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Driving Factors of Foreign Direct Investment in Kosovo: The Roles of Market Access and Government Support

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ABSTRACT

This study examines the impact of several key factors on Foreign Direct Investment (FDI) in Kosovo, specifically focusing on Easy Access to Domestic Markets (EADM), Available Market Size (AMS), Easy Access to Market Information (EAMI), Low Cost of Doing Business (LCDB), and Government Efforts to Promote Exports (GEPEX). Data were collected through a structured questionnaire from 148 foreign investors operating in Kosovo and analyzed using SPSS, version 26. Multiple linear regression and Kendall's tau-b correlation were employed to assess the relationships between these variables, while the Breusch-Pagan and collinearity tests were conducted to evaluate model reliability. The findings confirm that AMS and LCDB have a significant positive effect on FDI inflows, while EADM, EAMI, and GEPEX demonstrate weaker associations with FDI attraction. The analysis also reveals that 49.4% of the variability in FDI can be explained by the factors under consideration. Furthermore, projections indicate that FDI inflows could increase by 27.8% if these key factors are maintained or improved, particularly through government actions aimed at reducing business costs and enhancing access to market information. These results underscore the critical role of government policy in shaping a conducive environment for foreign investments. To enhance Kosovo's attractiveness to foreign investors, it is essential to improve business conditions by reducing operational costs, enhancing access to market information, and fostering export-driven policies. Additionally, investments in infrastructure and the diversification of industries would create a more favorable economic landscape. This study provides a comprehensive assessment of the determinants of FDI in Kosovo and offers actionable recommendations for optimizing the business climate and boosting foreign investment inflows.

1. INTRODUCTION

FDI is an important source of capital for developing countries, helping to accelerate economic growth, improve infrastructure and transfer advanced technologies. In the case of Kosovo, FDI represents a key opportunity to address economic development challenges, particularly in a context of high dependence on remittances and a still-developing private sector. Kosovo has a strategic geographical position in the heart of the Balkans, offering foreign investors easy access to the European Union (EU). It is well connected to major regional ports as follows:

- The distance between Kosovo and Albania via National Road/E8512 is 244.5 km, taking 2 hours and 51 minutes (https://www.distance.to/Kosovo).
- The distance from Kosovo to Tivat, Montenegro, is 343 km, taking 3 hours and 29 minutes (www.rome2rio.com/s/Pristina/Tivat).
- As for the distance from Kosovo to Thessaloniki (Greece), the air line is 270.13 km, taking 167.85 minutes, and the driving route is 325.36 km, taking 4 hours and 5 minutes (https://www.distance.to/Pristina/Thessaloniki).

A young, skilled workforce and low labor costs are important incentives for foreign investment. Investors are particularly attracted by the availability of an educated workforce. Kosovo is also competitive in sectors such as information technology (IT) (https://kit-ks.com/), wood processing, metal manufacturing, corporate outsourcing, tourism and agriculture. Businesses can be registered quickly (in just two days), facilitating rapid market entry. The government actively promotes investment opportunities, regularly informing investors about favorable investment laws. In addition, Kosovo offers international arbitration for legal disputes, ensuring fast and flexible resolution of commercial conflicts. The Law on Foreign Investment grants investors the right to seek arbitration for damages arising from legal actions or omissions directed against them. If necessary, disputes can be resolved through arbitration based on established procedures.

The research problem in this study is to identify and assess

specific factors that influence the growth of FDI in Kosovo as follows:

- Ease of access to local markets: Studying how the ease of access to local markets, including business regulation and licensing procedures, influences the incentive for companies to enter the Kosovo market and make investments;
- Size of the available market: Despite Kosovo having a small market, its strategic position in the Balkans and regional trade agreements, such as the Central European Free Trade Agreement (CEFTA) (https://cefta.int/about/), provide access to a wider market. This is an attractive point for investors targeting the region as a whole;
- Ease of access to market information: Kosovo has made efforts to improve the digitalization of administrative services, facilitating the process of business registration and licensing. The government, through institutions such as the Kosovo Investment and Enterprise Support Agency (KIESA) (https://kiesa.rks-gov.net/), provides information platforms for foreign investors;
- Government committed to promoting exports: The Kosovo Government has initiated programs to support exports, especially for sectors with high potential such as agriculture and manufacturing. This commitment demonstrates the commitment to creating a supportive environment for investments aimed at exporting products.

Several studies have investigated the FDI in Kosovo. Bajrami and Zeqiri [1] found that attracting FDI should be accompanied by development and an increase in the level of human capital as a prerequisite for attracting FDI to Kosovo. Haliti et al. [2] showed that corruption control, political stability, and the absence of violence and terrorism have a positive and significant effect on attracting FDI flows, while distance to the border (doing business) has shown a negative effect on FDI flows in Kosovo from 2009 to 2016. Whereas Sahiti et al. [3] analyzed the potential determinants of FDI and empirical results revealed that low corporate tax rates, low wages, Gross Domestic Product (GDP) growth rate and high interest rates are associated with FDI attraction in Kosovo.

While Conahan et al. [4] emphasized that FDI remains uncertain due to domestic and international political challenges, the economic consequences of the COVID-19 pandemic has particularly hit many of the main countries of origin of FDI in Kosovo. Islami et al. [5] showed that there is a positive relationship between FDI inflows and GDP growth, while there is a negative relationship between FDI inflows and Kosovo's trade balance.

The trend of FDI in Kosovo has been unstable over the last two decades, reflecting the failures of the promotional strategies of the Investment Promotion Agency in Kosovo (IPAK) [6]. According to the Central Bank of Kosovo [7], the first official data on FDI dating back to 2004 was only 40.7 million euros. In the following years, FDI flows showed major changes. In 2007, 440.7 million euros were registered, while in 2008 there was a decrease of 17%, with an inflow of 369.9 million euros. The weakest year for FDI was 2014, with only 151.2 million euros, showing a decrease of 46.3% compared to 2013. On the contrary, the year 2022 marked a new record, with 732 million euros of FDI, an increase of 43% compared to the previous year. In the period from January to October in 2023, Kosovo attracted 700.7 million euros of FDI. In August 2024, the FDI was 560.9 million euros, bringing the total to 6,598.2 million euros from 2007 to October 2024 [7].

In terms of FDI sources, Germany led the way for 2022 with 194.2 million euros, followed by Switzerland (155.2 million euros) and the USA (93 million euros). Albania contributed 79.8 million euros, while Austria and the Netherlands provided 44.7 million and 43.7 million euros, respectively. Considerable amounts also came from Turkey (39 million euros), Slovenia (17.8 million euros) and other countries (89.5 million euros). The countries that have invested the most in Kosovo from 2007 to 2024 include Austria (1,105.4 million euros), Germany (3,395.6 million euros), Slovenia (464.4 million euros), Great Britain (870.2 million euros), Switzerland (100.5 million euros), Turkey (1133.0 million euros), Albania (1301.8 million euros), Luxembourg (49.7 million euros), Serbia (1351.8 million euros), USA (59.1 million euros), France (200.6 million euros), Bulgaria (118.6 million euros), North Macedonia (114.4 million euros), Bosnia and Herzegovina (8.3 million euros), Croatia (56.6 million euros), Slovakia (32.2 million euros), Norway (186.8 million euros), Italy (269.6 million euros), Hungary (213.4 million euros), Canada (208.1 million euros), and United Arab Emirates (120 million euros). The top six countries bringing FDI to Kosovo are Germany, Serbia, Austria, Albania, Turkey and Great Britain [7].

In terms of economic activities, the real estate sector dominated with 523.7 million euros in 2022, followed by financial and insurance activities (53.9 million euros), energy and gas supply (44.9 million euros) and extractive industry (52.4 million euros) [7].

