed to maintain the number of visits. The destination may by now have serious problems with wastes and other environmental, cultural and social costs.

2.1.1 SWOT analysis

In the following, we have presented the SWOT analysis regarding green tourism.

We have strong points where we present all the advantages that the destination has and that affect the development of green tourism.

In the parts of weaknesses, we have also presented the elements that need to be developed and the same affect green tourism.

In the last two parts, opportunities and threats, we also present the elements that we must use for the improvement of green tourism.

Sharr Mountain is one of the national parks of the Republic of North Macedonia that contains a large number of natural potentials that can be used for the development of several types of tourism, one of them is green tourism, we have also presented the SWOT analysis scheme including and the ski center Kodra e Diellit.

STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
Accommodation	Lack of Promotion	Excellent natural touristic potentials	Destruction of fauna and flora areas
Touristic potentials	No city informative biro	Geomorphological conditions	Pollution of the living environment
Ski center "Kodra Diellit"	Not good infrastructure	Opportunities for new ski slope	Emigration

⁴¹ BUTLER R., 1980, The concept of the tourist area cycle of evolution: Implications for management of resources, in Canadian Geographer, vol. 24, pp. 5-12

Cultural heritage	Lack of new accommodation facilities	Opportunities for cultural tourism	Economical and Political instability
National Park "Sharr Mountain"		Opportunities for rural tourism	
Flora Fauna			

2.1.2 Recomendations

According to the World Tourism Organization (UNWTO), tourism is one of the fastest-growing industries, contributing more than 10% to the global GDP (UNWTO 2017; Mikayilov et al. 2019).

The development of the most sustainable forms of tourism should include several recommendations in relation to economic terminology⁴²:

The development of forms of tourism that optimize the economic benefits of tourism while minimizing economic costs

To ensure that the benefits of tourism are distributed as widely as possible in the host community;

To ensure that the tourist will pay a "fair price" for the expense of his tourist trip;

Taking actions that ensure the sharing of the costs of attracting and meeting the needs of tourists in a fair and honest manner between the tourism industry and government agencies in the destination;

Protecting local businesses from unfair competition, caused by large international enterprises, which have little knowledge about destination;

Reducing leakages from the local economy.

Beside the recommendations we also have opportunities to promote a green tourism recovery which helps the community to provide a better development.

These changes also bring opportunities to promote the green transition within the sector through⁴³:

Sustainable local products and destination development: catering to tourists with a greater appreciation of the environment and desire to connect with nature

Shifts toward local tourism: driven by increasing costs, uncertainty and sustainable choices. This can reduce GHG emissions and encourage diversification from local visitor opportunities.

Longer-stay visitors (including digital nomads): building on new opportunities from increased remote work and work flexibility to increase the value, both for the destination and the traveler.

Better destination management: understanding tourist volumes and investing in the required infrastructure and mechanisms to manage these sustainably.

Innovative business models: businesses have an opportunity to restructure up skill and invest in new technology as part of the recovery to be more digital, sustainable, resilient and inclusive.

More government and private sector co-operation: the pandemic triggered a whole-of-government response that could present countries with an opportunity to evaluate the positive cross-sectoral interactions and integration, and apply these governance innovations to future policy challenges.

3. Conclusion

Based on all the data during the research, we define that in our country we have untapped natural potentials regarding the development of green tourism. The potentials available in the Sharr Mountain area can be very profitable for the local economy, but always keeping in mind the preservation of the living environment.

Also, from the methods presented above, we benefit in an easier way to achieve significant visits from tourists and branding as a tourist destination in the region and beyond.

More and more we have to focus on the development policies and methods which are compiled by relevant institutions and the same are applied by the local population as well as by foreign tourists.

Although we are in the first stages of development in terms of the tourist industry, we can reach the expectations that are intended as a tourist destination.

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EFFECTS OF USING THE WIN-LOSS METHOD FOR OVERCOMING CONFLICTS IN ORGANIZATION

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Abstract

Conflict is a phenomenon that is present both in society and in organizations. Managers spend part of their time in conflict situations and trying to resolve conflicts. Business development under conditions of competition and pressure from the external environment in the global market and the continuous struggle in this sphere, requires from managers skills, knowledge, resistance, but also confrontation with conflicting situations, which they must manage and resolve in right there and then.

In this research is used a quantitative approach and the data are collected through questionnaires made from a sample based on the characteristics of organizations and employee leaders. 340 leaders of organizations were surveyed and the case study are taken from Kosovo businesses.

It presents descriptive data analysis and the empirical findings shows that the negative effects of conflict and that affect work performance

The findings also show that the use of a Win-Loss strategy model is still applicable in conflict management, while employees' awareness of the factors that cause conflict significantly affects work performance.

Keywords: Conflict Management, Win – Loss Method, Effects, Strategy

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1. Introduction

For a certain organization to be successful in the implementation of certain strategies by the management, there must be a general harmony that follows the implementation process, but which is not always complete. Often, disagreements arise about the definition of objectives, work methods, or priorities for group members. Disagreements then result in general conflict within the organization, which must necessarily be managed based on different ways of approaching it.

The greater part of the responsibility in this whole situation, but also the greatest importance in this whole process is the manager of the organization, who, based on several steps, is obliged to take measures to manage the conflict that develops within the organization, as in the worker-management relationship, as well as in the conflicts of workers among themselves.

2. Overview of the effects of using the Win-Loss Method for overcoming conflicts in organization

Conflict represents a situation in which opposing intentions, attitudes or behaviors between two or more parties lead to disagreement or opposition and hinder or block efforts to accomplish tasks. Conflict always exists when people are in opposition to each other (Lussier, 2010). Conflict occurs when there is inconsistency of goals, thoughts or emotions in the circle of the group, between its individuals that leads to opposition. Conflict represents a form of behavior of individuals or groups in the organization, in which inconsistencies, oppositions and matches dominate, when individuals or organizational units work against each other (Zeqiri, 2011). Human nature tends to avoid negative experiences as much as possible. Therefore, there is always a tendency to prevent conflicts before they happen. When conflict occurs, the manager's responsibility for managing it is inevitable. But conflict, just like negative, can also be positive. Because, on the other hand, a conflict can influence the creation of ideas and creative solutions to the challenges faced by an organization (Josey, 2007).

For a certain organization to be successful in the implementation of certain strategies by the leading management, there must be a general harmony which follows the implementation process, but which is not always complete. Often, disagreements arise about the definition of objectives, work methods, or priorities for group members. Disagreements then result in general conflict within the organization, which must necessarily be managed based on different ways of approaching it.

2.1. Strategies for Conflict Management

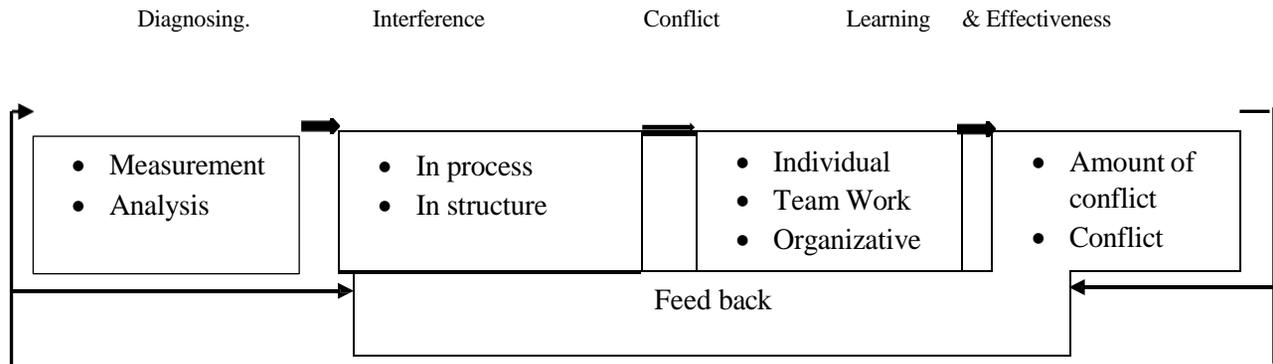
Conflict situations are often charged with tension and anxiety and can significantly damage the quality of interpersonal relations in the organization. For this reason, developing conflict management strategies is crucial. Podrug and Gauta (2013) emphasize that the effectiveness of conflict management is achieved by individuals who have the ability to detect and eliminate the causes of conflict on a long-term level, so that the recurrence of conflict episodes is avoided. The role of the leader in conflict management does not have to be direct, but it is certainly focused on the development of emotional and social skills that will allow participants in the conflict to get to know themselves and other participants in the conflict better, as this creates the prerequisites for eliminating the causes of the conflict.

2.2. Conflict Management Process

Conflict management in the organization represents the process of eliminating the negative aspects of the conflict and increasing the positive aspects. The goal of conflict management is to improve learning outcomes as well as team achievement, including effectiveness or performance in the organizational setting. Well-managed conflict improves group performance (Rahim, 2001).

The conflict management process, according to Rahim M.A., graphically looks like this:

Figure 1: Conflict management process



According to Figure 1, conflict management includes diagnosing conflict and intervening in it. Diagnosis is the basis for intervention. This means knowing the problem, anticipating it and then formulating it.

2.3. Methods For Overcoming Conflicts

In management theories, there are different classifications of methods that are made from the aspect of similar results such as (Filley, 1975):

- a) *Win-Loss method*
- b) *method with a Loss-Loss result and*
- c) *method with a Win-Win result.*

a) *Win-Loss Method*

The Win-Loss income method includes: the dominance of power and authority, ignoring opportunities for influence, rules of majority, and "railway" (Zeqiri, 2006).

In the method of the dominance of power and authority, it is normal that the result is very easy to predict, where the losing side openly hides communication with the winner, who have reservations against them,

are calmer in their statements, and cannot be identified with the goals of the organization. All this can lead to reduced energy and creativity.

The second method of ignoring opportunities for influence or transcendence to respond to conflict can result in a win-lose outcome. This can occur when someone takes a certain activity while receiving neither positive nor negative responses from others. In such situations, the suggestions are not accepted and the one who proposed them has lost.

The other method, the majority rules, is used when group members make decisions by voting and there are no fixed sides, which means that solutions are acceptable as long as group members declare for different suggestions according to their priorities. If it is about the fixed votes of respondents, where one party has a majority, this method becomes dysfunctional.

In the last "railway" method, the minority imposes itself on the majority and makes it silent, it can also appear in cases where the majority is apathetic and willingly allows itself to be led without question.

b) *Method with a Loss-Loss Result*

The Loss-Loss method is based on the fact that it is better for both parties to lose than for one party to win while the other party loses. This method includes: compromise, bribery, third-party assistance and compliance with the rules.

The first method of compromise, the parties are faced with two possible solutions and choose the one that is between the two solutions, this method is used when the one that can be divided can be fixed and is rarely used when the problem is observed differently.

Bribe method - we mean when one side pays more in order to get the second side's agreement.

The third method that is used is the involvement of a third party as an arbitrator, although arbitration acts as a win-lose method, it acts to enable a win-win outcome, which means that neither side wins everything. Arbitration enables the avoidance of conflict between the parties through discussion.

The last rule-abiding method is a method similar to the one mentioned above where the parties to the conflict resolution set the rules and both sides lose.

The following can be defined as common characteristics for both methods (Zeqiri, 2006):

- a. there is a clear separation between WE-YOU parties
 - b. the parties focus their energy towards themselves in a win or lose atmosphere
 - c. the parties observe the problem from their point of view
 - d. the emphasis is more on solutions than on the achievement of goals and values
-

- e. conflicts are personalized and influenced by the judgment
- p. there is no differentiation of conflict resolution activities from other group processes, nor is there a planned sequence of these activities
- g. parties have a short-term view of problems

c) *Method with a Win-Win result*

In the method with a Win-Win result, its main forms are consensus and integral decision-making. These methods are intended to help both parties.

The first method of consensus occurs when a group of two or more people who work on a certain problem, decide which is of high quality and which is unacceptable to the parties. In such situations, research shows that the use of group rules provides better solutions than individual evaluations. For this reason, consensus decisions are suggested for the final selection of alternatives in integral decision-making (Zeqiri, 2006).

The second method, integral decision-making, provides for the joint identification of the needs and values of the parties and the appropriate finding of alternatives that can satisfy these goals, as well as the selection of the best alternative, in contrast to the consensus method, which is applied in the situation when there is no conflict of interest on the part of the integral decision-making is not such a case. In this method, a series of steps are considered to overcome the conflicting positions in order to reach the best solution (Zeqiri, 2006).

Adam M. Brandenburger and Barry J. Nalebuff considered that "successful business strategy is about actively shaping the game you play and not just playing the game you've encountered." Their commitment has been to changing or shaping the market, they considered that, if the company wants to succeed, it is not necessary for other companies to work badly, sometimes it is good for all companies to win (Win-Win strategy) (Rexhepi, 2015).

3. Research methodology and empirical findings

This study was followed by the quantitative approach, in the sense of collecting and analyzing primary quantitative data, using questionnaires, whose data are analyzed and expressed mathematically and statistically, using numbers, graphs and tables.

After determining the questionnaire method, it has been decided that the questionnaire will be administered via the Internet, as the most appropriate form in this situation, and is working through purposive sampling. The data was collected in a period of four months from January 2023 to April 2023. It was attempted that the design of the questionnaires be attractive and simple, logical in structure so that the respondent understands what it is about and does not get confused. The case study was done in Kosovo, therefore the questionnaire is distributed in the Albanian language, so that the respondents understand the questions better and give answers easily and clearly.

3.1 Description of results

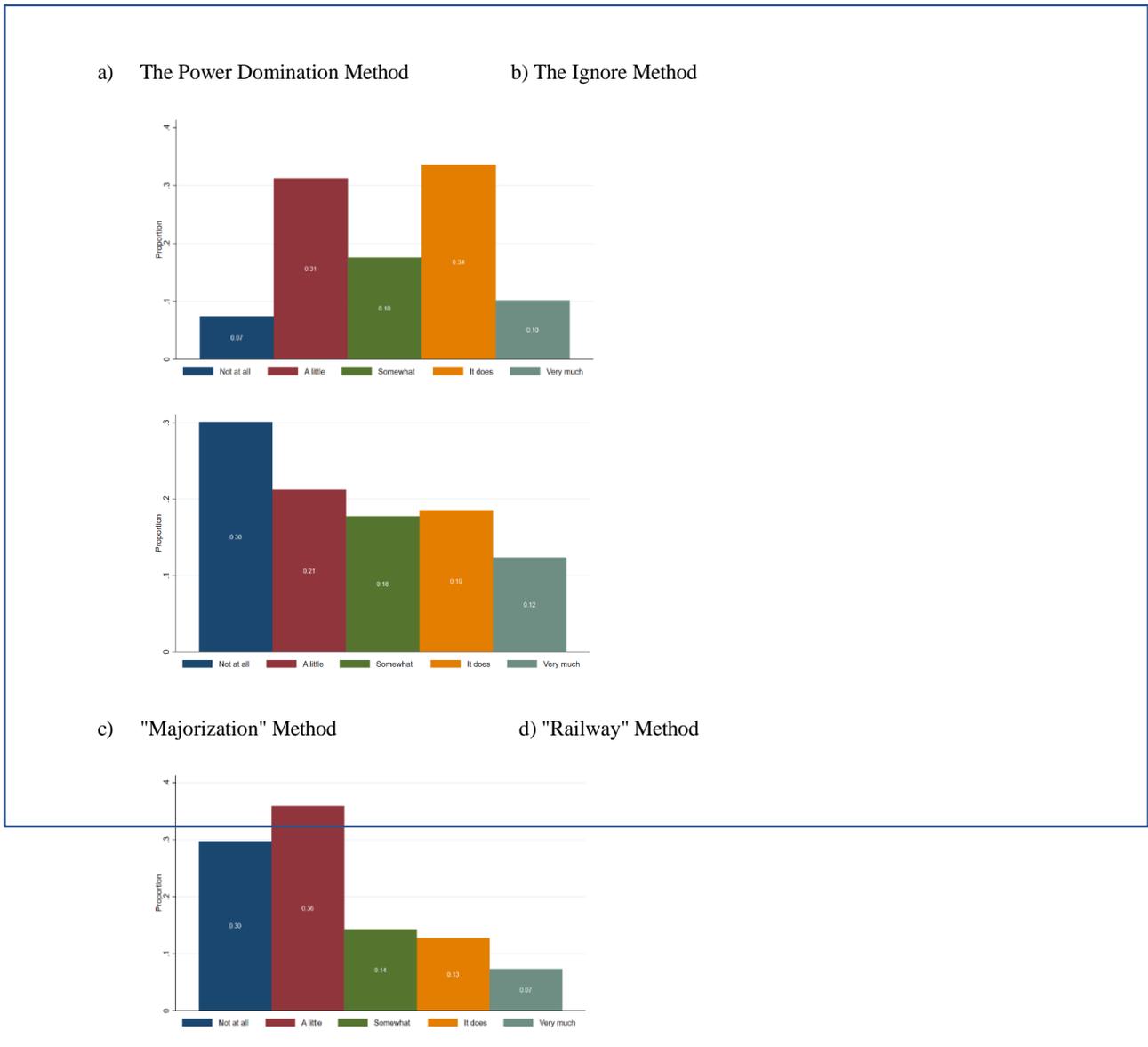
Respondents in this research were also asked about the Win-Loss methods they prefer to apply to overcome the conflict. There were four optional methods in the questionnaire:

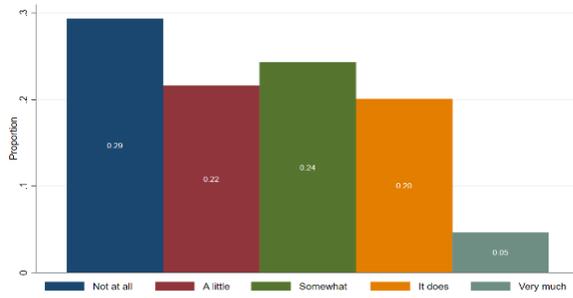
- a) *Power Domination Method* (conflict resolution through the leader's authoritative decision)
 - b) *Method of Ignoring* (resolving the conflict by ignoring it on the part of the leader)
 - c) *Method of "Majorization"* (resolution of the conflict through the misuse of the power of the majority)
 - d) *"Railway" Method* (conflict resolution through the dominance of the power of a small group within the organization)
-

In Figure 2 it can be seen that 44% of respondents agree "It does" or "Very much" with the Power Domination Method as an effective method for overcoming conflict, while 38% of them think it has "A Little" or "Not at all" effect. With "The Ignore Method" 51% of respondents agree "A Little" or "Not at all", 18% of them think "Somewhat", while 31% agree "It does" or "Very much" with this method. "Majorization Method" is considered as "A Little" or "Not at all" effective by 51% of respondents, up to 20% of them agree "Very much" with this method. The respondents are much more skeptical about the "Railway Method". 66% of them agree "A little" or "Not at all" with this method, 14% consider it "Somewhat" and only 13% agree "It does" with the effects of the "Railway Method".

Win-Loss methods for overcoming conflict

Figure 2: Win – Loss Methods for overcoming conflict





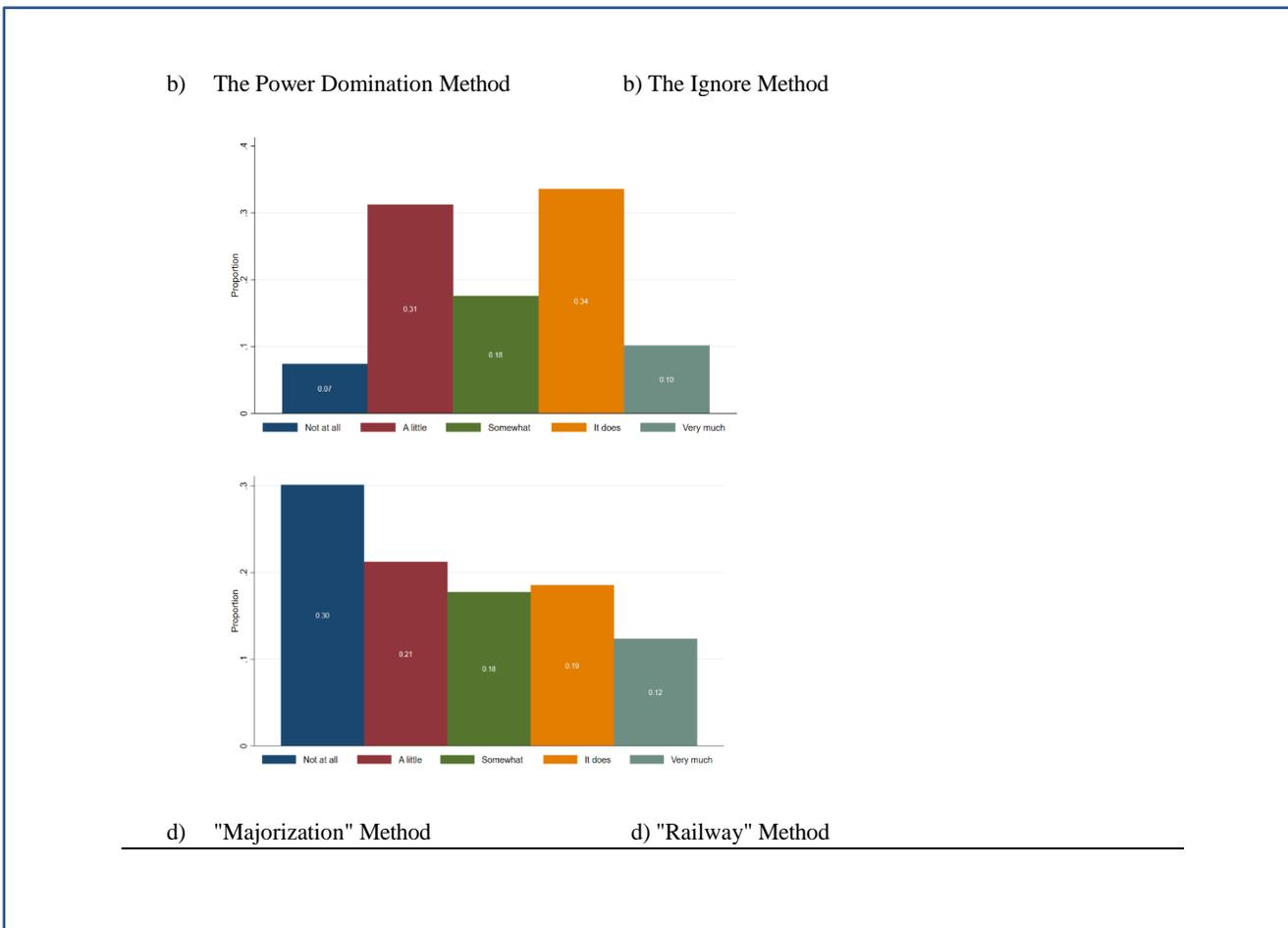
Source: Survey conducted by the author

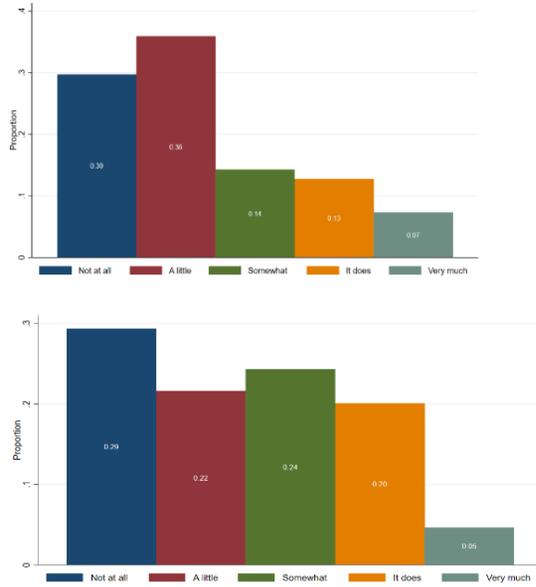
3.2. Empirical findings

The method with win-lose for overcoming conflicts

The method with win-lose results for overcoming conflicts is currently the most used in organizations

Figure3: Win – Loss Methods for overcoming conflict – 4 Methods

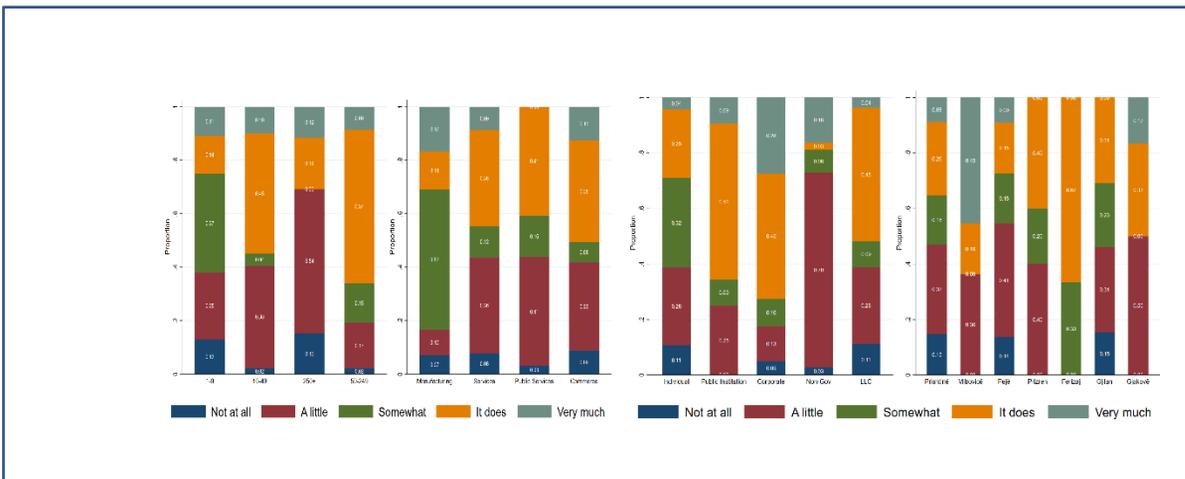




Source: Survey conducted by the author

The Power Domination Method

Figure 4: The results of the survey for the perception of the of applying the Power of Domination Method as a way to overcome the conflict

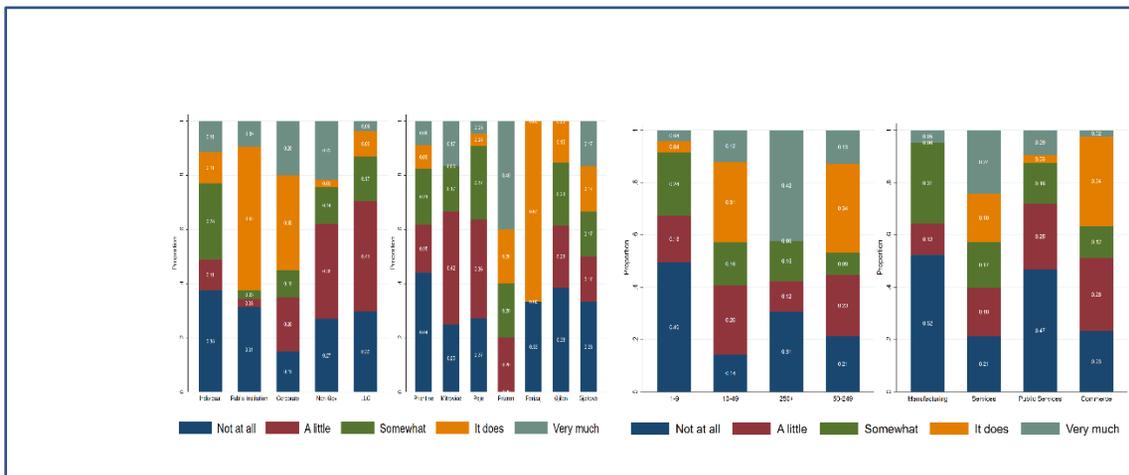


Source: Survey conducted by the author

As can be seen in Figures 3 and 4, all respondents have admitted that there is a perception that the Power Domination Method is a win-loss method that can bring results in overcoming the conflict. A large majority have declared it as a method that brings results. Public enterprises and those with the largest number of employees are those organizations that favor this method and consider it as an applicable method (see the results in figures 3 and 4).

The Method of Ignoring

Figure 5: The results of the survey for the perception of the of applying the Method of Ignoring as a way to overcome the conflict



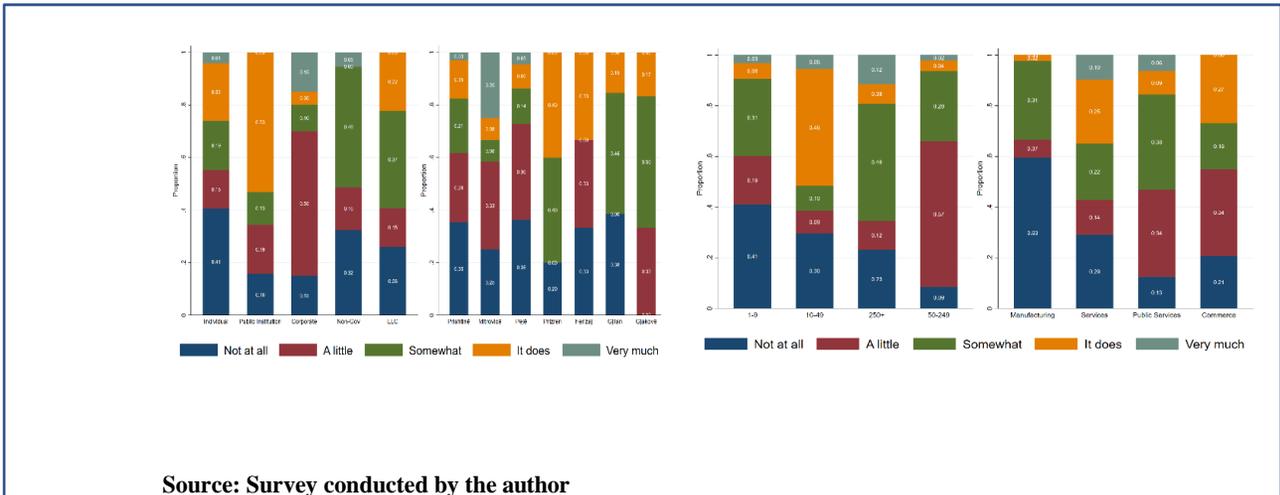
Source: Survey conducted by the author

From the results of the survey, it can be seen that the respondents do not consider the Method of Ignoring to be very effective as a method that can be applied in overcoming the conflict (figure 3). More than half of them consider it as "A little" or "Not at all" effective. This is what most NGOs and LLCs consider. Also, Public Services and Production consider it in the same way. As for supervisors of employees, those with a very small number under supervision and those with a very large number of workers under

supervision have less consideration for this method (figure 5).

Method of Majorization

Figure 6: The results of the survey for the perception of the of applying the Method of Majorization as a way to overcome the conflict

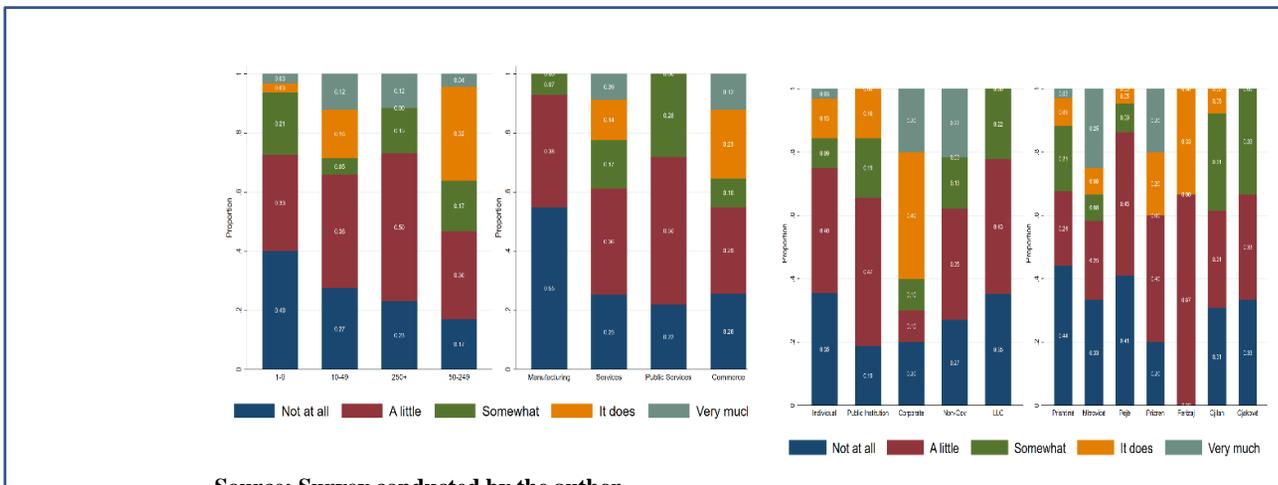


Source: Survey conducted by the author

Figures 3 and 6 clearly show the responses of the respondents and their perception of Method of “Majorization as a Win-Loss method for overcoming the conflict. Most have the perception that it is a method that can be applied successfully. Services, Public Services and Commerce are the sectors that mostly agree with this method. Also, supervisors of employees in organizations with a large number of employees have given a similar assessment, while according to the legal status, it is the corporations and Public Institutions that consider that the Method of "Majorization" is a method that enables conflict in organizations to be overcome.

The “Railway” Method

Figure 7: The results of the survey for the perception of the of applying the “Railway” Method as a way to overcome the conflict



Source: Survey conducted by the author

In figure 3, it can be seen that even for the "Railway" Method, there is a perception that it is a method that enables conflict to be overcome. This perception can be seen from the results of the survey for this study and the direct questions that were asked about the possibility of applying this method as a strategy for overcoming the conflict. For this method, Individual Businesses and LLCs mostly agree (Figure 7). companies that have a large number of employees and in terms of the sector mostly agree with the method companies from the commerce sector.

4. Discussion

Results shows that the Win-Loss methods for overcoming conflict are methods that are accepted and applied by supervisors of employees in different organizations, regardless of differences in status, region, sector or in the number of employees. The results from the descriptive data show that a significant percentage of the respondents of this sample agree with the methods as a way to overcome the conflict and this confirms the hypothesis raised about the effect of Win-Loss methods for overcoming the conflict

and avoiding the effects of reducing performances.

The Win-Loss method for overcoming the conflict seems to be the method used the most by the leaders of the employees in Kosovo. Four types of this method were tested in this research and for all of them there was a statement that they were used by the respondents.

The Win-Loss method may not be effective for a long time. Leaders should be gradually oriented to resolve conflicts in the organization through the Win-Win method

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THE ROLE OF ORGANIZATIONAL CULTURE IN EMPLOYEE RETENTION IN KOSOVAR BUSINESSES

Mimoza Sylejmani and Maja Mesko

ABSTRACT. The primary aim of this research was to unravel how organizational culture influences employee retention, providing valuable insights to foster long-term employee engagement and satisfaction.

Methodology: To fulfill our research objective, we employed a meticulous mixed-methods approach. We established a robust theoretical foundation through an extensive literature review of organizational culture, employee retention, and their intricate interplay. Surveys were conducted among a representative sample of Kosovo employees from diverse sectors. The collected survey data underwent statistical analysis, including regression and correlation, to uncover the quantitative connections between elements of organizational culture and employee retention.

Results: The research findings strongly validate the significant influence of organizational culture on employee retention. Notably, the study establishes a positive correlation between an organizational culture that places importance on both employee well-being and career growth and increased levels of employee retention. These results emphasize that employees are more inclined to remain with organizations that cultivate an inclusive culture reflecting their values, embody supportive measures, and maintain transparency. Furthermore, cultures that promote continuous learning and development are associated with elevated job satisfaction and higher retention rates. Conversely, toxic cultures characterized by negativity are linked to escalated employee turnover.

Conclusions: The study emphasizes the vital role of organizational culture in shaping employee satisfaction, engagement, and retention. Organizational culture actively influences employees' decisions to stay or leave, with key factors including cultural fit, inclusivity, trust, continuous learning, adaptability, and the negative impact of toxic cultures on retention.

Recommendations: Based on these findings, Kosovar businesses should prioritize enhancing their organizational culture by fostering a positive and inclusive environment that values employee well-being and career growth. Investment in employee training and development is essential, and continuous evaluation and feedback are crucial to maintain a harmonious and productive workplace. This research emphasizes the pivotal role of organizational culture in achieving employee retention and offers practical recommendations to enhance employee satisfaction and long-term commitment, ultimately boosting an organization's competitiveness in a dynamic business landscape.

Keywords: Organizational culture, employee retention, business environment, strategy, Kosovar businesses

INTRODUCTION

In today's rapidly changing business landscape, organizations that want to not only survive but thrive in competitive markets must prioritize employee retention. The ability to attract and, more importantly, retain a talented and dedicated workforce is inextricably linked to a company's success. Among the numerous factors influencing employee retention, the role of organizational culture has risen to prominence. This introductory essay begins an investigation into the critical influence of organizational culture on employee retention in businesses, serving as a prelude to a research initiative that will delve deeper into this critical nexus (Allen, D. G, 2010). Organizational culture, defined as shared values, beliefs, and practices that govern an organization's mode of operation, has recently emerged as a critical determinant in the ongoing challenge of retaining skilled employees across diverse business types and sectors. Understanding the relationship between organizational culture and employee retention is more than just an academic curiosity; it has emerged as a strategic imperative for businesses seeking success in an environment where human capital is a critical competitive advantage (Holland, P, 2020).

One of the most fundamental ways in which organizational culture shapes employee retention is through its ability to shape the workplace environment. A positive and inclusive culture fosters a sense of belonging and engagement among employees. Employees are more likely to stay with a company if they perceive themselves to be a part of it and that it values their contributions and well-being. This sense of belonging is a powerful retention tool, frequently translating into increased job satisfaction and commitment (Guest, 2017).

A negative or toxic culture, on the other hand, can have a significant impact on employee retention. Workplace harassment, discrimination, or insufficient support from superiors or peers can lead to employees seeking new opportunities, even if other aspects of their job, such as compensation and benefits, are competitive. As a result, the role of organizational culture can have a significant impact on the decision to stay with a company or pursue alternatives.

Employee retention is influenced by organizational culture as well as the degree of alignment between employees and the culture. To thrive and feel fulfilled in their roles, an individual's values, beliefs, and work style must align with the culture of the organization. Employees who connect with the culture are more likely to stay, whereas those who are dissatisfied with the culture may look for opportunities elsewhere where they believe they will find a better cultural fit (Schein, E. H, 2010).

Furthermore, organizational culture influences people's perceptions of career advancement and development opportunities. A culture that encourages learning and professional advancement is more likely to retain employees who want to advance in their careers. Employees are more likely to stay and contribute to the organization's long-term success when they see the organization's commitment to their development and the provision of clear paths for advancement. To summarize, the impact of organizational culture on employee retention is complex and far-reaching. A positive and welcoming culture fosters a sense of belonging and engagement, which improves retention rates. A negative culture, on the other hand, can drive employees away. The alignment of an employee with the culture, as well as their perception of growth opportunities, all play a role in their decision to stay with the organization. Understanding, nurturing, and strategically shaping organizational culture thus emerges as a critical endeavor for businesses seeking to improve employee satisfaction and ensure long-term success in today's competitive business environment. Employee retention is critical to an organization's stability, productivity, and profitability. The financial costs of high turnover rates, which include recruitment, onboarding, and the loss of institutional knowledge, are significant and have the potential to disrupt a company's continuity and success (Holland et al., 2020).

Aside from the financial aspects, there is a human aspect to consider, as employee turnover can lead to lower morale and increased workloads for the remaining staff, which can have a negative impact on organizational culture.

Organizational culture, which is frequently defined as the amalgamation of shared values, beliefs, and practices that shape an organization's operation, is becoming increasingly recognized as a critical factor influencing employee retention. A positive and inclusive culture can increase employees' sense of belonging and engagement, making them more likely to stay with the company (Schein, 2010). A toxic or unsupportive culture, on the other hand, may compel employees to seek alternatives, even if other job aspects such as compensation and benefits are competitive (Cameron & Quinn, 2011). The primary goal of this study is to delve into the complex relationship between organizational culture and employee

retention in businesses.



LITERATURE REVIEW

Organizational culture is becoming more widely acknowledged as a critical factor influencing employee retention in businesses. The literature reveals the numerous ways in which organizational culture influences employee retention, with various aspects of culture influencing their decisions to stay or leave.