The wholesale and retail trade, manufacturing and information and communication sectors contributed less than 20 million euros each. The top economic sectors of FDI between 2007 and 2024 are financial and insurance activities (3,394.6 million euros), real estate activities (993.7 million euros), construction (420.30 million euros), manufacturing (407 million euros), and electricity and gas (256.8 million euros) [7]. The data show that, although there has been significant growth in recent years, FDI in Kosovo continues to face structural challenges and dependence on limited economic sectors. Increasing diversification and strengthening attraction strategies remain critical for the country's economic future. These studies provide an important basis for understanding the challenges and opportunities for attracting FDI in Kosovo, identifying key areas for improvement.

2. LITERATURE REVIEW

Despite efforts to improve the business environment and attract foreign investment, Kosovo faces numerous challenges, including limited access to market information, an unstable institutional environment, and regional competition for FDI flows. Investment promotion policies and strategies have often failed to fully address the need for an investor-friendly environment, negatively impacting the country’s ability to compete in the global capital market.

This topic is of particular importance in Kosovo due to the role that FDI can play in improving production capacities, increasing employment and regional economic integration. Studying the impact of factors that limit or encourage FDI flows in Kosovo is essential to building sustainable policies that improve long-term economic development. As for the main factors that influence FDI inflows in countries like Kosovo, the focus should be placed on market access, market size, access to information and government policies.

2.1 Exploring the theoretical framework of Hymer and Dunning

The theoretical contributions of Hymer [8] and Dunning [9] provide foundational insights into the determinants of FDI. However, the operationalization of these theories in the empirical context of Kosovo remains underexplored in this study. Hymer's seminal work emphasizes the advantages that multinational enterprises (MNEs) possess, which enable them to overcome the liabilities of foreignness, including firm-specific advantages (FSA) such as technology, managerial expertise, and economies of scale. Dunning's eclectic paradigm extends this perspective by integrating ownership, location, and internalization (OLI) advantages to explain the motivations behind FDI.

In the case of Kosovo, the application of these theories requires a more robust and contextualized analysis. Factors, such as market access, government initiatives, and cost-efficiency, were identified as key drivers of FDI in this study. However, these variables are not explicitly mapped to Hymer's and Dunning's theoretical constructs.

2.1.1 Key points from Hymer

Hymer [8] emphasized FSA. In the context of this study, FSA includes the technology, brand, and knowledge that firms bring to Kosovo, which can help them exploit market size and reduce costs. In addition, international companies enter markets to minimize competition or to secure local resources more efficiently. These include factors such as EAMI and LCDB. Thus, foreign firms invest abroad to exploit FSA and to overcome competitive inequities in foreign markets. Studies by Caves [10] and Kindleberger [11] have expanded this theory by emphasizing the advantages of ownership and control over resources.

The mathematical model of Hymer [8] was adapted for this study as follows:

$$FDI = \alpha + \beta 1(FSA) + \beta 2(AMS) + \beta 3(LCDB) + \epsilon \quad (1)$$

where, *FSA* is Firms Specific Advantages, *LCDB* is Low Cost of Doing Business, and ϵ is the error term for unspecified factors.

2.1.2 Key points from Dunning

As for OLI, ownership advantages mean that technology and well-known brands help firms be competitive in Kosovo. Location advantages include market size and government support, which in this study are represented by AMS and GEPEX. Internalization advantages mean that firms may prefer to control operations in Kosovo to avoid risks from outsourcing, including lack of market information (EAMI).

For instance, the GEPEX variable aligns with Dunning's location advantage, as export-promoting policies enhance the investment climate by reducing operational risks and fostering competitiveness in global markets. LCDB could reflect both ownership advantages (enhanced firm profitability) and location advantages (a favorable operational environment for MNEs). Market access, which means the accessibility to local and regional markets, represents Dunning's location-specific factors. This could also interact with ownership advantages if MNEs leverage their resources to exploit such opportunities effectively.

Dunning's mathematical model was adapted for this study as follows:

$$FDI = \alpha + \beta 1(O) + \beta 2(L) + \beta 3(I) + \epsilon \quad (2)$$

where, *O* represents the ownership advantages (technology, brand, and expertise), *L* is the location advantages (AMS, LCDB, and GEPEX), *I* is the internalization advantages (EAMI), and ϵ is the unspecified factor.

Table 1. Approach framework for the study using Hymer's and Dunning's theories

Component	Description
FDI (Dependent Variable)	Foreign Direct Investment in Kosovo. This is the outcome being analyzed and influenced by various independent variables.
Independent Variables	Factors influencing FDI.
EAMI (Easy Access to Market Information)	Ease with which investors access relevant market information in Kosovo.
AMS (Available Market Size)	Size of the domestic market, which affects the attractiveness of Kosovo for foreign investors.
EADM (Easy Access to Domestic Markets)	Accessibility of Kosovo's internal markets for foreign investors, including regulations and infrastructure.
LCDB (Low Cost of Doing Business)	Cost-effectiveness of setting up and operating businesses in Kosovo.
GEPEX (Government Efforts to Promote Exports)	Government policies and initiatives that promote Kosovo's export sector and attract FDI.
Hymers' OLI Framework	Ownership, Location, and Internalization model explaining how location advantages (like market size, cost, and policies) influence FDI.
Dunning's Eclectic Paradigm	Extends the OLI framework, showing how ownership, location, and internalization factors drive FDI in Kosovo.
H1: Correlation (Kendall's Tau-b)	Hypothesis: There is a significant correlation between the independent variables (EAMI, AMS, EADM, LCDB, GEPEX) and FDI.
H2: Impact (Multiple Linear Regression)	Hypothesis: The independent variables significantly impact FDI through multiple linear regression analysis.
Tests	- **Breusch-Pagan Test**: Detects heteroscedasticity in the regression model. - **Diagnostic Collinearity Test**: Assesses multicollinearity issues between the independent variables.
Data	- **Sample**: 148 foreign investors in Kosovo.
Results & Recommendations	- Identification of the most significant factors affecting FDI in Kosovo. - Policy recommendations for the government to improve FDI inflows. - Strategies to improve the investment climate in Kosovo.

Source: by the author's

2.1.3 Innovation by adapting the methodology to Kosovo

The research represents a new contribution by linking Dunning's OLI paradigm and Hymer's theory to the specific context of a developing country like Kosovo, including new variables such as GEPEX and EADM. In addition, the empirical model, the combination of theories with econometric analyses (such as linear regression and tests for multicollinearity), makes this an innovative approach to studying FDI. Furthermore, while location advantages have been widely discussed in the existing literature, the distinctive impact of GEPEX on supporting exports and government policies is a factor that may provide novelty for further research.

This framework provides a structured approach to understanding the dynamics of FDI in Kosovo, integrating theory with practical analysis to draw conclusions and offer recommendations. Table 1 combines the theories of Hymers and Dunning with the selected factors for this study (EAMI, AMS, EADM, LCDB, GEPEX), explaining how these variables influence FDI in Kosovo and how they relate to the components of Ownership, Location, and Internalization. The use of regression tests (such as Breusch-Pagan and Collinearity) and linking them to FDI theory through correlation and impact analysis in the table represents a more advanced approach in analyzing the factors that affect foreign investment in Kosovo (Table 2).

The OLI theory proposed by Dunning means that FDI occurs when a firm has advantages that make it competitive in international markets, including:

a) Ownership advantages: Unique factors of the firm such as technology, brand, and managerial skills. In this context, EAMI helps investors take advantage of these advantages.

b) Location advantages: Related to specific characteristics of the host country that attract investment, such as AMS and EADM.

c) Internalization advantages: Firms prefer to manage their operations in the host country to maximize profits. Factors, such as GEPEX, play a role.

Table 2. Comparison of Hymer's and Dunning's frameworks

Aspect	Hymer	Dunning
Main focus	Firm advantages and market imperfections	Advantages of OLI
Advantages of ownership	Technology, brand, and expertise	Technology, brand, expertise (shared)
Location advantages	They are not treated in detail.	Market size, cost, and government policies
Internalization	Control to eliminate competition	Control to reduce costs and risks
Practical example	A company enters a market to eliminate a competitor	A company enters because of market size and government support

Source: by the author's

2.1.4 Link to this study

AMS and EADM are related to location advantages. In the Kosovo context, a small but strategically positioned market constitutes a potential advantage. Bevan and Estrin [12] showed that market size and access to local markets are key factors in investors' decision-making. EAMI reinforces ownership advantages, providing investors with clear information about the market. Investors' access to information increases trust and reduces uncertainty [13]. LCDB and GEPEX affect internalization advantages by reducing costs and increasing export opportunities for investing firms. As for pro-export policies and business cost reduction, Buckley et al. [14] proposed that they are key factors in attracting FDI.

Kosovo's location in the Balkans, with access to European markets through agreements such as CEFTA, is seen as a key factor in attracting FDI. Blomström and Kokko [15] conclude that there is potential for "spin-off effects" significant spillover effects" from FDI in host countries. However, they identify several limitations to this potential related to the stock of human capital, the interest in local firms to promote skills transfer, and the competitive environment. In addition, even small countries can attract FDI if they are integrated into larger regional economic systems. Crescenzi et al. [16] explored how regional integration increases the potential for market access, thereby attracting more foreign investment to smaller countries like Kosovo, as market potential expands. Lipsey [17] argued that foreign capital can stimulate economic growth in the short term, but this growth may be artificial without domestic means to sustain it in the long term. Ngo et al. [18] investigated the determinants of FDI attraction, including labor force, macroeconomic policy, macroeconomic stability, skilled labor, and trade openness in 43 out of 63 provinces or cities from 2000 to 2019 using Generalized Method of Moments (GMM) and Pooled Mean Group (PMG). The results showed that market size impacts positively and significantly on FDI attraction, with 1% -1.45% for PMG and 1% -1.25% for GMM. Meanwhile, the trade openness negatively affects FDI inflows in the short term, while not being statistically significant in the long term. Hoang et al. [19] proposed that low labor costs and provinces equipped with national seaports have a significant advantage in attracting FDI, highlighting the vertical structure of FDI in the SCC region. Hoa et al. [20] analyzed FDI attractiveness in the northwest region of Vietnam in the context of global economic integration from 2000 to 2019 under these factors: promoting economic restructuring, expanding markets, promoting exports, developing human resources, and providing new technologies for development.

A country like Kosovo that provides such information through digital platforms and official agencies can increase its attractiveness to foreign investors. Crescenzi [16] also discussed the importance of information transparency in promoting FDI. Countries that provide clear and accessible data on investment opportunities reduce the perceived risks associated with investment, which is essential for attracting FDI. Aitken and Harrison [21] found that governments often promote inward foreign investment to encourage technology spillovers from foreign to domestic firms. Using panel data on Venezuelan plants, it was found that foreign equity participation is positively correlated with plant productivity (the own-plant effect), but this relationship is only robust for small enterprises. It was suggested that well-designed government policies, such as those in Kosovo, that support export-led growth create an attractive environment for foreign investors. Organization for Economic Co-operation and Development (OECD) (2003) discussed the role of government support for export industries in attracting FDI. The findings showed that countries that actively promote exports and provide favorable conditions for trade see higher levels of foreign investment. Kosovo's export promotion policies are consistent with these findings. The research showed that when governments focus on promoting exports, foreign investors are more likely to invest, especially in

transition economies such as Kosovo.

Whereas Sahiti et al. [22] found that FDI in Kosovo is mainly oriented towards the real estate, leasing and business sectors. Moreover, the main FDI comes from EU countries and Turkey. Bajrami and Krasniqi [23] also emphasized that Kosovo has many prerequisites for increasing FDI inflows thanks to its natural resources and human capital, but there are also challenges in improving the legal system and better functioning of the democratic system in general. Whereas Geci [24] considered that the main obstacles to FDI in Kosovo are the high level of corruption in policy-making institutions. Kelmendi [25] found that Kosovo offers several location-specific advantages that are attractive to foreign investors, such as a skilled and highly educated workforce, low labor costs, low tax rates, favorable FDI laws, streamlined registration procedures, and strategic location. However, the market challenges that affect the ability of foreign firms to leverage these advantages include corruption, law enforcement issues, perceptions towards regional stability, international recognition, workforce migration, as well as the educational system's quality.

Ziberi and Gashi [26] emphasized that Kosovo is attractive for foreign investors due to the increasing rate of GDP, labor market conditions, and high rate of degree holders complying with labor market requirements. It was recommended to supplement the current law versus the European FDI legislation. The major implication of the study is the comparative analysis of Kosovo's law in regard to the EU law on FDI.

Meanwhile, Gashi [27] discussed the development related to trade liberalization and FDI, as well as the opportunities that the latter create for the integration of Kosovo's industries into global production networks. Krasniqi and Mehmeti [28] emphasized that the main reasons that influence the decision-making of FDI companies to invest in Kosovo are the availability and quality of human capital in the banking sector. It was concluded that Kosovo is attractive to foreign investors due to the growing GDP rate, labor market conditions, and the high level of graduates in line with labor market requirements. The results of the study by Abdurrahman and Tmava [29] also confirmed that the inflation rate, FDI, GDP growth and unemployment rate over the years are in inelastic relationships between them. Therefore, it is necessary to reduce public spending and inflation rates for an increase in FDI, employment and GDP.

Whereas, Kastrati and Vokshi [30] emphasized that responsible institutions in Kosovo should improve the conditions of contract implementation, reduce unnecessary administrative barriers, and promote the fight against the informal economy, corruption and nepotism. Furthermore, Kosovo's young population, workforce and low labor costs are some of the main incentives for foreign investors. In an interview with AmCham (https://www.amcham.de/), a Dutch investor said, "We see many advantages (in Kosovo) and one of them is the availability of a highly educated workforce ... this is quite extraordinary" for the wide range of competitive sectors [31]. While Kosovo has considerable potential to attract FDI due to its geographical location, skilled workforce, and government support, continued efforts to improve access to information and infrastructure are essential. Their insights underscore the importance of integrating these factors to create a sustainable and investor-friendly environment.

This study contributes to the broader discourse on the applicability of the OLI paradigm and Hymer's perspectives in small, developing, and transition economies.

3. RESEARCH METHODOLOGY

In this study, the factors influencing FDI were adapted according to the paradigms of Hymer [8] and Dunning [9]. As for ownership, the technology and expertise that firms bring to Kosovo can be analyzed as part of the advantages of ownership. As for location, the variables (AMS, LCDB, EADM, EAMI, and GEPEX) represent location advantages, which are essential for attracting FDI to a market like Kosovo. As for internalization, the research assesses whether foreign firms prefer to control their own operations due to the lack of reliable information or government support.

Specific factors that most influence the preference for location (AMS, LCDB, EADM, EAMI, and GEPEX) and internalization were identified in this study, such as market transparency and institutional support in the Kosovo context. While ownership was not directly researched, it was considered that foreign firms in Kosovo bring technology and expertise and it is recommended to be investigated in future research.

In this study, data from the Tax Administration of Kosovo and the Statistical Office of Kosovo were used to identify the base of foreign investors with branches in Kosovo. The sampling process was carried out through the stratified random sampling method, ensuring a balanced representation of investors from different sectors and regions of the country. From a population of 450 registered foreign investors, all investors were contacted via Google Forms, social media, phone calls, and physical communications where possible. Responses were collected randomly from 148 investors, who constitute the sample for this study. To minimize bias and increase the responsiveness of the data, investors from all major regions of Kosovo were included, including Pristina, Ferizaj, and other important economic regions.

It was ensured that investor data was treated with complete confidentiality, using agreements signed with the companies to maintain the privacy of sensitive information. By using a combination of online (Google Forms) and offline (physical and telephone) methods, representativeness was maximized and the potential for bias that could occur from complete reliance on a single method was reduced. The structured questionnaire was structured in two parts. In the demographic part, it included questions to collect basic data on the investor profile, such as economic sector, region of operation, and investment experience in Kosovo. The investors came from Albania, Austria, Switzerland, Germany, France, Great Britain, Croatia, Hungary, Italy, Norway, Saudi Arabia, North Macedonia, Slovenia, Serbia, Turkey, and the USA. As for the content section, a five-point Likert scale (1 = Strongly agree; 2 = Agree; 3 = Neutral; 4 = Slightly agree; 5 = Disagree) was used to measure investors' perceptions on key variables of the study. This scale was applied to questions related to the main factors of the research, i.e., EADM, AMS, LCDB, EAMI, and GEPEX. The data were analyzed using SPSS 26.