Cultural Fit and Employee Retention

Aligning individual values with those upheld by an organization is a critical aspect of organizational culture. Schneider (1987) research emphasizes the importance of this alignment, revealing that when employees perceive a strong congruence between their personal values and the culture of the organization, it tends to generate a profound sense of belonging and commitment. This alignment is inextricably linked to increased job satisfaction, which serves as a catalyst for increasing employee retention. The concept of cultural fit, exemplified by the alignment of an individual's values with those of the organization, has received considerable attention in the literature on employee retention. Employees who perceive a strong cultural fit within their organization are more likely to exhibit high levels of job satisfaction and commitment, according to research in this domain (Cable, D.M, 2018).

This increased commitment leads to an increase in employee retention rates. (Kristof-Brown, 2005)emphasizes the significance of this alignment, stating that workers who share values and beliefs that align with the organizational culture tend to cultivate a profound sense of belonging. This sense of belonging becomes the foundation for fostering organizational loyalty. Employees are more likely to invest in their careers and the company's long-term success when their personal values seamlessly align with the organizational culture. The intersection of individual and organizational values, as embodied in this alignment, emerges as a critical factor in reducing employee turnover.

Employees are less likely to seek alternative employment opportunities if they embrace a culture that closely mirrors their own beliefs. In essence, both the employee and the organization benefit from this mutually beneficial alignment. The literature unequivocally supports the claim that cultural fit is a critical component of employee retention, with implications for HR practices and organizational success(Chatman, J.A, 2018).

Supportive and Inclusive Cultures

The inclusiveness inherent in an organizational culture has a significant impact on employee retention. Cox and Blake (1991) discovered a direct link between diverse and inclusive cultures and higher levels of employee satisfaction and retention. Employees are more likely to stay with an organization if they believe they are valued and supported regardless of their background. The scope of organizational culture in terms of employee retention extends beyond the inherent inclusivity and supportiveness of the workplace environment. Numerous studies consistently highlight the profound impact of a culture that celebrates diversity and inclusivity on employee retention, as it fosters an environment in which employees are more likely to stay in organizations that value and support them without regard for their background.

Cox and Blake (1991) emphasize the importance of effectively managing cultural diversity in order to boost organizational competitiveness. They argue that organizations that champion inclusive cultures, characterized by an embrace of diversity, create a pervasive sense of value and appreciation among employees, regardless of their diverse backgrounds. This type of environment fosters a deep sense of belonging, in which employees perceive themselves as having an equal chance of success, leading to increased job satisfaction and, as a result, an increase in employee retention.

Inclusive cultures, distinguished by their supportive ethos, are distinguished by a steadfast commitment to fairness, respect, and providing opportunities to all employees, regardless of race, gender, age, or other distinguishing characteristics. According to Cox and Blake (1991), such cultures not only boost employee morale but also act as catalysts for innovation, productivity, and increased employee engagement. Employees who believe they are supported and included are more likely to pledge their loyalty to the organization.

Furthermore, Dirks and Ferrin's (2002) research emphasizes the critical importance of trust and transparency within the organizational framework. Supportive cultures inherently foster trust among employees, creating an environment in which they are optimistic about their prospects within the company. Transparency in decision-making processes and the establishment of open communication channels help to increase employee commitment and, as a result, long-term retention. In essence, the inclusiveness of an organizational culture has a significant impact on employee retention(Cable, D.M,

2018). According to research findings, embracing diversity and inclusivity is beneficial to employee satisfaction and retention. This paradigm emphasizes not only the critical role of organizational culture, but also the importance of HR practices and policies in creating an environment that values and supports all employees, regardless of their background, thereby propelling organizational success(Nishii, L.H, 200).

Organizational Trust and Transparency

Another important factor in determining employee retention is the level of trust and transparency embedded in an organization's culture. Dirks and Ferrin (2002) found that when employees trust their organization and perceive a high level of transparency in decision-making processes, they are more likely to be confident in their long-term prospects within the company. This trust, along with the perception of transparency, fosters employee loyalty and acts as a deterrent to turnover. Trust and transparency are essential components of a healthy organizational culture.

The purpose of this literature review is to delve into the critical role that organizational trust and transparency play in employee retention, emphasizing their influence over job satisfaction, commitment, and long-term retention.

The foundation of a growing work environment is trust within an organization. According to Dirks and Ferrin (2002) research, when employees place their trust in their leaders and colleagues, they are more likely to feel secure and committed to the organization. This trust includes the conviction that the organization genuinely appreciates their contributions and well-being. As a result, employees are less likely to actively seek alternative job opportunities, ushering in an era of increased employee retention. On a similar note, transparency in organizational decision-making processes is equally important when it comes to retaining employees. Empirical studies have revealed that when employees perceive a high degree of transparency in how decisions are made, their confidence in the organization's fairness and openness is significantly increased (Dirks & Ferrin, 2002). This transparency fosters an environment of employee loyalty while also lowering the likelihood of turnover.

A key point is the intricate interplay between trust and transparency. According to the findings, trust and transparency are mutually reinforcing. As leaders and employees become more willing to communicate openly, the cultivation of trust within an organization frequently paves the way for greater transparency (Dirks & Ferrin, 2002). Transparency, on the other hand, can strengthen trust by demonstrating to employees that their organization is forthright and sincerely concerned about their best interests.

Employee job satisfaction is significantly influenced by high levels of trust and transparency. According to research, satisfied employees are significantly more likely to stay with their current employers (Dirks & Ferrin, 2002). Employees' trust and confidence in the organization's decision-making processes and leadership have a direct impact on their job satisfaction, which fosters commitment and retention.

By every metric, trust and transparency are critical tools for reducing employee turnover. High turnover has a high cost, including recruitment costs, onboarding efforts, and the loss of institutional knowledge. Organizations can effectively reduce the likelihood of employees embarking on job searches in search of alternatives by actively cultivating trust and transparency. This, in turn, leads to a more stable and loyal workforce, as evidenced by Dirks and Ferrin's (2002) research.

Employee retention is heavily influenced by organizational trust and transparency. Empirical research confirms their profound impact on job satisfaction, commitment, and long-term retention. Trust is the foundation of a healthy work environment, and transparency in decision-making processes boosts employee confidence and loyalty. Organizations that prioritize the development and nurturing of trust and transparency are unquestionably better positioned to retain valuable employees, reduce turnover costs, and ensure long-term prosperity.

Learning and Development-Oriented Cultures

Organizations that prioritize cultivating cultures that promote continuous learning and development have a better track record of employee retention. Saks (1995) found that a culture that not only encourages ongoing learning but also provides opportunities for skill enhancement and career advancement is inextricably linked to higher employee retention rates. Employees are more likely to stay with an organization when they see a clear path for advancement and development. Actively promoting learning and development within an organizational culture has been identified unequivocally as a powerful catalyst in driving employee retention. This review of the literature begins an investigation into the critical role that cultures oriented toward learning and development play in increasing job satisfaction, fostering

unwavering commitment, and ensuring long-term retention. Organizations that prioritize and provide consistent support for their employees' ongoing skill development and career advancement effectively create a culture that serves as a nurturing ground for personal fulfillment and professional growth. This culture has a significant impact on job satisfaction, making employees more likely to stay loyal to the organization (Tannenbaum, S. I, 2013).

Employees can strengthen their competencies and advance their careers in cultures that prioritize learning and development. Employees who recognize that their organization is committed to their development and provides clear paths for career advancement are significantly more committed to the organization (Porath, C. L., & Pearson, C. M. , 2013). The prospect of learning new skills and advancing in one's career emerge as formidable incentives for retaining talent within an organization. Organizational cultures that value learning and development have been found to have higher levels of employee engagement. Employees who are engaged are those who are deeply immersed in their work and have a strong commitment to their organization (Porath, C. L., & Pearson, C. M. , 2013). There is a strong link between engagement, commitment, and long-term retention. Employees who are actively engaged in their roles and see opportunities for personal and professional development are far less likely to look for alternative employment opportunities.

Employee turnover can be reduced significantly by fostering learning and development cultures. High turnover frequently results in significant recruitment and onboarding costs. According to research findings, organizations that foster a culture of continuous learning and provide opportunities for skill enhancement and career advancement are indisputable better equipped to retain their workforce. Organizations that cultivate such a culture are well-positioned to secure a more stable and loyal workforce, effectively reducing the financial toll exacted by employee turnover (11. Salas, E., Tannenbaum, 2012).

These types of environments have the potential to increase job satisfaction, motivate employees by promoting skill enhancement and career growth, foster employee engagement and organizational allegiance, and effectively reduce the threat of high turnover. Organizations that fervently prioritize and sustain learning and development opportunities are invariably better positioned to retain their invaluable workforce, effectively mitigate the financial drain caused by turnover, and carve a path to long-term success in the fiercely competitive business environment.

Cultural Change and Adaptation

Organizational culture is a living entity, and companies that embrace cultural adaptation to meet changing employee needs are better positioned to retain their workforce. O'Reilly and Chatman (1996) conducted research that emphasizes the importance of cultural adaptability as a means of increasing employee retention. Organizations that foster a culture of continuous improvement and flexibility are more likely to retain employees, especially when cultural changes align with the workforce's shifting values and expectations. Organizational culture is not a static entity; it is a living, evolving entity that responds to internal and external forces over time. This extensive literature review investigates the critical role that cultural transformation and adaptability play in employee retention. It emphasizes the critical importance of cultivating cultures that are constantly evolving to meet the workforce's ever-changing demands (Schein, E. H., 2010).

Employee retention relies heavily on engagement. According to the research, a culture of continuous growth and adaptability improves employee engagement (Guest, D. E., 2017).When employees see that their organization is actively working to improve its cultural fabric and practices, they are more likely to become actively engaged in their work and steadfastly committed to the organization, allowing retention rates to improve. It is critical to emphasize that cultural adaptation does not imply the complete abandonment of pre-existing cultural aspects. According to O'Reilly and Chatman (1996), organizations must effectively balance tradition and evolution. Traditional cultural elements can provide stability and foster a sense of identity, while adaptation ensures that the culture remains relevant and appealing to today's workforce.

Organizations can use strategies such as continuous feedback mechanisms, involving employees in culture development, and providing transparent communication about cultural adjustments to execute cultural adaptation with precision (Guest, D. E., 2017). These strategies enable organizations to strike a balance between tradition and evolution, allowing them to sustain a culture that aligns with their employees' aspirations. Cultural transformation and adaptability, when executed adroitly, invigorate engagement, address the imperatives of diversity, and create environments conducive to enduring employee retention. In summation, these endeavors pave the way for organizational triumph(Guest, D. E., 2017)..

METHODOLOGY

The methodology employed in this research study follows a structured approach to examine the relationship between organizational culture and employee retention in Kosovar businesses. To achieve the primary aim of this research, we utilized a mixed-methods approach that incorporates both quantitative and qualitative data collection and analysis techniques. We conducted an extensive literature review to gather insights and knowledge about the existing research on organizational culture and employee retention. This step provided us with a solid theoretical foundation and helped us formulate our research questions and hypotheses. The survey data collection process allowed us to capture the perspectives and experiences of employees from different sectors and backgrounds. Surveys are a valuable tool for collecting quantitative data as they provide a standardized way to gather information from a diverse group of respondents.

A comprehensive review of existing literature on organizational culture, employee retention, and their interrelation.

Surveys were distributed to a representative sample of employees across different organizations in Kosovo.

Collected survey data was processed to identify key trends, patterns, and relationships between variables related to organizational culture and employee retention.

Statistical analysis was conducted using regression and correlation analysis methods to understand the quantitative relationship between elements of organizational culture and the level of employee retention.

Research Questions:

1. How does organizational culture impact employee retention in Kosovar businesses?
2. What are the key elements or dimensions of organizational culture that have the most significant influence on employee retention in these organizations?

Hypotheses:

H1: There is a positive correlation between a strong emphasis on employee well-being within the organizational culture and higher levels of employee retention in Kosovar businesses.

H2: A culture that promotes career growth and development within the organization leads to improved employee retention.

strong emphasis on employee well-being , organizational culture , employee retention , open communication , decision-making , career growth , development

RESULTS

In the research, a total of 50 respondents participated, among them 16 were female, and 34 were male, while their marital status was 7 unmarried and 43 married. There were 24 participants with a bachelor's degree, 12 with a master's degree, 2 with a PhD, and 12 with other qualifications. The average age of the participants was 36 years, with a standard deviation of 10 years. The average tenure in current positions was 6.32 years, with a deviation of 3.96 years.

Gender	N	%
Female	16	32.0
Male	34	68.0
Marital status	N	%
Single	7	14.0
Married	43	86.0
Education level	N	%
Bachelor	24	48.0
Master	12	24.0
PhD	2	4.0
Other	12	24.0
Age	Mean	Std.
	36.02	10.03
Current position within the organization.	Mean	Std.
	6.32	3.96

In general, the assessment of statements reflects a distribution of your behaviors and attitudes in a workplace context. Positive statements highlight your commitment, cooperation, and respect towards colleagues and the organization, while the negative ones indicate challenges in dealing with certain issues and maintaining a positive outlook in some instances. Your work experience varies, but through the assessment, you can identify areas for improvement and focus on developing your skills and behavior at work to have a positive impact on the work environment and relationships with colleagues. Evaluating your self-perceived statements offers valuable insights into your professional conduct and areas where you can enhance your performance and engagement in the workplace, ultimately contributing to a more harmonious and productive work environment.

	Aspak pajothem		Nuk pajothem		Neutral		Pajothem		Plotesisht pajothem	
	N	%	N	%	N	%	N	%	N	%
I help my colleagues with heavy workloads.	0	0.0%	0	0.0%	16	32.0%	16	32.0%	18	36.0%
I assist my absent colleagues.	0	0.0%	0	0.0%	0	0.0%	34	68.0%	16	32.0%
I willingly give my time to help my colleagues with work problems.	0	0.0%	0	0.0%	0	0.0%	32	64.0%	18	36.0%
I assist in orienting my younger colleagues, even when not required.	0	0.0%	16	32.0%	0	0.0%	18	36.0%	16	32.0%
I consult with my colleagues who may be affected by my actions or decisions.	0	0.0%	0	0.0%	16	32.0%	16	32.0%	18	36.0%
I do not abuse the rights of my colleagues.	0	0.0%	0	0.0%	16	32.0%	34	68.0%	0	0.0%
I take steps to prevent issues with my colleagues.	0	0.0%	0	0.0%	0	0.0%	16	32.0%	34	68.0%
I inform my colleagues before taking any significant actions.	0	0.0%	0	0.0%	0	0.0%	34	68.0%	16	32.0%
I spend too much time complaining about unimportant matters.	18	36.0%	16	32.0%	16	32.0%	0	0.0%	0	0.0%
I make issues bigger than they are.	18	36.0%	0	0.0%	16	32.0%	16	32.0%	0	0.0%
I constantly talk about wanting to quit my job.	0	0.0%	50	100.0%	0	0.0%	0	0.0%	0	0.0%
I always focus on what's wrong with my situation rather than the positive aspects.	34	68.0%	0	0.0%	16	32.0%	0	0.0%	0	0.0%
I am always punctual.	18	36.0%	32	64.0%	0	0.0%	0	0.0%	0	0.0%
I never take long lunches or extended breaks.	0	0.0%	34	68.0%	16	32.0%	0	0.0%	0	0.0%
I do not take extra breaks.	18	36.0%	16	32.0%	16	32.0%	0	0.0%	0	0.0%

I adhere to the organization's rules, regulations, and procedures even when no one is watching.	34	68.0%	16	32.0%	0	0.0%	0	0.0%	0	0.0%
I am informed about changes within the organization.	16	32.0%	34	68.0%	0	0.0%	0	0.0%	0	0.0%
I participate in functions that are not required but help the organization's image.	0	0.0%	50	100.0%	0	0.0%	0	0.0%	0	0.0%
I participate in and attend meetings related to the organization.	16	32.0%	34	68.0%	0	0.0%	0	0.0%	0	0.0%
I continue with the developments in the organization.	16	32.0%	34	68.0%	0	0.0%	0	0.0%	0	0.0%

H1: There is a positive correlation between a strong emphasis on employee well-being within the organizational culture and higher levels of employee retention in Kosovar businesses.

To test the hypothesis, I applied the linear regression test, with the dependent variable being "employee retention" and the independent variable being "organizational culture." As can be observed below, we have a correlation of $R = 0.411$, with a regression R-squared value of 0.169 and a p-value of 0.003.

Model Summary

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Change Statistics				
					R Change	F Change	df1	df2	Sig. F Change
1	.411a	.169	.151	.48400	.169	9.734	1	48	.003

a. Predictors: (Constant), Organizational Culture

Furthermore, in the ANOVA table, we also observe a high F-coefficient of 9.734 and a p-value of 0.003.

ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.280	1	2.280	9.734	.003b
	Residual	11.244	48	.234		
	Total	13.524	49			

a. Dependent Variable: Employee Retention

b. Predictors: (Constant), Organizational Culture

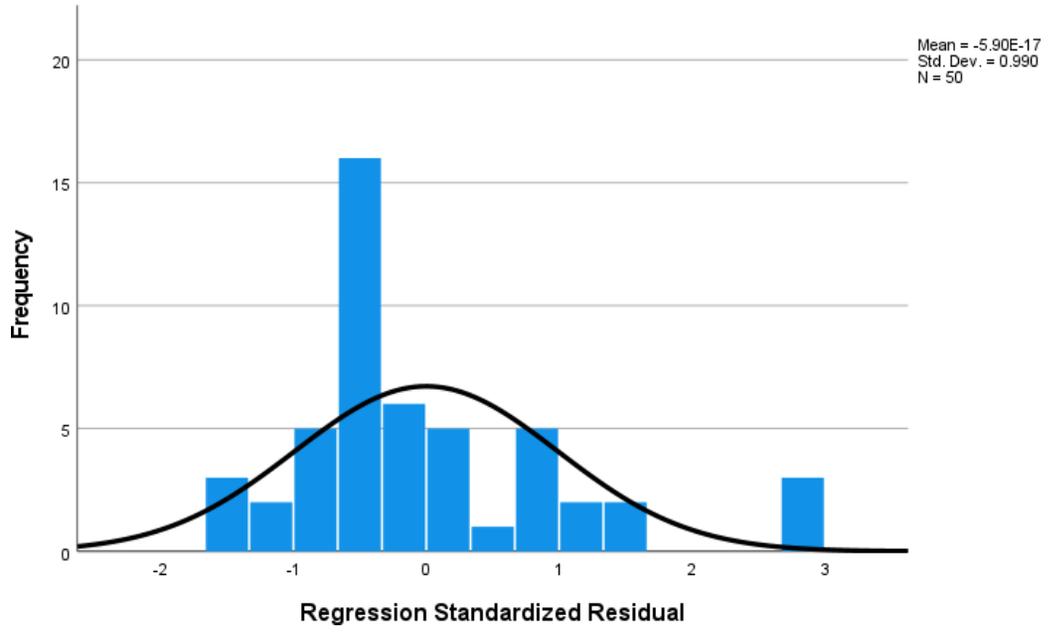
Within the framework of coefficient analysis, we can clearly observe the influence of organizational culture with a positive coefficient ($B = 0.569$), a t-value of 3.120, and a significant p-value of 0.003. This supports the hypothesis that there is a positive correlation between a strong emphasis on employee well-being within the organizational culture and higher levels of employee retention in Kosovar businesses.

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.537	.405		3.799	.000
	Organizational Culture	.569	.182	.411	3.120	.003

a. Dependent Variable: Employee Retention

Histogram
Dependent Variable: Employee Retention



H2: A culture that promotes career growth and development within the organization leads to improved employee retention.

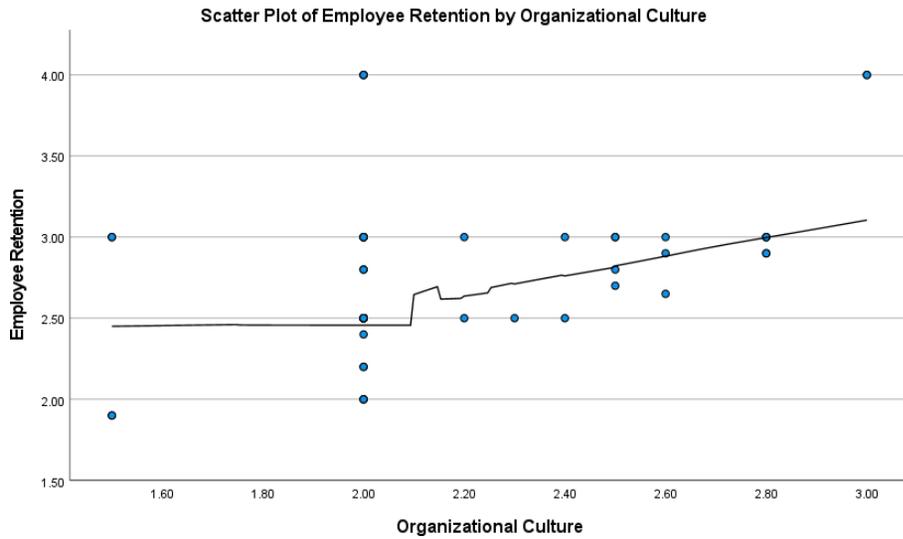
To confirm the above hypothesis, a Pearson correlation test was applied between the two variables, organizational culture and employee retention. Here, we examine the relationship between the two variables.

Correlations

		Organizational Culture	Employee Retention
Organizational Culture	Pearson Correlation	1	.411**
	Sig. (2-tailed)		.003
	N	50	50
Employee Retention	Pearson Correlation	.411**	1
	Sig. (2-tailed)	.003	
	N	50	50

** . Correlation is significant at the 0.01 level (2-tailed).

According to the results, we observe a strong positive correlation ($r = 0.411^{**}$, $p\text{-value} = 0.003$) between organizational culture and employee retention. In this case, we accept the hypothesis and conclude that a culture that promotes career growth and development within the organization leads to improved employee retention. In practical terms, this means that businesses in Kosovo that focus on creating a nurturing and growth-oriented organizational culture are more likely to retain their employees, leading to benefits such as increased productivity, knowledge retention, and a positive reputation in the job market. This finding is crucial for companies seeking to improve their employee retention strategies and overall organizational success.



DISCUSSIONS

In today's rapidly evolving business landscape, the need to retain employees has become a top priority for organizations seeking to not only survive but also thrive in competitive markets. The ability to attract and, more importantly, retain a talented and dedicated workforce is critical for a company's success. Among the various factors that influence employee retention, organizational culture has risen to a prominent position. This preliminary essay begins an investigation into the critical impact of organizational culture on employee retention in businesses, serving as an introduction to a research initiative ready to delve deeper into this critical network.

Organizational culture, defined as shared values, beliefs, and practices that govern how an organization operates, has grown in importance as a key factor in the ongoing challenge of retaining qualified employees across various types of businesses and industries. Understanding the relationship between organizational culture and employee retention is more than just an academic curiosity; it has emerged as a strategic imperative for businesses seeking to succeed in an environment where human capital is a critical competitive advantage. One of the most fundamental ways that organizational culture influences employee retention is through its ability to shape the work environment. A positive and inclusive culture fosters a sense of belonging and involvement among employees. Employees who perceive themselves as valuable to an organization that values their contributions and well-being are more likely to stay with the company in the long run. This sense of belonging is a powerful retention tool, frequently resulting in increased job satisfaction and commitment.

A negative or harmful culture, on the other hand, can have a significant impact on employee retention. Workplace conflicts, discrimination, or a lack of support from supervisors or colleagues can lead to employees seeking new opportunities, even if other aspects of their job, such as pay and benefits, are competitive. As a result, the role of organizational culture can have a significant impact on the decision to stay with a company or seek alternatives. Employee retention is influenced by organizational culture as well as the degree of alignment between employees and the culture. An individual's values, beliefs, and work style must align with the culture of the organization in order for them to be nurtured and satisfied in their roles. Employees who connect with the culture are more likely to stay, whereas those who perceive a cultural mismatch may look for opportunities elsewhere where they believe they will find a better cultural fit.

Furthermore, organizational culture influences employees' perceptions of opportunities for career advancement and development. A culture that encourages learning and professional development is more likely to keep employees who want to advance in their careers. Employees are more likely to stay and contribute to the organization's long-term success when they see the organization's commitment to their development and the provision of clear paths for advancement. Furthermore, the influence of organizational culture on employee retention is complex and broad. A positive and inclusive culture fosters a sense of belonging and inclusion, which influences retention norms positively. A negative culture, on the other hand, can drive employees away. The alignment of an employee with the culture, as well as their perception of opportunities, are also important factors in their decision to stay with the organization. Understanding, nurturing, and strategically shaping organizational culture has thus emerged as a critical commitment for businesses seeking to improve employee satisfaction and secure long-term success in today's competitive business environment. Employee retention is critical to an organization's stability, productivity, and profitability. High turnover rates have significant financial costs, including recruitment, orientation, and the loss of institutional knowledge, and have the potential to disrupt continuity and organizational success (Holland et al., 2020). Beyond the financial dimensions, there is a human aspect to consider, as employee turnover can lead to decreased morale and increased workloads for the remaining staff, both of which can have a negative impact on organizational culture.

Organizational culture is increasingly recognized as a key factor influencing employee retention. It is often defined as the combination of shared values, beliefs, and practices that shape an organization's operation. A positive and inclusive culture can increase employees' sense of belonging and inclusion, making them more likely to stay with the company (Schein, 2010). A unfavorable or unsuitable culture, on the other hand, may compel employees to seek alternatives, even if other aspects of their job, such as compensation and benefits, are competitive (Cameron & Quinn, 2011). The primary goal of this study is to investigate the complex relationship between organizational culture and employee retention in businesses.

According to the findings, organizational culture has a significant impact on employee retention. A culture that prioritizes both employee well-being and career advancement is associated with higher retention rates. This suggests that by focusing on these aspects of their culture, companies in Kosovo can improve their employee retention strategies.

The positive relationship between organizational culture and employee retention emphasizes the significance of creating a work environment that values and supports its employees' professional and personal development. These findings have significant implications for Kosovo businesses, emphasizing the importance of investing in cultivating a positive and growth-oriented organizational culture.

CONCLUSIONS

The extensive literature review on the role of organizational culture in employee retention provides a nuanced understanding of how culture influences job satisfaction, commitment, and long-term retention. These findings inform and enrich the research goal, which is to investigate the complex relationship between organizational culture and employee retention. According to the literature review, organizational culture is far from a passive backdrop in the employee retention landscape. Instead, it is a dynamic force that shapes the employee experience and influences their decision to stay or leave a company. The review revealed several critical themes, each of which shed light on the importance of organizational culture in employee retention.

Cultural Fit and Employee Retention: Research has shown that cultural fit plays a significant role in employee retention. The alignment of an individual's values and the culture of the organization fosters a sense of belonging and engagement, which leads to increased job satisfaction and retention (Schneider, 1987).

Inclusive and supportive cultures: Inclusive cultures have been linked to higher job satisfaction and retention (Cox & Blake, 1991). Employees who feel valued and supported, according to the research, are more likely to stay with the organization.

Organizational Trust and Transparency: Employee commitment and retention are significantly influenced by the presence of trust and transparency in decision-making processes (Dirks & Ferrin, 2002). A trusting culture reduces the likelihood of employees seeking alternative opportunities, resulting in higher retention rates.

Learning and Development-Oriented Cultures: Learning and development-oriented cultures have a direct impact on job satisfaction and engagement. Employee commitment and retention are higher in such cultures (Saks, 1995).

The Effect of Toxic Cultures on Employee Turnover: Toxic cultures characterized by incivility and negativity result in higher turnover rates (Porath & Pearson, 2013). These cultures breed discontent, disengagement, and a desire to seek alternative employment opportunities.

Cultural Change and Adaptation: Cultural adaptability to changing workforce demographics and evolving values is critical for employee retention (O'Reilly & Chatman, 1996). A culture that embraces change and evolution promotes engagement and diversity, resulting in higher retention rates.

The review of literature emphasizes the critical importance of a positive organizational culture in employee retention. It emphasizes that the research's goal, to investigate the complex relationship between culture and retention, is both timely and relevant. The research can contribute to the development of strategies that enable organizations to foster cultures conducive to employee satisfaction and long-term retention, ultimately securing their competitive position and success in today's dynamic business environment by applying the insights from the literature review. The evaluation of the provided statements reveals a wide range of workplace behaviors and attitudes. Positive statements demonstrate a willingness to cooperate, respect, and collaborate with coworkers and the organization. However, there are some negative statements that indicate difficulties in maintaining a positive attitude and dealing with certain issues. This self-evaluation provides useful insights for personal and professional development.

The analysis revealed significant findings in terms of the hypotheses. Hypothesis H1 was supported, which proposed a positive relationship between organizational culture emphasizing employee well-being and higher employee retention. With a correlation coefficient of $R = 0.411$ and a p-value of 0.003, the linear regression analysis confirmed this positive relationship. The ANOVA test confirmed this by revealing a high F-coefficient of 9.734. The Pearson correlation test also confirmed Hypothesis H2, which states that a culture that encourages career growth and development leads to increased employee retention. The positive correlation ($r = 0.411$) with a low p-value of 0.003 suggests that companies that prioritize career development are more likely to retain employees.

In order to summarize the findings and recommendations:

1. **Prioritize Organizational Culture:** Put a strong emphasis on creating a positive and inclusive organizational culture that values employee well-being and promotes career advancement. To improve the

work environment, develop policies and practices that reflect these values.

2. Invest in Training and Development: Allocate resources to employee training and development programs. To motivate and retain employees, provide opportunities for skill development and career advancement.

3. Continuous Evaluation and Employee Feedback: Evaluate the alignment of organizational culture with employee needs and expectations on a regular basis. To fine-tune initiatives and ensure a harmonious and productive workplace, encourage open communication, transparency, and regular employee feedback.

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EXAMINING THE RELATIONSHIP BETWEEN EXCHANGE RATE AND HOUSING SALES TO FOREIGNERS IN TURKIYE

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Abstract. Exchange rate is important for national economies. The exchange rate also affects the foreign investors' decision to invest in the country. A high exchange rate will increase the purchasing power of foreigners, while a low exchange rate will reduce the purchasing power of foreigners. The exchange rate is also effective in the purchase of housing by foreign investors in the country. The increase in the exchange rate (the depreciation of the national currency) increases the purchasing power of foreign investors and enables them to buy more goods and services. In the study, the effect of exchange rate on foreigners' housing purchases is examined. The variables of exchange rate (ER) and the amount of housing purchased by foreigners (HS) for the period of 2013 January-2023 May in Turkiye were analyzed with the help of VAR model and Granger causality tests. Result of the analysis, the cointegration between the variables and the causality from the exchange rate variable to the variable of the amount of housing purchased by foreigners were determined.

Keywords: Exchange Rate, Housing Sales, VAR Model.

1 Introduction

The exchange rate expresses the value of the national currency against foreign currencies. The exchange rate variable is published in Turkiye by The Central Banks of the Republic of Turkiye (CBRT). When the exchange rate decreases (the national currency gains value), exports will decrease and the amount paid to imports will decrease as a result of the appreciation of the national currency in foreign trade levels in the country's economies. From this point of view, the effect of the exchange rate on foreign trade varies according to the foreign dependency levels of the countries. The exchange rate also has significant effects on foreign investors' investments in the country. Foreign investors can invest in different areas in the country. An example of these investments is the purchase of housing. An increase in the exchange rate (the depreciation of the national currency) may cause investors to demand more housing. As a result, an increase in the exchange rate may increase the housing demand of foreigners.

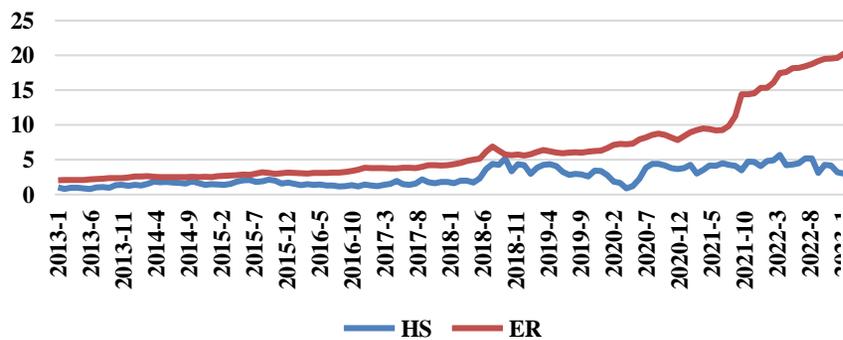


Fig.1. The Development of the ER Basket in Turkiye [Source: CBRT, TURKSTAT (2023)]

According to the figure above, ER is sharp increases occurred between July 2018 and October 2021. As

of October 2021, there was no decrease in the currency basket. The currency basket shows the highest value in May 2023 within the reference period. HS, especially as of February 2020 - June 2020, a sharp decrease is observed. The coronavirus epidemic can be shown as the reason for the sharp decline in this period. The rate reached its highest level in June 2022.

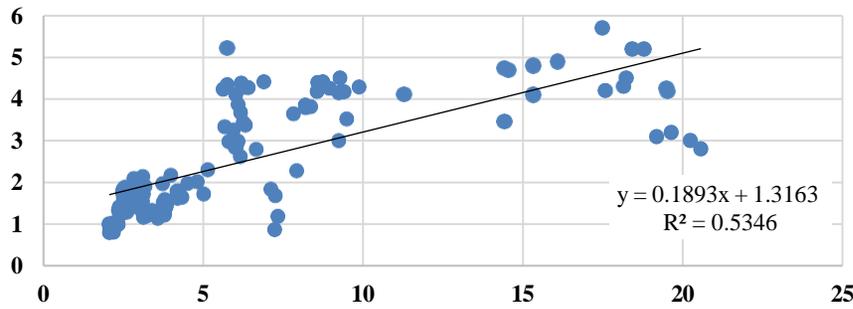


Fig. 2. The relationship between the currency ER basket and the HS

According to the figure above, the ER variable is shown on the X axis, and the HS is shown on the Y axis. In the figure, the ER basket was chosen as the independent variable and the HS as the dependent variable. It is seen that there is a positive relationship between the variables according to the figure equation and the trend line.

2 Literature Review

Employment, ER, inflation, interest rate (IR), industrial production (IP) and housing sales index (HSI) data in Türkiye for the period of 2013 January-2019 December were analyzed with Johansen cointegration and Granger causality tests. Result is a cointegration relationship between the exchange rate and house sales (Çolak, 2021). Real effective ER, house price index (HPI) and HS data for the monthly period of 2015-2021 in Türkiye were analyzed with the help of the Gregory-Hansen cointegration test. Result is the long-term relationship between the variables, the 1% decrease in the real effective exchange rate (depreciation of the national currency) increased the house sales by 3.43% (Yanar & Demir, 2022).

The housing loan IR, ER, producer price index, IP index and housing sales (HS) data in Türkiye for the period 103 January-2021 October were analyzed with the help of ARDL test. Result is a positive relationship between the exchange rate and house sales, and when the exchange rate increased by 10%, the house sales increased by 4% (Şanlı & Peker, 2023). 2013-2019 monthly period ER and HS data to foreigners in Türkiye were analyzed with the help of ARDL test. Result is a positive relationship between the variables (Süleymanlı, 2019). 2015 January-2020 December period IR, ER, HPI, confidence index, construction labor index, construction material index, HS amount data in Türkiye were analyzed with the help of ARDL test. Result is a long-term positive relationship between housing price, construction confidence index, exchange rate and housing demand (Bakırcı & Akgemci, 2022). 2008 Q2-2020 Q2 quarterly HS amount, IR and real effective ER data in Türkiye were analyzed with the help of ARDL test. Result is a negative relationship was found between the ER and HS (Aztimur & Dinçel, 2020). IR, inflation, ER and HPI data for the period of 2010 April-2021 January in Türkiye were analyzed with the help of ARDL test. Result is the ER variable has a positive effect on HP in the long run (Aydın, et al., 2021). IR, ER, credit, inflation and HPI data in Türkiye for the period of 2012 December-2018 July were analyzed with ARDL test half. Result is that IR, loan volume, ER and inflation have negative effects on HP (Karadaş & Salihoglu, 2020).

The stock, ER and house prices (HP) data for the period of 2013 March-2022 January in Türkiye were analyzed with the help of Granger causality test. Result is a bidirectional causality relationship was determined between the ER and HP (Yılmaz, 2022). 2008-2014 quarterly inflation, ER, IR and house prices data in Türkiye were analyzed by VAR model and Granger causality test. Result is a bidirectional causality relationship was determined between HP and ER (Dilber & Sertkaya, 2016). The data on gold ounce prices, Euro ER, dollar currency ER, mortgaged HS and total HS numbers in Türkiye for the 2013 January- 2019 November period were analyzed with the Granger causality test half. Result is the variables were not the cause of the total HS (Yılmaz, 2022).

Özaydın (2022), ER, housing loan IR, HPI and HS data for the period January 2015-2022 August in

Turkiye were analyzed with the help of quantile regression test. Result is a positive relationship between the housing demand of foreigners and the ER.

2013-2018 monthly period of HS to foreigners, number of tourists and ER data in Antalya province of Turkiye were analyzed with the help of Johansen cointegration and VECM test Result is an inverse relationship was determined between the ER variable and HS (Çiftçi & Arı, 2019). BIST 100 index, ER, gold reference price, de-posit IR and real HPI data for the period January 2000-July 2014 in Turkiye were analyzed with the help of Johansen and Maki cointegration test. Result is no long-term relationship between the variables (Coşkun & Ümit, 2016).

ER and HPI data for the period January 2010-July 2018 in Turkiye were analyzed with the help of DOLS, FMOLS and Canonical cointegration regression tests. Result is the increase in the ER affected the HPI positively (Özcan & Tormuş, 2018). Real effective ER and HS data of foreigners in Turkiye between January 2013 and October 2018 were analyzed with the help of Engle-Granger Cointegration, VECM and DOLS tests. Result is the increase in the ER has a positive effect on the HS of foreigners (Özaktas, 2019).

3 Data Set and Method

In the study, the ER basket was obtained from CBRT, and the variable of HS was obtained from TURKSTAT. A basket was created by taking the average of the ER variable, Euro and dollar rates, and included in the study. Variables cover the period of 2013 January-2023 May.

Table 1. ER and HS variable unit root test results at level and 1st different

	ER				HS			
	Level		1st		Level		1st	
	t	Prob.*	t	Prob.*	t	Prob.*	t	Prob.*
ADF	2.38	1.00	-7.50	0.00	-2.50	0.12	-12.54	0.00
1%	-3.48		-3.48		-3.48		-3.48	
5%	-2.89		-2.89		-2.88		-2.89	
10%	-2.58		-2.58		-2.58		-2.58	
PP	3.33	1.00	-7.46	0.00	-2.29	0.18	-13.45	0.00
1%	-3.48		-3.48		-3.48		-3.48	
5%	-2.88		-2.89		-2.88		-2.88	
10%	-2.58		-2.58		-2.58		-2.58	

The table above contains a variable level unit root according to the ADF and PP level unit root results of the ER and HS. Therefore, the difference of the variables will be taken. In the table above, when the first difference of the ER and HS are taken, seen that it does not contain ADF and PP unit root.

Table 2. VAR Lag Order Selection Criteria

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-160.4	NA	0.05	2.68	2.73	2.70
1	-149.10	22.06*	0.04*	2.56*	2.70*	2.62*
2	-147.56	2.95	0.04	2.60	2.83	2.69

According to the table above, the most appropriate lag length of the model was determined as one (1).

Table 3. Results of cointegration test

Unrestricted Cointegration Rank Test (Trace)				
Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.43	106.48	15.49	0.0001
At most 1 *	0.27	38.86	3.84	0.0000

According to the table above, it is seen that there is a cointegration relationship between the variables.

Table 4. Granger causality test

Dependent variable: D(HS)			
Excluded	Chi-sq	df	Prob.
DER	2.95	1	0.0862
All	2.95	1	0.0862
Dependent variable: D(ER)			
Excluded	Chi-sq	df	Prob.
DHS	0.094	1	0.7597
All	0.094	1	0.7597

According to the table, there is a causal relationship from the 10% significance level to the share of house sales to foreigners in the total house sales variable from the exchange rate variable, while there is no causal relationship from the share of house sales to foreigners in the total house sales to the exchange rate variable.

4 Conclusion

Foreign investors consider many variables when making investment decisions in the country. One of these variables is the exchange rate variable. Exchange rate can have an impact on the demand for goods and services by affecting the purchasing power of foreigners. One of the demands of foreigners for goods and services is housing. Foreign investors with increased purchasing power will demand more housing. There may be a positive relationship between the exchange rate level and the housing demand of foreigners. In the study, the variables of exchange rate and the share of houses sold to foreigners in the total housing for the period of 2013 January-2023 May in Türkiye were analyzed with the help of VAR model and Granger causality test. As a result of the analysis, a cointegration relationship between the variables and a one-way causality relationship from the exchange rate variable at the 10% significance level to the share of the houses sold to foreigners in the total sold houses were determined.