The methodology used in this study includes a wide range of data analysis steps and techniques to achieve the study's objective, which is to analyze the impact of key factors contributing to the growth of FDI in Kosovo, including EADM, AMS, LCDB, EAMI, and GEPEX.

At the same time, this study aims to:

- Examine the role of LCDB in attracting foreign

investment.

- Assess the importance of EAMI and its impact on foreign investors' decision-making.
- Identify ways to improve information and services for investors in order to create a more favorable environment for FDI.
- To provide recommendations for policies and reforms that can contribute to the growth of FDI in Kosovo.

Meanwhile, to comply with the study objectives, two study hypotheses were established as follows:

Hypothesis 1 (H1): *EADM, AMS, LCDB, EAMI, and GEPEX are positively and statistically significantly related to the growth of FDI in Kosovo.*
Hypothesis 2 (H2): *EADM, AMS, LCDB, EAMI, and GEPEX have a statistically significant and positive impact on the growth of FDI in Kosovo.*

Primary quantitative data collected randomly through a structured questionnaire instrument were used. In a population of 450 respondents, 148 foreign investors operating in Kosovo from 2018 to 2023 were selected randomly. Two classical tests were used to test the reliability of the data. The Breusch-Pagan test [32] uses the following hypotheses, according to Statology [33]:

- Null hypothesis (H0): There is homoscedasticity (the residuals are distributed with equal variance).
- Alternative hypothesis (Ha): There is heteroscedasticity (the residuals are not distributed with equal variance).

If the p-value of the test is smaller than a specified significance level (e.g., $\alpha = 0.05$), then the null hypothesis is rejected and it can be concluded that heteroscedasticity is present in the regression model, according to Statology [33]. The steps to perform the Breusch-Pagan test are as follows:

Step 1: Fit the regression model.

Step 2: Calculate the squared residuals of the model.

Step 3: Fit a new regression model using the squared residuals as the response variable.

Step 4: Calculate the chi-square test statistic (X^2) as $n*R^2$ of the new model, where n is the total number of observations, and R^2 is the coefficient of determination of the new model using squared residuals as the response values.

If the corresponding p-value of the chi-square statistic with p (the number of predictor variables) degrees of freedom (df) is smaller than the specified significance level (e.g., $\alpha = 0.05$), then the null hypothesis is rejected and it can be concluded that heteroscedasticity is present.

The other test used in this study is the diagnostic collinearity test. The analysis of multicollinearity through eigenvalue and condition index, as well as variance proportions, is connected to the work by Bollinger [34], who developed methods for diagnosing multicollinearity and assessing the stability of regression models. A smaller eigenvalue indicates strong correlations between the independent variables and the potential for high multicollinearity. A condition index greater than 30 suggests the possibility of significant multicollinearity problems and requires intervention. Variance proportions indicate how much variance is explained by the other variables and can help identify problematic variables.

To analyze multicollinearity through eigenvalue and condition index, the following formula was used:

$$Condition\ index = \sqrt{\frac{\lambda max}{\lambda min}} \tag{3}$$

where, λmax is the largest eigenvalue (the largest variance) of the covariance matrix of independent data, and λmin is the smallest eigenvalue (the smallest variance) of the covariance matrix of independent data. The condition index is calculated by comparing the different eigenvalues. A high condition index (usually greater than 30) indicates the possibility of high multicollinearity and can be a sign that the models are highly sensitive to any independent variable. Variance proportions represent the percentage of variance for each variable explained by the other independent variables in the model and are related to the eigenvalue.

To calculate the variance proportions, the following formula was used:

$$Variance\ proportion = \frac{\lambda i}{\sum_{i=1}^{p} \lambda i} \tag{4}$$

where, λi is the eigenvalue for dimension i, and p is the number of independent variables. This formula shows how each dimension (independent variable) contributes to the total variance of the model. High values of variance proportions indicate that the dimension is closely related to others, which may suggest high multicollinearity.

To explain the complex interactions between the factors that attract FDI and the growth of FDI in Kosovo, Kendall's tau-b, which is a correlation coefficient, was used.

H1 aims to assess whether there are strong and statistically significant relationships between these factors, i.e., the dependent variable (FDI) and independent variables (EADM, AMS, LCDB, EAMI, and GEPEX). Kendall's tau-b is a nonparametric correlation coefficient used to measure the strength and direction of the relationship between two ordinal or interval variables. It is particularly useful when the data does not have a normal distribution and includes a limited number of cases or ranges (148 investor cases in this study) [35].

Kendall's tau-b is calculated according to the following formula [35]:

$$T = \frac{(D - D)}{\sqrt{(C + D + T_X) * (C + D + T_Y)}} \tag{5}$$

where, C is the number of concordant pairs (where one variable increases when the other increases), D is the number of discordant pairs (where one variable increases and the other decreases), and T_X and T_Y are the numbers of equalities in each variable. In addition, τb takes values from -1 (perfect negative relationship) to +1 (perfect positive relationship), with 0 indicating no relationship. A statistically significant value indicates that the variables have a statistically valid relationship. For H1, this method can answer the following questions:

- Is there a statistically significant relationship between each factor (EADM, AMS, LCDB, EAMI, and GEPEX) and FDI?
- What is the strength and direction of the relationship?

For H2, multiple linear regression was used. H2 aims to assess the overall and individual impact of factors of EADM, AMS, EAMI, LCDB, and GEPEX on FDI in Kosovo. This

model measures the degree of impact of each factor on the dependent variable (FDI). It also explains how much of the variance in FDI is explained by the independent variables. Linear regression, first developed by Galton [36] in the late 19th century, has evolved into a key statistical method [37]. Linear regression was initially used to study the inheritance of physical traits, such as human height, and it became known as "regression to the mean" when statistical trends demonstrated that traits tend to average across generations [38]. The goal of linear regression is to analyze the relationship between a dependent variable (outcome) and one or more independent variables (predictors). Simple linear regression focuses on the relationship between one independent variable and the dependent variable, whereas multiple linear regression uses multiple independent variables to provide a more accurate prediction.

The equation of simple linear regression is as follows:

$$y = a + \beta x + \mathcal{E}i \quad (6)$$

where, y is the dependent variable (or response variable), a is the intercept term (where the regression line intersects the axis of the dependent variable), βx is the regression coefficient (the weight given to the independent variable), and $\mathcal{E}i$ is the error term that represents different causes (variables) that are not included in the model.

H2 includes the dependent variable (FDI) and independent variables (EADM, AMS, LCDB, EAMI, and GEPEX). This statistical model is particularly suitable when it is required to analyze how several factors (independent variables) simultaneously affect a single dependent variable, providing a complete picture of the interrelated relationships.

Multiple linear regression has the following general form [39]:

$$y = \beta 0 + \beta 1x1 + \beta 2x2 + \beta 3x3 + \beta 4x4 + \beta nxn + \mathcal{E}i \quad (7)$$

where, y is the dependent variable, which in this case represents FDI; x_1, x_2, ..., x_n are the independent variables, representing various factors such as EADM, AMS, LCDB, EAMI, and GEPEX; B_0 is the intercept term, which indicates the value of FDI when all the independent variables are zero; $B_1, B_2, B_3,..., B_n$ are the regression coefficients that indicate the expected change in FDI for a one-unit increase in each independent variable; and ε is the error term, which represents the random factors or influences that are not included in the model.

As for the regression, Analysis of Variance (ANOVA) tests whether the overall model is statistically significant; regression coefficients measure the individual impact of each factor; R-squared (R^2) explains the percentage of variance in FDI that is explained by the model; $\beta i>0$ indicates a positive impact of the factor on FDI; p-value <0.05 indicates statistical significance; and R^2 is the percentage of variation in FDI explained by the model.

For H2, this model can answer the following questions:

- How much do all factors together affect FDI growth?
- Which variables are most important and have the greatest effect?

This model helps determine the impact that the independent variables have on the dependent variable and provides a deeper understanding of how these relationships may influence the study outcomes.

4. RESULT

To evaluate the impact of independent variables on the dependent variable (FDI) and analyze the relationships between variables, an estimation procedure was applied. First, descriptive statistical analysis was conducted to summarize key characteristics of the data. Second, demographic analysis was performed, where the study data was visualized through graphs to highlight relevant demographic features. Third, diagnostic tests were carried out to examine the reliability and adequacy of the data, ensuring valid statistical inferences. Fourth, Pearson correlation analysis was used to measure the relationships between variables through the Pearson correlation coefficient. Fifth, multiple linear regression analysis was applied to estimate the structural equation model and determine the impact of independent variables on the dependent variable (FDI).

4.1 Descriptive statistical analysis of data

Table 3 shows that the first best variable is LCDB, which is more concentrated around the mean than the other variables, because the distribution of values is 1.33 units from the mean of 3.01 units, which is the lowest distribution. The second-best variable, according to the distribution, is EAMI, with a mean of 3.39 units with a mean distribution of 1.18 units. The third-best variable, according to the distribution, is GEPEX, with a mean of 3.40 units with a mean distribution of 0.65 units, showing that even in this case the distribution is concentrated during the analysis period. The fourth variable, which is better distributed, is AMS with a mean of 3.64 units with a mean spread of 1.14 units, which shows that even in this case the distribution is concentrated during the analysis period. The fifth variable, which is better distributed, is FDI with a mean of 3.74 units with a mean spread of 1.37 units. And finally the variable is EADM, where the distribution of values is 4.74 units with a mean of 1.123 units.

Table 3. Descriptive statistics

	Mean	Std. Deviation	N
FDI	3.7448	1.37325	148
EADM	4.74	1.123	148
AMS	3.64	1.141	148
LCDB	3.01	1.333	148
EAMI	3.39	1.185	148
GEPEX	3.40	.650	145

Source: by the author's

This shows that all variables have a concentrated distribution throughout time.

Demographic analysis for each variable is shown below. The responses of the respondents to the questionnaire conducted for each question asked are presented below.

Figure 1 shows that the largest investors are from Germany, Switzerland and Great Britain, while other nearby countries are similar.