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THE RELATIONSHIP BETWEEN ECONOMIC FREEDOM AND ECONOMIC GROWTH IN TURKIYE

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Abstract. The economic freedoms (EF) and economic growth (EG) values of the countries are important for the country's economies. The economic freedom levels of the countries also have important effects on the investments to be made in the country. The economic freedom index consists of twelve sub-indices. The concept of economic growth, on the other hand, refers to the change in the country's production of goods and services and the income obtained from production compared to a period before. The economic freedom index is calculated annually, and the economic growth value is calculated annually or quarterly. In this study, it is aimed to investigate the relationship between economic freedom and economic growth variables in Turkiye for the period 1995-2022. The relationship between the variables was analyzed with the help of ARDL test. As a result of the analysis, it was determined that the coefficient value of the relationship between the variables is meaningless in the long run.

Keywords: Economic Freedom, Economic Growth, ARDL.

Introduction

The economic freedom index (EFI) has been calculated by the international organization together with 12 sub-indices since 1995. The EFI has been published annually by the Heritage Foundation since 1995. The index value takes values between zero and one hundred. An index value of zero indicates that there is no economic freedom in the country, while a value of 100 indicates that the country is completely economically free. The index value is calculated for 184 countries, and the countries are ranked according to their index values (Heritage Foundation, 2023). The term EG is generally defined as the increase in the monetary value of the goods and services produced compared to the previous year (Mucuk, 2015). Country economies calculate the changes in the country's economy by comparing them with the previous year. A positive growth value means that the country's economy has grown compared to the previous period, while a negative value means that the country's economy has shrunk compared to the previous period. EG is one of the main economic variables used to get information about the economic situation of the country. Growth is calculated in terms of gross domestic product (GDP) and there are different types. GDP; It is calculated in national currency, dollar and fixed dollar type.

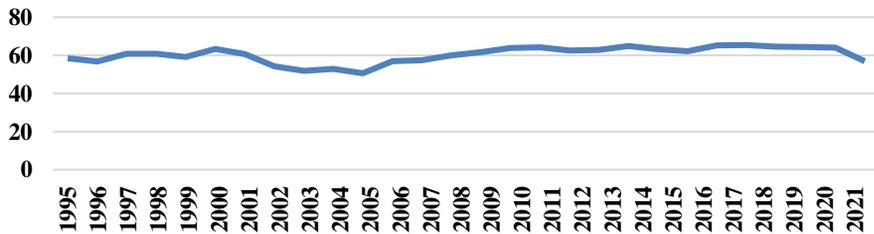


Fig.1. EFI Development in Turkiye [Source: Heritage Foundation, (2023)]

According to the figure, the lowest level of Turkiye's EFI value for the period 1995-2022 was 50.6 in 2005, and the highest index value was 65.4 in 2018. As of the period, it is seen that there was a sharp decrease between 2001 and 2003.

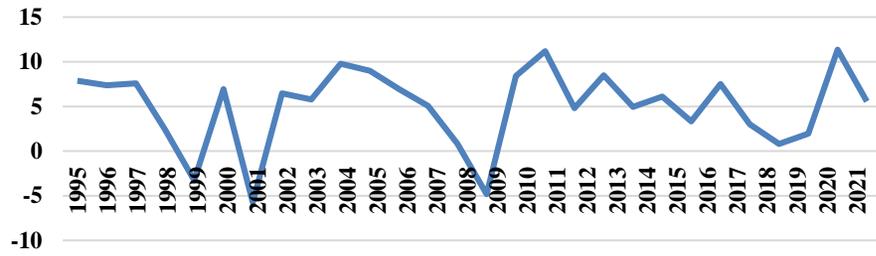


Fig.2. EG Rate Development in Türkiye [Source: WorldBank, (2023)]

According to the figure, Türkiye's EG data for the period 1995-2022 take negative values in 1999, 2001 and 2009. The highest growth value was realized in 2021 with 11.35, and the lowest value was in 2001 with a value of -5.75.

Literature Review

EG and economic freedom (EF) data for the period 1970-1999 in 82 countries were analyzed with the panel data (PD) method. As a result, it has been determined that EF has a positive effect on EG. (Doucouliagos & Ulubasoglu, 2006). BRIC-T countries' EG, private sector job freedom, monetary freedom, total investments, unemployment and EF data for the period 1995-2016 were analyzed by PD method. Result, that monetary freedoms have a positive effect on growth in the long run, while the effects of EF, investment and unemployment are negative (Dam & Şanlı, 2019). 24 developing Latin America and Caribbean countries globalization, EF and EG data for the period 1995-2015 were analyzed by PD method. Result, that EF has a negative effect on EG in the long run (Santiago, et al., 2020). EF and EG data of 49 countries for the period 1995-2004 were analyzed with the PD method. Result, that EF are negatively related to EG (Sanbaş, 2009). EG, EF, property rights, tax, public expenditures, business freedom, worker freedom, monetary freedom, commercial freedom, investment freedom, financial freedom, foreign investment, trade openness in 28 EU countries for the period 1995-2018 were analyzed by PD method. Result, that EF does not have a significant effect on EG (Brkic, 2020). EG, EFI public volume component, EF legal structure and property rights component, EFI strong monetary component, EFI international trade freedom component and EFI regulations component in 9 emerging market economies for the period of 2000-2013 were analyzed with PD method. Result, that reducing the public volume, strengthening the legal structure and property rights, and stable monetary policy have a positive effect on EG (Sucu, 2017). EG, EF, commercial freedom, financial freedom, public expenditures, corruption protection, monetary freedom, investment freedom, financial freedom, property rights and freedom of business in 144 countries for the period of 1995-2012 were analyzed by PD analysis method. Result, that EF accelerate EG in developed countries, while EF stimulate EG in developing countries (Akıncı, et al., 2013). (EF, foreign investment and EG data for the period 1970-1999 in 18 Latin American countries were analyzed by PD method. Result, that EF has a positive effect on foreign investments, while foreign investments have an effect on EG Bengoa & Sanchez-Robles, 2003). EF and EG data for the period 1981-2004 in the United States were analyzed using the least squares and system GMM PD method. Result, that there was a positive relationship between the variables (Compton, Giedeman, & Hoover, 2011). EG and EF data in 80 countries for the period 1975-1990 were analyzed by PD method. Result, that more EF promotes EG, but the level of EF is not related to growth (Haan & Sturn, 2000). EG, democracy and institutional quality (economic freedom) data in 38 countries were analyzed by PD method. Result, that a democracy that includes EF has a significant effect on EG (Koçak & Space, 2018). Türkiye and BRICS countries for the period 1990-2014 EG, EF, manufacturing industry production, savings, population and whether the countries are members of the OECD or not were analyzed by PD method. Result, that a positive relationship was found between EF and EG (Güney, 2017). EG and EF data for the period of 1995-2018 in BRICS countries were analyzed by PD method. Result, that the relationship between the variables was found to be positive in China, negative in India, and statistically insignificant in Russia and South Africa (Bırol & Demirgil, 2020). EG, EF and gross fixed capital formation data for the period of 2000-2020 in 10 newly industrialized countries were analyzed by PD method. Result, that EF increases EG (Bayar, 2023). E-7 countries EG, EF and manufacturing production data for the period 2004-2021 were analyzed by PD method. Result, that EG is not the cause of EF in any country, while EF is the cause of EG in Indonesia (Kını, Aydın, & Levent, 2023).

EF, tourism revenues and EG data in BRICST countries for the period 1995-2016 were analyzed with the

Konya bootstrap causality test. Ultimately, causality from EG to EF in India and today's African countries; A causal relationship has been determined between EF and EG in Russia (Gövdeli, 2018). EG and EF data for the period 1970-1999 in 77 countries were analyzed with the Panel Granger causality method. Ultimately, it has been found that some aspects of EF affect EG (Justesen, 2008). EF and EG data for the period of 1995-2021 in Türkiye were analyzed by ARDL method and Toda-Yamamoto causality test. Result, that a one-way causality relationship from EF to EG has been determined (Yay & Ezanoğlu, 2023). EG, political regime index, political rights index, EF data for the period 1990-2018 in 25 post-social countries were analyzed with the help of Granger causality test. Result, that EF has a positive effect on EG (Piatek, et al., 2013).

Foreign investment, EF and EG data for the period 1995-2018 in Türkiye were analyzed with the help of multiple structural break cointegration test. Result, that EF has an effect on EG and foreign investments in the long run (Kılıcı & Akıncı, 2020).

EF, foreign investment and EG data in 85 countries for the period 1976-2004 were analyzed using the generalized method-of-moments (GMMs). Result, that EF was found to be the driving force for long-term growth (Azman-Saini, Baharumshah, & Law, 2010). Ten components of EF and EG data of 32 countries for the period 1995-2014 were analyzed with the help of panel VAR test. Result, that all EF indices are effective on EG (Çetenak & Işık, 2016).

Data Set and Method

In the model, the variables of EF and EG for the period of 1995-2022 in Türkiye are analyzed by ARDL method. The EG variable was obtained from the World Bank, and the EF variable was obtained from the Heritage Foundation.

According to the ADF and PP tests of the EFI and EG variables, EFI has been determined that the variable is not stationary at the level. EG variable, it has been determined that the variable is stationary at the level.

Table 1. Bounds Test Result

Test statistic	Value	K
F-statistic	8.684575	1
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	4.04	4.78
5%	4.94	5.73
2.5%	5.77	6.68
1%	6.84	7.84

It is seen that the F-statistic value is above the critical values. Therefore, there is a cointegration relationship in the model.

Table 2. Long-Term Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GROWTH	3.346100	1.831320	1.827152	0.0891
C	43.665773	9.114836	4.790626	0.0003

The estimated long-term coefficients of the model are not statistically significant.

Table 3. Breusch-Godfrey Serial Correlation LM Test

F-statistic	0.763483	Prob. F(2,12)	0.4874
Obs*R-squared	2.709196	Prob. Chi-Square(2)	0.2581

It is seen that there is no autocorrelation relationship in the model.

Table 4. Heteroskedasticity Test: Breusch-Pagan-Godfrey Test

F-statistic	0.203148	Prob. F(9,14)	0.9894
Obs*R-squared	2.772246	Prob. Chi-Square(9)	0.9726
Scaled explained SS	0.750242	Prob. Chi-Square(9)	0.9998

There is no problem of varying variance in the model.

Conclusion

The relationship between EF and EG takes place in the literature. The EFI is an index consisting of twelve sub-components and has been calculated annually since 1995. EG, in its most general definition, refers to the monetary situation of the country's economy compared to the previous period. In the study, Turkey's EFI and EG data for the period of 1995-2022 were analyzed with the help of ARDL test. The EFI variable was obtained from the Heritage Foundation, and the EG variable was obtained from the World Bank. As a result, the fact that the variables were not stationary at the same level made it possible to analyze them with the ARDL test. It has been determined that there is a cointegration relationship in the model, there is no autocorrelation, there is no problem of varying variance, there is no structural break in the period, and the long-term coefficients are statistically insignificant.

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THE ROLE OF VOCATIONAL EDUCATION AND TRAINING IN BRIDGING THE SKILLS GAP IN THE LABOUR MARKET

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Abstract: Vocational Education and Training plays a vital role in nurturing human capital and addressing the skills gap. Kosovo faces a high youth unemployment rate and a shortage of skilled employees in firms, indicating an education-to-labor market mismatch. This research explores Vocational Education and Training schools' potential in facilitating youth transition to employment through qualitative interviews with school coordinators across Kosovo. Despite Vocational Education and Training schools having a great potential for bridging the skills gap, they face barriers such as curriculum-labor market misalignment, limited business cooperation affecting dual education, low student motivation, and limited public awareness about Vocational Education and Training's role in youth employability.

Key words: Vocational Education and Training, skills, youth, employment, labour market

1. Introduction

Vocational Education and Training (VET) schools are vital for closing the skills gap in the labour market. This gap occurs when job seekers lack the skills required by employers, causing unemployment and inequality. It hampers growth and quality in both private and public sectors, leading to a shortage of decent work, particularly in Kosovo's private sector.

Kosovo grapples with an unfavorable labour market marked by a significant youth unemployment rate, standing at a staggering 32.1% for those classified as "Not in Employment, Education, or Training" (NEET) in 2022, as reported by the Kosovo Agency of Statistics (KAS). In light of Kosovo's high unemployment and social fragility, outmigration continues (EBRD, 2022). On the other hand, businesses confront challenges associated with a dearth of labour shortage. The lack of alignment between education and labour market needs hinders youth position in labour market (Zylfijaj, 2023).

Kosovo's dynamic business environment underscores labour market challenges, primarily manifested in the skills deficit among job seekers, incongruent with labour market requirements. World Bank points out that skill constraints affect all firms, particularly dynamic and innovative ones. Depending on the specific position to fill, between 59 percent and 77 percent of hiring firms encountered problems because of applicants' lack of skills or experience (World Bank, 2020).

Nonetheless, the primary concerns revolve around the disparity between the education system and labour market demands, with a weak connection between the VET system and the industry posing a challenge in addressing this gap. To bridge the skills' gap between education and labour market requirements in Kosovo, AVATAE has implemented dual education. In school year 2022/2023, they initiated four profiles, and for the school year 2023/2024 eight additional profiles have been introduced. Successful dual education requires reforms, especially in professional training and legal framework improvement. A critical aspect is integration of practical learning, fostering strong collaboration between VET schools and businesses, guided by labour market demands in profile selection.

Mitigating the skills gap holds the potential to enhance the labour market integration of young individuals and ameliorate the labour market challenges faced by businesses, particularly in terms of talent acquisition, which is currently a pronounced hindrance to their growth. Competence centers aspire to fulfill the role of adequately preparing young individuals for the labour market. The alignment of educational supply and labour market demand serves as a catalyst for business expansion and, consequently, economic advancement. However, to date, these centers have encountered difficulties in forging more robust collaborations with industry stakeholders, impeding the attainment of a more hands-on preparation of candidates for the labour market.

This research, employing a qualitative methodology, endeavors to investigate the pivotal role played by competence centers in preparing students for the labour market. Subsequent sections of this study proceed with an in-depth examination of pertinent literature in Section 2. Section 3 elucidates the chosen research approach, leading into Section 4, which presents the data gleaned from interviews conducted with representatives from VETs, including a cross-case analysis based on the informative insights gathered from these VETs. Section 5 delves into discussions, culminating in the conclusions offered in Section 6.

2. Literature Review

An inadequate alignment of education system with labour market needs represent a barrier for firms' productivity, raising the costs of firms when hiring and training employees. Skill gaps are a key determinant of training expenditures and tend to raise average labour costs (McGuinness and Ortiz, 2015).

Ziderman (2016) suggest that increasing competition between public and private training providers and establishing independent national training funds. The excessive reliance on private training markets is not without risk however with greater attention required to quality assurance and the regulation of private providers. Morris et al. (2020) argue that skill gap reveals a negative direct effect on firm productivity. VET is frequently perceived as a solution to improving the opportunities of the youth who lack the resources, skills or motivation to continue with higher education (Maja Lamza-Maronić et al. 2014).

In Europe, about half of all jobs require a medium level qualification, primarily acquired through VET. A study conducting comparative European analysis of labour market outcomes for young people finds that vocational education is effective in helping the transition from education to work. Focusing on medium-level education, the transition to work is significantly faster for VET graduates than for general education graduates. Young people in countries with strong VET systems, with a close connection between school- and the work-based components, are much more likely to be employed than their general education counterparts (Cedefop, 2013).

Taking the wider approach of the study analysis of VET effects on employability of people across their age, Hanushek et al. (2015) argue that individuals completing a vocational education are more likely to be employed when young, but this employment advantage diminishes with age. Individuals completing a general education start to experience higher probabilities of employment as early as age 50. However, decade by decade, some additional vocational degrees will lose further in employment even though some will not become obsolete over an entire work life. Similarly, Mailys (2019) argue that VET education may enable young individuals to find a good match at the beginning of their career, but it may also leave older workers vulnerable to technological change and shifts in the occupational structure. On the other hand, holders of general education may face more difficulties when entering the labour market due to a lack of work-related skills but may be better rewarded after several years of experience due to the larger flexibility of general skills.

VET graduates have relatively strong labour market outcomes in Thailand. Also the quality of jobs matters, Thai labour force survey show that wages of workers with vocational certificates are around 20% higher than those of adults who have completed at most upper secondary general education. Thai VET system suffers the lack of industry involvement in the design and the steering of VET programmes, and in its funding (OECD, 2021). Therefore, some companies, such as 7 Eleven, prefer to set up their own education and training facilities (Chalapati and Chalapati, 2020). Bulgaria, trying to reform the VET system alongside that of the EU, has undertaken appropriate policy reforms. Since 2015, as in many other EU countries, work has focused on reinforcing dual VET to give learners the opportunity to acquire real work experience and understand which skills employers expect and those that can help them succeed (Cedefop, 2018). In this context, Bolli et al. (2017) based on empirical analysis on the cross-country data find that dual VET improves not only labour market integration but also job quality. Croatia has traditionally strong VET system, it focuses especially on the role of teachers and trainers as the promoters and enablers of the new skills needed for the future (Cedefop, 2020).

Wanklin (2018) in the research of VET system of Albania and Kosovo suggest that most relevant approach of successful VET system include, among others, the engagement with the private sector, work-based learning, and the inclusion of all relevant stakeholders. Instruments such as the professional orientation profile could help students in their vocational orientation phase to discover more of their personality, interests, capacities and talents, to explore the professional careers they may fit and the training programmes and pathways offered by the different providers (Hilpert, 2020).

2.1 VET development

Young people's interest in VET schools has increased in recent years. Statistical data for the 2022/23 academic year indicates that 54% of VET students are currently enrolled in VET schools. This figure represents a gradual increase compared to the 53% participation rate recorded in the 2020/2021 school year.

The education strategy is the basic pathway for the development of the education sector in Kosovo for the period 2022-2026. The Law no. 04 / L-138 on Vocational Education and Training is a basic law that aims to train young people in accordance with the needs of the labour market. These principles are based on the principles of lifelong learning, technical-technological progress, and other economic developments (Krasniqi, 2021).

In 2020, MESTI approved UA 137/2020 on Learning at the Workplace in educational and professional training institutions, which regulates the way of organization, implementation and evaluation of students during the implementation of learning at the workplace. Regulation 135/2020 was also approved for the protection and preservation of the health of students during practical learning at school and at the workplace.

The Kosovo education system encompasses two distinct entities for vocational education and training: professional schools, overseen by municipal directorates of education, and competence centers, managed nationally by the Agency for Vocational Education and Training and Adult Education (AVETAE), under the MESTI, as documented by Beka and Stublla (2022). Kosovo boasts a total of 59 professional schools and 6 competence centers. Wanklin (2018), suggest that competence centers excel due to their alignment with industry standards and synchronization with labour market demands. On contrary, Bajrami (2021) indicate that competence centers currently do not offer higher standards compared to professional schools in Kosovo.

VET institutions based on current curriculum provide 122 profiles of training. Most of the profiles are updated in accordance with the labour market needs but some profiles are obsolete as they do not match labour market needs. However, the lack of VET cooperation with the industry prevents the development of students' skills in accordance with the demands of the labour market.

In the school year 2022/2023, for the first time, dual education has started in 4 professional schools, with 4 profiles in 3 different municipalities. According to MESTI, dual education has started with positive results and in the 2023/2024 school year there will be a total of 12 dual education profiles in 21 vocational schools in 14 different municipalities. In addition to the profiles of Cook, Hospitality Assistant (waiter), Hairdresser and Bricklayer, the following profiles have already been added: Tailor, Automechanic, Metalworker, Woodworker, Heating and air conditioning installer, Electrician, Wholesale and retail trade, Esthetician. Dual education focuses on practical learning and as a result facilitates the transition from education to employment. More specifically, dual education is developed as a model with 3 days of theory at school and 2 days of practical work in the 10th grade, while during grades 11 and 12, 3 days of practical work and 2 days of teaching at school. In the dual system, students supported by the VET teachers/coordinators sign contracts with businesses to carry out practical learning. Dual education is more effective in preparing students for the labour market. This form of profiling in crafts increases the employability of young people.

MESTI has standardized the model of career centers for the level of vocational schools, drafted the Administrative Instruction for the operation of the services of career centers at VET schools, accredited the qualification/re-qualification program for career advisors. Until now, 11 career centers have been established in VET schools.

In accordance to the European Commission's Instrument for Pre-Accession Assistance Programme for 2017, the Austrian Development Agency (ADA) has been delegated to implement the project "Aligning Education and Training with Labour Market Needs (ALLED2)". The aim of the project is to reduce poverty through increased labour market participation and improved employability of the population in Kosovo. The ALLED2 project selected 20 VET schools and 4 Vocational Training Centres (VTC) in Kosovo to be supported through project activities. The primary objective of ALLED 2 is to increase the quality of VET/VTC, especially through aligning education and training with labour market needs.

The German Government through the German Development Bank (KfW) has financed the "Kosovo Challenges Fund" program by allocating €5.8 million to support vocational education in Kosovo. The fund is a financing instrument, designed to increase the employment of graduates from vocational education, but also to strengthen the productivity and competitiveness of enterprises in Kosovo. Many other international organizations such as German development agency (GIZ), UNDP, International Labour Organization, Swiss Agency for Development and Cooperation (SDC) have contributed to the development of the VET sector aimed at skilling and improving the employability of young people in

Kosovo.

2.2 VET challenges

In 2019, in an analysis prepared by the ALLED 2 project, concerning data were released that show the mismatch between the skills acquired in VET schools and the skills required in the labour market. According to this analysis, 92 of the 122 profiles offered in vocational schools are not based on the profession's standards, which means that more than 77% of the VET profiles offered are not based on the needs of the labour market (Bajrami, 2021).

Insufficient quality of VET offer has resulted in a low level of employer satisfaction with skills/competencies acquired by VET schools graduate candidates, as well as in a low degree of transition from school to work (MESTI, 2022).

Curriculum plays a substantial role in the success of VET programmes. The Education Strategy 2022-2026 highlights the objective to update curricula in line with labour market needs. Kosova VET barometer based on the survey with 20 VET schools indicate that 70 % of respondents responded that curricula are based on the standard of profession, 30 % responded it is not. (ALLED2, 2022).

The Education Strategy 2022-2026 highlights the following challenges of the VET schools that has to be addressed:

- Lack of collaboration of VET with businesses.
- Obsolete profiles
- Teaching is mainly theoretical whereas opportunities for teachers' professional development in improving pedagogical skills and conducting practical teaching and learning are limited.
- Career counselling and guidance remains a challenge and the services provided are still limited to some municipalities.
- Most critical one remains in conducting practical teaching and learning (at school and in workplace).

Most of the Kosovar enterprises are micro and small and their vision for development is shorter term. Therefore, students are divided into groups and the time they stay with the employer is divided between each group during the school year. Furthermore, even in cases where students do on-the-job training at the employer, it is rarely done with proper planning based on curriculum requirements (ALLED2, 2023). The inadequate practical on-the-job training fail to reach the goal of providing students more technical and professional skills to enhance greater youth employability.

Insufficient knowledge and skills among VET graduates are due to several factors, the main ones being: the VET curricula not reflecting needs of the labour market; an almost total lack of teachers of professional practice in VET schools; poor or non-existent cooperation between VET schools and employers; outdated equipment in workshops which currently provide the only practical experience for students; teachers often not teaching the subjects they are specialised in; the presence of many obstacles to placing students in companies for the work-based learning (ALLED2, 2022). As regard to the lack of on-job training for the students, companies claim that they have limited resources in time and money to support training of students, and they claim about lack of incentives from the Government in the framework of financial support (ALLED2, 2023).

AVETAE manages six VETI (Centres of Competence), although the legal framework and the budget needed are not adopted to enable AVETAE to manage all vocational schools while its capacity to fulfil this function remains a challenge. On the other hand, the capacities of the National Qualifications Authority are limited to respond to the dynamics needed for the validation and accreditation of new qualifications and for the approval of occupational standards (MESTI, 2022)

VET schools mainly have laboratories for a specific number of educational profiles. These laboratories are not fully utilized and in some cases they are not regularly supplied with the raw materials needed for practical training. Furthermore, career counseling and guidance is a necessary service for a functional VET system. Counseling and career guidance remains a challenge and the services offered are still limited in some municipalities (Bajrami, 2021).

3. Research Approach

For this research, a qualitative approach with semi structured interviews was applied to collect the data, which is an appropriate method to get in-depth knowledge about the topic (Kvale, 2007). The semi structured interviews allow us to react to respondents' statements and obtain relevant information on the

research topic (Bernard et al. 2016). The sample procedure. The rationale for choosing the qualitative approach aimed at exploration and in-depth understanding of factors that influence the role of VET schools in bridging the skills gap in the labour market in Kosovo.

The interviews were conducted during the VET Summit 2023, organized by the Network Club of Manufacturers in Kosovo. The VET Summit was organized for the second year in row in Prishtina, to connect stakeholders of the VET institutions, in order to further promote their role for bridging the skills gap in the labour market. A convenience sample was applied, as one of the main types of non-probability sampling methods to approach the most accessible subjects within the VET Summit in Kosovo 2023. A total of 4 public sector VET schools were interviewed with semi-structured interviews. The interviews were conducted face to face in June 2023, while the duration of interviews was 25-40 minutes. The interview questions have been formulated by identifying the challenges that VET schools encounter in ensuring that their students possess competencies that align with the requirements of the labour market.

4. Findings from qualitative interviews

After an extensive review of literature, documents, and reports concerning VET in Kosovo, we conducted face-to-face interviews using a semi-structured approach. These interviews were carried out with representatives from one professional school and three competence centers. In the following section, we will outline key issues, challenges, and accomplishments as emphasized by these VET school representatives.

VET School A: Findings from interviews

In our school, the following courses are offered: Economics, Law, Hospitality and Tourism, Food Technology, Agriculture, Veterinary.

One of our serious challenges is students' low motivation and their lack of awareness about the vocational school's role in preparing them for the workplace.

Students with lower secondary school performance often enroll in our vocational school. We, as teachers, work diligently to boost their motivation and emphasize the school's role in equipping them with essential skills for the job market.

Our school's professional training boosts student employment rates, with many securing jobs after internships in various companies. Some directly enter the workforce, particularly in high-demand profiles.

Our school, part of a pilot project, aligns its curriculum with labour market demands. We've also strengthened collaboration with businesses for curriculum feedback and consultations.

In our school, students gain practical experience in local businesses. The program includes 6 hours of practice per week for 10th graders, 9 hours for 11th graders, and 12 hours for 12th graders. We closely track student attendance and commitment in internship programs, and we're content with their readiness for the job market. While expanding business partnerships remains a challenge, our collaboration is improving.

The school has following laboratories in which students supplement their theoretical knowledge with exercises: the food technology laboratory, the food technology cabinet, the hotel cabinet, the hotel kitchen, the exercise firm cabinet, and the informatics cabinet.

In addition to these cabinets, the school also has a greenhouse where vegetables (cucumbers, tomatoes, peppers), flower seedlings, etc. are cultivated. The school also has machinery necessary for agriculture, with all equipment for tillage.

It is worth emphasizing the collaborations with: ALLED, Society for Education and Entrepreneurship Development (SEED), European Policy Institute of Kosovo (EPIC) and so forth.

VET School B: Findings from interviews

The competence center has the following accredited profiles: Administration and Office Services, Banking and Insurance Services, Sales and Marketing, Logistics and Store Operations, Hospitality and Tourism, Information and Communication Technology, Electrical Installer, Heating and Air Conditioning Installer and Aqueous.

The primary barrier is the outdated curriculum and non-standardized profiles. We strive to align profiles

with market demands and need substantial government support for curriculum updates and standardization.

We collaborate with 60 businesses, which also have the chance to hire students after graduation through workplace training.

Despite the challenge, we are a model for cooperation with businesses. In addition to the in-job training at business premises, specialists from the industry come to the school to train the students.

Digitization and technological devices are well used in each profile. We have received great support from donors and international agencies, so we have advanced equipment for the profiles we have open.

VET School C: Findings from interviews

The Competence Center has the following profiles: Accounting and Taxation, Banking, Finance and Insurance, Financial Assistant, Marketing and Sales, Shipping and Logistics, IT Technician in Business, Retail and Wholesale Trade, Chef, Food Technology, Esthetic, Hairdresser.

The main barrier is the limited business cooperation for student practical learning, hindering the implementation of dual education. Roughly 50% enter the labour market after graduation, while 30% pursue higher studies, including some from non-related sectors.

In order to increase the effectiveness of VET programs in preparing students for the workforce, it is necessary to intensify dual education and promote VET. Students do not have sufficient information and career guidance.

Better alignment between VET and businesses is needed in order to match the needs of the labour market. Currently, coordination is not sufficient because of the lack of interest of businesses to collaborate. During the design of the programs, we cooperate with AVATAE, while businesses do not show enough motivation to collaborate.

Digitization is used a lot, the equipment is modern, which mainly comes from external donations, especially from NGOs. The use of technology and digitization increase the effectiveness of theoretical and practical learning.

VET School D: Findings from interviews

The Center has accredited profiles as follows: Builder of constructions, Sheet metal worker, Concrete worker, Bricklayer and paving slabs, Color worker, Electric installer, Installer of water, sanitation and systems, Roof constructor, Fashion design.

It is very challenging to conduct the number of practical hours provided by the program, due to the lack of businesses cooperation, while the motivation of students is low. As for the staff, they receive training through GIZ and the Enhancing Youth Employment (EYE) project implemented by Helvetas and Management Development Associates (MDA).

In addition to learning and practice in their profiles, we also train students for soft skills, which serve them for easier access to the labour market.

Among the main factors that influence the effectiveness of our center's programs are practical learning, and training of teachers.

We align our VET programs with market needs, like introducing a design profile due to demand. Collaborating with businesses during program design is our approach, and we seek more Ministry support for new profiles and dual education. Fairs are vital for promoting and facilitating cooperation.

Modern technology and digitalization are used in the process of empowering students. The main problem is the industry's lack of interest in holding training for our students.

4.1 Cross-Case Analysis

The main goal of VET schools is to create opportunities for students for employment and self-employment, i.e. the quick transition from education to employment or entrepreneurship. However, students can continue their studies if they wish in public or private universities. As pointed out by the respondents, a large number of students continue their third-level studies. This indicates the lack of easy transition of VET graduates in the labour market.

The strategy of VET is to increase the quality of the professional skills of their students. This goal is intended to be achieved especially through the increase of cooperation with businesses where students are given skills through practice. However, in this context, some VETs (VET A and VET B) are better, while some do not have sufficient cooperation with businesses and have difficulties in realizing dual education programs (VET B and VET C).

All surveyed VET Schools make efforts to increase cooperation with businesses so that students can take practical learning in order to increase their employability.

VET schools A and D emphasize the lack of motivation of students for skills improvement. In some cases, students who cannot enroll in gymnasiums, are oriented as a last resort in VET schools. VET school B mentions the need to update the curricula for the standardized profiles as they are now obsolete.

Challenging for all surveyed VETs remains the increase of cooperation with the business community to ensure practice for students and the arrival of experts to hold trainings within the laboratories of VET schools. For more, VET C and D are two of the four VETs included in the dual education programs that started for the first time in the 2022/23 school year. Both VETs emphasize the difficulty of realizing dual education due to the lack of cooperation from businesses.

As for the teaching staff within the school, the surveyed VET representatives have emphasized that they receive adequate training, but according to the Education Strategy of MESTI 2022-2026, the training is not sufficient and there is a lack of staff mobility in other countries for adequate training.

Regarding the infrastructure, including equipment, technology and digital learning, all VETs emphasize that they have modern technology and that they apply digitization. This is especially possible thanks to the continuous support of international organizations in Kosovo, which also support staff training.

5. Discussion

In theory, developing dual VET system elements lead to pure win-win situations. However, in practice, numerous challenges remain. They can be attributed to the internal environment of VET school and stakeholders that shape the VETs external environment: firms, the VET projects, the schools, society, and the local and national institutions.

Institutions should have a more proactive approach in supporting VET schools-business cooperation to increase the effectiveness of dual education. According to the research with VET schools, it is observed that there is a lack of initiatives for the organization of fairs, symposiums and other initiatives to strengthen the networking of VET schools with all stakeholders. There is also a lack of incentive or stimulation for the inclusion of businesses in dual education programs to provide internships and training for students.

VET schools need better collaboration and knowledge-sharing. Some VETs successfully partner with businesses but don't share their experiences. Some VETs also lack proper internship monitoring, discouraging business cooperation and hindering practical learning goals.

VET schools should enhance their public promotion to students, parents, and businesses. This will increase awareness about their vital role in providing quick career opportunities, addressing labour shortages, bridging skills gaps, and benefiting the labour market and the economy.

Each VET school should have an office for career guidance that informs students to determine the career objectives. It is recommended to provide training for soft skills, which are key in raising the capacities of students and adding value to each profession. VET A has already emphasized that they train students with soft skills as it helps them to enter the labour market more easily.

Relevant institutions ought to facilitate the augmentation of VET schools' capacities through measures such as curriculum enhancement, labour market analysis, stakeholder engagement, and intensified collaboration with the business sector. This comprehensive support for VET institutions can ultimately mitigate labour shortages, bridge skill gaps, and enhance the employability of young individuals in the labour market.

Insufficient data is a challenge in monitoring progress at VET schools. They lack an efficient management information system, hampering strategy development and implementation. Surveys reveal a lack of data on post-education employment, self-employment as craftsmen, and career changes among graduates. This data gap was highlighted at the 2023 VET Summit in Prishtina, underscoring its detrimental impact on the VET sector's development.

The research has some limitations, such as the limited number of VET surveyed. Furthermore, it is likely that the respondents are reluctant to highlight the weaknesses of the centers. As for future research direction, more VET should be surveyed since the number is limited and the observation method should be used to get more information, including the opinions of teachers and students.

6. Conclusion

Given the pronounced labour market demand for individuals possessing secondary-level qualifications, VET schools represent a viable solution to address these requirements. This observation is particularly relevant in the context of Kosovo, where VET school graduates frequently experience a transition from education to gainful employment, with some securing employment immediately upon graduation.

VET schools are piloting new curricula tailored to labour market needs. Dual education, launched with four profiles in 2022/2023, expanded to twelve in 2023/2024. Dual education aims to ease young people's education-to-employment transition and address the skills gap by providing businesses with qualified candidates.

VET institutions endeavor to provide students with experiential learning opportunities that bridge theoretical knowledge with practical application. Nevertheless, the persistent challenge lies in fostering greater collaboration with businesses to facilitate practical training experiences for all students. According to VET school representatives, cooperation with businesses varies, with some schools showing higher levels of engagement. Thus, there's a need for VET institutions to share experiences to enhance collaboration with the industry. This facilitates student involvement in practical work and improve their skills in alignment with labour market demands.

VET institutions should engage in systematic labour market data collection and analysis to discern both present and future skill requirements. This data-centric approach guarantees the adaptability and relevance of training programs to evolving labour market dynamics. Additionally, VET schools should diligently maintain detailed records documenting student achievements in practical training and their successful entry into the labour market.

VET schools should appoint a coordinator to facilitate business collaborations for practical learning. Additionally, each VET should establish a career center to offer career guidance, internships, job information, and enhance students' job-seeking skills.

We conclude that VET plays a vital role in nurturing human capital and addressing the skills gap. Effective collaboration among relevant authorities, VET institutions, and businesses is crucial to enhance their collective impact on youth skill development for the labour market. Such collaboration yields positive outcomes by reducing unemployment rates and resolving businesses' challenges in finding adequately qualified staff.

In addition to enhancing VET for boosting young people's employability, the government should implement extensive labour market reforms. These reforms are necessary to create a conducive environment that promotes decent work opportunities, ultimately curbing the emigration of young people and mitigating the associated impacts on both the labour market and the economy.

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THE IMPORTANCE OF THE ADOPTION AND APPLICATION OF ACCOUNTING POLICIES TRANSITION COUNTRIES WITH REGARD TO COMPANIES IN KOSOVA

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Abstract: Accounting policy should be seen as a framework within which policy is formed to keep business events with the primary objective of increasing safety, especially financial reporting of management. Some management companies is who is responsible for the end result of the economic activity of enterprises run by.

To be able to reliably managed by the company shall have a built in system management and logging of all activity in the company, it is necessary to respect the recommendations of the internal control and audit and external audit recommendations. The accounting policy is closely related to the implementation of IAS/IFRK, which are more practical use in the Republic of Kosova starting from 2000/01

Greater application of these standards, companies must make changes to the accounting policies as it begins to implement the increasing number of requirements of the standard in the field of increase of caution, especially in the context of recognition and accreditation. Practically the back door is introduced replacing "the concept of historical cost" (caution), "the concept of fair value" (neutrality). The emergence of large financial and global crisis of 2008, a growing number of actors want to be informed through the financial statements of the real and the real situation in the companies, which are trying to raise the level of protection above all creditors and investors.

Also in the first half of 2013, and the state wants to ensure protection management in the public sector and imposes solutions obligatory presence of Internal Auditors of the public sector in public enterprises.

Keywords: management, value, money means, risk, financial situation.

1. Introduction

Accounting policy forms the basis for high-quality financial reporting and on three levels: the company, interested persons (creditors, investors and others.), The State (Ministry of Finance first of all). The accounting policies are largely affect the quality of information presented in the financial statements. In addition, the purpose of accounting policies to ensure the implementation of a large number of the requirements of IAS / IFRK, primarily due to increased comparability of financial statements for legal entities in the country, but also for those persons who are not strictly related to its operations in Kosova, especially for companies that work in several countries.

Since 2000, a large number of foreign companies privatized enterprises in Kosova or opened their organizational units in Kosova, and it is still one of the real demands related to the harmonization of IAS/IFRK, with the countries of the EU. Undoubtedly, that in these processes the company accounting policy should be compatible with the common practice in EU countries.

Real economic conditions impose management to company management to adjust the desired compromise between securities, which is associated with the cost and speed the adoption of the financial statements, and that speed is often in conjunction with the ratio of the number of applied risk and cost. In fact, if we want to reduce the security of financial reporting to be optimum, then reduce the costs of internal control, audit and others, and vice versa. Accounting could be viewed as a service, a service function in the management process, which basically serves finance, internal audit, if established within the company, and at the end of the financial year is included in the submission of data related to the entire business which occurred during the previous business year.

Monitor and study the "raw data", and converts them into information needed to manage the entire enterprise.

The financial statements are the final product of accounting process in which are embedded the selected accounting policies, and as such must comply with the adopted goals of the business policy of the company. Accounting policies are the specific principles and methods that the company's management decided, usually at the request of Head of accounting or finance managers of companies with the aim of real impressions

2. Accounting principles under the observation of accounting policies

The basic accounting rules initiated accounting practices and eventually develops into accounting theory must have its basic application in transition countries like the Republic of Kosovo. Without establishing the proper comprehensive approach to accounting requirements management cannot speak of the prosperity of the company.

In addition, they can essentially determine the concept and basic features of accounting, especially in medium and large companies. Another important category relates to the real category of the financial statements, and that the companies which are the rule, and a big business for 20 years on the territory of the Republic of Kosovo. In the above-mentioned companies must take into account the principle of the real display in financial reporting. So that realistic accounting presentation must take into account the essence of accounting principles. With them are made and activities related to assisting in assessment, recording and reporting on business activities, with a large note that there must be compliance with international accounting standards and the standards of the finance reporting. The harmonization must be a connection with the accounting policy for a company.

Comparison of the different accounting principles and assumptions relating to the large number of transition countries like the Republic of Kosovo, the authors presented in Table No. 1.

(Kosova), 2023)

Table No.1: Comparison of the possible accounting principles and assumptions

ASSUMPTIONS	PRINCIPLES
Business Entity Continuity Period Business Entity Strong And Stable Currencies Consistency	The Documentary Tidiness The Acquisition Cost Caution Accuracy The Odds Be Over Form Relevance Individual Assessments Time Connection Balance Sheet Positions

Source: Production author.

(IAS, 2023)

In recent years, especially on the recommendation of the external auditors informed public companies an increasing number of companies are introducing IAS, especially IAS 16, which essentially means the introduction of "fair valuation of assets which has company". The announcement of leaving by then the dominant model of the "precautionary" We meet with the author [1], [2], [3], [4], [5] in quite a long time.

Throughout the aforementioned period the authors were trying to find a model that current procedures regarding the company's assets determine more possible values of assets with which real companies have. So realistically meet financial reporting as a basis in the attitudes of many authors since the financial reporting happiness with many authors and their works, More 80s of the last century [6], noting that most of then issued setting applies at the end of 2015, and relate to and apply them to delay many other transition country, such as the Republic of Kosova. Generally, financial reporting must respect the principle of multi-disciplinary [7].

3. Observation of harmonizing accounting policies and risks

So at the end of the observation of harmonizing accounting principles, it must be emphasized that this presentation of the financial reporting, primarily relating to the actual financial position of the company presentation, the changes that have occurred with respect to financial and operating results that are consistent with generally accepted accounting principles of the company. In addition to the aforementioned every company can make a gradation of risk and adopted policies accounting in their

company. Table No. 2 authors provide an overview of the generally accepted accounting principles that apply most of the enterprises of the Republic of Kosova, and the possible gradation in the range of risk for the company.

(Kosova), 2023)

Table No.2: The application of accounting principles in the Republic of Kosova and the interval risk medium-sized enterprises, possible categorization

Accounting Principles Companies That Also Applies	Interval Risk	The average interval for the risk level of the average medium enterprises
The Principle Of First Purchase,	1-5	3
The Principle Of Objectivity,	1-5	3
The Realization,	1-5	3
The Principle Of Income and Expenses,	1-5	5
The Principle Of Materiality,	1-5	4
Principle Fully,	1-5	3
The Principle Of Consistency And	1-5	2
Precautionary Princip	1-5	2

Source: Production author.

(Kosova), 2023) (Dhamo, 2022)

3.1. The most commonly used IFRK and IAS in medium and large enterprises in transition countries

In the process of adjusting and unifying the overall business transition countries like the Republic of Kosova, is an important application of uniform standards in business, especially in medium and large enterprises. The authors in Table 3 provide an overview of the important and the most commonly used standards in business and financial organization and sandwiched between other accounting policies, which must take into account the importance of IFRK and IAS.

Table No.3: IFRK and IAS that are commonly used in the daily operations of most companies

INTERNATIONAL FINANCIAL REPORTING STANDARDS	INTERNATIONAL ACCOUNTING STANDARDS
IFRK 1 First-time Adoption of International Financial Reporting Standards	IAS 1Prezentiranje financial statements
IFRK 2 Share-based Payment	IAS 2 Inventories
	IAS 7 Cash Flow Statements

IFRK 3 Business Combinations
IFRK 4 Treaties establishing
IFRK 5 Non-current Assets Held for Sale and Discontinued Operations

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 Events after the balance sheet date
IAS 11 Construction Contracts
IAS 12 Income Taxes
IAS 14 Segment Reporting
IAS 16 Property, Plant and Equipment
IAS 17 Leases IAS 18 Revenue
IAS 19 Employee Benefits
IAS 20 Accounting for Government Grants and Disclosure of government assistance
IAS 21 The Effects of Changes in Foreign Exchange Rates
IAS 23 Borrowing Costs
IAS 24 Related Party Disclosures
IAS 26 Accounting and Reporting by Retirement Benefit Plans IAS 27, Consolidated and Separate Financial Statements
IAS 28 Investments in associates
IAS 29 Financial reporting in hyperinflationary economies
IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions
IAS 31 Interests in Joint Ventures
IAS 32 Financial Instruments: Disclosure and Presentation
IAS 33 Earnings per share
IAS 34 Financial Reporting period '
IAS 36 Impairment of Assets
IAS 37 Provisions, Contingent Liabilities and Contingent Assets IAS 38 Intangible Assets
IAS 39 Financial Instruments: Recognition and Measurement
IAS 40 Investment Property
IAS 41 Agriculture

Source: Production author.

(Dhamo, 2022)

3.2. Developing mechanisms to improve the accounting policy

A framework which can be a large number of companies affected shall be at the level of the government of a state. Therefore, in this work the most respected acts of the Government Republic of Kosova. Government of the Republic of Kosova adopted a strategy for the development of internal financial control in the public sector, with the aim of establishing a comprehensive and effective system of internal financial control in the public sector, as well as with the aim of good governance and protection of public funds, regardless of their source and to comply with the requirements of Chapter 32 - Financial Control, for negotiations on joining the EU.

In addition the European Commission will assess the overall system of internal financial control in the public sector, but will also provide assistance in understanding and implementing a well-developed and effective internal control system, which should be seen as a mechanism to help accounting policy,

especially in the first phase of the public sector, and later the rest of the economy.

The primary responsibility, which includes ensuring that the public affairs are kept in accordance with the law and relevant standards, and that public funds are managed with absolute integrity, and that they spend dedicated, remains the ministers and other elected representatives, as well as the heads of the various officials in every organization. To fulfill this responsibility, it is essential that public authorities and all persons responsible for the management of public affairs establish and maintain an appropriate structure for the conduct of its affairs and storage resources that are available to them.

The audit in the public sector "adds value" not only through analysis and reporting on what happened, but also "looking ahead", and identify areas where improvements are possible and encourage good practice. In this way, all forms and types of audits to the promotion of improved standards of governance, better management and decision-making processes, and in short, contribute to effective use of taxpayers' funds.

(Dhamo, 2022)

Questions of harmonization of accounting policies are increasingly coming to the fore in the transition countries [8]. In addition a number of the author draws attention to the question of valuation of assets as part of the harmonization of the accounting policies of the company [9], [10], [11], [12], [13], [14], [15]. All these attitudes, it is important to implement by the company's management and the importance of establishing internal control mechanisms.

The authors point out that the audit in the public sector is an important link in the chain of responsibility since it strengthens the responsibility, in terms of elected or appointed officials, and in terms of beneficiaries, taxpayers and citizens in the broad sense, which is achieved through:

- ✓ auditor's independence from the audited entity;
- ✓ wide scope of the audit in the public sector, which includes regularity, "decency" and "value for money";
- ✓ The ability of auditors to the results of audits and reviews available to the public and democratically elected representatives who are responsible for funding the relevant activities.

In addition to the results shown in the paper, the authors emphasize the importance of considering the important, potential risks to the business of a large number of heterogeneous enterprises such as:

- ✓ general factors of influence,
- ✓ the impact of activities and
- ✓ View the internal factors of the company.

4. Conclusion

Financial, accounting and any other unified transition countries like the Republic of Kosova demands the implementation of various heterogeneous business standards. In this paper, the authors have included the International Accounting Standards Board, and it allows the use of different methods for accounting for and valuation of the same balance sheet positions.

Management is therefore the one who chooses the best accounting policy at the enterprise, but in accordance with the true and fair view of the business activities of enterprises. At the end of the reporting accounting must take into account the notes to financial statements. They represent a special report in a set of mandatory financial statements. The authors point out the most important functions such as the functions of explaining the basics of the underlying financial information presented, to break down many of the items and provide analytical insights into the real situation of the company, as well as aiding and abetting and more complete understanding of the financial position and success of the company.

In this paper, the predominant part of the observation refers to medium and large businesses in transition countries, especially those that operate in the Republic of Kosova, which does not mean that the majority of accounting principles, financial policy and management cannot be used and companies in other countries.

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GREEN ECONOMY INDUCES ENERGY CRISIS CASE: EUROPE

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Abstract

The green economy is a rapidly growing sector that has the potential to drive sustainable economic growth and development. However, the growth of the green economy can also have unintended consequences, including exacerbating existing energy crises. This study focuses on the relationship between the green economy and energy crisis in Europe, exploring the impact of the green economy on energy supply and demand and the ways in which it exacerbates energy crises. The study will utilize a combination of primary and secondary data sources, including government reports, academic studies, and expert interviews, to gather information on the green economy and energy crisis in Europe. The data will be analysed using a range of statistical and econometric techniques to identify patterns and relationships between the green economy and energy crisis. The findings of this study will provide valuable insights into the interplay between the green economy and energy crisis and will inform policy discussions around the development of sustainable energy systems. The results of this study will also be of interest to business leaders and investors in the green economy, as they consider the potential risks and opportunities associated with the growth of this sector. Additionally, the findings of this study will be of interest to policymakers, as they develop strategies to promote sustainable economic growth while addressing energy security concerns.

Keywords: green economy, energy, energy crisis, demand, supply, price.

JEL classification codes: O5, O52, Q2, Q21, Q27, Q28, Q3, Q31, Q4.

Paper type: Research article.

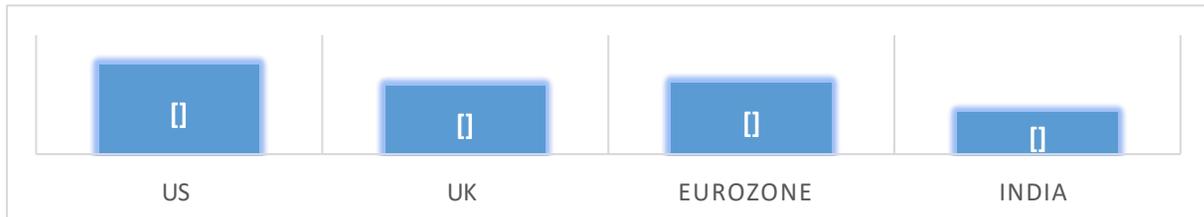
Introduction

As a significant challenge for households and businesses alike. In addition, energy shortages can also lead to reduced economic activity, as businesses are forced to cut back on production and households are forced to spend more on energy and less on other goods and services. The green economy, while offering potential solutions to these problems, can also contribute to the energy crisis if it is not properly managed. For example, if the growth of renewable energy sources is not accompanied by sufficient investment in energy infrastructure, it can lead to an overburdened energy grid and exacerbate existing energy imbalances.

The goal of this study is to understand the complex relationship between the green economy and energy crisis in Europe, and to provide insights into how this relationship can be managed to ensure sustainable economic growth and energy security. The results of this study will inform policymakers, business leaders, and investors, helping them to make informed decisions about the development of the green economy and to find solutions to the energy crisis. Ultimately, this study aims to contribute to the creation of a sustainable energy system that balances the needs of the green economy with the need for energy security.

The energy misbalanced between high aggregated demand and low aggregated supply leads the energy prices to go up and this also influences everyone’s budget, the increase of energy cost is presented below at figure 1:

Figure 1 Energy Cost %



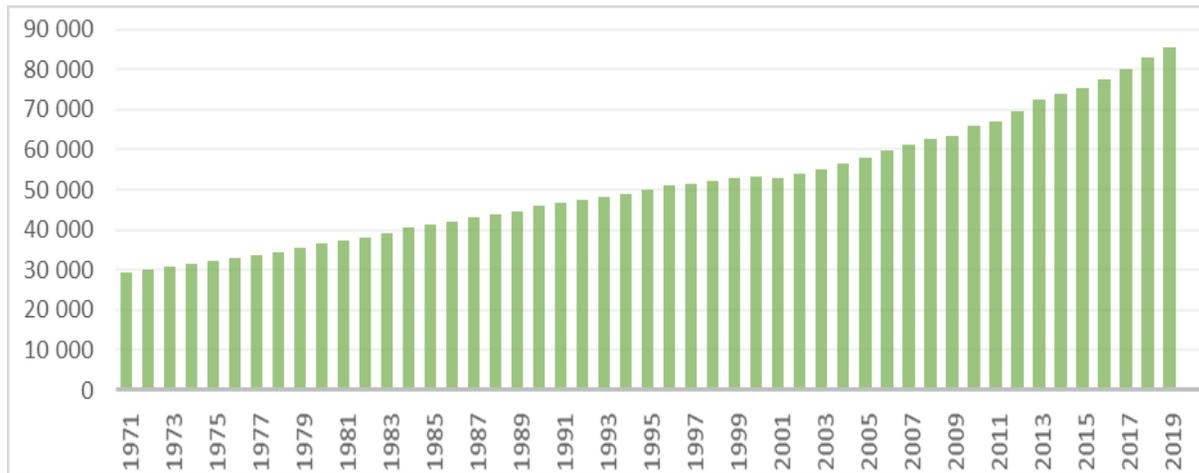
Source: Author (IEA, Key energy statistics, 2019, 2022)

As shown above in figure 1, the energy cost has exceeded two digits of the percentage of the price increase in energy costs.

Materials and methods

Literature Review – The Energy Supply: the Green Economy or Green Transition induces the energy crisis. Nevertheless, this is not the only aspect that causes the energy crisis; there are many other causes that had an impact on the energy crisis; however, we will focus at the most significant factors that caused the energy crisis. In the other hand, renewable energy is increasing year-by-year but so is the total world energy as presented in the figure 2 below:

Figure 2 Renewables and Waste: total energy supply (PJ)

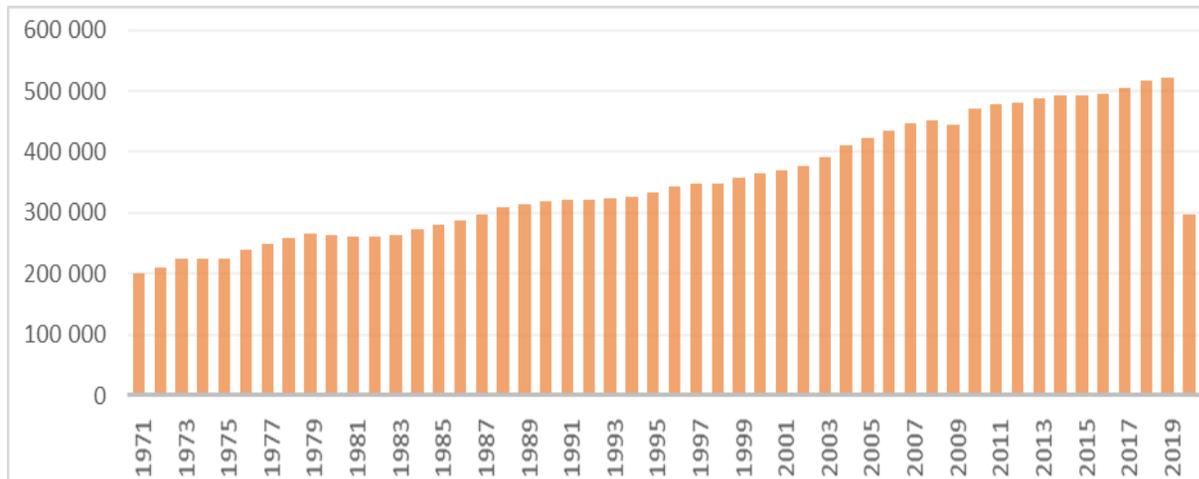


Source: Author (IEA, Key energy statistics, 2019, 2022)

The increase of the total energy supply is low compared to the increased total energy demand, therefore one can easily state that this approach is not promising fast transition from fossil fuel to green energy.

The basic factor that had an impact on this energy crisis is the Global pandemic era 'Covid-19', during the early pandemic era the most of economies had face the lock-down (Uka A. , 2020). The 'lock-down' had reduced the movement of people and business drastically; which lead the reduction of the aggregated demand for energy too. In a direction of the producers of fossil fuel had to push their brakes accordingly, they stopped digging for oil, shorten their natural gas and in some cases they closed the coalmines.

Figure 3 Renewables and Waste: total energy supply (PJ)



Source: Author (IEA, Key energy statistics, 2019, 2022)

The figure 3 above presents the total energy supply-increasing trend of the fossil fuel (Coal peat and oil shale, Crude, NGL and feedstock; Oil products; Natural Gas; Nuclear; Electricity; Heat), whereas in 2020 during the 'Covid 19' the production fell down by over 43%.

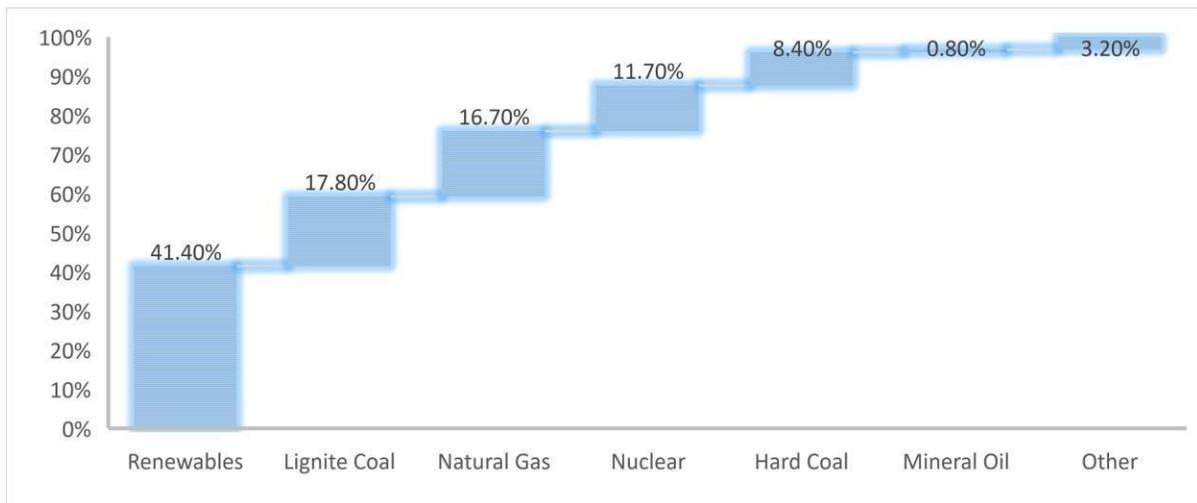
Today, (mid 2022) in the course of the post pandemic era. the economies are on track to run their business. Getting back on track for business caught aggregated energy suppliers unready, and not just them but much more sectors too. Since, the aggregated demand has bounced back for energy, and the aggregated supplies are far behind to fulfil the market needs we are facing energy shortage that led to an energy crisis. Furthermore, (Cornago, 2022) stated: "...economy has been picking up again, after COVID-19 crises; we've seen a higher energy demand from various economic sectors". Hence, elaboration made by (Gloystein, 2022) regarding the situation he pointed out that: "...hopefully we'll be coming out of this COVID-19 pandemic at some point, but the long term fallout that we really didn't think about when we were all in lockdown, how to sort everything out again".

The energy crisis from fossil fuel is a challenge once again, and the substitution by the green energy (renewable energy) which has been pointed out as a target from pompously statements (thinking) is farther than it seems. Looking at the statement made by (Modi, 2021): "By 2070 India will achieve the target of net-zero emissions". In addition, more promises were made in the statement

by Kenyan President (Kenyatta, 2022): “We are on course to achieve our goal, our target of 100% use of clean energy by 2030”. Strengthened pronouncements made by (Kerry, 2021) regarding the climate change was: “We are in fact closer than we have ever been before, to avoiding climate chaos”. Nevertheless, the up-mention statement regarding the eco-friendly environment, it seems to be far from reality because looking at the current situation one can state that the Globe is highly dependent on fossil fuels. Whereas, according to (Baran, 2016):“EU focuses on sustainable development, supporting economy which is more efficient, “greener” and competitive” (p.9).

The energy crisis calls attention to the phrase “think globally act locally” (Geddes, 1915) which is proven wrong, since there were a local thinking (to increase the renewable energy) and we now face the Global act (price increasing). In other words, we think Globally to reduce the pollution and act locally by increasing the energy price.

Figure 4 Germany Energy



Source: Author (IEA, Key energy statistics, 2019, 2022)

Looking at the figure above, Germany’s Energy with a reputation of a climate leader, got most of its energy from non-renewable sources during the year 2021. Hence, the (Sen, 2022) pointed out: “the underlying issue is demand, it takes a long time for demand to switch from fossil fuels”, furthermore (Sen, 2022) smartly elaborated by stating a sample: “In year 1981 the demand for oil, gas and coal accounted for 84% of total energy demand. Last year that share is still the 84%”. Therefore, clearly one can stated that there is continuous increase of demand for energy.

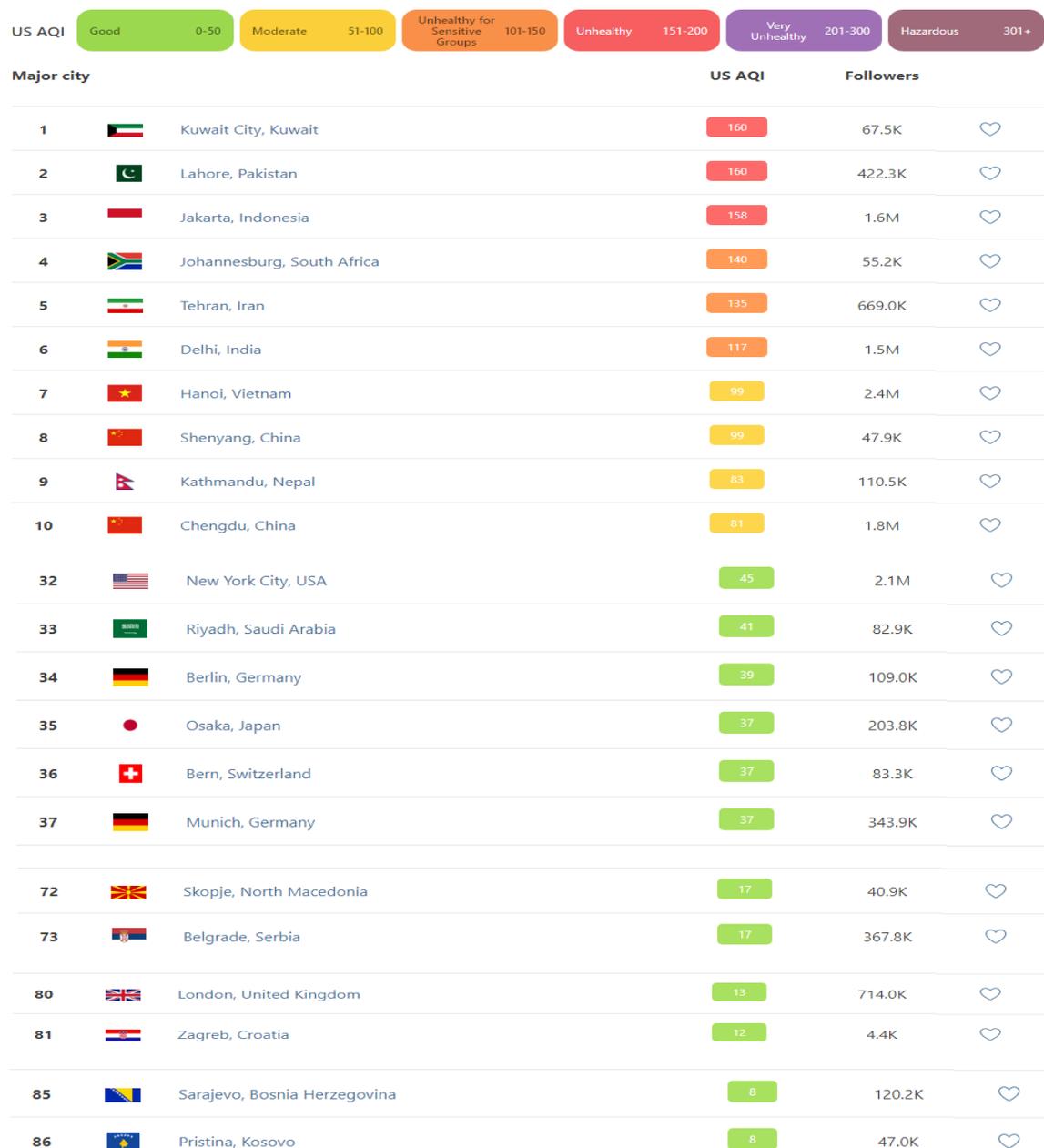
If one should really see the impact of the energy demand increase, one of the first countries that started to face energy shortage during this period was China. Since, the China economy was the first country to start to perform after the pandemic “lock-down” due to the demand for its goods from other countries, the Chinese factories started to operate in its maximum capacity to overcome the shortages of their goods that were faced due to pandemic, so this led the necessity for vast amount of fuels which mainly is coal and in China this is considered as sector that is dependable and is responsible for over 70% of electricity generation. According to the (IEA, Oil Market Report

- June 2022, 2022) clearly stated: “While higher prices and a weaker economic outlook are moderating consumption increases, a resurgent China will drive gains next year, with growth accelerating from 1.8 mb/d in 2022 to 2.2 cmb/d in 2023” (p.1). So we are facing the increase over 22%, which is exponential high compared to the trend for renewable energy.

However, a number of factors, from a ‘de-facto’ ban on Australian coal to strict electricity pricing, meant that the supply could not fulfil the demand. In the third quarter of the year, 2021 China was facing an energy crisis, which led Government to intervene and request that cold mines increase production instead of choosing the option to close their factories. The shutdowns and energy reductions to main industries had a great impact into their economy, by inducing Beijing to double their usage of coal. Nevertheless, other criticize that this will expose China’s climate aims which was stated that “China to cut fossil fuel use to below 20% by 2060”.

Therefore, the insufficiency of China to act accordingly within its capacity enables addressed international for supply, especially the natural gas market in order for them to keep ongoing their factories. The huge amount of demand for the energy rippled accordingly to global energy and Europe too. Furthermore, the China demand switched from coal to natural gas, in order to reduce pollution, which is great, nevertheless is not renewable energy. However, all steps that reduce the air pollution are in concern, since many cities are facing unhealthy air, therefore all alternative are inapplicable.

Figure 5 Air quality and pollution city ranking



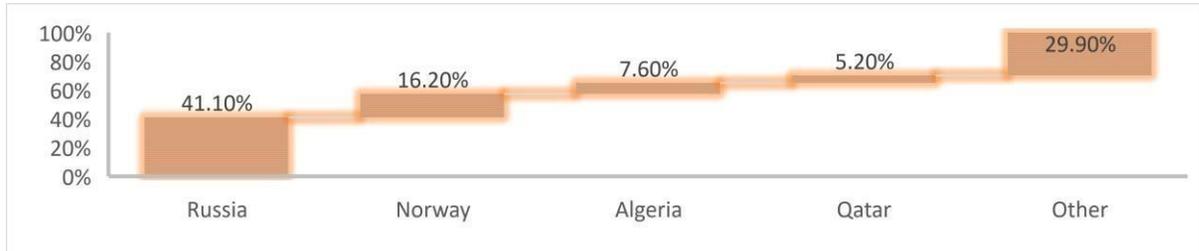
Source: (IQAir, 2022) (measured by author in 11.07.2022)

In the mid of the year, one can examine the databases that rank countries based on their pollution or poor air quality and one can state that the most polluted countries are those that had a low focus in maintaining an eco-friendly environment, and also the negative industry impacts the air quality. However, in the winter all green cities in the above list presented in the figure 5 are becoming cities with high pollution

which are dealing/facing with unhealthy air quality, since there is an increase

in energy usage, especially for the purposes of heating which presents matter for concern too, and in order to reduce rapidly the air pollution most of the countries are focusing on a fast solution such as natural gas, and this product is now heading towards China, which leaves the rest of the continents dealing with shortages of natural gas which includes Europe too. Therefore, China focusing on reducing the air pollution by using the natural gas with large demand in recent years pushed the congestion on Globe and Europe too.

Figure 6 EU's Natural Gas



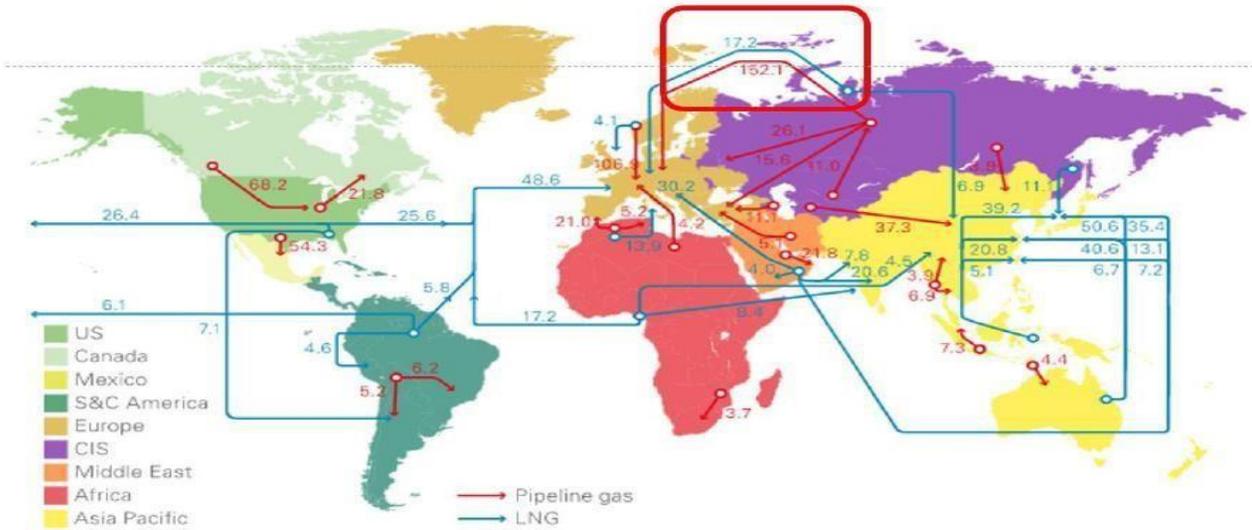
Source: Author (IEA, Key energy statistics, 2019, 2022)

Looking at the graph above, one can see that the main suppliers for Europe with Natural Gas are the countries abroad or we can state clearly from other continents too. Furthermore, as the paper is written and the war between Russia and Ukraine is on and the embargo that is placed for the Russian products; it seems to be obvious that the energy crisis is deeper than we know or we have faced since Russia is one of the world's top third oil and natural gas producer (WEO, 2020). In addition, the ban of Russian Gas especially from Germany which is considered the main consumer, it occurs that natural Gas is trading in higher prices globally price since the Germany will look for alternative energy and suppliers too.

The energy crisis also made Brussels to step for diversification of the supplier's natural gas priority, by turning to liquefied natural gas (hereinafter LNG) which is sent via tankers instead of the pipelines. In 2019, so pre pandemic LNG accounted for about 22% of EU natural gas consumption. This led to competition between China and Europe for LNG that had been building over years, however in year, 2021 the energy crisis led to an all-out bidding war, where Europe is losing compared to Asia. The flow of the LNG presented on the figure 7 and one can see that the main flow of LNG is towards Asia compared to Europe.

Figure 7 Natural gas major trade movements 2020 – trade flows worldwide

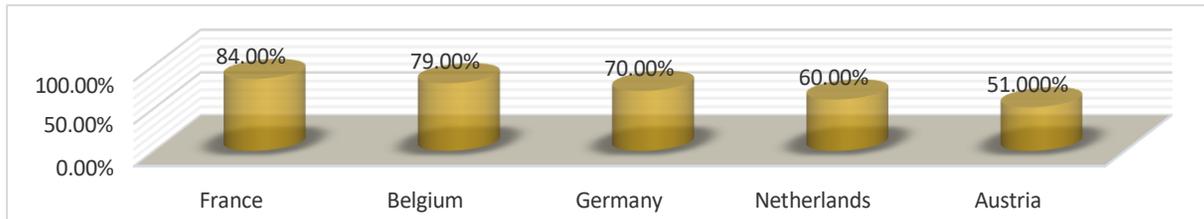
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Source: (Sandra & et al, 2022)

Furthermore, the greatest energy problem for EU is Russia, since EU began importing Natural Gas over 60 years now. The problem is not importing, but the problem is currently that the various pipelines connections across Europe are abandoned due to the war between “Russia-Ukraine”. The dependence of EU from Russian gas has always been a long worried subject, and feared that one day will face a block. Building the pipelines is known sometimes as the “building bridge” between the Supplier and Demand, whereas such an approach between Russia and EU did fail poorly. In order to fulfil the Natural Gas Demand most of the countries did settle the storage.

Figure 8 EU Gas Storage Levels



Source: Author (IEA, Key energy statistics, 2019, 2022)

As presented on the above figure one can spot that the countries like France and Belgium achieved to have a gas storage level around 80%, and storage tanks of Austria are almost half after the cold winter depleted stockpiles. The situation got worse, when Russia had been slow to send additional

gas to Europe during the year 2021, despite the critical shortage of the stocks. However, the doubts mention by (Gloystein, 2022): “There are credible signs that Russia itself is struggling to meet all of the gas demand”.

Hence, Russia firstly supplied its market with natural gas due to cold winter, then the residue that is left got sold to Europe. Nevertheless, there were some doubts that the Russian limited deliveries linked with above statements and they accused Moscow of exploiting Europe’s energy weakness (Sen, 2022). Furthermore, (Gustafson, 2021) pointed out the new dilemma regarding the climate change and gas: “Russian spent a fortune...an entire new natural gas province, and as a result of which the Russians are positioned for the next generation of gas supply in Europe. Well, what happens if Europe than as a part of its climate policy cuts back on natural gas consumption? What’s becoming of that investment then?!”.

Furthermore, the natural gas between Russia and Germany was doubling their interest by increasing the new pipelines through the sea, where this also increased the fear that the EU will be more dependent on Russian gas. In this matter there was a skepticism about how the bypass Ukraine where much of the Russian Gas to Europe now flows through Ukraine which brings in billions of euros to Kyiv every year. However, one should understand that about 40% of the Russian Government Revenues are dependable from oil and gas export every year. Furthermore, as the paper is written, Germany has placed a ban to all Russian Gas, which makes a full gas puzzle more complicated.

However, the Russia alone is not a picture of the whole puzzle that is confronting a future where its biggest export are no longer needed. In this course it is also the group of oil production that along with Russia, is known as OPEC+1 (Organization of the Petroleum Exporting Countries Plus). This cartel has resisted increasing oil production despite the rising prices. OPEC has blamed uncertainty about demand and the pandemic. Whereas, some critics understand the message in its refusal to bend to the demands. Moreover, according to fossil fuel producers’ financial behaviour are motivated to try to make money while still can.

1 OPEC+ aims to regulate the supply of oil in order to set the price on the world market. is a loosely affiliated entity consisting of the 13 OEC members and 10 of the world's major non-OPEC oil-exporting nations.

The green economy steering is at fault for this current crisis, since many countries were overly ambitious with their targets to reduce emissions that resulted from fossil fuel before renewables were fully ready to take up the load. According to this swap of energy to clean energy the fossil fuel investment are falling and the investment on the green energy to keep up with the rising energy demand needs to go up by four times about like 100 trillions of Dollars, and this money is nowhere (Sen, 2022). However, according to (Baran, 2016) pointed out that: "... the renewable energy sector is still being created and carbon remains the main source of energy." (p.9). Therefore, energy poverty versus green energy and countries like China and India there will not be any doubts that simply not choose energy poverty (Sen, 2022). Contrary, other are more optimistic that renewable energy could soon replace the fossil fuel.

However, due to price increasing on oil and gas, many western countries including US idled coal plants are being put back online and all this in order to help gasoline prices to go down for consumers, this will achieve to slow down the rapid price increase and in best opportunity to reduce the price of fossil fuel. Nevertheless, the renewable energy from wind and sun are essentially limitless resources where they can insulate countries from geopolitical. The reliance on fossil fuel such as natural gas has shown that it can end up in very high prices. Therefore, the transition is needed away from that and into a system of natural resources that are renewable and whose cost is virtually zero (Sen, 2022).

Many governments are seizing this crisis as a chance to push for more investment in renewable energy, whereas building the infrastructure is needed a large amount of money Euro 100billion and will take many years. Therefore, in the current situation it seems one of the very few alternatives to overcome the energy crisis is more fossil fuels. The China had renewed its commitment to coal, whereas in Europe where many countries pledged to give up coal in coming decades, currently the idled coal plants are being put back online again. Bottom line many customers are frustrated and furious, at the risk of not being able to cover their energy need. The use of energy reminds the cartoon of "Popo" many years ago: "We have met the enemy and he is us". Moreover, the Kosovo Electricity Distribution Company J.S.C. (KEDS) at their recent advertisement during midyear 2022, clearly states "You are the source of energy!2". However, the green transition looks currently

2 Original in Albania "Burim i energjisë jeni ju!"

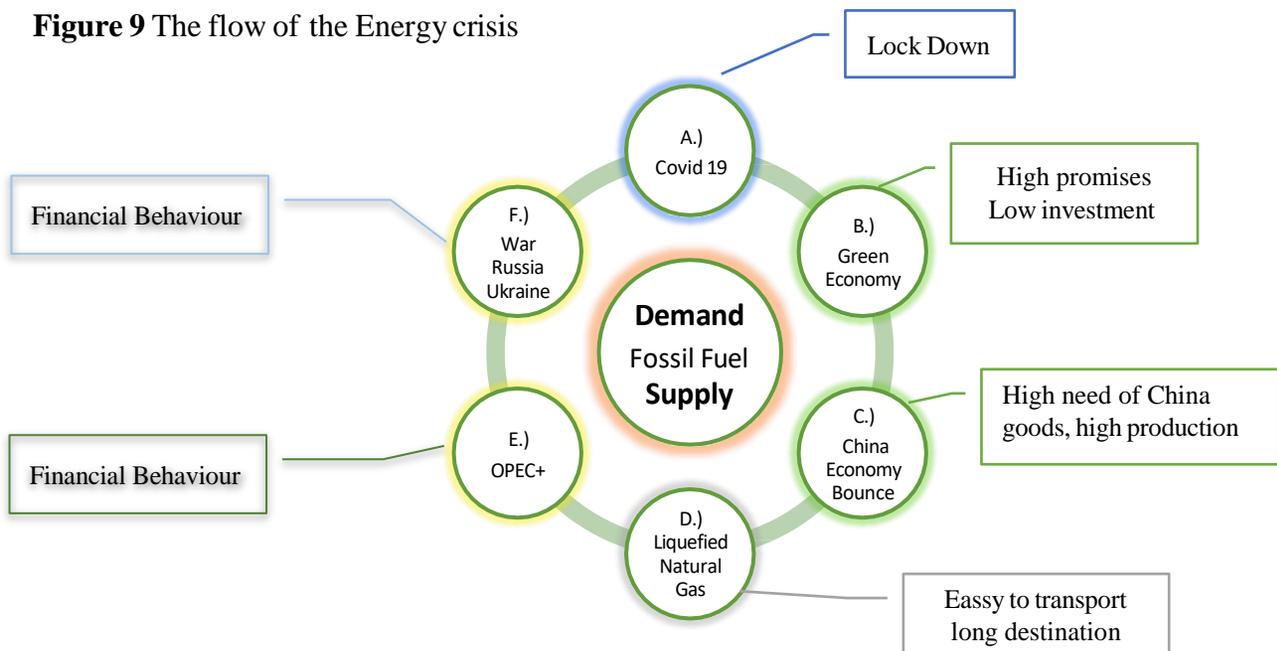
as a fancy bubble, while fossil fuel still powers our lives. Hence, until the green economy takes charges, the fossil fuel and the countries that produce them will continue to determine how much it costs to keep the lights on.