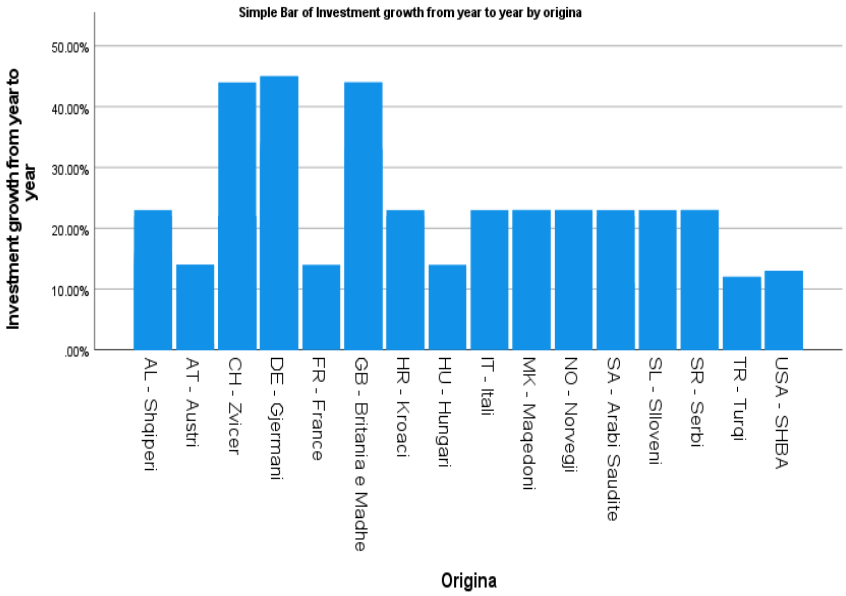

Figure 1. Investment growth from year to year by origin

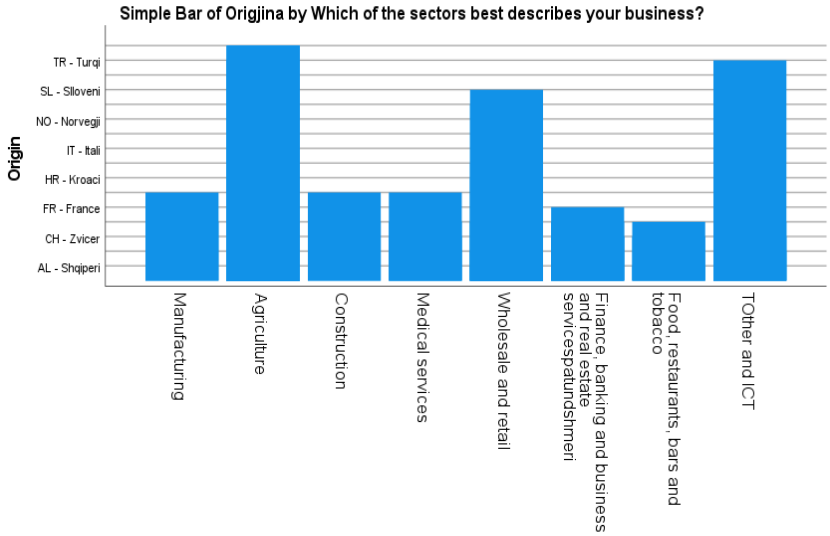

Figure 2. Investors and sectors invested

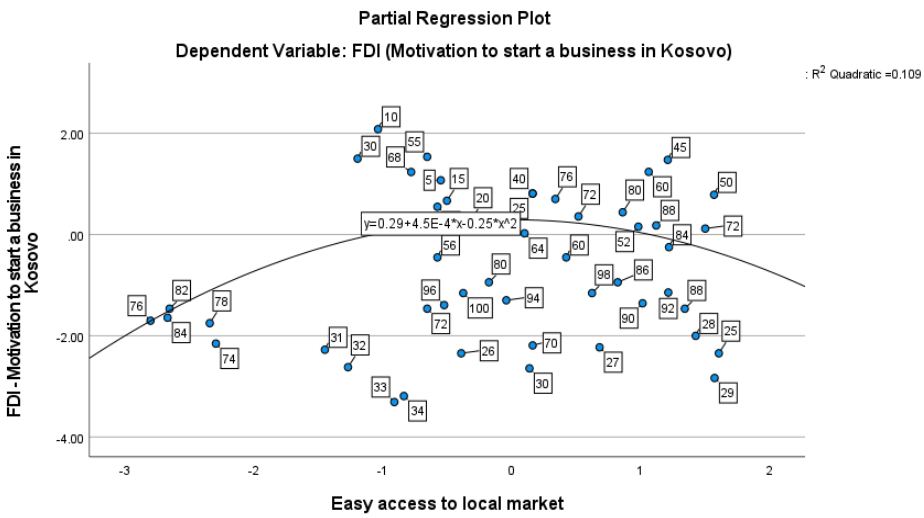

Figure 3. EADM

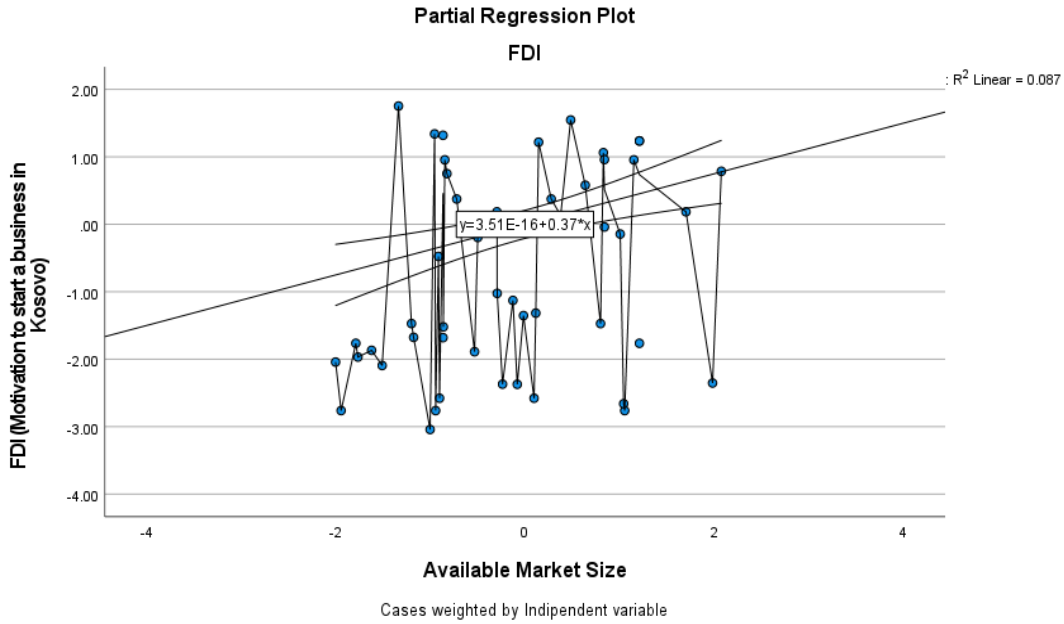

Figure 4. AMS

Figure 2 shows that the majority of investors surveyed appear to be in the fields of agriculture, ICT and other services, wholesale trade, and stocks and real estate.

In Figure 3, the partial regression plot for FDI and EADM, with $R^2 = 0.109$, shows a weak relationship, explaining only 10.9% of the variance in FDI. The plot likely shows a scattered pattern, indicating limited influence of EADM on FDI.

In Figure 4, the partial regression plot for FDI and AMS, with $R^2 = 0.087$, shows a very weak relationship, explaining only 8.7% of the variance in FDI. The plot likely appears scattered, indicating a minimal effect of AMS on FDI.

In Figure 5, the partial regression plot for FDI and LCDB, with the equation y= 0.03+0.44x−0.15×2+0.11×3y, shows a non-linear relationship. LCDB has a positive linear effect on FDI, but the effect decreases at higher levels and then increases again. The plot visualizes this curve, indicating a more complex influence of LCDB on FDI.

In Figure 6, the partial regression plot for FDI and EAMI with $R^2 = 0.109$ shows a weak relationship, explaining only 10.9% of the variance in FDI. A low R^2 indicates a weak influence of EAMI on FDI after controlling for other variables.

In Figure 7, the partial regression plot shows the relationship between FDI and GEPEX after controlling for other variables. The scale (0, 2, 4, 6, 8, and 10) represents GEPEX levels, while residuals (0.5, 1, 1.5, 2, and 2.5) show the deviation of FDI after accounting for other factors. A clear linear trend suggests a strong relationship between GEPEX and FDI, while scattered points indicate a weak or no relationship. The figure shows that the variables FDI and GEPEX are positively and statistically negatively correlated. This shows that the government is still not doing enough to promote exports in Kosovo.