Methodology – This paperwork focuses on elaborating how countries that acted towards green economy and induced the global thinking, lead the economy into an energy crisis. The analysis used data to testify the research question. The independent variable of this paper is the green economy that enforces the main dependable variable energy crisis. The countries’ devotion to reduce pollution induces the fossil fuel’s suppliers to act in prices and the increase of demand for energy is what this paperwork inquires. In order to achieve the full clarification, this paper work focuses on secondary research that mainly involves worldwide institutions that elaborated the components that had an impact on the aggregated demand and supply. The paper work consciously brings to the surface the impact of the policy for green energy that induces the energy (fossil fuel) crisis. The main data gathered through the internet and UBT college library accordingly with the research objectives/question

Results and discussion

Data Analysis and Results - The flow of the energy crisis presented at the figure below:

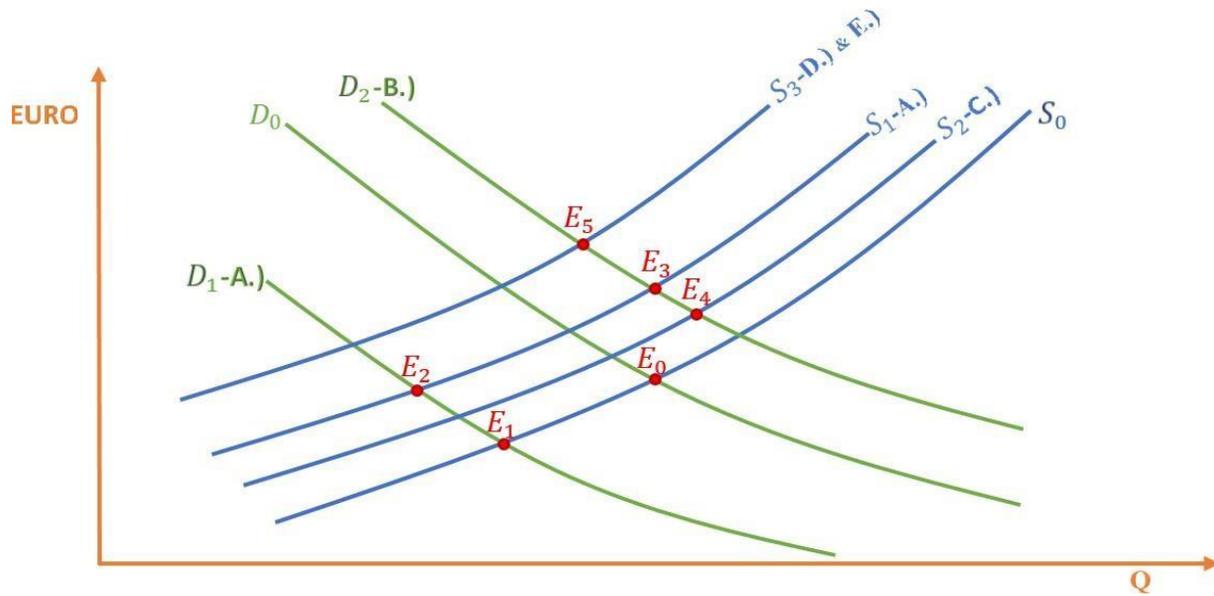
Figure 9 The flow of the Energy crisis



Source: Author (2022)

The figure 9 above presents the main factors that influence the energy crisis that are linked over past three years period. A.) The impact of Covid-19 towards lock down and high reduction in aggregated demand reflected on the aggregated supply to brake on production, in some cases they even closed the coal mines. B.) The diversification of the supplier's natural gas to liquefied natural gas and not through pipelines, enable the producer to sell at the highest price since it can deliver through tanks and not only through pipelines, this increased the aggregated demand highly and with it the price too. C.) The impact of Green Economy by increasing the Ecosystem through natural capital and renewable energy is highly recommended as the main target of every country. Nevertheless, the capital dedicated for such an investment is not, will not fulfil the current aggregated demand, and by any means the increase of the exponential trend for energy in future it seems unachievable approach yet. D.) The China bounced economy especially from the increased aggregated demand for their goods from other countries, pushed China to seek for further energy and this made the global order to switch, especially at liquefied natural gas at higher price, and this reflects on increasing other final product's price too. E.) & F.) The OPEC+ seeing all picture of events around the globe, and knowing that their enormous investment in digging the fossil fuel and the return on investment it is in long term. By understanding the situation that countries are calling on green economy, which they know that will not fulfil the aggregated demand almost never, then the Russian and Ukraine war will also ban one third of market supplier, which is Russian, OPEC+ can increase price to fulfil the aggregated demand and this would fulfil their behaviour of finance. They are so powerful that the rest are only spectators, including all governments, what is the issue to be in concern that, Russia and OPEC+ are in line with behaviour of finance and they are inappropriately using their power.

Figure 10 Market Equilibrium



Source: Author (2022)

Looking at the figure above, one can see that the price down of fossil fuel was only during the Covid-19 (E_1), followed by the lock down of the coal mines which made the price to go up (E_2), increase of demand for energy in China made the price up (E_3), then the price went slightly down when the government made a call for reopening the coal mines (E_4). However the financial behaviour of OPEC+ and Russia seem to be tandem which reflected for energy price to go high as never before (E_5). Furthermore, the intention that the green economy induces the energy crisis is only the excuse by the main player that their investment is high and they need to take care regarding their return on investment is a wholly blind, but the status is currently in focus into achieving high return. Therefore, one can state that the green Economy had no impact on price energy directly, but had an impact one the fossil fuel producers to state that they are induced by green economy, which is blind statement.

Discussion

Green economy and energy crisis are two interconnected topics that are often discussed in the context of sustainable development and environmental protection. A green economy is defined as an economy that is low-carbon, resource-efficient, and socially inclusive. It aims to reduce the negative impacts of economic activities on the environment and to promote sustainable growth. In order to achieve a green economy, it is necessary to shift from the traditional linear model of

production and consumption, characterized by the extraction of natural resources, the production of goods and services, and the emission of waste, to a circular model that emphasizes the efficient use of resources and the reduction of waste. One of the key components of a green economy is the transition to renewable energy sources, such as wind, solar, and hydro power. This shift is necessary to reduce the dependence on fossil fuels, which are the main source of greenhouse gas emissions and contribute to climate change. However, the transition to renewable energy can also lead to energy crisis if not properly managed. An energy crisis can occur when there is a shortage of energy supplies or when the demand for energy exceeds the available supply. In the case of a transition to renewable energy, there can be a crisis if there is a lack of infrastructure or investment to support the growth of renewable energy sources.

Conclusion

In conclusion, the shift to a green economy is not properly managed, therefore this lead to energy crisis. It is important to ensure that the transition to renewable energy is accompanied by the necessary infrastructure and investment to support its growth, and that there are sufficient backup systems in place to address the intermittency of renewable energy sources.

Hence, the conclusion of this paperwork brings clearly into surface the impact of the green economy towards energy crisis based on the secondary data, however the energy crisis has its origin in financial behavior, therefore the hypothesis question are to confirm as follow:

Since it is clear that most of the countries “act” towards green economy induces the global “think” economy into energy crisis because it is a financial behavior reflection of the fossil fuel producers.

HQ Green Economy induce the Energy Crisis?

According to the analysis one can clearly state that the green economy is not a factor that influences directly the energy crisis, and can stated that green economy has not a direct significant impact towards energy crisis. However, partially the fossil fuel producers had used green economy as the factor to focus their operation to increase their prices, since green economy may affect their return of investment, which is used as wholly blind based on financial behavior.

The energy crisis is on and Europe will face difficulties especially during winter period, this will further weaken the economy of Europe since it is dependant from external European factors as presented in this paperwork. The fossil fuel price stability will clarify the European future not just in relation to fossil fuel but other products as well.

In conclusion, the implementation of green economy initiatives has the potential to mitigate the effects of energy crisis and promote sustainable development. However, significant challenges and limitations must be addressed in order to achieve these goals. Based on the limitations discussed above, the following recommendations are made to support the transition to a green economy and address the energy crisis:

Increase investment in renewable energy sources and energy efficiency: Governments, private sector, and international organizations should increase investment in renewable energy sources and energy efficiency technologies to reduce reliance on fossil fuels and improve energy security.

Promote public awareness and engagement: Efforts should be made to educate the public about the benefits of a green economy and to encourage individual and collective action to support these initiatives.

Encourage political commitment: Governments should demonstrate strong political leadership and commitment to green economy initiatives, including setting ambitious targets for reducing greenhouse gas emissions and increasing the use of renewable energy.

Foster interdisciplinary collaboration: Interdisciplinary collaboration between experts from various fields, including economics, energy, environmental science, and policy, is needed to develop comprehensive strategies for addressing the energy crisis and promoting sustainable development.

Monitor and evaluate the impacts of green economy initiatives: Regular monitoring and evaluation of the impacts of green economy initiatives is necessary to ensure that they are delivering the desired outcomes and to identify areas for improvement.

By implementing these recommendations, the transition to a green economy can be accelerated, and the effects of the energy crisis can be mitigated, promoting sustainable development and a better future for all

Limitations and Future Studies – The implementation of green economy initiatives has several limitations that must be addressed in order to achieve sustainable development and prevent energy crisis. Some of these limitations include:

Financial constraints: The transition to a green economy requires significant investment in renewable energy sources, energy efficiency, and sustainable infrastructure. This can be a challenge for countries with limited financial resources.

Technological constraints: The development and deployment of new technologies and infrastructure necessary for a green economy is still in its early stages, and further research and development is required to make them more efficient, cost-effective, and widely accessible.

Resistance to change: The transition to a green economy also requires changes in consumer behavior and business practices, which can be difficult to achieve due to a lack of awareness and resistance to change.

Lack of political commitment: The transition to a green economy requires strong political commitment and leadership, but political support for these initiatives may be limited in some countries due to conflicting interests and competing priorities.

In order to address these limitations, future studies must focus on developing innovative solutions to overcome financial and technological constraints, increasing public awareness and engagement, and encouraging political commitment to green economy initiatives. Additionally, further research is needed to assess the economic, social, and environmental impacts of green economy initiatives, and to develop strategies for managing the energy crisis while promoting sustainable development. This will require interdisciplinary approaches that bring together expertise from various fields, including economics, energy, environmental science, and policy.

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IMPACT OF INNOVATION TYPES ON ENTERPRISES SALES GROWTH: EVIDENCE FROM KOSOVO

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Abstract . This paper aims to analyze the impact of the types of innovations in increasing the sales of Kosovo's enterprises. The findings of this paper confirm the hypotheses that organizational innovations, product/process innovations and marketing innovations have a positive impact on increasing the level of sales. This empirical research was conducted with enterprises in Kosovo, so the main limitation of this research is the non-inclusion of enterprises of Albania, Montenegro, North Macedonia, Bosnia and Herzegovina, etc. The involvement of enterprises from these countries would provide a broader picture of the research issues for transition countries. This empirical research is of particular importance because it studies the impact of types of innovation on increasing the sales level of enterprises in transition countries. Kosovo suffer from weak enterprises sector and underdeveloped entrepreneurship sector. Without the development of an innovative system of the private sector and the entrepreneurial sector, Kosovo can not overcome the transition process. Therefore, this paper could be a reference point for the government policies of Kosovo, which should support all enterprises in the development of all types of innovations.

Keywords: Innovation types, Kosovo, sales growth, logic model.

JEL Codes: L25, L26, O31.

1. Introduction

The Republic of Kosovo has not yet completed transition. This process is characterized by changes of macroeconomic nature (Jusufi and Ukaj, 2020; Gashi, 2020). In terms of economic structure, Kosovo does not differ much from Montenegro, Albania, North Macedonia, Bosnia and Herzegovina, but Kosovo differs in terms of political problems and the transition process (Ukaj et al., 2020; Jusufi and Ukaj, 2021; Osmani et al. 2022). Historically, Kosovo has always suffered from underdevelopment and economic backwardness. Due to ethnic tensions,

Kosovo's economy began to decline in the early 1980s.

After 1999 Kosovar economy is not able to recover (Ukaj and Bibuljica, 2019; Jusufi and Bellaqa, 2019). Despite the fact that every year Kosovo has an economic growth of 4%, this increase is not enough to alleviate the unemployment rate and to expand economic activity (Qorraj and Jusufi, 2018). The development of entrepreneurial activities, the support of start-up businesses, the support of SMEs are seen as a generator of economic growth and employment growth (Ukaj, 2015). According to Scase and Goffee (1982); McIntyre (2003), most entrepreneurs in transition countries are necessity-based entrepreneurs. Many Kosovars opened small businesses during the nineties to survive. So they did not open them out of a great desire to become an entrepreneur or a businessman but out of a great need to survive as a result of poor economic and material conditions.

This is the background of this research. Meanwhile the idea of this research originates from the heavy history of the Kosovar economy and the impact that innovations can have on the performance of the enterprises of this country in the current circumstances, where the enterprises of Kosovo as a result of the oppression and circumstances of the nineties are still unable to develop and to grow. Therefore, the purpose and significance of this paper originates from this. The reason for this research lies in the fact that it is thought that the development of innovations itself improves the performance of Kosovar enterprises which have not yet taken the appropriate step of development.

The concept of innovation in business, unfortunately it can be said that it is still not a very applicable concept for businesses in transition countries such as Kosovo (Qorraj and Jusufi, 2019). The figures show that although some companies in the information technology or software sector apply innovations extensively, many Kosovar companies still do not develop enough innovative activities. For this reason, Kosovar exports are at a low level, and at the same time the production within GDP is very solid.

Therefore, this is a problem that is very evident in Kosovar enterprises. The findings of this paper aim to provide instructions on how to solve this problem. The idea of the research is to analyze the impact of all types of innovations on raising the level of sales, specifically on their performance. This will be achieved through research methods: qualitative (literature review) and quantitative (econometric model) methods.

There are different definitions of innovation in the management literature. Innovation is usually the process of creating new ideas in the enterprise and these new ideas aim to increase business performance (Yusheng and Ibrahim, 2019). Innovative activities also vary from enterprise to enterprise. Enterprises pay special attention to all types of innovation. The conceptualization of innovation and the level of development of countries moderates the link between innovative activities and success in increasing the level of production.

Therefore, the impact of types of innovations on the economic performance of small and medium enterprises is of great importance in the research of authors in the field of management and marketing. The results of these authors, conclude that innovative activities have a tremendous impact on the business growth of all enterprises regardless of size, sector and country (Jusufi et al. 2020).

The research questions of this paper can be summarized as follows:

- What is the impact of product innovations on increasing the sales level of Kosovo enterprises;
- What is the impact of marketing innovations on increasing the sales level of Kosovo enterprises;
- What is the impact of organization innovations on increasing the sales level of Kosovo

enterprises;

Based on these research questions, research hypotheses have been formulated which are presented in the methodology section. The literature review will make it possible to better understand the impact of these types of innovations on increasing the sales level of these enterprises of different sectors. The expected results will provide information on the impact of the types of innovations separately on the level of sales of Kosovar enterprises. So various sources from eminent international authors who have elaborated the impact of types of innovations on the economic performance of enterprises will serve as the basis for setting up our econometric model. Existing research results affirm that different types of innovations have different impact on the performance of Kosovar enterprises, some affirm that product innovations have significance, while others marketing innovations. Therefore, the relevance of this paper lies in the fact that it can be cited and used when any other more extensive research is done on this issue.

2. Review of Literature

The literature on innovations in management and marketing is extensive and is enriched from year to year as a result of various research which is conducted on this issue. Bloom and Van Reenen (2002); Oke et al., (2007); Bessler and Bittelmeyer (2008); Chetty and Stange (2010) classify innovations as product, process, marketing, and organizational innovations. Meanwhile Hult and Ketchen (2001); Calantone et al. (2002); Milfelneret et al. (2019) in their studies researched the impact of innovation on business activities. Of course, the results achieved by these authors prove that innovations have a great impact and are significant indicators of the success of enterprises in their business.

Stojčić and Hashi (2014) claim that innovation is of great importance both for the growth of businesses and for the improvement of national economies. The object of their research was the output of innovations and its impact on enterprise productivity. They even claim that the impact of innovation varies from enterprise to enterprise, so enterprise heterogeneity has a great impact on determining the impact of innovation on enterprise. The costs incurred by the enterprise in Research and Development play a major role in its innovative potential. Also, these authors in their research have achieved similar results as our research, so all types of innovations have a positive impact on increasing the performance of the enterprise.

Krasniqi and Kutlllovcı (2008) in their research, they have concluded that the market and the consumer are the main elements that force enterprises from all economic sectors to innovate. Consumer needs, requirements and desires are the element that forces all companies to work and engage to the maximum to develop innovations of all types. Were it not for the market, demand and supply in the market, none of the companies would try to innovate, because the market is the driving force of any business activity.

Li and Atuagene- Gima (2001); Langley et al. (2005); Aralica et al. (2008); Lee et al. (2010); Boziz (2011); BalakrishnaKanagal (2015); Vicente et al. (2015); Jusufi et al. (2020); Ramaj et al. (2022) in their studies concluded that product innovations are very important for enterprises. These authors in their research showed that business performance is positively impacted by product innovations. Those companies that develop product innovations achieve greater success in the market. Also according to these researches, product innovations are important for exporting companies because the success in export depends a lot on the products that are exported.

Lukas and Ferrell (2000); Bozic (2007); Schubert (2009); Hernandez-Espallardo and Delgado-Ballester (2009); Rosli and Sidek (2013); Moreira and Silva (2013); Krasniqi and Desai (2016); Tankosic and Vapa (2017); Cieslik and Michalek (2017); Slogar and Bezic (2019); Reçica et al. (2019) have researched in more detail the relationship between product innovation and enterprise success. These authors as well as the above authors have come to the conclusion that product innovations are essential for the business success of the enterprise. These authors even emphasize the fact that if the consumer orientation and market share of the enterprise is large, the product innovations will be greater.

Another authors, as they are Vega-Jurado et al. (2008) claim that technological competencies, industrial branch and the level of innovation are the main determinants of the success of the enterprise in the development of innovative activities. An enterprise which possesses sophisticated and modern technology will naturally develop innovations in particular product and process innovations. The stages of new product development will be easier for this enterprise. The new product will also be multidimensional.

Some industrial sectors tend to support various innovations, for example the services sector, the competition that develops in this sector is a determining factor in the development of innovations, in particular product or process innovations as well as marketing ones. The manufacturing sector also supports enterprises in developing innovations, in particular product innovations because a new and quality product is essential to the success or failure of manufacturing enterprises.

Halpern and Murakozy (2012), and Mahmutaj-Rexhepi and Krasniqi (2020) are among the few authors who provide evidence that product and process innovations do not positively affect the business performance of the enterprise. According to them, despite the fact that product innovations are important for the enterprise, they are not a determining factor of the enterprise's success in increasing sales and turnover. In contrast to these authors most of the analyzed authors provided theoretical and empirical evidence that product and process innovations have a positive impact on enhancing business performance.

Rhee et al. (2010); Naidoo (2010); Gupta and Malhotra (2013); Gupta et al. (2016); Szychalska-Wojtkiewicz (2017) attaches great importance to marketing innovations. According to their, despite the fact that a certain company creates product or process innovations, it can not achieve success or profit if it does not choose the right marketing methods. Increasing the level of sales depends a lot on marketing innovations. So all types of innovations depend on marketing innovations. The genesis of it all is marketing innovation. Contrary to the evidence of this author, Schmidt and Rammer (2007) asserts that the genesis of marketing innovations are product and process innovations. So there has to be something material and tangible, to be sold then or even to do marketing.

Product innovations and marketing innovations have been discussed so far, while organizational innovations will be discussed in the following paragraph. The authors of the paper could not find sufficient theoretical and empirical evidence regarding organizational innovations. Evangelista and Vezzani (2012); Zaied Ben (2015); Krasniqi and Dula (2016) are some of the authors or researchers who have dealt with organizational innovations. They have defined organizational innovations, their importance in management as well as their effects on the organization.

Whereas the authors like Sanidas (2005); Rosenbusch et al. (2011); Sapprasert and Clausen

(2012); Yamakawa Tsuja and Ostos Marino (2013); Seifried and Katz (2015). Fernandes Rodrigues Alves et al. (2018); Stojčić et al. (2018) investigated the impact of this type of innovation on enterprise performance. Their evidence shows that organizational innovations have a positive impact on the enterprise performance of each economic sector. So all the theoretical evidence or rather the vast majority of theoretical and empirical evidence show a positive relationship between the types of innovation and the performance of the enterprise. Therefore, the findings of this paper show that all types of innovations have a positive impact on the performance of the enterprise.

The status of research related to innovations, it can be said that from the international point of view there are many sources that have elaborated this issue and each of them has brought an innovation to the academic world. Even in this section, most of the literature sources were from international authors. Since the 1960s, the international literature on innovations has progressed. Usually, most of the authors who have elaborated on this problem are from England, USA, Turkey, etc.

Despite this, there are still problems related to this issue. As understood from the literature review of this paper, most research on innovations has been conducted on product and process innovations. Therefore, there is little research and evidence related to marketing and organizational innovations. However, as far as the local aspect is concerned, there are very few researches related to innovations. It can be said that there are only 3 to 4 researches that have been done on the impact of innovations in the environment of Kosovo enterprises.

The biggest breakthrough of this paper is the treatment of such a topic, thus adding to the literature on innovations and their types with special emphasis on Kosovo. So this is the greatest theoretical value of this paper, because it has dealt with literature sources of international and local authors as far as they are. Therefore, for this reason, the authors have come up with a proposal to address such a topic. At the end of this section, it can be said that the relationship between the questions and the field of research is positive, so the theoretical evidence shows that there is a positive relationship between the types of innovation and the increase in sales of Kosovar enterprises.

3. Methodology

The research methods of this paper are qualitative (literature review) and quantitative (econometric model) methods. The methodology of each research is special, therefore the methodology of this paper is special because it contains practical and theoretical values. At the beginning of the research it was stated that 400 enterprises were involved in the research and these enterprises are from different sectors such as production, trade and services. The reason for the involvement of enterprises from all sectors of the economy is the fact that Kosovo has a small number of enterprises and that most of Kosovo enterprises belong to the services sector, followed by production and the trade sector.

The manufacturing sector is underdeveloped because Kosovo's industry was destroyed during the 1990s. After 1999, Kosovo's giant companies lost market share in the former Socialist bloc countries, while their products were not sold in Western countries. Thus, Kosovar entrepreneurs were oriented towards the establishment of service and commercial or trade enterprises. The few manufacturing companies that exist in the Kosovo market are the majority of companies that produce products from wood, food and metal.

Regarding the information related to the survey it can be said that these enterprises were interviewed by the authors of this paper, within a period of several months, namely from

August 2021 to December 2021. The interview was conducted directly with CEOs, human resource managers, sales and marketing managers, financial managers, etc. The geographical area of Kosovo is not very large so these companies have been interviewed in every location and region of Kosovo. Kosovo has 7 regions: Prishtina which represents the largest region, then Prizren, Peja, Mitrovica, Gjilan, Gjakova and Ferizaj. The largest number of Kosovar businesses are concentrated in the region of Prishtina, Peja and Ferizaj.

Pristina is the capital of Kosovo and it can be said that most of Kosovo's economy is concentrated in this region. Meanwhile, Peja and Ferizaj are regions that have a tradition in business development, especially trade and industry. Data related to location, business size, business organization, number of employees, business sector, are provided by the Ministry of Trade and Industry of Kosovo. This ministry possesses data on enterprises of all types in Kosovo. This number of 400 enterprises constitutes about 60% of Kosovar enterprises. Their size can be claimed to be medium and large.

In contemporary literature this research methodology is widely used. We have tried to present this methodology according to the conditions of the research and the circumstances of the enterprises and the economy of Kosovo and that of the Western Balkans. It should be noted that there is not enough literature in the field of business innovations and their impact on business activity for the Western Balkan countries such as Kosovo, North Macedonia, Bosnia and Herzegovina, etc .. In the results section, some resources are given which can be compared to this research or paper. The research so far that has focused on the Western Balkan countries has usually focused on macroeconomic issues, structural economic problems, the unfinished transition, and very few of them have focused on enterprise innovation. Therefore there is very little research that can be compared to our research.

Our econometric model does not include many variables, but only those that are essential to measure the impact of innovation types on sales growth of these enterprises.

Table 1. Variables with categories

Dependent variable:	Categories
Increasing the level of sales	1- Yes; 0- No
Independent variables:	Categories
Marketing innovation	1- Yes; 0- No
Product or Process innovation	1- Yes; 0- No
Organizational innovation	1- Yes; 0- No

Source: author's own work

Lagorio et al. (2016) claim that Urban Logistics is about the movement of goods and describes the transport of goods in urban areas. So this describes the movements within a city. This concerns the supply of end customers as well as the supply of retail, industry or trade. In this model, the dependent variable can have only 2 categories and no more. So the basic characteristics of logistic model is the fact that the dependent variable in this model consists of 2 categories.

Therefore the dependent variable of our paper consists of 2 categories. Specifically, the representatives of the enterprises were asked by the authors of the research whether their sales have increased as a result of the types of innovations they have developed within a period of five years. 56% of enterprises answered that they have increased, while 44% of enterprises answered that their sales have not increased. The following section will present the results achieved from the empirical evidence obtained as a result of the statistical model.

Based on these data, the econometric model can be presented as follows:

$$P(Y_i = 1) = \beta_0 + \beta_1 \text{ Marketing innovation} + \beta_2 \text{ Product or Process innovation} + \beta_3 \text{ Organizational innovation} + \epsilon_i$$

The hypotheses of our paper are as follows:

H1: Product innovations positively affect the growth of sales level of Kosovo enterprises;

H2: Marketing innovations have a positive impact on increasing sales level of Kosovo

enterprises;

H3: Organizational innovations have a positive impact on increasing sales level of Kosovo enterprises;

4. Results

The empirical results achieved by the statistical research will be presented in this section of the paper. The table above presents the variables and their categories. Meanwhile the following statistics present Hosmer and Lemeshow's Goodness of-fit test, Multicollinearity test, logic model estimation, and specifications of the Logit Model. Initially, the following table presents the Hosmer and Lemeshow's Goodness of-fit test and the below table the Test of Multicollinearity.

Table 2. Hosmer and Lemeshow's Goodness of-fit test

Number of observations	400
Hosmer-Lemeshow chi2	8.91
Prob> chi2	0.785

Source: author's own work

In case Hosmer and Lemeshow's Goodness of-fit test is not significant, it indicates that the data fit our model. The values of this test show that everything is fine regarding the statistics achieved.

Table 3. Multicollinearity test

Variables	VIF	SQRT VIF	Tolerance	R-Squared
Marketing innovation	1.17	1.09	0.96	0.191
Product or Process innovation	1.22	1.02	0.89	0.145
Organizational innovation	1.14	1.11	0.92	0.169

Source: author's own work

Following the results of this test, the following table presents the values achieved by the logistic model. The achieved results show that all types of innovations represent significance in our paper.

Table 4. Logic model estimation

Variables	B	S.E.	Wald	df	Sig.	Exp(B)
Product or Process innovation	0.851	0.633	1.444	1	0.051**	1.158
Marketing innovation	1.334	0.518	3.229	1	0.018*	1.201
Organizational innovation	0.869	0.645	1.548	1	0.003***	1.047
Constant	5.888	1.967	5.559	1	0.011	0.009

*** Significant at 1% level, ** significant at 5%, * significant at 10% level

Source: author's own work

It should be noted that there is very little research on the impact of innovation types on the performance of Kosovar enterprises. Some of these few researches that have addressed this issue are Reçica et al. (2019), Jusufi et al. (2020), Rexhepi-Mahmutaj and Krasniqi (2020), Jusufi et al. (2021). These authors in their research have used variables similar to our variables, but unlike our research, these authors have used control variables.

We have not used control variables because we are interested in knowing the effect of these types on the sales growth of the analyzed enterprises, without introducing other variables that do not directly affect sales growth such as types of innovations. We think that innovations have a tremendous impact compared to the number of employees, the size of the enterprise or even the level of education of managers and middle and lower level employees. These obtained statistics reflect the extraordinary importance of the types of innovations in the business performance of the enterprises that are the subject of our research.

Product/Process innovation represents significance in our research. So the more Kosovar companies develop such innovations, the more likely they are to increase their sales. New products are essential for increasing the sales of Kosovar companies. Unfortunately, a

considerable number of Kosovar companies develop new products. The services sector leads in terms of product innovations. In particular, Kosovar companies that develop their business activity in the field of information technology, software are leaders not only in Kosovo but also beyond. This type of innovation also has a positive relationship with the dependent variable.

It should be said that the independent variables represent significance in our model, well the level of their significance differs from 1% level, 5% level, and 10% level. The Marketing innovation variable is significant at 10%. Kosovar companies apply marketing according to market needs and it can be said that especially service companies make marketing innovations often because there is strong competition in this sector, so to survive they in addition to product and service innovations must develop marketing innovations. Many companies from this sector, are creating amazing ads, are developing new and fast distribution channels, are applying favorable prices for the Kosovar consumer basket, etc. Small enterprises stand badly in this regard because due to insufficient financial and human resources, they can not develop marketing innovations.

Organisational innovation is also significant in our model. Kosovar enterprises from all sectors, in particular large and medium enterprises, create new organizational structures. They are also constantly designing their organizational policies. Although there is a lack of foreign investment in Kosovo, Kosovar companies adapt their organizational structure in line with those of foreign companies, from countries such as Bulgaria, Turkey, Croatia, Germany, Switzerland, etc. So even in this aspect, Kosovar enterprises do not stand badly. Therefore, our empirical results prove that organizational innovations have a positive impact on increasing the level of sales of Kosovar enterprises in each economic sector.

The above table provided us with statistical evidence regarding the impact of types of innovations on increasing the level of sales of Kosovar enterprises. The following table provides evidence regarding the suitability of our model.

Table 5, Specifications of the Logit Model

Model fit	
n	400
-2 log-likelihood	354.49
χ^2	1.183
Nagelkerke R2	0.018
Overall percentage of predictions	
correct	57.1

*** Significant at 1% level; ** significant at 5%; * significant at 10% level.

Source: author's own work

As can be understood from these statistics our econometric model is a suitable model for our data and to investigate the elaborated problem. The suitability of the model is of great importance because without the suitability of the model the desired statistical and econometric results cannot be achieved. In terms of supporting the hypotheses of this paper, the first hypothesis is supported because product or process innovations are significant in our research. The statistics achieved are the best evidence that product and process innovations have a positive impact on increasing the level of sales of Kosovar enterprises in all economic sectors.

The second hypothesis is also supported because marketing innovations show significance in the econometric model specifically in the logistic model. Even in the literature review it was mentioned that without sophisticated marketing methods, sales advertising can not achieve success in raising the level of sales. Therefore, these theoretical evidences are supported by the empirical evidences achieved by the authors of this research. So this paper is a powerful proof that supports marketing innovations as essential for any enterprise of all sectors and of all sizes.

The third and final hypothesis is supported by the empirical evidence of our research. An enterprise that does not have an appropriate organizational structure that supports innovation,

employees who have knowledge of innovative processes, can not normally be expected to succeed organizational innovation. So it can be concluded that for the enterprises of a country in transition such as Kosovo, all types of innovations are of great importance. It can not be said that one or the other is specific to increasing the level of sales.

5. Conclusion

This paper, through theoretical and empirical evidence proved the importance of all types of innovations in increasing the sales of Kosovar enterprises from all sectors. It can be argued that Kosovar enterprises, especially large and medium-sized ones do not stand badly in terms of developing innovations. Trade and service enterprises create various innovations which are related to processes, products and marketing because Kosovo is dominated by these enterprises, and to survive in this market where over 70% of enterprises are service and commercial or trade, the most original innovations must be developed and as creative as possible.

Regarding the recommendations that can be given regarding product innovations based on the empirical results achieved and the sources of the analyzed literature, the following recommendations can be given for product innovations:

Kosovar enterprises need to focus more on new production methods and techniques, to develop new production manuals for a given product. These are prerequisites for successful innovations aimed at developing new products and modifying existing ones. Manufacturing enterprises usually have outdated and outdated production methods. Therefore, most of these methods should be discarded and new production methods should be applied instead.

Based on the information obtained during the survey process, product innovations in most Kosovar enterprises are developed ad hoc. Each enterprise should have a department or task force which would deal specifically with the development of innovations specifically with the development of product innovations. Only through new products can Kosovo increase the level of exports to the EU. The Stabilization and Association Agreement (SAA) enables Kosovar companies to export to the EU market, but as long as these companies do not have new and adequate products for the EU consumer, they will not succeed at all in the EU. To overcome this defect, the activity of developing product and process innovations should be done systematically through the innovation department in the enterprise.

In terms of marketing innovations, this type of innovation is also of great importance for Kosovar enterprises and that it has a positive impact on increasing the level of sales of these enterprises. Despite the fact that a large number of Kosovar enterprises, especially service companies, use sophisticated marketing methods, there is still work to be done in terms of marketing innovations. Recommendations that can be given to Kosovar companies in terms of marketing innovations are:

It was mentioned above that since 2016, as a result of the start of the implementation of the SAA, Kosovar companies have the opportunity to export to the EU market without any obstacles. Kosovar companies need to develop marketing innovations that would raise their image outside Kosovo. In particular, Kosovo exporting companies need to develop major innovations in the field of marketing in order to find a foreign market or even expand the international market. So despite the benefits deriving from the SAA, Kosovar companies can not expand their market without building a good image and brand for their products. This will be achieved as a result of marketing innovations accompanied by an effective promotion campaign.

This promotion campaign should be achieved through the most frequent advertising of Kosovar products which are competitive especially those of wood in the means of communication of EU countries, such as Germany, Bulgaria, Italy, Greece, France, etc. So in the countries where the Kosovar diaspora has existed for years, and where the historical and economic ties of Kosovo with these countries have existed for years.

Like the first two types of innovations, the innovations of the organization have a special impact on increasing the level of sales of Kosovar enterprises because they represent significance in our research. Recommendations that can be given for this type of innovation

are:

Bureaucratic structure is the essential problem of all types of enterprises, especially manufacturing ones, that hinders their progress. Kosovar enterprises must carry out organizational innovations which will change the bureaucratic structure of enterprises, simply to create such an organizational structure which would ensure innovation. Organizations or enterprises in Kosovo are heavily influenced by clientelism, nepotism and corruption. Many employees who have creative skills can not move forward because they are hindered by CEOs who happen to run the organization according to the interests of certain groups. Likewise, family enterprises, their organizational structure is a problem for their advancement because untimely family members often risk bankruptcy of a certain enterprise.

Most of Kosovo's oligarchs today have a strong influence on profitable and successful enterprises. Perhaps Kosovar enterprises today need organizational innovation more than any other type of innovation. There are negative social phenomena which were mentioned above and which inhibit the creative and innovative environment in the enterprise. When these negative phenomena disappear, a suitable environment for innovation will be created and with organizational changes it will be possible to create new and innovative products, new marketing methods, sales, new production processes, etc ...

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CHANGING CONSUMER BEHAVIOR AS A RESULT OF INFLUENCER MARKETING

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Abstract. The third millennium was preceded by rapid technical-technological development, namely information technology and the Internet, through which the factors of the external environment have also changed which have drastically influenced the changes in consumer behavior. The market as such has a very heterogeneous and dispersed character, therefore, the world is dominated by hyper-competition, as products and services are becoming increasingly personalized. The development, transformation and very large use of social networks by the general society has pushed marketers to develop and apply a new concept of marketing which is influencer marketing. The very large use of social networks by individuals, such as: Facebook, TikTok, Twitter, YouTube, Snapchat, Instagram, etc., have also changed the way of communication and decision-making for the purchase of products and services. Therefore, influencer marketing has a very essential impact on the market to consumers. Through this paper, we try to understand how consumers perceive how influential marketing has influenced their behavior in their decision-making for purchasing products and services. Therefore, the main purpose of this paper is to analyze the impact of influencer marketing on Kosovar consumer behavior.

Keywords: influencer marketing, consumer behavior, social networks, influencers.

Introduction

In the last decade, the use of social media has already become a trend for people, regardless of the reasons for their use, for finding old friends, group communication, following public figures or finding channels for online shopping. These online pursuits are especially becoming increasingly popular as interest in a healthy and luxurious lifestyle is growing[1]. Social media use and focus The public's focus is to look good in appearance, live healthy, take vacations, etc. to show followers to take this inspiration, to influence their behavior as consumers, is an ever-increasing trend[2]. Influencers are characterized by having a public or artistic personality that attracts thousands of followers on social networks, in such a way that he becomes a representative figure of his sector, and everything he says or does is important to those "followers", who go so far as to imitate him[3]. Social networks such as Facebook and TikTok have changed the way people get information and communicate with each other. Focus groups as users of Instagram, Facebook, Snapchat and other applications use them to share photo content, videos and various comments, conversations with families, friends or even with their followers, so these social networks give these opportunities to their users[4]. So having a social media marketing strategy could be as simple as having a company blog, a Twitter or Instagram account, Facebook or attach "Digg This" and "Tweet This"[5]. Social media influencer marketing is the process of marketing through social media sites such as Twitter, Facebook, Instagram and YouTube. By utilizing the social aspect of the Internet, influencer marketing in social media is able to connect and interact on a much more personalized and direct level with the customer and is more dynamic than through traditional marketing[6]. So influencer

marketing, along with SEO and social media advertising, are giving better results and better market[7]. Based on these trends nowadays more and more companies are looking to influencers in order to reach users and get their company, products or services known. Therefore, it is normal and common for companies to start spending their marketing budget on engaging or "employing" these personalities[8]. Positive performances will start when a company has to choose human capacities that are important as influencers for its sector or company. So, the reason for this scientific paper is the analysis of the influence of marketing influences as an impact on the behavior of consumers for making decisions about purchasing products and services. The main purpose of this research is to analyze the impact of influencer marketing on social media, which influence the change of their behavior as consumers in Kosovo. To reach a conclusion of a general overview on influential marketing in social networks, the way of circulation in the market, influencing people for the change in their behavior as a consumer for the decision-making for purchasing a product or service in Kosovo.

Research questions

In order to carry out this research, we used the panel of data for 100 respondents with gender and age structure in Kosovo.

In the explicit form in this research, we have posed three research questions:

RQ1: Knowledge of influencer marketing in Kosovo.?

RQ2: The impact of influencer marketing on consumer behavior in Kosovo.?

RQ3: Influential marketing of enterprises in Kosovo and the impact on business performance?

Literature review

This paper examines the literature on the impact of influencer marketing on their influence on consumer behavior, in terms of deciding to purchase products and services in Kosovo. Consumer behavior as a scientific fact developed around the end of the fifties of the last century when it was realized that by researching the consumer's desires and needs, a greater benefit would be achieved. In general, consumers make a decision to purchase a product or service because they can expect more benefits from it than from another product, clearly performing a cost-benefits relationship for their choices.

Consumer behavior

Consumer behavior is a process of actions and reactions, i.e. dynamic movement, for decision-making on the purchase of products and services mainly as a result of the environmental impact on an individual, on his own behavior, the connection and interaction of affect and cognition [9].

Influence on consumer behavior is a time intensive process. Consumer behavior is the primary focus of any company's marketing activities, through which activity it is tried to satisfy the needs of consumers as successfully as possible.

Successful companies focus their marketing efforts on meeting customer needs, that match their core competencies, and a key factor for successful marketing is determining the right balance of

functional and psychological needs that best satisfy the company's target markets.

Influencer marketing

The early 20th century featured famous sports figures such as Cy Young & Babe Ruth promoting tobacco products and actress Lilly Langtry endorsing Pears soap. The subsequent growth of influencer marketing is a fact closely related to the sharing phenomenon and to some extent to the liking phenomenon.

Influencer marketing is a collaborative campaign between an influencer and a brand. The influencer uses their reach to increase awareness of a brand or product among their followers, which aligns with the target audience of the sponsoring business. A successful way to reach people and potential customers has always been that "word of mouth". An influencer is an individual with a significant following or followers on social media who is paid by brands to promote their products to said followers, through free products and travel and/or cash payment per promotional post, the purpose of which is to convince followers to buy such products or services.

We will mention some social media that have an impact on the audience or consumer, they are: Facebook, Instagram, Snapchat and YouTube, etc. When done wisely, influencers can reach many followers and start a chain reaction of outreach to influence consumer behavior[10].

The types of influencers

Influencer marketing is currently one of the most prominent trends in content marketing. For every \$1 spent on influencer marketing, brands earn up to \$5.78 in return. This is why 91% of marketers believe that influencer marketing is an effective form of marketing.

Social media influencers are individuals who have established a social media fan base and are often viewed by their followers as iconic role models and experts in their chosen industry. Since there are so many different types of influencers, it can be scary understand what type of influencer you need to improve your marketing. So, social media influencers are people who have established credibility in a particular field or field and share with the audience through social networks. These influencers have built strong relationships on social channels and respected opinions about the products and services they recommend. The influencers from nano to mega are presented in the following table.

Table 1. Defining influencers by number of followers

Nano-influencer	10-1000
Mikro-influencer	1000-10000
Makro-influencer	10.000-100.000
Mega-influencer	100.000-1 million
Famous-Influencer	1 million and more

Commenting and meaning of influencers according to the table.

Nano influencers are the smallest types of influencers.

The characteristics of nano-influencers are:

Number of Followers: 1K to 10K are everyday regular people.

Nano influencers can be fans of a particular brand or product and usually post and mention brands on their channels.

Has a close relationship with their fans, and responds to almost every comment and question.

This makes their followers more receptive to perceiving their recommendation as an authentic recommendation rather than a brand endorsement.

Micro-influencers are types of influencers with the potential to grow.

The characteristics of micro-influencers are:

Number of followers: 10k to 100k, specialize in a niche.

They have an extremely high level of engagement with their fans compared to other types of influencers.

Highly segmented audience, which will be easy for your brand to tailor ads to them. They are relevant, trustworthy and authentic to followers. Many are also open to other forms of compensation, including gifts and invitations, which leads to more opportunities for companies that don't have enough funds for an impactful marketing campaign.

Macro-influencers: Medium level type of influence.

The characteristics of macro-influencers are:

Number of followers: 100 thousand to 500 thousand.

Segmented audiences that are easy to reach and engage with. A low number of cooperation with many brands. A relatively high number of faithful followers, on whom your campaign can have a significant impact and have a relatively high price.

Mega influencers are the right influencers for scale.

Characteristics of mega influencers:

Number of followers: 500 thousand to 2 million, a large number of social media consumers. High price depending on their profiles. They cooperate with several brands at the same time, very well-known and popular.

Contribute to the growth of marketing campaign revenue. They offer a brand the ability to quickly increase its presence to a wide audience. An audience may not be as specific when compared to other types of influencers.

All-star influencers are for brand image development.

Features of All-Star Influencers:

Number of followers: over 2 million usually famous. Massive following involving very different audiences (challenging to identify a specific segment).

One of their posts can be an instant hit and reach a large number of people. Extremely high cost[11].

Methodology

In this scientific paper, the method with the mix principle is used. It means that qualitative and quantitative research methods were used. The development of the theory of the paper was based on an abductive approach, which means that it was a combination outside the deductive and inductive approach. The inductive approach is more focused on defining and explaining a specific topic, while the behavior of the consumer or the influencer on Instagram, is based on a qualitative research method. The deductive approach is a process of empirical observation, in this case, an online survey was conducted. This research paper, that is, the focus of the research has been a small number of companies from different sectors who have provided specific information regarding the research regarding their companies, how they stand on this type of

marketing, therefore the qualitative method was used. On the other side, regarding the state of Influencer Marketing in Kosovo, it was necessary to collect information from a very large number of citizens to generate statistical data, therefore the quantitative approach was used. As the research focuses on two processes which cannot function without each other. To study the flow of influencer marketing in Kosovo, a semi-structured questionnaire was used with 100 respondents/consumers.

Commenting on the empirical results.

Within the statistical analysis, all the elements of the research questionnaire will be analyzed in order to test the research questions and hypotheses. In the statistical analysis were performed statistical tests of central correlation analysis and comparison of means.

Table 2. Presentation of the general data of the respondents

Sample		The number of respondents	Total (%)
Gender	Female	64	64 %
	Male	36	36%
Age	20-25 years	9	9%
	26-35 years	32	32%
	36-45 years	20	20%
	46- 60 years	39	39%
Marital status	i/e widower	2	2%
	Married	88	88

	Divorced	2	2%
	Other	10	10%
Ec.condition	Better than average	42	42%
	Average	58	58%
Place	Village	66	66%
	City	34	34%
Education	Secondary	51	51%
	University	41	41%
	Postgraduate	8	8%

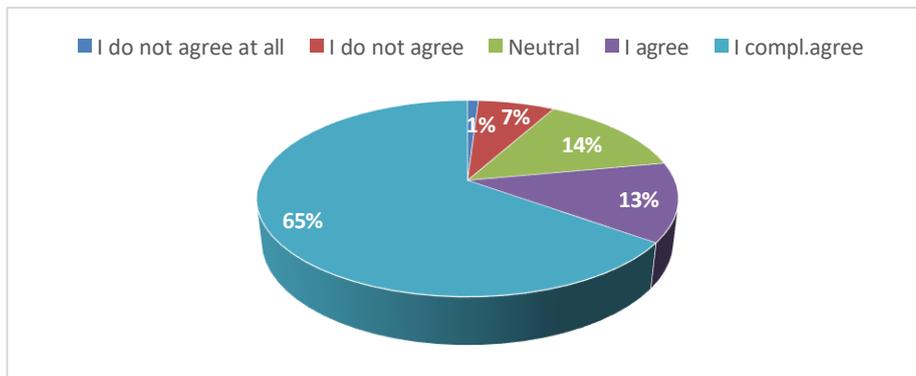


Fig. 1. Respodents konowledge on influencer marketing.

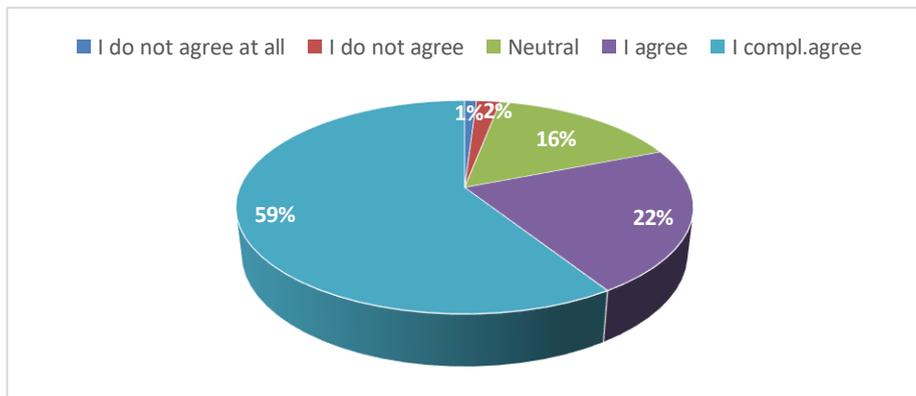


Fig. 2. Knowledge of citizens on influencer marketing.

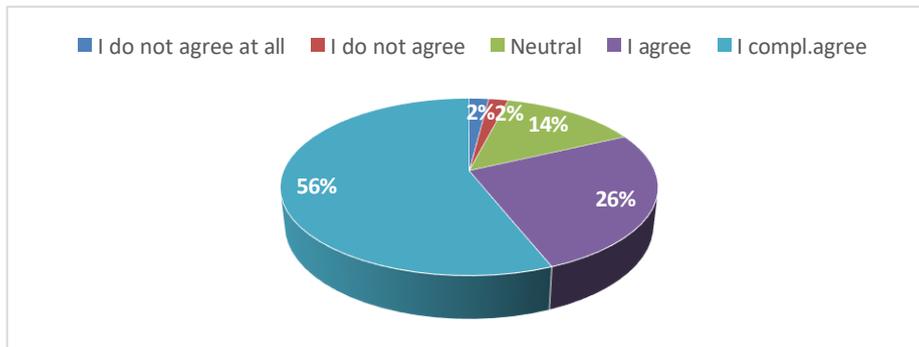


Fig. 3. Knowledge on the importance of influencer marketing in the financial turnover of the company.

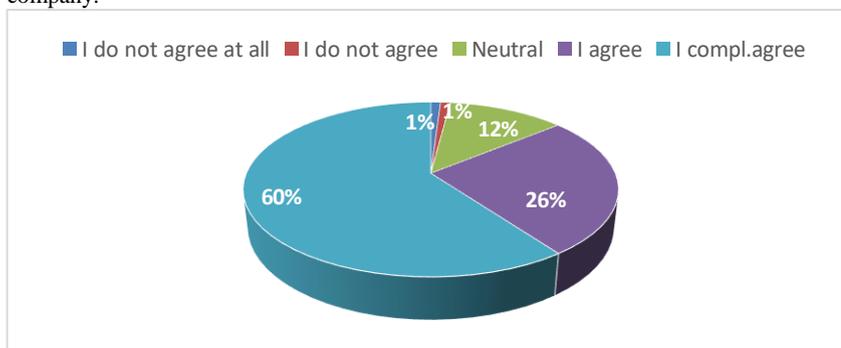


Fig. 4. Knowledge related to their buying influence when they want to make a purchase.

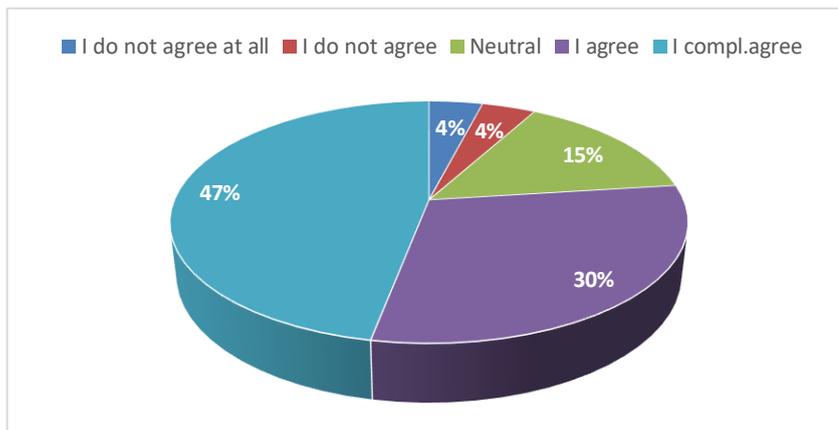


Fig. 5. Knowledge related to their ability to evaluate the quality of marketing before they make a purchase.

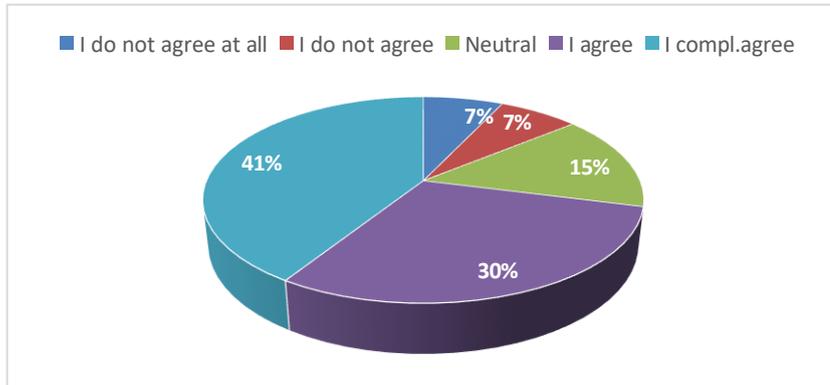


Fig. 6. Knowledge related to the impact of market services on consumer behavior.

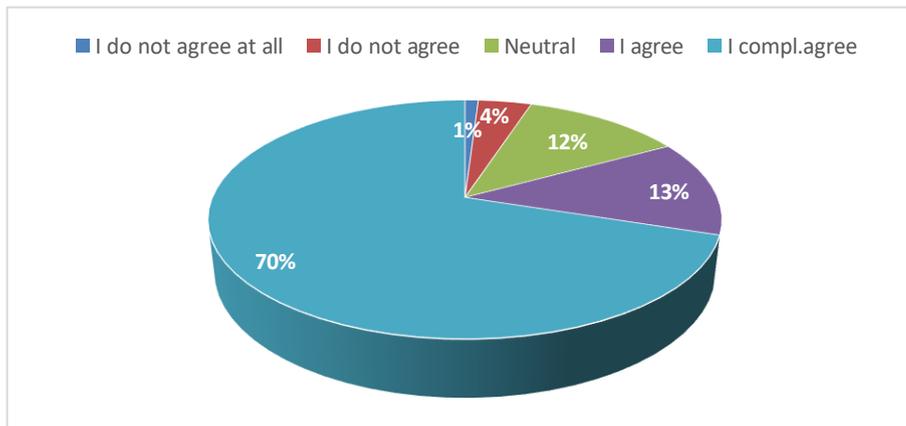


Fig. 7. Knowledge related to the impact of influencer marketing on consumer behavior.

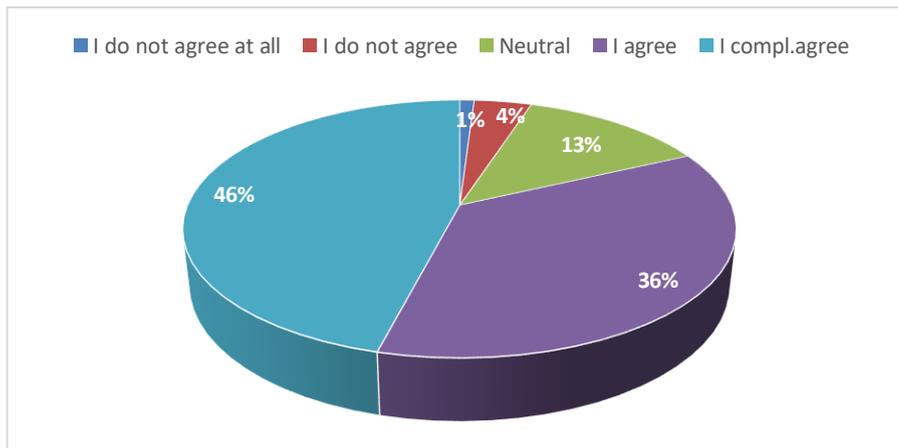


Fig. 8. Knowledge related to the impact of influencer marketing on the formation of the main attributes of consumer behavior.

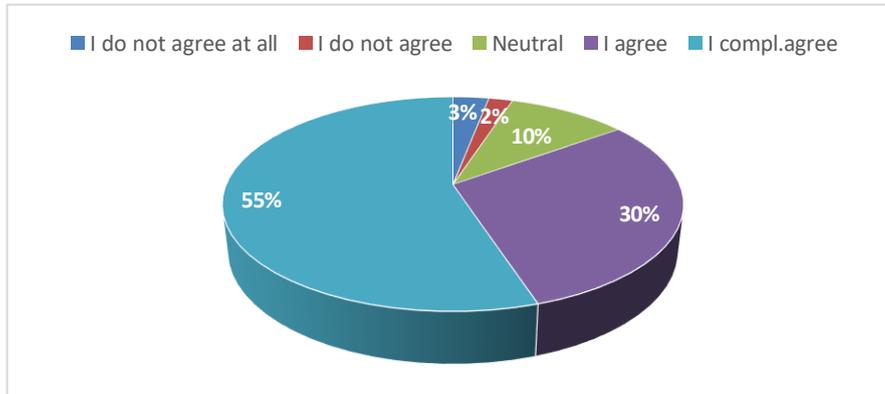


Fig. 9. Knowledge related to the evaluation of consumer behavior by the company.

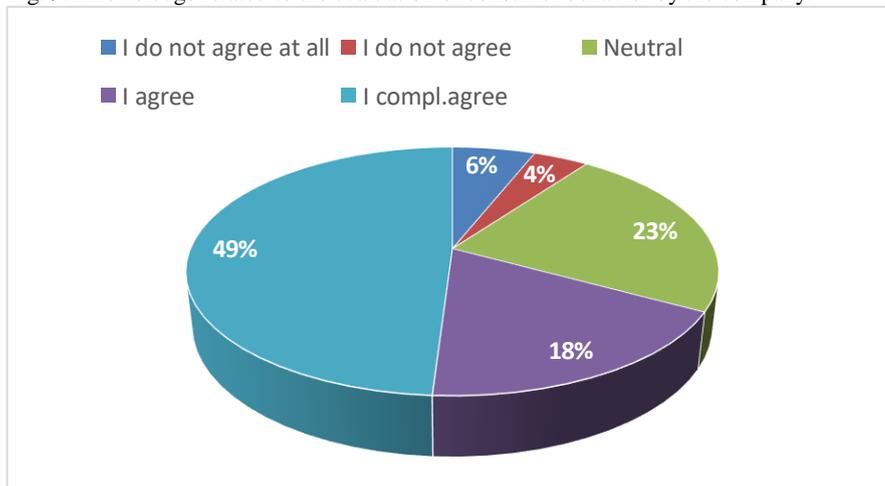


Fig. 10. Knowledge about companies in Kosovo that do not attach great importance to influencer marketing in social media or consumer behavior

Conclusions and recommendations

Conclusion

From the analysis of the findings, the dominant age in this research is 46-60 years, while the dominant marital status is married. While in economic terms, the respondents estimate that their economic situation is better than the average with dominant reference. While based on the level of education, secondary education dominates, followed by university education.

From the analysis on the knowledge of the respondents on influencer marketing, the majority or 88.3% have declared that they have general knowledge on influencer marketing in general, while when it comes to the perceptions of the respondents regarding the knowledge of citizens on influencer marketing, 82.3% therefore declare that Kosovo citizens do not have accurate information on influencer marketing.

Regarding the importance of influencer marketing in the company's financial turnover, 56.3%

of the total number of respondents have declared that they totally agree that influencer marketing has a great impact on the company's financial turnover.

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Regarding the evaluation of consumer behavior by companies within the framework of company development and influencer marketing strategy in particular, 5.2% of them do not agree with this issue, 10.3% are neutral regarding this, 30.6% agree that companies should they value consumer behaviors because they are a key element in predicting the company's development, and 54.0% have declared that they fully agree that companies should accept consumer behavior as a key element for the development of the company and the influencer marketing strategy in particular CURES regarding the importance that Companies in Kosovo pay attention to social media marketing yesterday especially on consumer behavior 48.3% have declared that they fully agree that companies in Kosovo do not pay attention to social media marketing yesterday especially on consumer behavior.

Recommendations

As a result of conducting the survey with the respondents, this research issues the following recommendations:

Businesses in Kosovo must be as direct and transparent as possible with citizens, when the latter make a complaint/request and are awaiting the procedure.

Citizens are recommended to delegate it to the appropriate place the first time they encounter any concern.

Recommend that the company be in operation including all operating capacities in case of defects.

We recommend that the statements of the managers are correct to the citizens regarding their obligations to the company.

We recommend that the importance of citizens' complaints be made known in the context of improving services in the company.

We recommend that managers make a statement regarding the improvement of services to increase the satisfaction of citizens.

Referencat:

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GROSS DOMESTIC PRODUCT AND THE PROGRESS OF ECONOMIC GROWTH IN KOSOVO

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Abstract. After the last war, Kosovo continues to remain among the countries with a low level of development and a high rate of unemployment. The low level of economic growth and the high rate of unemployment remain among the main economic challenges for solution, in this direction the government through the instruments of economic policy, separately the fiscal policy should be oriented in order to create the most favorable environment through alleviating measures towards the sector private. In the framework of the work, the main objective consists in the analysis of the progress of the Gross Domestic Product and the economic growth in Kosovo in recent years, as well as the importance of the fiscal policy in the economic flows.

In this study, the progress of the Gross Domestic Product and the economic growth in Kosovo in recent years are analyzed, where the conclusions and recommendations are given, so that through the instruments and measures of the fiscal policy, a more favorable environment is created for the promotion of economic activity and economic growth in place.

Key words: Gross Domestic Product, Economic growth, Fiscal policy, Private sector.

Introduction

The most relevant economic indicator that reflects the level of development in the country is the Gross Domestic Product. In the framework of the work, the main objectives consist in the analysis of the performance of the Gross Domestic Product and the economic growth in Kosovo in recent years. To achieve the objectives in this study, the analysis method and the comparative method are mainly used, examining in dynamics the issue related to the performance of the Gross Domestic Product and economic growth in the country, as well as the role and importance of fiscal policy in economic flows.

Since the private sector is considered a generator of economic growth and employment, however, high taxes in the post-war years were unfavorable and among the obstacles in business activity. Until the last few years, the fiscal policy as an integral part of the economic policy was not sufficiently in function of stimulating the private sector, but mainly oriented towards filling the budget coffers. So, the Kosovar economy in the transition period it is going through has had its own development difficulties and the existing climate does not promise any encouragement and faster development.

The research questions of this study include:

What is the progress of economic growth in Kosovo in recent years?

What is the progress of economic growth in the countries of the Western Balkans?

Through this study, the conclusions and recommendations given can be served and taken into account by those interested in their field.

In order to answer the questions posed by the questionnaire, it was possible to review the scientific literature, but also important government documents (reports, publications) of the institutions of the Republic of Kosovo.

2. The methodology used

For the finalization of this paper, the presented material has the following support:

Local and foreign literature, as well as reports and publications from the Kosovo Statistics Agency, the Central Bank of Kosovo, which deal with issues of Gross Domestic Product and economic growth in the Republic of Kosovo.

The local statistical source was used, the method of analysis and synthesis, tabular and graphic separately, comparative method, etc.

3. Literature review

An important indicator in the economy of a country is the Gross Domestic Product (GDP). The most important economic indicator in the System of National Accounts is the Gross Domestic Product, which represents the performance of a country's economy in a certain period.⁴⁵

The Gross Domestic Product is the result of the work (economic activities) of a country's economy in the sphere of production and consists of all the material goods produced and the various services it performs within a year, or a certain period of time. Gross domestic product is the totality of final products and services realized in a country for a certain period of time (Koka, M. 2014, Macroeconomics). Therefore, according to the production criteria, the Gross Domestic Product represents the value of final products and services produced in the economy of a country in a given period of time. Gross Domestic Product (GDP) is the market value of all final goods and services produced within a country in a given period of time.⁴⁶

4. Results

Economic growth is considered among the main macroeconomic objectives of the country's government and represents the overall increase in the production of an economy. Therefore it is considered as the ability of a country's economy to produce more goods and services for consumers. After the end of the war in 1999, Kosovo was in the transition phase, where economic processes had negative trends and the results show that economic development faces many challenges.

The Gross Domestic Product is taken as the most general macroeconomic indicator through which the dynamics of economic development is expressed.

Table 1: Gross Domestic Product in Kosovo

Years	Gross Domestic Product
2020	6,772
2021	7,958
2022	8,594

Source: Kosovo Statistics Agency, Series 5: National accounts statistics, Gross Domestic Product (GDP) according to economic activities and with the expenditure approach 2008-2020, Pristine, 2021, pg. 7. Kosovo Statistics Agency, Statistics of National Accounts, Gross Domestic Product Q1 2022, Pristine, 2022, p.7. Law No. 08/L-193, On Budget Allocations for the Budget of the Republic of Kosovo for 2023.

From the table, on the progress of the GDP, in the period 2020-2022, it can be seen that the value of the GDP had a growth trend in 2021 compared to the previous year 2020. During the period 2020-2022, the Gross Domestic Product had an upward trend from 6.7 billion euros in 2020 to 8.5 billion euros in 2022.

⁴⁵ Kosovo Statistics Agency, Statistics of National Accounts Gross Domestic Product Q2 2023, Pristina 2023, pg 13.

⁴⁶ Mankiw, N. G. & Taylor, M. P., Economics/ Macroeconomics, Translated by: Artan Meci, Jorgji Qirjako, UET Press 2012, pg 38.

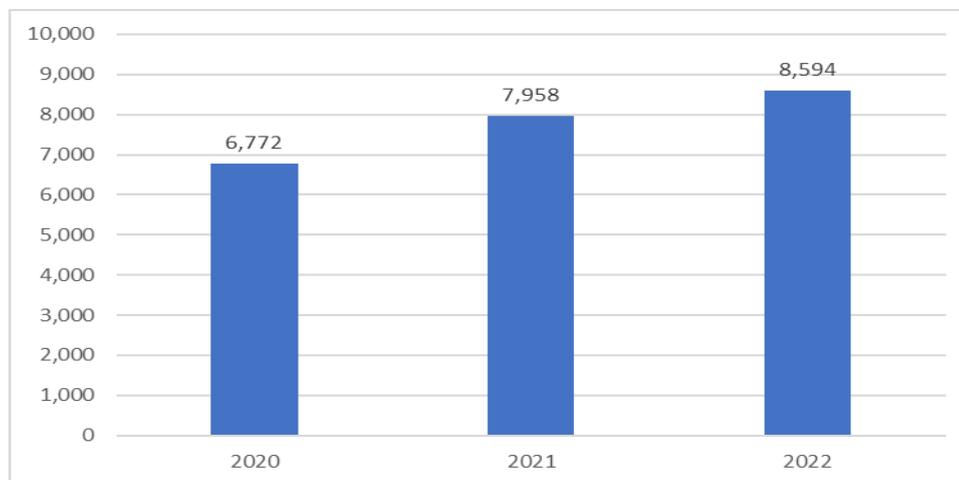


Figure 1: Gross Domestic Product in the period 2020-2022

From the table, on the progress of the GDP, in the period 2020-2022, it can be seen that the value of the GDP had a growth trend in 2021 compared to the previous year 2020. During the period 2020-2022, the Gross Domestic Product had an upward trend from 6.7 billion euros in 2020 to 8.5 billion euros in 2022.

The following table reflects the real GDP rate in Kosovo in the period 2020-2022.

Table 2:

GDP- Real growth rate in Kosovo in the period 2020-2022

Years	2020				2021				2022			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
GDP real growth rate in %	0.26	-12.73	-7.73	0.10	4.12	16.77	14.53	6.36	4.54	2.89	3.26	3.55

Source: Kosovo Statistics Agency, Series 4: National Accounts Statistics, Gross Domestic Product Q4 2021, Pristine, 2022, pg. 3. Kosovo Statistics Agency, National Accounts Statistics Gross Domestic Product Q2 2023, Pristine, 2023, pg. 5. Author calculation.

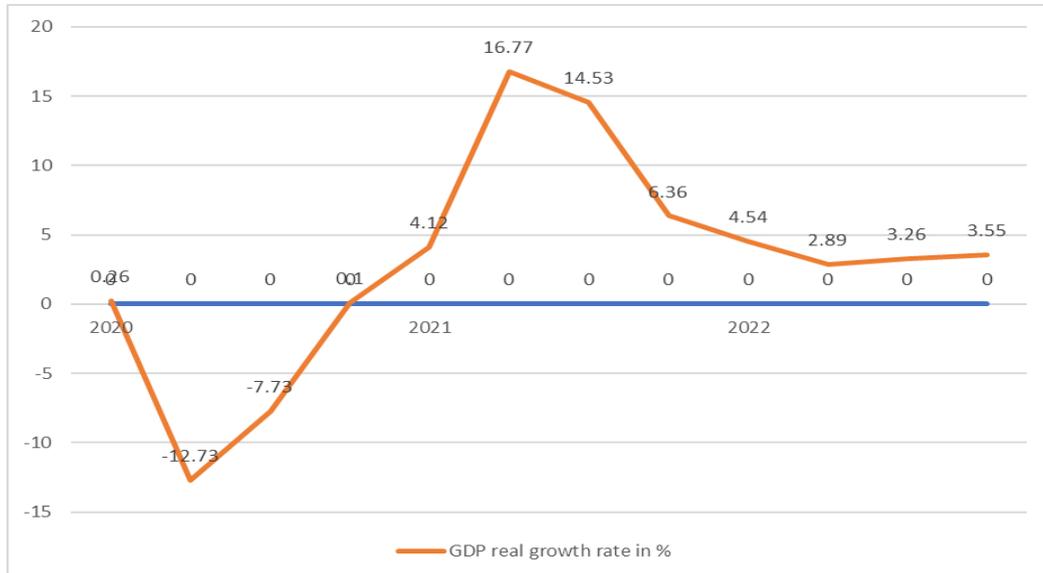


Figure 2: GDP- Real growth rate in Kosovo in the period 2020-2022

The growth rate of the economy represents the rate at which the real GDP grows (Dornbusch, Rudiger, Fischer Stanley, Macroeconomics, Translated by: Marta Muco, Sulo Haderi, Tirana, 2000). Economic growth is never achieved at a constant growth rate. The table and graph reflect the trend of the real GDP growth rate in Kosovo during the period 2020-2021 and 2022. The real GDP growth in 2020 in Q4 was 0.10%, this is as a result of measures and restrictions in the economy with the beginning of the Covid19 pandemic, while at the end of 2020 and in 2021 with the removal of measures and restrictions in the economy (opening of the economy) it is also reflected in economic growth trends with an increase in 2021 in Q4 to 6.36%. In 2022, the GDP growth rate in the fourth quarter was 3.55%.

The following table shows Real GDP Growth (percent) in the countries of the Western Balkans.

Table -3

Real GDP Growth (percent) in the countries of the Western Balkans in the period 2020-2022

	2020	2021	2022
Albania	-3.3	8.9	4.8
Bosnia and Herzegovina	-3.0	7.4	4.0
Kosovo	-5.3	10.7	3.5
North Macedonia	-4.7	3.9	2.1
Montenegro	-15.3	13.0	6.1
Serbia	-0.9	7.5	2.3

Source: World Bank Group, Western Balkans Regular Economic Report, No.23|Spring 2023, pg.6.

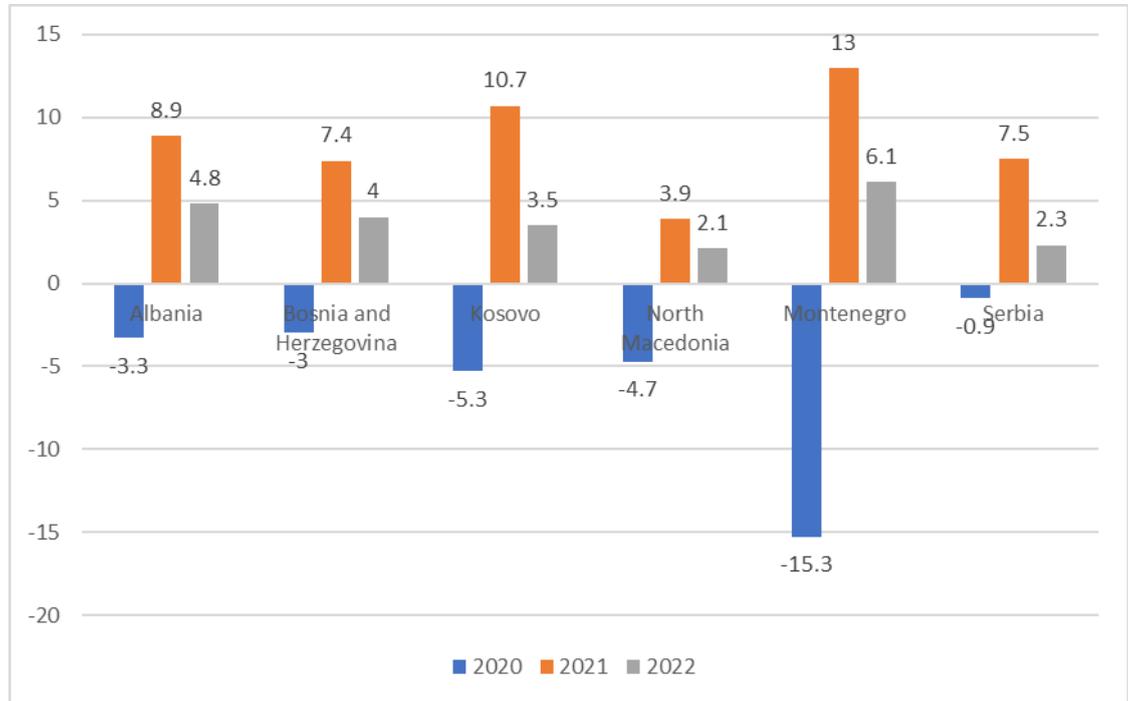


Figure 3: Real GDP Growth (percent) in the countries of the Western Balkans.

Based on the data in table no. 3 and figure no. 3, in 2021 compared to the previous period, a higher trend of GDP growth is observed in all the countries of the region. The countries of the Western Balkans and Kosovo during 2020 as a result of the Covid19 Pandemic had an economic growth trend, while during 2021 after the removal of restrictive measures and the opening of the economy, they had an economic growth trend, having a slower growth trend during the year 2022.

The low trend of economic growth in Kosovo, taking into account the unemployment rate and the high trade deficit, in such an economic situation in the country, the decision-makers should orient the fiscal policy as an instrument of the implemented economic policy for the economic development of the country.

5. Conclusions and recommendations

Economic growth is considered among the main macroeconomic objectives of the country's government. In post-war Kosovo, private capital was mainly focused on service activities, and very little on productive ones.

The progress of the real growth of the Gross Domestic Product with a single-digit rate is considered insufficient in reducing the high rate of unemployment and the high trade deficit. The fiscal reforms applied so far have proven to be relatively efficient. In this regard, given the dynamics of economic flows in the country, there has undoubtedly been a lack of stimulation with measures and instruments of the economic policy implemented in the orientation of private capital in the productive sector.

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IMPACT OF NIGER DELTA CRISIS AND NATIONAL SECURITY IN NIGERIA: APPRAISAL OF THE AMNESTY PROGRAMME GRANTED

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Abstract: The fragility of the nation's take-off, as the historical antecedent, created Nigeria's socioeconomic, cultural, and political woes. The Nigerian historical developments are better explained by the adage that says "When a fowl perches on the rope, it and the rope automatically become unsettled." This largely remains so till this moment in Nigeria's history as the various events portend particularly in the Niger Delta region. The character and attitude of the Federal Government to the agitation in the region is well known and documented. The use of force to keep the people down and exploit their oil and gas resources could not resolve the crises. In spite of the fact that we now have a 'stable' and 'fraudulent' democratic government in place, the country is yet to be freed from disturbing socio-economic, cultural and political developments. Today, it is innocuous to state that Nigeria is still without a properly consolidated political system. It is a known fact that with the proclamation of the amnesty there seems to be relative peace and national security have since returned to the region. However, the Federal Government is still trying to restore peace in some places with the aim of restoring peace and safety of the nation's economy.

Keywords: Niger Delta Crisis, National Security, Nigeria, Amnesty Programme

Introduction

The Niger Delta, commonly known as the 'jewel' of Nigeria, has great economic and cultural importance for the country (Smith, 2018). Spanning across nine of Nigeria's 36 states and covering an area of over 70,000 square kilometers, this region showcases a varied ecosystem that is sustained by a complex network of creeks, rivers, and islands. Yet, hidden among its abundant biodiversity is a globally significant resource: oil (World Bank, 2019). The identification of oil reserves in the late 1950s constituted a crucial turning point for Nigeria, catapulting it to the position of Africa's foremost oil producer and the sixth-largest globally, according to the International Energy Agency (IEA, 2020).

Nigeria's economy heavily relies on oil revenues, which account for more than 90% of the country's foreign exchange earnings and a significant chunk of its national budget (OPEC, 2021). The Niger Delta's oil reserves are crucial for Nigeria's fiscal stability, highlighting the economic dependence on them. Nevertheless, the extraction of oil has resulted in significant consequences, giving rise to the current Niger Delta issue.

Although the oil wealth in the Niger Delta has increased Nigeria's international reputation, it has not resulted in equivalent progress or prosperity for the local population (World Bank, 2019). Paradoxically, although the region generates significant income, it remains one of the most destitute and underdeveloped regions in the country. The longstanding issue of the wealth gap resulting from oil production and the living conditions of the residents has been

documented (Smith, 2018).

The Niger Delta populations have encountered increased challenges due to environmental deterioration caused by oil spills, gas flaring, and deforestation (UNEP, 2011). The environmental challenges have had significant consequences on the livelihoods of millions who depend on agriculture and fishing for their survival (Nnimmo Bassey Foundation, 2016). The severe living conditions, combined with a feeling of exclusion, have intensified dissatisfaction, demonstrations, and, in severe instances, armed resistance.

The Niger Delta issue, characterized by heightened tension, presents a substantial risk to Nigeria's socio-economic stability and national security (Obi, 2010). The local population's frustrations, arising from economic neglect and environmental degradation, have materialized in diverse forms of resistance, including protests and militant activities (Human Rights Watch, 2014).

The recurrent pattern of warfare in the region has resulted in disturbances in oil production and infrastructure, affecting not just the local economy but also the general stability of the nation (Obi, 2010). The Niger Delta crisis has seen the rise of militant factions aiming to address perceived grievances and achieve a fairer allocation of oil resources (Okonta & Douglas, 2003). The actions of these groups have not only resulted in financial damages but have also posed a challenge to the government's capacity to uphold law and order.

The Nigerian government implemented the Amnesty Programme in 2009 as a deliberate intervention to tackle the underlying causes of conflict in the Niger Delta region, in response to the rising crisis (Niger Delta Amnesty Programme, 2009). The program's objective was to disarm militants, provide rehabilitation services, and facilitate their reintegration into society (Niger Delta Amnesty Programme, 2009).

The Amnesty Programme has played a vital role in reducing the Niger Delta problem and improving national security. The platform has facilitated conversation and reconciliation, resulting in a decrease in violence and an enhancement of the general security situation in the region (Ibeanu, 2012). Nevertheless, the program's efficacy has been a matter of contention, since several opponents contend that it fails to adequately tackle the fundamental structural problems that underpin the conflict (Ojakorotu, 2017).

History of the Niger Delta Crisis

The Niger Delta Crisis in Nigeria has its historical origins firmly rooted in the colonial era, a time that greatly influenced the socio-economic and political environment of the region. The period of British colonial authority, which lasted from the late 19th century to the mid-20th century, brought about significant developments that laid the foundation for long-lasting conflicts in the Niger Delta. Aghalino (2000) emphasizes the significant influence of the colonial period, emphasizing the disturbance of conventional land and resource ownership arrangements.

British actions throughout the colonial era resulted in the modification of traditional land tenure structures, enabling the acquisition of large amounts of land for agricultural and resource extraction activities. Aghalino (2000) observes that this restructuring failed to consider the traditional rights of the local communities, establishing a basis for future confrontations in the region. The introduction of British administrative and commercial systems not only changed the socio-cultural dynamics but also set the foundation for the dissatisfaction that would later rise into the Niger Delta Crisis.

The Niger Delta Crisis is intricately linked with ethnic dynamics, given that the region includes diverse ethnic groups such as the Ijaw, Ogoni, and Itsekiri. The utilization of oil resources has intensified ethnic tensions, as various groups compete for a portion of the economic advantages. Omeje (2006) examines the influence of ethnicity on conflicts in the Niger Delta, highlighting the significant impact of historical grievances and identity politics on the intricate nature of the situation.

The issue in Nigeria is further complicated by the ethnic dimensions, which are exacerbated by the country's federal governance system. The distribution of resources and political power has

been a sensitive matter, as ethnic groups in the Niger Delta region are pressing for a fairer allotment of both. Suberu (2001) offers valuable insights into the difficulties of federalism in Nigeria and its role in exacerbating the grievances of the Niger Delta communities.

In the late 1950s, oil was first discovered in Oloibiri, which had a significant impact on Nigeria's economic development. Nevertheless, the economic opportunities resulting from the discovery of oil also served as a trigger for disputes regarding the management of resources. Frynas (2000) highlights that the recently discovered oil wealth exacerbated pre-existing conflicts, resulting in disagreements on the management and allocation of oil profits among the many ethnic factions in the Niger Delta.

The allure of oil extraction's economic potential enticed multinational oil corporations, hence adding complexity to the socio-political environment. In his work, Watts (2008) examines how multinational firms contribute to the escalation of wars by actively seeking to exploit the oil resources of the region. The increase in oil wealth intensified the rivalry between ethnic groups as they vied for a portion of the economic advantages, thereby creating conditions conducive to social and political turmoil as well as communal tensions.

The exponential surge in oil production in the Niger Delta has resulted in profound environmental repercussions, leading to substantial deterioration. Nwilo and Badejo (2006) chronicle the incidence of oil spills and deforestation, emphasizing the deleterious effect on agriculture and fishing activities, which are vital means of subsistence for the indigenous community. The deterioration of the ecosystem worsened pre-existing problems, leading to a cycle of poverty and environmental injustice in the region.

Furthermore, the matter of oil spills and its ecological ramifications has garnered global attention. The ecological harm resulting from oil spills in the Niger Delta has been highlighted by international organizations and environmental advocates, who stress the importance of adopting responsible and sustainable methods for extracting oil (UNEP, 2011).

Although the Niger Delta region possesses substantial oil wealth, there is still a significant socio-economic disparity that exists, leading to a feeling of hostility among the local populace. Ikelegbe (2005) highlights the significant differences between the economic capacity of the region and its current condition of inadequate progress. The alleged inequitable allocation of oil revenue has consistently sparked protests and rallies.

The socio-economic disparities are inextricably connected to the greater question of governance and the distribution of resources. The misallocation of oil income and the absence of fair development strategies have exacerbated the disparity between the oil-abundant Niger Delta region and the remainder of the country. In his work, Suberu (2001) examines the difficulties associated with governance in Nigeria and the consequences of the allocation of resources. He highlights the underlying systemic problems that have played a role in the socio-economic inequalities observed in the Niger Delta region.

The Niger Delta Crisis has significantly affected local communities, resulting in the displacement of people, the loss of sources of income, and a decline in living standards. Okonta and Douglas (2001) examine the impact of oil exploration and extraction activities on communities, focusing specifically on the human rights aspect of the situation and documenting the negative consequences. The forced relocation of populations and the devastation of customary means of subsistence have engendered animosity and opposition against both the government and petroleum corporations.

Furthermore, the situation has led to the formation of militant factions that promote the rights and interests of the indigenous community. The aforementioned groups, often known as the "Niger Delta Avengers" and similar factions, have resorted to acts of sabotage, such as targeting oil sites, in order to bring attention to their problems (Obi, 2011). The actions of these extremist organizations have introduced an additional level of intricacy to the issue and have presented substantial obstacles to the country's security.

The Niger Delta Crisis has garnered international attention, with multiple parties expressing concerns and calling for sustainable solutions. The Niger Delta's environmental impact from oil

activities has been extensively studied by international agencies, including the United Nations Environmental Programme (UNEP). The 2011 report from the UNEP emphasized the necessity of immediate and thorough actions to combat environmental deterioration. It also urged global cooperation to assist Nigeria in resolving this situation.

Moreover, the activities of multinational oil corporations operating in the Niger Delta have attracted global criticism. Human rights organizations and environmental activists have brought attention to the obligation of big firms to uphold ethical and sustainable practices. The international world has become more aware of the interdependence between environmental degradation, human rights violations, and socio-economic inequalities. This has led to a growing consensus on the need for a comprehensive and cooperative approach to addressing the Niger Delta Crisis (Frynas, 2018).