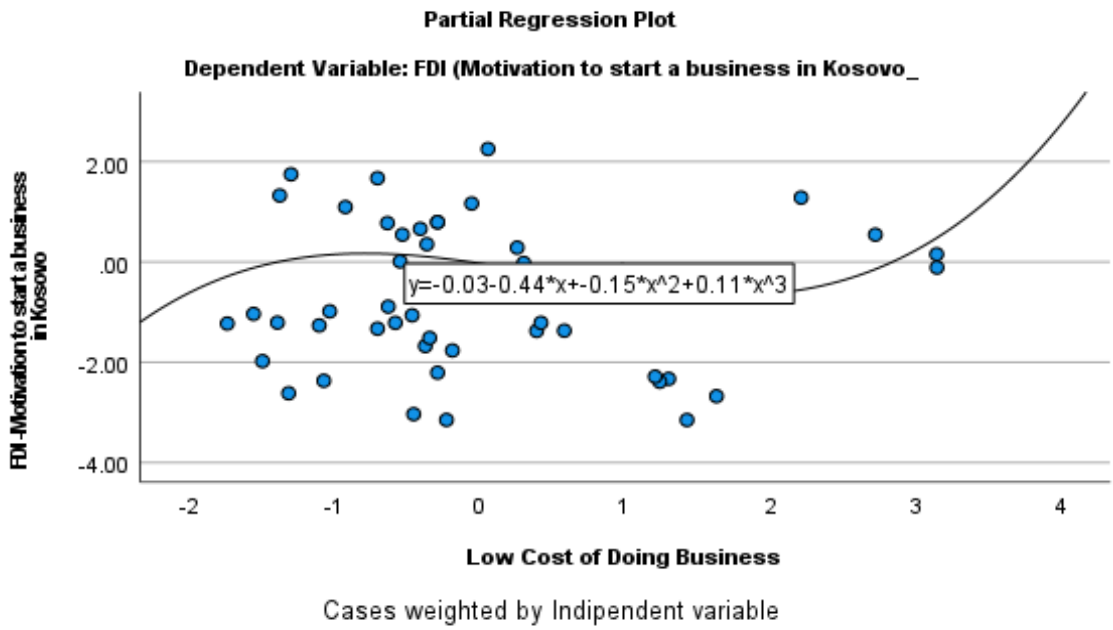

Figure 5. LCDB

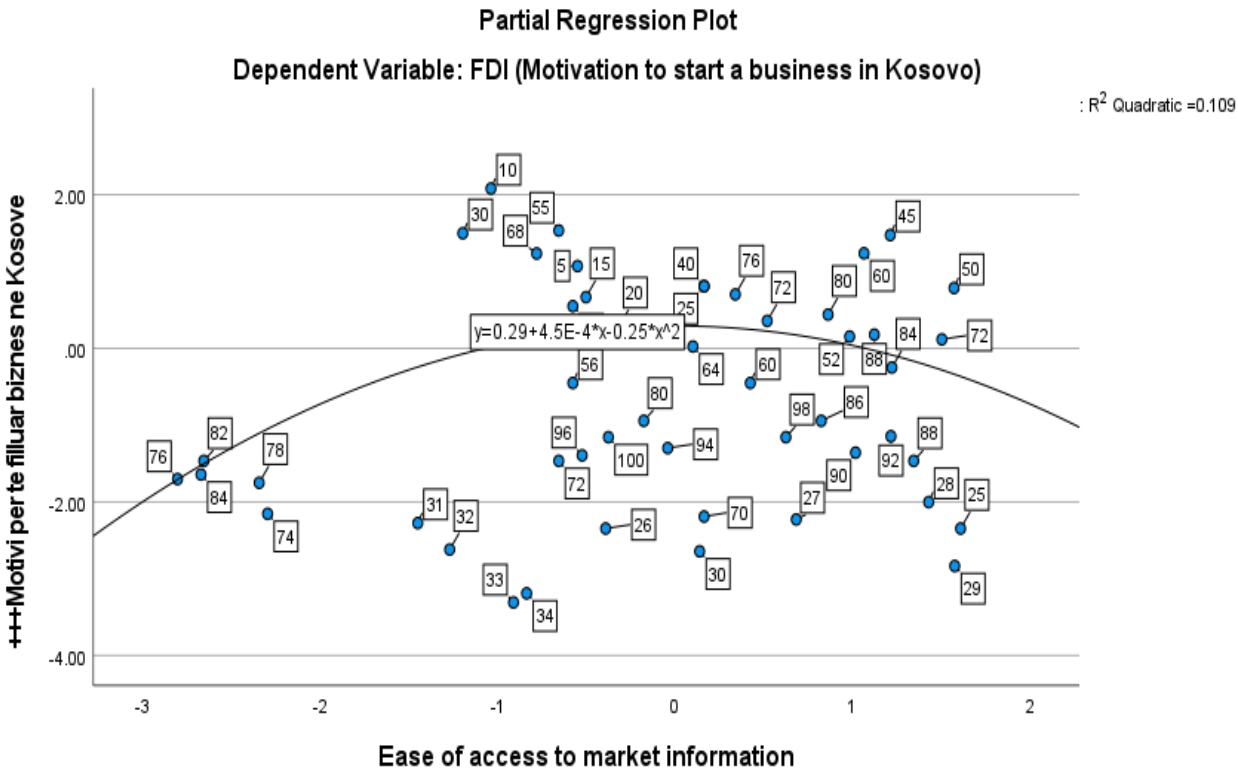

Figure 6. EAMI

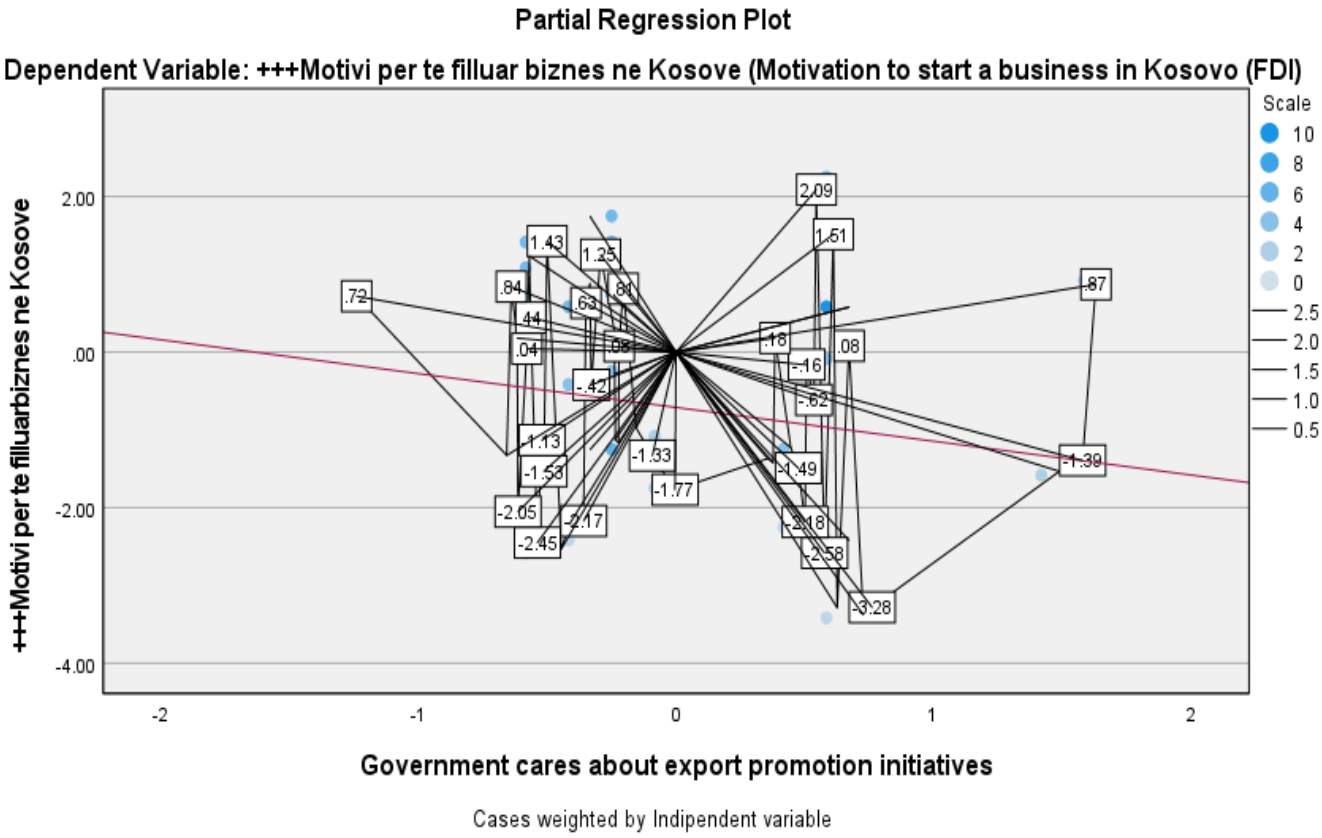

Figure 7. GEPEX

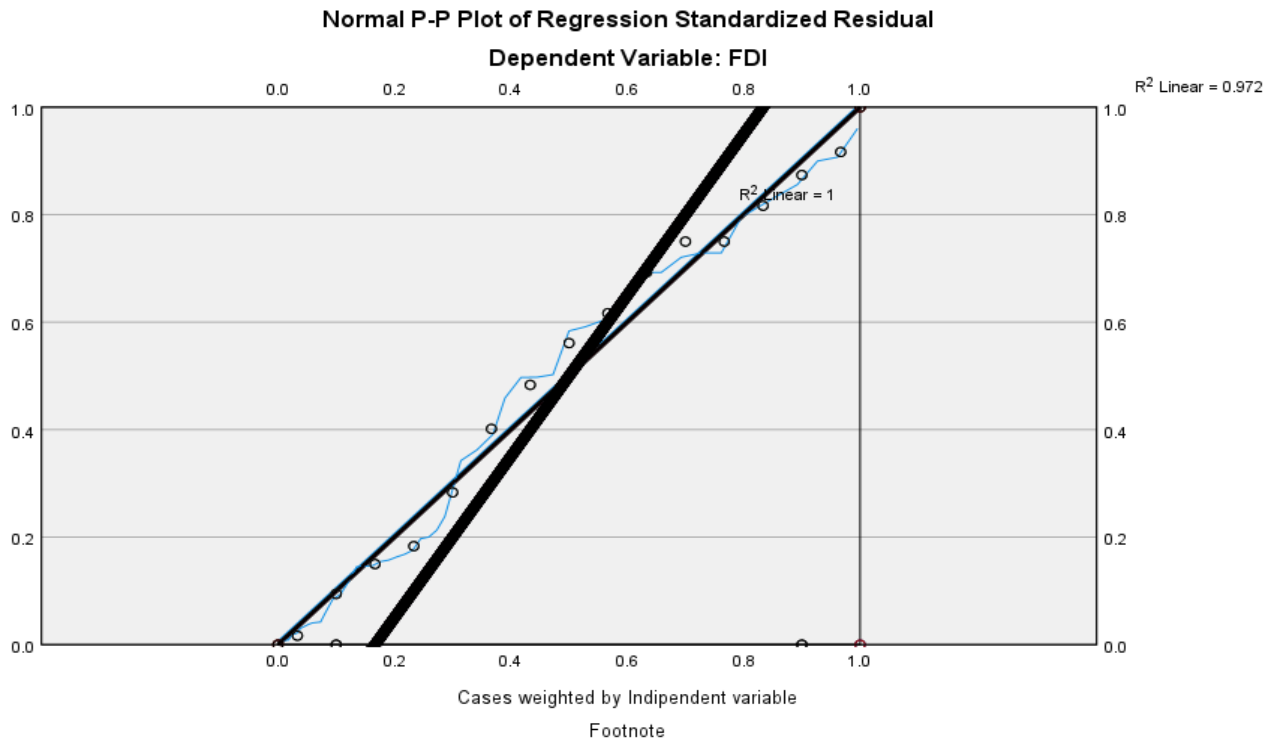

Figure 8. Normal P-P plot of FDI and independent variables

In Figure 8, with $R^2 = 0.972$, the model explains 97.2% of the variance in FDI, indicating a strong fit. The normal P-P plot is used to check if residuals are normally distributed. If the points closely follow a straight line, the residuals are normal, suggesting a good model fit. Significant deviations from the line may indicate issues with the model or non-normal residuals.

In Figure 9, the histogram of FDI shows that the mean is very close to zero (4.09 E-16), suggesting that foreign investments are very small or not significantly present in this sample. The standard deviation is 0.982, indicating some variation around the mean. With 148 observations, this suggests that FDI has some distribution without large values. The independent variables may influence FDI, but there is no strong evidence for significant relationships.