Amnesty Programme

The Nigerian government implemented the Presidential Amnesty Programme as a strategic response to the Niger Delta Crisis, which is primarily caused by historical injustices, economic inequalities, and societal neglect. Introduced by the deceased President Umaru Yar' Adua in June 2009, this effort aimed to suppress the rebellion in the Niger Delta by incentivizing militants to willingly renounce their protests. As compensation, participants were provided with a variety of advantageous packages, primarily emphasizing the development of human skills and abilities. The Amnesty Programme, first designed as a five-year initiative, has spanned throughout various administrations, highlighting its lasting importance in tackling the complex issues of the Niger Delta region.

The Amnesty Programme originated from the acknowledgment of the urgent requirement for a comprehensive strategy to tackle the increasing violence and social turmoil in the Niger Delta. The presence of historical complaints against the exploitation of resources, destruction of the environment, and neglect of socio-economic issues created a favorable climate for the growth of militancy. The primary goals of the program were extensive, encompassing not only the disarming of militants but also their rehabilitation and reintegration into society. The essential elements encompassed the enhancement of skills through programs aimed at developing human capacity, which is a vital measure towards achieving sustainable peace and socio-economic progress (Onuoha, 2013).

The Amnesty Programme, first planned as a five-year intervention, has surpassed expectations in terms of its duration, highlighting its strategic significance and the unwavering support it has received from many stakeholders in the Niger Delta region. The youth and activists in the region view the program as a crucial factor in promoting long-term peace, indicating the strong discontent and the pressing need for concrete enhancements in the socio-economic situation of the Niger Delta.

The enduring presence of the Amnesty Programme across various administrations highlights its institutionalization as a crucial element of government strategy. Although initially considering cessation, the Buhari administration acknowledged the ongoing significance of the initiative and chose to continue it. The selection of retired Brigadier-General Paul Boroh as the Coordinator reaffirmed the government's dedication to sustaining the progress of the Amnesty Programme and utilizing it as a means to promote wider regional development and reconciliation.

Although official figures indicate that the Presidential Amnesty Programme has provided benefits to more than five million individuals in the Niger Delta, there is a lack of comprehensive and independent evaluations regarding its actual impact. According to scholars and observers, the program has played a role in decreasing violence and creating a favorable climate for growth (Ayodele, 2016).

The success of the Amnesty Programme goes beyond disarmament and also includes its function as a catalyst for the development of human capital. The program aims to furnish former militants with the required skills for sustainable livelihoods through education, vocational training, and empowerment efforts. This approach is consistent with wider

development objectives, as it tackles not only the immediate security issues but also the fundamental socio-economic difficulties in the Niger Delta.

Appraising the Amnesty Programme in Nigeria Since 2009

Since the restoration of democratic rule in 1999, the Nigerian people have prioritized creating a favorable environment for international business, expanding democratic freedoms, and minimizing if not eradicating disputes. The expectations were exceedingly elevated. Democracy was seen to possess intrinsic practices that may effectively resolve problems of many kinds. One of the many conflicts in Nigeria is the Niger Delta crisis, which has proven to be persistent and difficult to resolve since the country gained independence. Therefore, the administration of Obasanjo created the Niger Delta Development Commission (NDDC) as a dedicated body to address the development and transformation of the region. Although the NDDC has claimed to have implemented several infrastructural projects, its efforts have not effectively mitigated or eradicated criminality, bloodshed, and militant confrontations in the Niger Delta region. The establishment of a Joint Military Task Force (JTF) by the Federal government, aimed at employing minimal force, failed to effectively address the concerns at hand.

Indeed, the aforementioned endeavors appear to have exacerbated the intricacy of the issue in the Niger Delta. During the eight years of Obasanjo's government, the Niger Delta crisis escalated from a minor conflict to a widespread and intense catastrophe. The confrontations between the Joint Task Force (JTF) and militant factions resulted in a significant number of casualties, with thousands losing their lives and many others sustaining injuries. According to Dodd Gilbert (2010), certain radical young individuals have engaged in intense battles to gain control over bunkering territories and routes. These conflicts have resulted in the loss of multiple lives. Additionally, when these individuals are apprehended by the state security services, they retaliate by causing deliberate damage to oil infrastructure. Davies, like Dodd Gilbert (2010) provided additional clarification that JTF reported the destruction of 111 out of about 411 illicit refineries in the Delta region in July 2008. This indicates the extent of oil theft and the ongoing criminal activity in the region as a result of the turmoil. The consequence is the loss of human lives and valuable resources that could have been used for development purposes. For instance, Dodd-Gilbert (2010) presented the value of Nigeria's average daily oil production stolen from 2000 to 2008. This is shown below as follows:

Table 1: Value of Nigeria's Average Daily Oil Production Stolen and Shut-in 2000 - 2008

Years	Av. Price bonny light crude (USD)	Volume stolen bpd	Volume oil stolen (USD)	Assumed production shut-in-bpd	Volume production shut-in (USD)	Daily Av. Stolen & shut-in	Total value (USD)
2000	28.49			250,000	\$2.6B		
2001	24.50			200,000	\$1.8B		
2002	25.15			370,000	\$3.4B		
2003	28.76	300,000	\$3.2B	350,000	\$3.7B	650,000	\$6.9B
2004	38.27	300,000	\$4.2B	230,000	\$3.2B	530,000	\$6.4B
2005	55.67	250,000	\$5.1B	180,000	\$3.7B	430,000	\$8.8B
2006	66.84	100,000	\$2.4B	600,000	\$14.6B	700,000	\$17.0B
2007	75.14	100,000	\$2.7B	600,000	\$16.5B	700,000	\$19.2B
2008	115.81	150,000	\$6.3B	600,000	\$27.5B	800,000	\$33.8B

Source: Davis (2009 cited in Dodd Gilbert, 2010: 60)

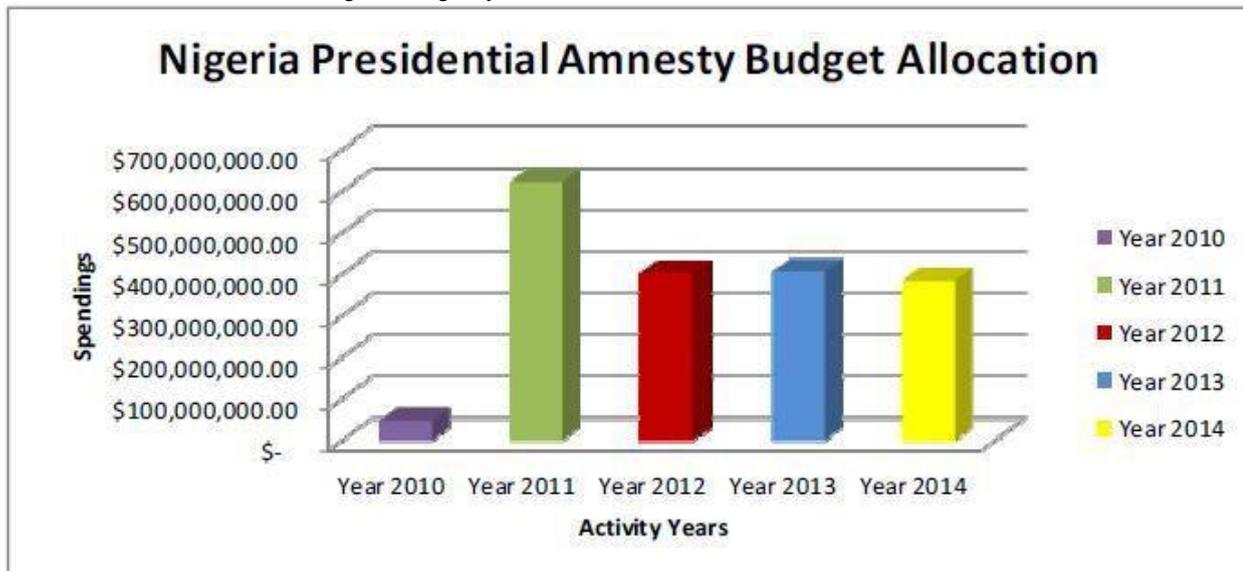
In addition, the issue of oil theft has also taken on a concerning magnitude. According to Obadan & Chokor (2013), more than 10% of production losses are attributed to theft. If not controlled, this can significantly reduce income and contaminate the environment due to spills.

According to Obadan and Chokor (2013), it is projected that Nigeria suffered a loss of N191 billion in the first quarter of 2013 due to oil theft. From January to August 2012, the Joint Task Force (JTF) conducted operations to search and seize illicit oil bunkering facilities, resulting in the identification of 2,700 unauthorized refineries in Bayelsa and Rivers states (Ubhenin, 2013). In the period of three months, specifically from July 2012, the Delta State Police Command apprehended more than 150 individuals for crimes including kidnapping, robbery, and other illicit acts. On average, this amounts to approximately 50 arrests every month.

The aforementioned human and economic losses, along with the increased militancy in the Niger Delta, and particularly the global economic downturn in 2007 and the declining global oil price that President Yar Adua's administration faced, seem to have made it necessary to prioritize the peace agenda in the Niger Delta. Consequently, the Yar'Adua administration proposed an amnesty program for the militants who are prepared to surrender their weapons in exchange for peace (Ogungbemi, 2010).

After a period of almost five years of amnesty, it is evident that the Nigerian state is currently experiencing a temporary state of calm in the Niger Delta region. Without a doubt, the initiative has effectively ceased the bloodshed in the Niger Delta region. However, the underlying reasons and significant factors contributing to the conflict have not been sufficiently addressed. Poverty remains unabated in the Niger Delta, and the Nigerian government has failed to adequately enhance the infrastructure to a satisfactory level. Significant amounts of money have been spent and additional funds have been allocated for the program. However, the specialized agencies and the ministry responsible for delivering essential social services have not met the expected performance standards. Oluokun (2012) highlighted that around N 127 billion was allocated to the Niger Delta amnesty program between 2009 and 2011. Subsequently, the government has consistently allocated substantial funds to assure the continuation and achievement of the initiative. The table below displays the budgetary allocation of the Federal Government of Nigeria for the amnesty project from 2010 to 2014.

Table 2: Federal Government of Nigeria Budgetary Allocation from 2010 – 2014



Source: Davis (2009 cited in Dodd Gilbert, 2010: 60)

Understandably, there appears to be a good degree of honesty in the distribution of this cash. However, this behavior cannot be attributed to a strong desire for success. Instead, it is a result of the ex-militant's aggressive and unjustifiable nature when it comes to matters of their well-

being and the money that they are entitled to. Therefore, despite the government's financial investment, the challenge of reconstructing the Niger Delta region remains substantial. Undoubtedly, the state has exhibited subpar performance, particularly in the realms of poverty alleviation and infrastructure advancement.

Regrettably, the amnesty has not diminished the risks of a recurrence of hostilities. Nwajiaku-Dahou (2010) reported that in January 2010, MEND re-issued a threat to recommence its conflict with the oil business, although there was minimal further activity. On 15 March 2010, militants affiliated with MEND asserted that they were responsible for setting off explosives in Warri, Delta state. The incident occurred outside a hotel where a meeting was taking place between Governors from certain Niger Delta states, organized by The Vanguard newspapers. The purpose of the meeting was to discuss the details of the post-Amnesty program (Nwajiaku-Dahou, 2010). Recently, the former militant commanders have persistently sung songs advocating for war and have made threats to renew hostilities if the current President Jonathan is not reelected in the 2015 Presidential election. In essence, if the state fails to comprehensively address the issue of militancy from the beginning, it will put at risk the limited progress that has already been achieved. Indeed, certain militant factions have not abandoned the desire or potential to retreat to the creeks and resume their aggressive activities. In essence, if the opportunity to take advantage of the temporary peace to improve the quality of life for the population (including former militants) and provide necessary social amenities and services is not seized, the circumstances that led to the crisis will likely be repeated.

Addressing Neglect and Marginalization

The Amnesty Programme is a crucial element of the government's comprehensive approach to tackling the intricate problems stemming from historical grievances and socio-economic imbalances in the Niger Delta region. The administration seeks to promote sustainable progress in a historically disenfranchised region by focusing on investing in human capital and socio-economic development, to dismantle institutional impediments. Ikelegbe (2005) and Suberu (2001) are scholars who have performed comprehensive research that has provided insights into the historical neglect and economic disparities that have affected the Niger Delta region. Ikelegbe's research offers valuable insights into the complex dynamics of the region's economy and the consequences of neglect on its socio-political landscape. Suberu, however, explores the wider framework of ethnic minority conflicts in Nigeria, providing a thorough comprehension of the difficulties encountered by disadvantaged areas. Ikelegbe's (2005) research focuses on the complex economic difficulties encountered in the Niger Delta, emphasizing the negative outcomes resulting from the region's neglect in terms of its progress. The researcher emphasizes the immediate necessity for focused initiatives to address past inequalities and improve the socio-economic circumstances of the inhabitants in the Niger Delta. In this context, the Amnesty Programme serves as a pragmatic solution to the problems highlighted by Ikelegbe, aiming to disrupt the recurring pattern of negligence that has impeded the region's development. Suberu's (2001) study, which centers on ethnic minority conflicts in Nigeria, offers a more comprehensive outlook on the difficulties encountered by marginalized areas, such as the Niger Delta. Suberu's research highlights the interdependence of neglect, governance, and economic inequities by examining them through the lens of ethnic dynamics. Suberu's analysis highlights the crucial role of the Amnesty Programme in not only promoting peacebuilding but also addressing the underlying causes of conflicts associated with marginalization. Both Ikelegbe and Suberu emphasize the need for focused efforts to address past injustices and disparities in the Niger Delta region. The Amnesty Programme, through its implementation of disarmament, rehabilitation, and human capacity building, is in accordance with the scholars' advocacy for targeted interventions that directly cater to the needs of the populace. A focused strategy is crucial for interrupting the pattern of neglect and promoting a long-lasting trajectory toward development. The Amnesty Programme, which prioritizes disarmament, rehabilitation, and human capacity building, is a pragmatic solution to the complex difficulties noted by researchers such as Ikelegbe and Suberu. The initiative aims to

empower individuals in the Niger Delta by directly involving them and offering education and skill development opportunities. This not only promotes personal progress but also contributes to the broader development of the region.

The establishment of peace in the Niger Delta was the primary reason for the implementation of the amnesty program in Nigeria. This was necessary to effectively exploit the oil resources in the region, which is crucial for satisfying the diverse interests of the federal government, oil multinationals, and the global community that relies on a consistent supply of this resource.

The origin of the amnesty initiative lies in the recommendations of the Niger Delta Technical Committee (NDTC) that was inaugurated on 8 September 2008 by the federal government whose terms of reference were:

To collate, review, and distill the various reports, suggestions, and recommendations on the Niger Delta from the Willink Commission Report (1958) to the present, and give a summary of the recommendations necessary for government action.

To appraise the summary recommendations and present a detailed short, medium, and long-term suggestion to the challenges in the Niger Delta.

To make and present to the Government any other recommendations that will help the Federal Government achieve sustainable development, peace, human and environmental security in the Niger Delta region.

The NDTC plan pinpointed three primary concerns that impede the achievement of lasting peace and progress in the Niger Delta region. These concerns necessitate reforms in the areas of governance and adherence to legal principles, socio-economic advancement, and human development.

The Committee put forth comprehensive recommendations on all of these issues, particularly in relation to curbing the escalating violence in the region. It suggested implementing international norms of disarmament, demobilization, and reintegration (DDR) for militants, as outlined in the United Nations Integrated DDR Standards. It suggested that the federal government:

Establish a credible and authoritative DDR institution and process including international negotiators to plan, implement, and oversee the DDR programmes at regional, state, and local government levels;

Provide for open trial and release on bail (with a view to eventual release) of Henry Okah and others involved in struggles relating to the Region;

Grant amnesty to all Niger Delta militants willing and ready to participate in the DDR programme;

Address short-term issues arising from amnesty to militants, by promoting security for ex-militants and rebuilding communities destroyed by military invasion;

Work out long-term strategies of human capacity development and reintegration for ex-militants;

Reflect on a time-line with adequate funds for the DDR programme to take place;

Stop the illegal demands put on youths from the Region by prosecuting the suppliers of small arms and light weapons and also those involved in oil bunkering by identifying highly placed persons in and outside of government who are engaged in sponsoring violence for economic and political reasons;

Exclude from amnesty and criminalize the activities of those militants not committed to the DDR process and unwilling to surrender their arms;

Ensure that signatories to the DDR programme show a clear commitment to the entire process.

Challenges and Criticisms

Although the Presidential Amnesty Programme in the Niger Delta has accomplished significant achievements, it is not impervious to obstacles and critics. Several researchers and analysts contend that the program's narrow emphasis on former militants disregards more encompassing concerns that are vital for achieving long-lasting peace and development in the region. In addition, experts such as Ayodele (2016) and Onuoha (2013) have highlighted the importance

of a more comprehensive approach due to concerns about the sustainability of the program and the lack of a well-defined exit strategy.

Neglect of Broader Issues: Ayodele (2016) and other critics argue that the Amnesty Programme's main focus on disarming and rehabilitating former militants would unintentionally neglect important issues such as environmental degradation, infrastructural development, and economic diversification in the Niger Delta. Ayodele's research highlights the interrelatedness of the difficulties confronting the region, indicating that a narrow concentration on ex-militants may not effectively tackle the fundamental causes of the violence in a comprehensive manner. This critique necessitates a more comprehensive strategy that takes into account the complex aspects of the problems afflicting the Niger Delta.

Environmental Degradation and Infrastructural Gaps: The Niger Delta continues to face a widespread problem of environmental deterioration caused by the discovery and production of oil. A significant criticism is the lack of attention given to environmental issues in the Amnesty Programme. Academics contend that an effective peace-building strategy should include initiatives to tackle the ecological consequences of oil operations and promote the recovery of impacted ecosystems. This viewpoint is in accordance with the research conducted by experts such as Watts (2008), who exhaustively examined the environmental difficulties in the Niger Delta and underlined the necessity for comprehensive remedies.

Economic Diversification Imperatives: Another aspect of criticism is the focus on the need for economic diversification. The Niger Delta's over-dependence on oil resources renders it vulnerable to economic changes. According to Frynas (2000), achieving sustainable peace and prosperity necessitates endeavors to broaden the economic base of the region. The Amnesty Programme should consider incorporating measures that promote economic diversification, so enhancing the long-term resilience of the economic environment, in addition to its current focus on human capital development.

Sustainability Concerns: Although the Amnesty Programme has shown notable accomplishments, there have been voiced questions regarding its long-term viability. The lack of a clear departure strategy prompts inquiries on the enduring consequences of the initiative. Onuoha (2013) provides a thorough analysis of the sustainability component, highlighting the importance of addressing the underlying causes of the conflict as the most crucial factor for achieving enduring peace. This viewpoint emphasizes the necessity of a well-thought-out strategy that goes beyond just disarming and rehabilitating individuals, and also considers the wider socio-economic and environmental difficulties in the area.

Holistic Approaches for Lasting Peace: Obi (2011) and other scholars advocate for a comprehensive approach that incorporates environmental restoration, economic diversification, and good governance within both the Amnesty Programme and wider peace-building measures. This comprehensive viewpoint is in line with the idea that achieving lasting peace necessitates the resolution of the underlying factors that give rise to conflict, as emphasized by Onuoha (2013).

Inclusive Governance and Community Involvement: Aside from environmental and economic factors, the presence of effective governance systems and active community participation are essential elements for achieving long-term peace. Suberu (2001) highlights the significance of tackling governance obstacles to guarantee that the advantages of development are extended to the local level and enhance community resilience. The success and durability of peace-building projects rely on the presence of inclusive governance systems that actively engage local populations in decision-making processes.

Comparison with Other Conflict-Resolution Methods

Prior to the establishment of the Amnesty Programme, the Nigerian government employed different approaches to tackle the widespread instability in the Niger Delta region. These endeavors included military operations, diplomatic efforts, and the creation of developmental organizations like the Niger Delta Development Commission (NDDC) (Ibaba, 2005). Nevertheless, despite their well-meaning intentions, these methods faced considerable

obstacles, worsening the pre-existing problems and failing to adequately tackle the underlying causes of the crisis.

Direct Military Action: Early on, direct military interventions were used as a strategy to suppress the rebellion in the Niger Delta. Although the initial aim was to reinstate stability and quell extremist actions, the results turned out to be detrimental. The military operations frequently heightened the existing feelings of isolation and suspicion between the local communities and the governing authorities. The operations did not create a sense of security, but instead increased tensions and caused animosity among the communities. This further contributed to the continuation of the conflict (Ibaba, 2005).

Negotiation Attempts: Efforts to negotiate were pursued as an alternative approach to tackle the Niger Delta situation. Although discussions and talks have the potential to be productive, their success was hindered by a lack of consistency. Negotiations frequently irregularly took place, lacking consistent endeavors to establish trust or tackle the fundamental socio-economic and environmental concerns. The absence of uniformity weakened the effectiveness of settlement efforts, resulting in frequent reemergence of tensions (Ibaba, 2005).

Niger Delta Development Commission (NDDC): The creation of the Niger Delta Development Commission (NDDC) signified a dedication to tackle the socio-economic difficulties in the region. Nevertheless, the efficacy of this progressive endeavor was impeded by bureaucratic inefficiencies and unscrupulous practices. The NDDC encountered difficulties in effectively converting its objectives into concrete achievements, despite its aim to bring about significant and impactful changes. The commission's effectiveness in allocating monies to important developmental projects was hindered by bureaucratic red tape and instances of corruption, thereby limiting its overall influence (Obi, 2010).

Limitations and Why They Failed

These pre-Amnesty strategies encountered several limitations that contributed to their overall failure in addressing the Niger Delta crisis comprehensively.

Lack of Holistic Approach: The solutions frequently exhibited a fragmented approach, prioritizing immediate security measures or intermittent negotiating efforts without adequately addressing the underlying systemic problems that contributed to the conflict. The lack of a complete comprehension of the socio-economic, environmental, and governance concerns hindered the efficacy of these techniques.

Inadequate Community Involvement: The strategies struggled to actively involve local communities in decision-making processes. The failure to engage with the affected populations resulted in a disconnect between the implemented measures and the actual needs and grievances of the communities.

Bureaucratic Inefficiencies and Corruption: The NDDC and similar developmental projects encountered obstacles stemming from bureaucratic inefficiency and unscrupulous activities. The inadequate allocation and utilization of resources within these institutions impeded the effective execution of programs aimed at tackling the socio-economic challenges in the Niger Delta.

Failure to Address Root Causes: Primarily, these techniques frequently did not effectively tackle the fundamental origins of the conflict comprehensively. The failure to tackle problems like as environmental degradation, economic inequities, and governance concerns has allowed the cycle of instability to continue.

Conclusion

The discourse regarding the consequences of the Niger Delta Crisis and the ensuing Amnesty Programme highlights the complex difficulties that the region is currently experiencing. Upon analyzing the historical context, it becomes apparent that the imposition of changes in traditional land and resource ownership arrangements during the Colonial Era established the foundation for subsequent confrontations. The identification of oil reserves in the late 1950s presented opportunities for economic growth but also sparked conflicts regarding the administration of these resources. The Amnesty Programme was prompted by environmental

degradation, socio-economic inequities, and a feeling of neglect, which intensified unrest.

The Amnesty Programme, initiated in 2009, was a calculated measure in response to the Niger Delta Crisis, to disarm terrorists and tackle root causes through the development of human capabilities. Although historians such as Ikelegbe and Suberu have provided insights into the historical disregard, the program has been criticized for its narrow emphasis solely on former militants. Nevertheless, it serves as a concrete representation of the government's dedication to addressing past inequalities.

The program's achievements are visible, with more than five million recipients, yet, obstacles continue to exist. Comprehensive solutions are necessary to address environmental degradation, economic diversification, and sustainability problems. The effectiveness of pre-Amnesty strategies, such as military operations and developmental programs like the NDDC, was hindered by certain restrictions. Despite their good intentions, these initiatives frequently failed to tackle underlying issues, lacked consistency, and faced bureaucratic inefficiencies and corruption.

The deficiencies of the Amnesty Programme prompt inquiries regarding its enduring effectiveness in guaranteeing lasting peace. Although it has diminished violence and fostered optimism, effectively dealing with the intricacies of the region necessitates a comprehensive strategy. The necessity of advancing infrastructure, rehabilitating the environment, and achieving a careful equilibrium between economic pursuits and environmental conservation is paramount. Experiences from previous situations after conflicts highlight the significance of governing institutions that include everyone and comprehensive efforts for long-lasting peace.

Recommendations

In order to promote enduring peace, officials should contemplate an approach that encompasses multiple facets. The prioritization of infrastructure improvement is crucial to overcome the significant deterioration that is impeding economic progress. Environmental restoration, which is essential for maintaining ecological sustainability and supporting community livelihoods, demands immediate attention. Ensuring a balance between economic interests and environmental preservation is of utmost importance, requiring the implementation of responsible strategies for extracting resources.

Furthermore, the Amnesty Programme should transition into a more expansive development framework. Integral components must include inclusive government frameworks, economic diversification, and community involvement. An all-encompassing departure strategy should guarantee the ongoing welfare of program recipients. The achievement of sustainability depends on the thorough resolution of underlying problems, surpassing the scope of immediate disarmament endeavors.

Global assistance and cooperation are crucial. Global organizations should acknowledge the importance of efforts such as the Amnesty Programme in fostering regional stability. Adaptive strategies in the Niger Delta should be informed by scholarly research and continual reviews to effectively address the changing dynamics of the region.

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TURKISH FOREIGN POLICIES IN THE HORN OF AFRICA: A CASE STUDY OF ETHIOPIA AND SOMALIA (PERSPECTIVES FROM POLITICAL ECONOMICS)

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Abstract. Particularly after 1998, Türkiye's diplomatic and economic relations with African nations have improved. Türkiye's interest in Africa was initially dormant but after 2005, notably, this relationship changed into a more widespread, active, and expanded desire to forge relationships with the continent. The paper assesses Türkiye's connections with the continent from a political economics perspective. Emphasis is placed on the Horn of Africa with a focus on Ethiopia and Somalia. In order to properly assess the strengths and limitations of Turkish foreign policy toward Africa, various policies implemented by other nations, including the USA and China, are discussed and contrasted with Turkish international policy. The Turkish diplomatic and economic policies—which are carried out to forge links with Ethiopia and Somalia—are utilized as a case study to assess the advantages and disadvantages of the current approach used in the continent. In light of these analyses, the paper's ultimate goal is to identify the best practices in policy and, as a result, to offer advice to Turkish foreign policy decision-makers.

Keywords: Aid, Culture, Diplomacy, Political economy, soft power

Introduction

Türkiye's foreign policies have seen notable changes in recent years, particularly in strategically crucial locations like the Horn of Africa, as part of the constantly changing international relations landscape. The Horn, known for its geopolitical importance and unexplored economic opportunities, has become a significant area of interest for global countries competing to expand their influence. The Horn of Africa, which includes nations such as Ethiopia, Somalia, Eritrea, and Djibouti, is geographically located at a crucial intersection between Africa, the Middle East, and the Indian Ocean. The geopolitical importance of this region stems from its proximity to crucial marine routes, its strategic dominance over the Bab el Mandeb strait, and its ability to act as a gateway to the African hinterland. Türkiye's growing interest in the Horn region is driven not only by economic factors but also by its ambition to build a strategic presence in this crucial intersection (Bacik, 2019).

Türkiye's historical interest in Africa may be traced back to the time of the Ottoman Empire when diplomatic relations were established far before the creation of the Republic of Türkiye (Öktem, 2017). Nevertheless, it is within the last 10 years that Türkiye has significantly increased its endeavors to position itself as a prominent participant in the African continent, deviating from its customary emphasis on Europe and the Middle East. President Recep Tayyip Erdoğan's government has aggressively implemented a comprehensive foreign policy, placing significant emphasis on economic ties, diplomatic contacts, and humanitarian endeavors (Öniş & Yılmaz, 2015). This shift is in line with Türkiye's wider goal of expanding its diplomatic and economic relationships worldwide, thereby strengthening its position as an emerging power.

Ethiopia, as one of the rapidly developing economies in the area, and Somalia, facing political instability and humanitarian issues, provide interesting examples for comprehending the intricacies of Türkiye's foreign policies. The fact that Ethiopia is a landlocked country and Somalia is located strategically along the Gulf of Aden greatly adds to the challenges faced by Türkiye in its involvement in the region.

The diplomatic ties between Ethiopia and Türkiye have been enhanced by mutual visits, leading to the formation of the Türkiye-Ethiopia High-Level Cooperation Council in 2014 (T.C. Ministry of Foreign Affairs, 2014). Institutional systems of this nature promote continuous conversation and collaboration in various domains, including commerce, investment, and security cooperation.

Meanwhile, in Somalia, Türkiye's engagement has been remarkable, not only in terms of its diplomatic initiatives but also due to its significant humanitarian aid. Türkiye's involvement in Somalia is characterized by a diverse range of activities, such as the development of infrastructure, including hospitals and roads, as well as the implementation of training programs for Somali security personnel (Özkan, 2020). In Somalia, Türkiye's economic involvement goes beyond traditional investment. The Turkish government's dedication to infrastructure development, exemplified by the renovation of Mogadishu's Aden Adde International Airport and the construction of roads, is part of a comprehensive economic plan aimed at promoting peace and progress in the country (Çolak, 2018).

Analyzing Türkiye's foreign policies in the Horn of Africa requires a political-economic perspective to understand the underlying objectives and strategies. The framework of political economics enables us to examine the interaction between political choices and economic circumstances, revealing how these elements reciprocally impact and mold Türkiye's approach to Ethiopia and Somalia.

Historical Context of Turkish-African Relations

To comprehend the historical connections between Türkiye and Africa, one must extensively examine the period of the Ottoman Empire, which lasted from the late 13th century until the early 20th century. During this century, the Ottoman Empire engaged in significant exchanges with diverse African regions, establishing the basic foundation for the subsequent development of diplomatic ties between Türkiye and African nations.

The Ottoman Empire's involvement with Africa was helped by extensive naval operations in the Red Sea and the Mediterranean. Ottoman merchants played a significant role in trade, establishing connections between Anatolia and North Africa through dynamic trading networks. The commercial exchanges, emphasized by renowned historians like Shaw (1976) and İnalçık (1997), are fundamental components for comprehending the evolution of diplomatic and economic relations during this period.

Diplomatic interactions during the rule of the Ottoman Empire were marked by a reciprocal acknowledgment of common interests and a dedication to upholding peaceful relations. The Ottoman Empire frequently employed diplomatic missions, ambassadors, and envoys to demonstrate its commitment to political stability and economic collaboration while engaging with North African governments (Lewis, 1982).

Post-Ottoman Era and the Republic of Türkiye

Following World War I, the Ottoman Empire dissolved, and in its stead, the Republic of Türkiye was founded in 1923. Under the guidance of Atatürk, the newly established republic embarked on an ambitious program of reforms to modernize Turkish society, politics, and the economy. Türkiye's foreign policy during this period was mainly centered on ensuring its position in the international order after the war and promoting itself as a progressive and non-religious nation.

During the initial years of the Turkish Republic, there were only a few diplomatic interactions with African countries. Türkiye's emphasis on internal consolidation and modernization resulted in a shift of its foreign policy interests towards Europe and the Middle East. The main

objective was to establish Türkiye as a significant participant in world affairs, and diplomatic endeavors were focused on fostering connections with crucial regional and international stakeholders.

During the transition into the 21st century, Türkiye experienced substantial shifts in its approach to foreign policy. In the early 2000s, there was a significant shift in Turkish leadership's approach, as they demonstrated a renewed commitment to enhancing diplomatic relations, particularly with African countries. This change demonstrated Türkiye's intention to broaden its international alliances and interact with places that had previously had limited Turkish engagement.

This reinvigorated commitment was highlighted by a succession of diplomatic efforts and prominent trips to African nations. A significant development was the establishment of Turkish embassies throughout the continent, indicating a concrete move towards increased involvement. The building of diplomatic posts was a deliberate choice to enhance Türkiye's influence in Africa and promote more robust political, economic, and cultural connections.

The 21st Century Renaissance: A New Chapter

Türkiye initiated a substantial foreign policy endeavor in the early 21st century to strengthen its relations with African nations. This revolutionary undertaking involved the creation of Turkish embassies throughout the continent and a significant increase in diplomatic activities. The intentional change in Turkish foreign policy indicated the recognition of Africa's increasing geopolitical importance and a strategic dedication to expanding diplomatic alliances (Altunışık & Tür, 2018; Çetinsaya, 2015; Özkan, 2017).

The building of Turkish embassies demonstrated a concrete dedication to strengthening mutual relations, signifying Türkiye's acknowledgment of Africa as a crucial participant in the changing global geopolitical scenario. This action demonstrated a commitment to promoting direct and long-lasting diplomatic involvement with African countries (Altunışık & Tür, 2018; Çetinsaya, 2015; Özkan, 2017).

Simultaneously, Türkiye greatly enhanced its diplomatic involvement with African nations, encompassing visits by high-ranking officials, bilateral discussions, and active participation in multilateral conferences. The endeavors focus on promoting discourse, comprehension, and collaboration, while also addressing the political, economic, and cultural aspects of Turkish-African ties (Altunışık & Tür, 2018; Çetinsaya, 2015; Özkan, 2017).

The shift in Turkish foreign policy towards Africa demonstrates a sophisticated comprehension of the continent's increasing geopolitical significance. Türkiye acknowledged the economic prospects, abundant resources, and developing markets in Africa as crucial catalysts for worldwide expansion, aligning its foreign policy with the ambition to actively influence the geopolitical terrain (Altunışık & Tür, 2018; Çetinsaya, 2015; Özkan, 2017). The endeavor to enhance connections with African nations was a component of a broader plan to broaden Türkiye's diplomatic alliances, surpassing conventional allies. Türkiye actively sought to establish a more comprehensive and equitable network of international ties by actively involving African countries. This was done to reduce reliance on a restricted number of allies and develop a more robust foreign policy framework (Altunışık & Tür, 2018; Çetinsaya, 2015; Özkan, 2017).

Diplomacy and Development: Türkiye's Dynamic Engagement with African Nations since 1998

Türkiye's diplomatic and developmental engagement with African nations began with the African Outreach effort, a significant policy effort introduced in 2005. The Turkish government's effort represented a significant milestone in Türkiye's foreign policy strategy toward the African continent (Öktem, 2010).

The African Outreach Initiative was developed as a comprehensive strategy to cultivate stronger political, economic, and cultural connections between Türkiye and African states. A key principle of this strategy was a reinvigorated dedication to diplomatic connections, demonstrated by important trips and enhanced involvement in international forums.

The effort aimed to enhance Türkiye's influence in African diplomatic affairs. President Recep Tayyip Erdoğan, a significant influencer of this diplomatic change, initiated a sequence of prominent visits to diverse African nations. These visits were not only symbolic gestures but deliberate efforts to develop strong bilateral relationships. Erdoğan's visits were marked by diplomatic gestures and the conclusion of agreements aimed at strengthening collaboration in diverse areas, including trade, investment, education, and cultural interchange (Smith, 2017).

In addition, the African Outreach Initiative prioritized a multilateral strategy, acknowledging the significance of collaborative endeavors in tackling global concerns. Türkiye actively engaged in regional and continental forums, such as the Türkiye-Africa Partnership Summit. This platform functioned as a medium for exchanging ideas, enabling Türkiye and African states to engage in discussions about common issues, develop cooperative strategies, and establish alliances (Ministry of Foreign Affairs, Republic of Türkiye, 2019).

The project also placed significant emphasis on the economic aspect of Türkiye's involvement with Africa. The Turkish government sought to support the sustainable development of African states by making strategic investments and establishing economic ties. Dr. Mehmet Aydın's research emphasizes the significant impact of Türkiye's economic expansion, namely in infrastructure projects, on promoting favorable economic results throughout the African continent (Aydın, 2015).

Türkiye Policy in Ethiopia

President Recep Tayyip Erdoğan's dedication to expanding Türkiye's presence in Africa has established the country as a progressively powerful participant on the continent. The focus on enhancing relations with African countries, such as Ethiopia, is not just symbolic, but it is in line with Türkiye's strategic goal of expanding diplomatic alliances and promoting economic collaboration (Zeybekci, 2016).

Nihat Zeybekci, the Minister of Economy, plays a crucial role in promoting the growth of economic relations between Türkiye and Ethiopia. Türkiye's economic involvement with Ethiopia has experienced steady expansion under his leadership, as demonstrated by the continuous increase in both export and import operations. Zeybekci's clear plea for a reevaluation of the trade balance in Ethiopia's favor highlights a dedication to fostering mutually beneficial economic ties, as explained in Zeybekci's speech in 2016 (Zeybekci, 2016). Zeybekci's notable focus on Ethiopia's advantageous investment atmosphere highlights Türkiye's acknowledgment of the economic opportunities inherent in the Ethiopian terrain. Türkiye's confidence in Ethiopia's economic trajectory is evident in its characterization of the country as having the most favorable investment climate in Africa. Zeybekci's aggressive promotion of Turkish investors to take advantage of this favorable climate demonstrates a strategic dedication to making a substantial contribution to Ethiopia's economic advancement, as stated by Zeybekci in 2016 (Zeybekci, 2016).

The creation of the Joint Economic Commission, together with subsequent bilateral agreements between Türkiye and Ethiopia, demonstrates a committed effort to achieve extensive cooperation in economic sectors. Nihat Zeybekci's declaration of agreements across many industries suggests a comprehensive strategy for economic collaboration, embracing sectors that stretch from commerce to technology. The establishment of the "Türkiye Help Center" by the Ethiopian Minister of Economy is a concrete demonstration of the dedication to assist and accelerate the growth of business operations, as expressed by Zeybekci in 2016 (Zeybekci, 2016). Ethiopia's significant role as a beneficiary of foreign direct investment (FDI) in East Africa and the wider continent is an important aspect of Türkiye's involvement. In 2017, although there was a slight decrease of 3 percent in foreign direct investment (FDI) in East Africa, the region still managed to attract a significant \$7.6 billion in capital. With a remarkable \$3.6 billion in foreign direct investment (FDI), Ethiopia claimed nearly half of the total FDI in Africa. This achievement positioned Ethiopia as the second-largest beneficiary of FDI on the continent and secured its eighth place overall (Ankomali, 2013).

Türkiye's diplomatic relationship with Ethiopia is marked by frequent high-level meetings and

the founding of the Joint Economic Commission. Nihat Zeybekci, in a Joint Economic Commission meeting, declared that Türkiye and Ethiopia would establish agreements encompassing many businesses (Zeybekci, 2016). This demonstrates a dedication to extensive cooperation that goes beyond just economic sectors.

The establishment of the "Türkiye Help Center" by the Ethiopian Minister of Economy highlights the dedication to facilitating and accelerating commercial growth (Zeybekci, 2016). The implementation of these systems showcases a collaborative endeavor to simplify procedures and surmount possible obstacles in commercial and diplomatic interactions.

Cultural diplomacy is an essential component of Türkiye's policy in Ethiopia, as it promotes reciprocal comprehension and enhances interpersonal connections. Türkiye actively fosters cultural exchanges in Ethiopia by organizing events that exhibit Turkish arts, music, and literature (Demir, 2020).

Collaboration in the field of education is an additional aspect of cultural interaction. The Turkish scholarship programs, university exchange agreements, and the creation of Turkish cultural institutions all assist in cultivating a more profound comprehension between the two nations (Demir, 2020). Türkiye's focus on cultural exchange and educational collaboration is in line with its wider policy of employing soft power diplomacy to increase its influence by fostering common cultural experiences.

Türkiye's involvement with Ethiopia is not limited; it is integrated into wider geopolitical deliberations. Türkiye's involvement in Ethiopia is strategically motivated by its ambition of extending influence in Africa, taking advantage of Ethiopia's crucial position in the Horn of Africa. Ethiopia's significance is augmented by the marine trade routes of the Red Sea, establishing it as a pivotal participant in maintaining regional peace (Oktay, 2021).

Türkiye's participation in diplomatic endeavors, such as peacekeeping activities in the region, demonstrates the diverse character of its relationship with Ethiopia (Ergin, 2017). Due to its stability and influence in the Horn of Africa, Ethiopia is a significant ally for Türkiye in its endeavors to impose diplomatic influence and promote regional peace and stability.

Following the termination of Ethiopia's state of emergency in the latter part of 2017, the Horn of Africa had a significant increase in foreign investments, particularly from Turkish and Chinese corporations. The increase was especially noticeable in the areas of light manufacturing and the automotive sector, indicating a move towards more varied economic collaborations. Prominent global fashion suppliers, such as PVH (Calvin Klein and Tommy Hilfger) from the United States, Velocity Apparelz Companies (Levi's, Zara, and Under Armour) based in Dubai, and Jiangsu Sunshine Group (Giorgio Armani and Hugo Boss) from China, have established manufacturing facilities in Ethiopia. These factories are primarily located in the Hawassa industrial park, which was established by the Chinese.

The partnership between Turkish and Chinese businesses in Ethiopia highlights the intricate network of global economic interconnections. Foreign investments are drawn to Ethiopia due to its advantageous geographical position and promising economic prospects. The creation of industrial parks, particularly Hawassa, has served as a catalyst, attracting enterprises from many parts of the globe, notably Türkiye and China, to enter the Ethiopian market.

Türkiye's involvement in Ethiopia and subsequent achievements can be attributed to various sources. Timing is a crucial determinant. To fully grasp the history of their relationship, it is essential to appreciate the exact moment when Türkiye decided to engage with Ethiopia. Türkiye's entry into Ethiopia occurred at the same time as the removal of the state of emergency, creating a favorable opportunity to establish business connections and investments. Türkiye has established itself as a reliable mediator in the Horn of Africa, especially in the view of Ethiopian players who facilitated Türkiye's dominance in the railway and textile sectors. The favorable impression has been strengthened by fruitful engagements and partnerships between Türkiye and Turkish companies in crucial sectors of Ethiopia's economy. Ethiopia and Türkiye have employed platforms such as Joint Economic Commission meetings to engage in negotiations and establish agreements in several sectors, thereby strengthening their economic

collaboration. The creation of the "Türkiye Help Center" by the Ethiopian Ministry of Economy serves as a clear demonstration of the collaborative endeavors to expedite and simplify commercial growth between the two countries.

The importance of Ethiopia as a dominant force in the region is emphasized by its strong security system, huge transportation networks, and economic influence, which positions it as a vital entry point to East Africa. Türkiye's involvement with Ethiopia is based on a strategic approach, acknowledging the geopolitical significance of the area and the possible advantages of allying with a powerful African nation.

Due to its historical association with Western nations following its independence, Ethiopia has become a politically stable and appealing ally for Türkiye. The Ethiopian government's prompt and effective response to Türkiye's economic and political initiatives has strengthened their diplomatic relationship. The juxtaposition between Ethiopia's political stability and the historical volatility of certain surrounding countries, such as Somalia, highlights the distinct advantages that Ethiopia offers to Türkiye. Furthermore, Ethiopia's recognition of Türkiye as a reliable and influential actor in the region has facilitated the successful implementation of commercial agreements and collaborations. Türkiye's soft power, derived from its historical connections and skillful diplomacy, has been instrumental in solidifying its position as a dependable ally for Ethiopia. Türkiye's foreign policy has experienced a significant shift, especially during the Cold War, due to several factors such as the Ottoman legacy, geographical positioning, and Kemalist Ideology. The present administration, headed by the Justice and Development Party (AK Party), has played a crucial role in facilitating these changes.

Davutoğlu's influential book, "Strategic Depth and Türkiye's International Position" (2012), outlines the core principles of Türkiye's current foreign policy. Türkiye's developing diplomatic policies have been characterized by a shift from classic power dynamics to a more nuanced and flexible approach, with an emphasis on soft power.

Turkish Policy in Somalia Turkish foreign policy has recently expanded to include Somalia, resulting in positive outcomes thus far (Özkan, 2012). Türkiye's involvement in Somalia commenced officially with Recep Tayyip Erdoğan's visit to Mogadishu on August 19, 2011. Erdoğan's visit, although not Türkiye's first encounter with the continent, carries great importance in influencing the course of Türkiye's diplomacy in Africa. The historical relationship between Türkiye and Africa is based on shared historical and cultural links, which include the period of Ottoman dominance in different regions of the continent (Akıncı, 2014). Nevertheless, Erdoğan's visit acted as a spark that revitalized and strengthened Türkiye's diplomatic influence.

In addition to Somalia, Erdoğan's diplomatic endeavors in Africa extended to other African nations as well. Türkiye's comprehensive participation demonstrated its strategic objective of enhancing relations with African nations, with a focus on fostering mutual collaboration, economic partnerships, and cultural interaction (Dikici Bilgin & Yetim, 2014). Erdoğan's trip to Mogadishu, as part of Türkiye's broader African strategy, significantly bolstered Türkiye's influence on the continent. Türkiye's increasing diplomatic and economic interactions with African nations are in line with its objective to broaden its global alliances and extend its geopolitical influence (Çelik, 2019). Türkiye's endeavors to establish fresh alliances were centered on the African continent, motivated by economic concerns, diplomatic cooperation, and cultural interchange. Türkiye's growing impact in Africa extends beyond diplomatic initiatives. Trade agreements and investment initiatives have played a vital role in Türkiye's strategic approach (Özkan, 2015). Türkiye's efforts to strengthen its commercial connections with Africa were exemplified by Erdoğan's visit to Somalia, which served as a symbolic demonstration of Türkiye's dedication to the development of the continent.

Türkiye's involvement in Somalia was initially presented as part of their humanitarian aid efforts. Erdoğan's visit, prompted by a severe drought, emphasized Türkiye's dedication to promptly providing aid and assistance to a nation struggling with a humanitarian emergency. Academics have observed that this strategy is consistent with Türkiye's wider foreign policy

doctrine, which prioritizes humanitarian diplomacy as a method of assisting nations in need (Kirişci, 2016; Tekeli, 2017).

Türkiye's foreign policy has prominently featured humanitarian diplomacy, which has positioned the country as a humane and influential actor in international affairs. Türkiye's involvement in Somalia during the drought crisis aligns with this principle, establishing Türkiye as an active participant in global humanitarian endeavors (Çelik, 2019). Türkiye's involvement in Somalia has not only impacted its ties with the African continent but has also had repercussions on the global scene. According to scholars, Türkiye's proactive diplomatic efforts in Somalia have played a significant role in changing how people view Türkiye's global influence, establishing it as a crucial participant in crisis resolution and international collaboration (Dikici Bilgin & Yetim, 2014). Türkiye's improved status is a result of its strategic endeavors to become a more prominent and dynamic participant in global events.

The strategic flexibility of Türkiye in Somalia is further emphasized by its proven ability to take risks. Türkiye has shown a readiness to handle uncertainties and explore unfamiliar areas while operating in a region characterized by historical difficulties and ongoing challenges. Türkiye's distinctive involvement stands out from conventional diplomatic techniques due to its risk-taking inclination, coupled with a planned approach. Türkiye's ability to endure and handle risks has enabled it to undertake ventures that could have been seen as too ambitious or risky by other entities, highlighting a distinctive aspect of Türkiye's foreign policy (Kirişci, 2016). Türkiye's success in Somalia is largely due to its deployment of a wide range of products and expertise. Türkiye's approach to participation goes beyond simple economic assistance and includes infrastructural development, healthcare efforts, and educational projects. Türkiye's capacity to provide a comprehensive range of support, specifically designed to tackle the complex issues encountered by Somalia, displays a sophisticated comprehension of the region's requirements (Cannon, 2016a). This diverse involvement is in line with Türkiye's dedication to promoting sustainable development and self-reliance.

Türkiye's performance is enhanced by its efficient deployment of soft power assets, generating a favorable narrative that goes beyond real contributions. Türkiye's cultural and educational endeavors, such as the creation of schools and clinics, have not only met urgent requirements but have also bolstered Türkiye's impact and positive reputation in Somalia. Türkiye's utilization of soft power follows the wider global pattern of employing cultural and social connections as tools of foreign policy (Tekeli, 2017). The effectiveness of Türkiye's soft power measures is shown in the favorable perception of Türkiye as a cooperative and dependable ally. Türkiye's strategy is characterized by a harmonious combination of coordinated endeavors and independent initiatives. Türkiye has maintained a level of independence in decision-making and strategic implementation while collaborating with international partners. This equitable strategy enables Türkiye to effectively meet the particular requirements and priorities of Somalia while simultaneously contributing to wider global goals. Türkiye's dedication to making direct and effective contributions in the region is demonstrated through unilateral activities, while coordination of efforts ensures synergy with global projects.

Türkiye's strategic aspects in Somalia have had a cumulative influence, resulting in its increased status as an emerging force in the Horn of Africa. The success of Türkiye is seen in various areas, such as humanitarian assistance, diplomatic sway, economic cooperation, security endeavors, and political involvement. Türkiye's incorporation of these characteristics establishes it as a proactive and influential participant, reconfiguring the regional environment and making a significant contribution to the socio-economic progress of the Horn of Africa (Cannon, 2016a).

In addition to real contributions, Türkiye's utilization of soft power resources has been crucial in influencing favorable opinions throughout the region. Cultural and educational efforts have become essential elements of Türkiye's soft power capabilities. Türkiye's establishment of schools, cultural institutes, and clinics has not only met immediate needs but also cultivated a spirit of benevolence and cultural kinship. Türkiye's soft power measures in Somalia are in line

with its overall policy of establishing enduring links and shaping narratives (Tekeli, 2017).

Türkiye's approach to Somalia is characterized by a balanced combination of synchronized endeavors and independent initiatives. Türkiye actively collaborates with foreign partners while also maintaining a level of autonomy in decision-making and strategic execution. This well-balanced strategy guarantees that Türkiye's activities are in line with wider international objectives, while also enabling prompt and effective interventions that are customized to meet the specific requirements of Somalia. Türkiye's skill in maneuvering diplomatic complexities is seen in its successful combination of coordination and unilateralism (Cannon, 2016a).

Türkiye's diplomatic agility is demonstrated by its coordinated and unilateral strategy, which enables it to effectively navigate the ever-changing geopolitical landscape of the Horn of Africa. Türkiye enhances its impact and influence by engaging in collaborative endeavors while also pursuing independent initiatives. This method not only simplifies the process of effectively interacting with international partners but also allows Türkiye to quickly address emergent difficulties, demonstrating a sophisticated and adaptable foreign policy strategy. Türkiye's absence of historical and political burdens in the eastern Africa region serves as a notable benefit, distinguishing it from other actors such as the United States. Türkiye's lack of colonial legacies or controversial historical interventions has established it as an emerging nation and a feasible ally. Türkiye's absence of historical baggage has enabled it to readily accept and cooperate with other countries, enabling it to interact with the area on its own conditions. Türkiye's successful establishment in the Horn of Africa has had a good impact, promoting trust and collaboration with local participants (Kirişci, 2016).

Although the International Crisis Group (2012) suggests that Türkiye's role in Somalia is influenced by its Ottoman history, it is important to acknowledge that Türkiye's commitment is a complex and varied undertaking. The Ottoman heritage may somewhat motivate and contribute to a historical link, but the current activities of Türkiye are mostly influenced by a combination of strategic, economic, and diplomatic factors. The strategy of Türkiye is characterized by its adaptability and responsiveness to current geopolitical circumstances, demonstrating its ability to transcend historical paradigms.

Conclusion:

Ultimately, analyzing Türkiye's foreign policies in the Horn of Africa, specifically in Ethiopia and Somalia, offers unique insights into the interplay of political and economic factors in the region. Türkiye's dynamic diplomatic and economic ties with African nations, particularly since 1998, highlight a substantial shift in its approach to the continent. Türkiye's increased involvement in Africa since 2005 demonstrates its strategic acknowledgment of Africa's geopolitical significance.

An analysis of Türkiye's relations with Africa from a political economics standpoint provides a detailed comprehension of the advantages and constraints of its foreign policy. An analysis of the strategies adopted by other significant actors, such as the USA and China, provides a basis for comparison, revealing the complex structure of global interactions in the Horn of Africa. Türkiye's unique strategy, characterized by diplomatic endeavors and economic involvements, is situated within the wider geopolitical backdrop.

The case study analyzing Türkiye's diplomatic and economic policy towards Ethiopia and Somalia provides a central focus for assessing the merits and drawbacks of Türkiye's current approach in the continent. Türkiye's strategy in the Horn of Africa involves a complex interaction of aid, cultural exchange, diplomacy, political economy, and soft power, which collectively shape its impact in the region.

Recommendations:

Türkiye should continue its proactive diplomatic involvement in the Horn of Africa, with an emphasis on enhancing current relationships and seeking out new chances for collaboration through frequent discussions, visits by high-ranking officials, and active participation in regional conferences.

In order to improve the efficiency of economic involvement, Türkiye should broaden its

economic strategy in the Horn of Africa. Engaging in the exploration of new industries, promoting innovation, and providing assistance to sustainable development initiatives can help form enduring economic collaborations.

Increasing cultural exchange programs can develop cultural linkages and foster people-to-people contacts between Türkiye and states in the Horn of Africa, thereby enhancing mutual understanding and reinforcing Türkiye's cultural diplomacy.

Türkiye should implement flexible soft power plans customized to the distinct socio-political circumstances of each country in the area. An intricate comprehension of local cultures, traditions, and political dynamics is essential to guarantee that soft power projects have a strong impact.

Implementing cooperative assistance initiatives that include local communities and target specific socio-economic obstacles can be crucial. Türkiye ought to collaborate closely with local stakeholders, non-governmental organizations (NGOs), and international organizations in order to develop and implement aid programs that yield enduring and beneficial outcomes.

Türkiye may gain valuable insights by examining and adopting effective foreign policy initiatives from other countries, drawing inspiration from international models. Examining the experiences of the United States and China, as outlined in this article, can offer useful insights and lessons that Türkiye can integrate into its diplomatic and economic strategies.

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**ECONOMIC REGIONALIZATION IN AFRICA:
CHALLENGES AND PERSPECTIVES OF THE
AFRICAN CONTINENTAL FREE TRADE AREA
(AFCFTA)**

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Abstract. Since the year 1980, there has been a noticeable increase in nations' propensity to regionalize their economies. The author claim that because regionalization and globalization are intertwined processes, this regionalization either reflects countries' determination to defend themselves from the negative effects of globalized free trade or it is a new type of worldwide free trade. Since then, the number of regional trade agreements that bring about this economic regionalization has skyrocketed. The reasons behind this explosion are that, in theory, regionalization should enable better integration and increase household welfare by removing tariff and non-tariff obstacles in a region. Africa has a number of regional economic organizations that frequently overlap, adding to the global phenomenon of regionalization (Caricom, CIS, EU, Mercosur, NAFTA, ASEAN, TTIP, TPP, etc.). There are currently fourteen significant, largely linked Regional Economic Communities (RECs) throughout Africa. Eight of these organizations—UMA, COMESA, CEN-SAD, EAC, ECCAS, ECOWAS, IGAD, and SADC—have received recognition from the African Union as RECs. Intra-African trade continues to be among the lowest in the world despite all of these institutions that are meant to increase it. Africa continues to be a minor player in global trade; the continent has not yet emerged and integrated. Despite this admission of failure, nations in Africa still hold on to the hope that economic regionalization will save them from failure and enable their economic integration and development. Because of this, the African Union established the African Continental Free Trade Area (AfCFTA). In order to avoid making the same mistakes as the early African regional organizations, this study sets out to emphasize the challenges that AfCFTA must overcome as well as the opportunities that would arise from this enormous continental regionalization.

Keywords: Economic Regionalization, Free Trade Area, African Continental Free Trade Area

Introduction

A region's economic activity is concentrated, intensified, and focused inside its regional territorial space through the process of economic regionalization. Less economic activity and globalization would result from this, which would be advantageous for the area. Then, it would be required to understand what an area is. What are its boundaries and what kinds of economic pursuits are to be taken into account while discussing economic regionalization? Several authors, including Andrew Jones (2007), Sallie A. Marston, et. al. (2005), have attempted to provide theoretical answers to these questions, but in reality, political authorities make the decisions as we witnessed in the cases of the African Union's refusal to admit Haiti as a full member in May 2016 and the agreement of Morocco's accession to the ECOWAS, which is a grouping of the states of West Africa.

Comparing the growth of economic regionalization to protectionism or complete free trade, we can see that it is a relatively recent occurrence. It is interesting to trace the development of this new type of economic integration.

The many theories of regional integration, as well as the static and dynamic impacts of economic integration, are reviewed in this study's literature and discussions. To show the advantages and disadvantages of regional integration, static and dynamic effects of economic integration are used.

Literature Review

From Mercantilist Protectionism to Economic Regionalization

From the fifteenth to the sixteenth centuries, the powerful nations safeguarded their industries by enforcing the mercantilist ideology, which holds that restricting imports allows for the creation of trade surpluses and other sources of wealth (LaHaye, 2019). In the second part of the nineteenth century, some nations signed bilateral trade agreements, however, this idea was gradually abandoned in favor of free trade. However, the 1929 financial crisis forced nations to turn back by erecting new barriers. The tragic results of these actions, which only made the situation worse, are pushing nations to look to cooperative multilateralism for solutions. Thus, twenty-three namely Australia, Belgium, Brazil, Burma, Canada, Ceylon, Chile, China, Cuba, Czechoslovakia, France, India, Lebanon, Luxembourg, Netherlands, New Zealand, Norway, Pakistan, Southern Rhodesia, Syria, South Africa, United Kingdom, and the United States signed the GATT (General Agreement on Trade and Trade), which is founded on three principles, following the Second World War in 1947.

- Reciprocity: countries must grant each other advantages;
- Non-discrimination: any advantage granted to a co-contractor must be applied to all others;
- National treatment: goods arriving in the national territory must be treated as locally produced goods.

The GATT was expanded to include several nations after several rounds of negotiations, and in 1995 it evolved into the World Trade Organization (WTO), which today has more than 160 members. Through multilateral trade rounds, the WTO will continue the path of complete trade liberalization.

To address the topic of whether a country's trade flows with the outside world rise as a result of its membership in the GATT or the WTO, Rose (2002) applies a gravity model to the trade of 175 nations over 50 years. The author concludes that neither GATT nor WTO membership affects the amount of bilateral trade, which is determined by a variety of other variables, including the GDP of the two countries, their distance from one another, their geographic conditions, their shared history, and the specific trade agreements they have in place.

However, there is disagreement among economists over the effects of the WTO's trade liberalism mainly on the GDP per capita of the richest and poorest countries which dropped significantly from 60.4 in 2000 to 54 in 2008, and the internal income inequality that rose across the board, especially in developing nations that have recently opened up to international commerce. Between 1980-1990 and 2000-2006, the Gini coefficient increased on average by

2.75 in industrialized nations and by 2.78 in emerging nations⁴⁷. Some academics have made a causal connection between trade liberalization and poverty in emerging nations based on this data on income disparity (Pacheco-López, P. & Thirlwall, A. P. 2009).

Around the world, economic regionalization has been accelerating since the 1980s. The number of operating regional trade agreements (RTAs) notified to the WTO has expanded significantly since the 1990s, from 50 in 1991 to 472 in June 2019 and they take many different shapes:

- A free trade area is one in which trade barriers are decreased or eliminated, but where member nations do not impose uniform customs charges on imports from other nations; an example of this is the North American Free Trade Agreement (NAFTA);
- Customs union, which goes beyond a free trade zone by establishing a common external tariff (CET);
- Single Market: it is a common market that requires the harmonization of specific internal norms or laws;
- Common Market: it is a customs union in which factors of production travel freely between countries;
- Economic Union: This is a single market in which at least one common monetary policy has been established. The European Union is, in light of this definition, an economic union.

These RTAs go against the WTO's principle of non-discrimination because the co-contracting parties benefit from one another while discriminating against all other nations who are not members (Kwak & Marceau, 2003). Additionally, the negotiations that lead to these agreements are always conducted outside of the WTO, which is only willing to take the agreement reached into account. Because of the negative repercussions of the WTO-promoted global free trade, experts question if this push for economic regionalization is merely a different type of global free trade or a reaction to these negative effects. If we look at the supply networks and value chains of large companies, we can see that economic regionalization and economic globalization are, respectively, processes that overlap and are intertwined (Jones, A. 2017). However, it is also evident that a number of developing nations have turned to economic regionalization as a means of better fending against the damaging impacts of international free trade, from which they have not benefited.

The removal of tariff and non-tariff barriers within a region theoretically minimizes the distortions caused by these measures, boosts trade volume, decreases customs revenue, and enhances the well-being of households inside the zone. This is true specifically for the case of a free trade area (ibid). Through economies of scale brought about by rivalry after the market opening, the creation of an efficient free trade area also enables the increase of the production of efficient enterprises.

Static effects and dynamic effects are differentiated when estimating the consequences of a free trade zone. In a static sense, it is observed that the elimination of tariffs and other restrictions inside the zone may result in a rise in partner exchanges (Viner 1950; Corden, 1972). This growth is either a trade creation or a distraction Kahouli and Kadhraoui (2012). Only when trade creation outperforms trade diversion can the effect have a positive impact on household welfare.

Similar to this, when the implementation of the free trade area is genuinely accompanied by economies of scale in the various sectors of the economy and a more attractive big region for foreign investment, the consequences on the partner nations are dynamic and growth-promoting.

Africa has a number of subregional economic groups that frequently overlap, adding to the global phenomenon of economic regionalization (Caricom, CIS, EU, Mercosur, NAFTA, ASEAN, TTIP, TPP, etc.).

Economic Regionalization in Africa

Africa has implemented a number of integration schemes since gaining its freedom. Numerous

⁴⁷ BEN Hammouda H. and M.S. Jallab (2010). The evolution of global inequalities", Cahiers français, La Documentation française, n ° 357.

integration organizations have appeared and then vanished since the 1960s. The Equatorial Customs Union (1962), which later evolved into the current Economic and Monetary Community of Central Africa, included Cameroon, Congo, Gabon, the Central African Republic, and Chad. The former East African Community (EAC) (1967), which included Kenya, Uganda, and Tanzania, and which, up until its dissolution, was the most successful experiment in African integration, includes Algeria, Egypt, Ghana, Guinea, Mali, and Morocco. Since then, new groups have been formed, showing that African nations still value and recognize the benefits of economic integration and collaboration. At the continental level, the Organization of African Unity included all the African nations (OAU). The OAU, founded on May 25, 1963, was a straightforward mechanism for cooperation but not for unification. The OAU was disbanded and the African Union (AU) was established on July 9, 2002, to advance democracy, human rights, and socioeconomic development, driven by a greater desire for unity and economic development.

The year 2025 is designated as the year of the consolidation and strengthening of the structure of the African Common Market through the free movement of people, goods, capital, and services as well as the effective enforcement of residence and establishment rights, according to the calendar established by the Abuja Treaty, which established the African Economic Community by the AU in 1991. The AU developed the Minimum Integration Program (MIP) before this deadline and decided to impose a moratorium on the recognition of new regional institutions in 2006 to combat the proliferation of regional economic communities.

There are currently fourteen significant, largely linked Regional Economic Communities (RECs) throughout Africa. Eight of these organizations have received REC recognition from the AU.⁴⁸

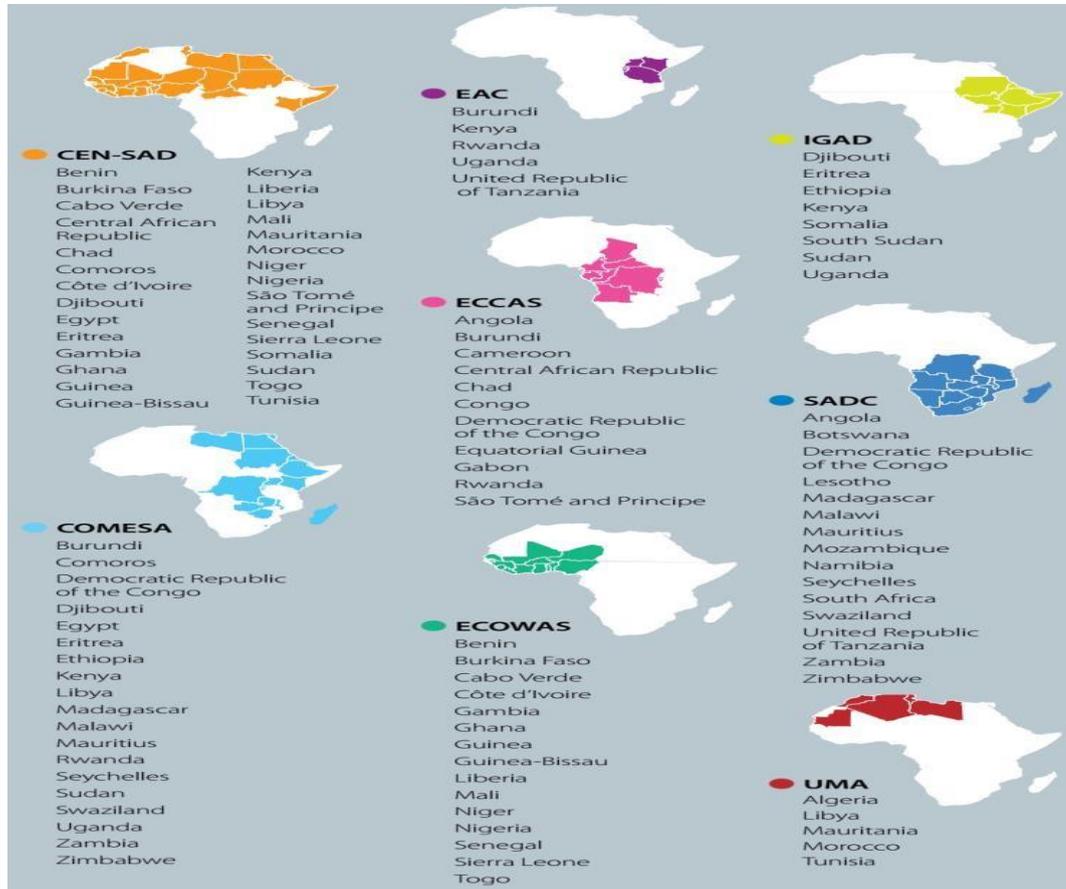
Main RECs recognized by the AU

Regional Economic Community	Effective date	Members	Target
AMU: Arab Maghreb Union	17/02/1989	Algeria, Libya, Morocco, Mauritania, Tunisia	Integral economic union
COMESA: Common Market for Eastern and Southern Africa	08/12/1994	Angola, Burundi, Comoros, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Uganda, Republic of Congo, Rwanda, Seychelles, Sudan, Swaziland, Zambia, Zimbabwe	common market
CEN-SAD: Community of Sahel-Saharan States	04/02/1998	Benin, Burkina Faso, Ivory Coast, Djibouti, Egypt, Eritrea, Zambia, Libya, Mali, Morocco, Niger, Nigeria, Central African Republic, Senegal, Somalia, Sudan, Chad, Togo, Tunisia	Free trade area and integration in certain sectors
ECCAS: Economic Community of Central African	01/07/2007	Angola, Burundi, Cameroon, Congo, Gabon, Equatorial Guinea, Central African	Integral economic union

⁴⁸<https://au.int/en/organs/recs> Retrieved 25.07. 2022

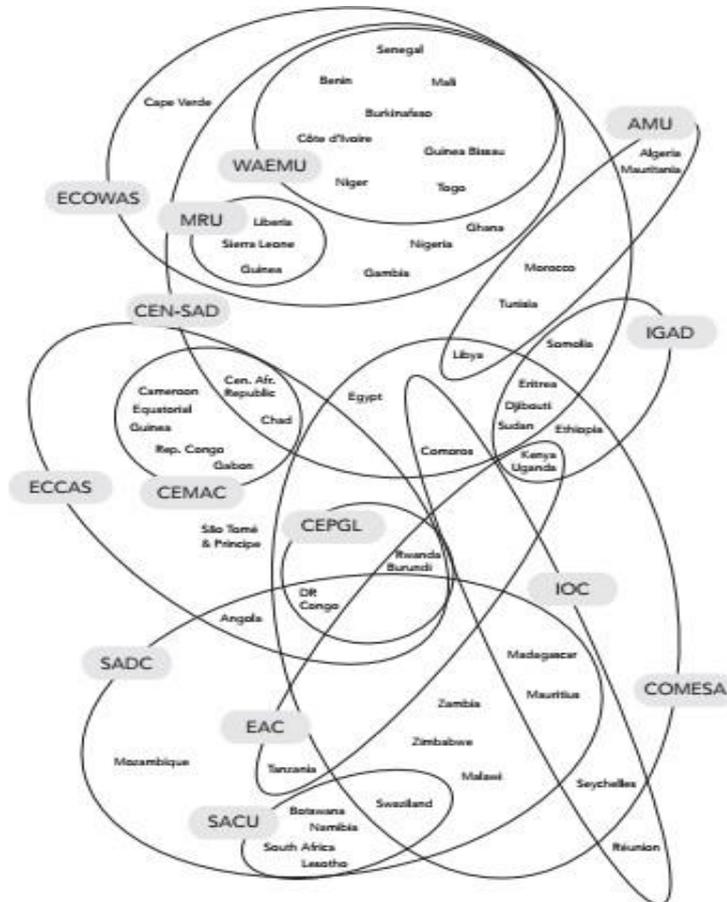
States		Republic, Democratic Republic of Congo, Rwanda, Sao Tome, and Principe Chad	
ECOWAS: Economic Community of West African States	24/07/1993	Benin, Burkina Faso, Cape Verde, Ivory Coast, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Senegal, Sierra Leone, Togo	Integral economic union
IGAD: Inter-Governmental Authority for Development	25/11/1996	Djibouti, Eritrea, Ethiopia, Kenya, Uganda, Somalia, Sudan	Integral economic union
SADC: Southern African Development Community	01/09/2000	South Africa, Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, the Democratic Republic of the Congo, Swaziland, United Republic of Tanzania, Zambia, Zimbabwe	Integral economic union
EAC: East African Community	07/07/2000	Burundi, Kenya, Uganda, United Republic of Tanzania, Rwanda	Integral economic union

Source: UNCTAD, 2009, and ECA, 2010.



Source: Economic Commission for Africa (2016)

The following list of RECs in Africa, together with all of their overlaps, is provided by the Woodrow Wilson International Center for Scholars.



African Economic Organizations

AMU: Arab Maghreb Union; CEMAC: Economic and Monetary Community of Central Africa; CEN-SAD: Community of Sahel-Saharan States; CEPGL: Economic Community of the Great Lakes Countries; COMESA: Common Market for Eastern and Southern Africa; EAC: East African Community; ECOWAS: Economic Community of West African States; ECCAS: Economic Community of Central African States; IGAD: Inter-Governmental Authority for Development; IOC: Indian Ocean Commission; MRU: Mano River Union; SACU: Southern African Customs Union; SADC: Southern African Development Community; WAEMU: West Africa Economic and Monetary Union

Source: Woodrow Wilson International Center for Scholars, Africa Program (2008)

These organizations frequently consist of numerous agents who work as heavy administrative machines. Without discounting some of their efficacy, it is evident that overall, their outcomes have been limited. Africa only accounts for 3% of global trade, as seen by the meager 19% intra-African trade⁴⁹, well below intra-regional trade in Europe, North America, and the ASEAN countries with 70%, 50%, and 52% respectively (UNCTAD, 2013).

⁴⁹ World Trade Statistical Review (2018)

Share of intra-regional trade in total trade in Africa

COMESA	7%
ECCAS	5%
ECOWAS	11%
SADC	15%

Source: McKinsey, 2011.

Nearly 80% of its exports are made up of primary goods, including those from mining, forestry, agriculture, and oil. Only 5% of the total is made up of manufactured items, and only around 3% of high-tech products are exported. Africa continues to be a price-taker rather than a price-maker. Large stock exchanges like the Chicago Board of Trade (CBOT) establish agricultural and other prices, and this law of the single price usually holds across the board. There is a severe absence of physical infrastructure, including highways, railroads, and power grids linking adjacent nations; information and communication technology; human development, with an emphasis on health and education; agriculture; and encouragement of production and export diversification. According to the African Development Bank (AfDB) and the Economic Commission for Africa (ECA), addressing the infrastructure deficit will require between USD\$ 130 billion and USD\$ 170 billion in funding annually, leaving a gap of between USD\$ 68 and USD\$ 108 billion. Even while some of these organizations are ahead of others, the free flow of people, products, and services is not at all a reality in the majority of them. This demonstrates, if necessary, that none of these economic organizations entirely fulfilled their mandate to enable the growth of Africa through integration through the development of regional markets, infrastructure projects, and the approval and implementation of common laws.

The African Union (AU) has started talks to establish the African Continental Free Trade Area in this context marked by the modest results of African regional organizations, per the timeline established by the Abuja Treaty in 1991 and also in line with "Agenda 2063," a pan-African vision for an integrated, prosperous, and peaceful Africa (AfCFTA).

AfCFTA: An Economic Regionalization on a Continental Scale

The AU has planned to create an integrated African Economic Community since the Abuja Treaty in 1991, which would result in an African Common Market through the free movement of people, goods, capital, and services as well as the effective execution of residency and establishment rights.

The AfCFTA was introduced in June 2015 at the AU Summit in Johannesburg. To get a consensus agreement, experts from States and regional institutions engaged in tough talks. The African Development Bank (AfDB), the United Nations Conference on Trade and Development (UNCTAD), and the Economic Commission for Africa (ECA) of the United Nations all provided technical assistance throughout the procedure. The rules of origin, the dispute resolution process, and the completion of a number of the goods protocol's annexes were among the many challenging difficulties. Only 36 countries out of 54 African countries ratified the AfCFTA in April 2021.

There are two sizable but separate phases to the AfCFTA negotiation process. The focus of the first phase is products and services. For goods, modalities defining a high level of ambition, of the order of 90% opening over 10 years, guided the negotiations on tariff concessions. On services, negotiators concurred to remove barriers and other unfair practices impacting providers in signatory African nations. Neither a specific industry nor a particular method of service delivery would be left out.

With the implementation of AfCFTA, a market of 1.2 billion consumers and a GDP of \$2.5 trillion will become available. 22 nations are required for ratification before AfCFTA is scheduled to go into effect. Also, by ratifying the AfCFTA agreement on April 2, 2019, Gambia passed the necessary number of ratifications to put this agreement into effect, making the African continent one of the largest markets in the world. However, the largest economy on the continent, Nigeria, did not ratify the deal until July 07, 2019, after it rejected it earlier as a

result of the massive influx of foreign goods that may destroy its developing sector, as happened during the 1990s wave of liberalization.

The African Union meeting on July 7, 2019, met in Niamey, Niger, to discuss critical issues by putting in place the measures necessary to prevent unfair competition inside the AfCFTA and what percentage of African inputs must be included in a product for it to be deemed African and to provide all the guarantees of a structured liberalization and in order to avoid falling into the gaps left by earlier organizations that fell short of expectations, the AfCFTA must meet clear and specific challenges related to building an integrated African market, developing regional and/or continental infrastructure projects, and enabling the adoption and application of common rules to speed up Africa's industrialization and structural transformation.

Challenges and Perspectives of the AfCFTA

The difficulty of intra-African trade is hindering trade in Africa despite the removal of tariff barriers. A 2010 research by the West African Economic and Monetary Union (WAEMU) illustrates the effects of unusual actions affecting intra-African trade.

Abnormal practices in the WAEMU space

axes	Distance (Km)	number of roadblocks	Additional time (mins)	additional cost in FCFA (\$ 1 = 584FCFA June 2019)
Bamako-Dakar	1476	39	196	55 500
Ouagadougou-Dakar	920	30	109	47 200
Tema- Ouagadougou	1057	25	190	20 000
Lomé- Ouagadougou	1020	19	81	20 400
Abidjan- Ouagadougou	1263	27	216	89 150
Abidjan- Bamako	1174	28	270	71 270

Source: Observatory of abnormal practices (OPA), WAEMU, 2010.

Nearly everywhere in Africa, cross-border trade is expensive. Cross-border trade costs are more than twice as much for OECD and East Asian countries (Jacquemot, Pierre, 2013).

The difficulties posed by geographically close countries' close economic structures and similar activities, such as the production of identical commodities and services and the lack of complementary goods for trade, would also need to be addressed. This was the case with the ECCAS nations, which included breweries, cigarette factories, shoe factories, textile mills using cotton, some mills using peanut or palm oil, at least one cane sugar refinery, and wood industries.

Discussions

Within the framework of the AfCFTA, the AU should encourage the States to honor their pledge to ensure that the free flow of people, products, and services is operational and effective. This requires close monitoring and potential consequences for violators. The World Bank recommends that in order to improve cross-border trade, particularly for underprivileged small business owners, many of whom are women, border procedures must be made simpler, fewer border agencies should be established, civil servants' professionalism should be increased, trade associations should be supported, the flow of information about market opportunities should be improved, and new technologies, such as cross-border mobile banking services, should be encouraged to be adopted. Future industrialization initiatives will require careful strategic planning to encourage the complementary nature of traded goods and services.

About 12 million young Africans enter the labor market each year, according to the 2018 African Economic Outlook report from the AfDB. It is essential to advance toward industrialization and structural transformation of African economies in order to absorb this youth and provide it with a future on the continent; otherwise, this youth would be tempted to leave Africa by any means possible and contribute to the economies of other continents despite the dangers of crossing the Sahara Desert and the Mediterranean Sea. For these young people to be able to take part in this structural transition, they must get high-quality training in all future

vocations and innovations, as well as a guarantee of an environment that is conducive to entrepreneurship. Additionally, the agricultural, forestry, mining, and oil resources that African nations possess are incalculable and highly valued globally. In addition to using these resources, the structural transformation of African economies will involve turning them into finished goods there. In addition to creating greater added value, this transition into completed goods will significantly aid in absorbing the continent's 12 million additional job seekers. This issue is best shown by the case of Botswana. In addition to mining its diamond, the nation chose to process and markets it domestically, which has helped to provide thousands of jobs for young people in Botswana.

Africa will also need to mobilize the necessary financial resources to address the infrastructure deficit, such as the 0.2% import tax that President Paul Kagame has proposed, as well as to combat tax evasion, which, according to data released by Global Financial Integrity, amounts to between 40 and 80 billion dollars per year.

Without a minimal level of sensible protection in line with the principle of protecting the infant industry, African industrialization cannot succeed. Without a minimal level of protection, industrialization in Africa is bound to fail since the continent's production would be uncompetitive due to the technological deficit and lack of financial resources. Africa lags far behind the American, European, and Asian continents in this regard, thus they will be able to produce the same goods at lower costs. The West African cement plant (CIMA), which manufactures cement for Ghana, Togo, and Côte d'Ivoire, is one instance that exemplifies this. The unit closed in 1984 after only a few months of operation. At the time, the cost of imported cement was half that of the factory. This protectionism will, of course, take into account the fact that some African countries are already bound by multilateral free trade agreements of the WTO, but also by the Economic Partnership Agreement (EPA) with Europe and many others. The experience of countries emerging from Asia (China, Korea, Taiwan, etc.) shows us that this type of protectionism if it is done with strategy is very beneficial for infant industries.

If the nations could account for the considerable portion of intra-African commerce that is conducted informally and is not included in the statistics, the intra-African trade figures would increase. In practically all of Africa's nations, the informal sector is crucial in and of itself. These African nations must come up with sound plans to help this sector transition into the formal economy. That will open up new business opportunities for it, enabling those African nations to increase their tax revenues as well as dispose of more accurate facts.

On the African continent, integration efforts have for a long time been centered on a globalizing and normative approach tied to the idea of homogeneity from top to bottom. It could be time to take the contrary, practical approach based on an understanding of socio-economic reality. Civil society, employers' and workers' organizations, and even regular citizens are becoming increasingly concerned about economic issues in many African countries today. AfCFTA's goals will become more widely recognized and concern for everyone if this new truth is properly utilized, which is the only way to ensure the success of this exciting project.

The African continent will become the largest common market in the world in the next years, with the potential to support an economic emergence and be able to assert itself on the global stage, if the AU is successful in implementing the AfCFTA to address these numerous issues.

Conclusion

This paper aims to demonstrate how economic regionalization has gradually extended around the globe, especially in Africa, to promote more integration and, consequently, greater intra-regional trade. Except that this has not been the case in Africa. Although there are many regional economic communities in Africa, as compared to other parts of the world, economic integration and intraregional trade have fallen far behind. The African Union, however, sought to go further by establishing the African Continental Free Trade Area (AfCFTA), which includes all of the African nations. The paper outlined the key obstacles that must be overcome for this free trade area to succeed in contrast to the other regional economic communities that came before it. These obstacles include developing the necessary infrastructure, realizing

industrialization and structural transformation of the economies to enable and accompany economic integration, and guaranteeing the quality of trade.

Even though there are many challenges, this list is not all-inclusive. However, given the potential and resources on the African continent, it is obvious that if the African Union through the AfCFTA overcomes these major obstacles, Africa will eventually become the world's largest common market.

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