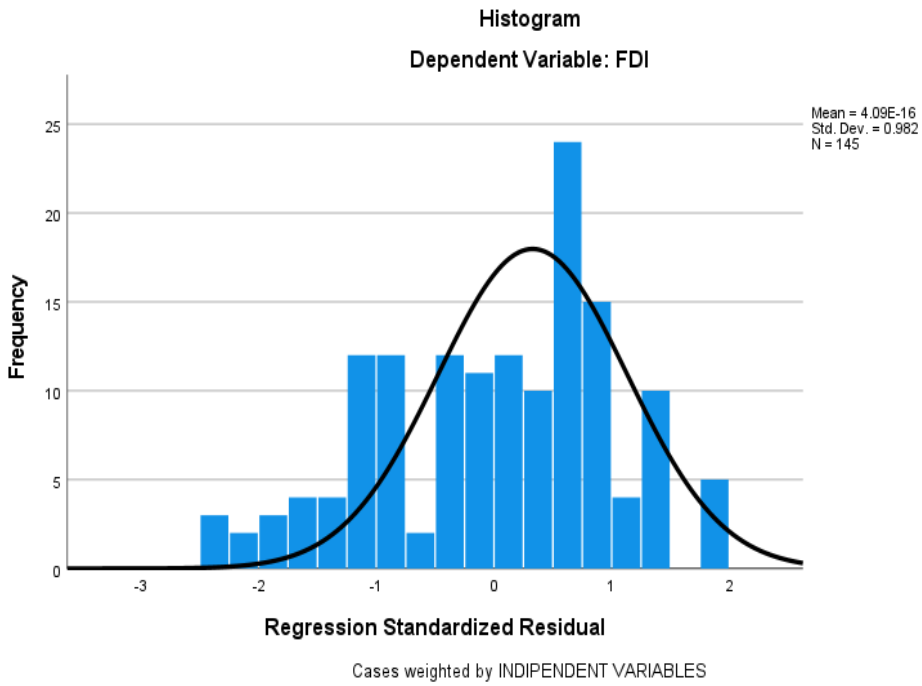

Figure 9. Histogram of FDI and independent variables

4.2 Data testing

Two classic tests were used to verify the reliability of the data. The first test conducted was the Breusch-Pagan test, as shown in Table 4.

Table 4. Breusch-Pagan test

Chi-Square	df	Sig.
192.958	1	.000

a) Dependent variable: FDI.
b) Tests the null hypothesis that the variance of the errors does not depend on the values of the independent variables.
c) Predicted values from design: Intercept + var1 + var2 + var3 + var4 + var5 + var6.

Source: by the author's

The chi-square is 192.958. This is the test statistic showing the difference between the predicted model and the assumption that errors have equal variance (homoscedasticity). The larger the chi-square value, the more evident the heteroscedasticity problem. In this case, the df is 1, as the error variance was tested against a single independent variable (which could relate to a regression model with five independent variables).

The p-value is 0.000, much smaller than the typical significance level (e.g., 0.05). This result indicates that the null hypothesis (H0) is rejected, which suggests there is no heteroscedasticity (i.e., the error variance is constant across observations). If the p-value is 0.000, this means the null hypothesis is rejected and it can be concluded that there is heteroscedasticity in the model. This implies that the error variance is not constant and varies depending on the values of the independent variables.

The second test conducted was the collinearity diagnostic test. The results are presented in Table 5 [40].

The "dimension" column represents dimensions with independent information, determined through singular value decomposition of matrix X without prior centering. The "eigenvalue" column shows values that indicate non-collinearity when they are not close to zero. The "condition index" column was derived from the eigenvalues and calculated as the square root of the ratio of the largest singular value to the dimension's eigenvalue. For example, in dimension 3, the eigenvalue ratio is calculated as follows: eigenvalue dim 1: 5.601; eigenvalue dim 3: 0.296; ratio: 5.601 / 0.296 = 18.922; square root (condition index): 7.651.

Table 5. Collinearity diagnostics

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions					
				Constant	EALM	AMS	LCDB	EAMI	GEPEX
1	1	**5.601**	1.000	.00	.00	.00	.00	.00	.00
	2	.193	5.387	.00	.00	.05	.49	.07	.00
	3	**.296**	**7.651**	.00	.01	.41	.00	.46	.00
	4	.468	9.104	.00	.32	.10	.18	.39	.05
	5	.334	12.922	.00	.47	.03	.08	.01	.62
	6	.549	14.821	1.00	.20	.40	.25	.07	.33

a) Dependent variable: FDI.

Source: by the author's

The condition index helps identify multicollinearity: values above 15 suggest potential issues, while values over 30 indicate severe multicollinearity. In this case, all condition index values (1; 5.387; 7.651; 9.104; 12.922; 14.821) are below 15, indicating no signs of multicollinearity.

4.3 Hypothesis testing

The study tested hypotheses using Kendall's tau-b correlation and multiple linear regression.

4.3.1 Testing H1

H1: EADM, AMS, LCDB, EAMI, and GEPEX are positively and statistically significantly related to the growth of FDI in Kosovo.

The Kendall's tau-b correlation, as shown in Table 6, reveals the relationships between FDI and five independent variables: EADM, AMS, EAMI, LCDB, and GEPEX.

The key findings are as follows:

- FDI correlates moderately with AMS (positive, 0.289, p = 0.000) and LCDB (negative, -0.283, p = 0.000). Both relationships are statistically significant, suggesting larger markets and lower business costs can positively influence.

- EAMI shows a very weak positive correlation with FDI (0.029, p = 0.681), indicating minimal impact. GEPEX shows a weak negative correlation with FDI (-0.138, p = 0.064), suggesting a marginally significant negative effect.

- EADM correlates weakly with FDI (-0.083, p = 0.240), with no significant impact. AMS correlates negatively with LCDB (-0.365, p = 0.000), showing that larger markets are associated with higher business costs.

- LCDB has a negative correlation with EAMI (with a statistically significant and positive impact on the growth of FDI in Kosovo; the impact of independent variables on the dependent variable, FDI, through multiple regression is 0.229, p = 0.001), indicating that lower business costs are linked to more difficult access to market information.

The study shows that AMS and LCDB are the most significant factors influencing FDI, while EADM and GEPEX have minimal impact. GEPEX appears weakly correlated with other variables.

4.3.2 Testing H2

H2: EADM, AMS, LCDB, EAMI, and GEPEX have a statistically significant and positive impact on the growth of FDI in Kosovo. The impact of independent variables on the dependent variable, FDI, was measured through multiple regression.

Table 7 presents the model summary for the regression analysis, where FDI is the dependent variable, and several independent variables are used as predictors, including GEPEX, LCDB, EADM, EAMI, and AMS. This model was used to analyze whether these factors have a significant impact and which of them are the most important in explaining variations in FDI.

The correlation coefficient is 0.494, suggesting a moderate

positive correlation between the independent variables (the predictors) and FDI. The R-squared value is 0.156, meaning that approximately 15.6% of the variability in FDI can be explained by the predictors in the model. This indicates that there are other factors influencing FDI that are not captured by the variables included in this model. The value of adjusted R-square is 0.125, which indicates that some of the predictors may not contribute significantly to explaining FDI. The standard error of the estimate is 1.28444, which shows the typical distance between the actual FDI values and those predicted by the model. The R square change is 0.156, meaning the inclusion of independent variables explains 15.6% more variance in FDI compared to a model without predictors. The F-statistic is 5.120, and it is statistically significant ($p \leq 0.05$), indicating that the variability explained by the predictors is meaningful. The significance value is 0.000, which indicates that the model is statistically significant and the predictors have an effect on FDI. The Durbin-Watson value is 1.108, which might suggest some autocorrelation in the residuals, but further tests are required to confirm this.

Table 6. Kendall's tau-b correlation

Model Coefficients			FDI	EALM	AMS	LCDB	EAMI	GEPEX
Kendall's tau_b	FDI	Correlation coefficient	1.000	-.083	.289**	-.283**	.029	-.138
		Sig. (2-tailed)	.	.240	.000	.000	.681	.064
		N	148	148	148	148	148	145
	EALM	Correlation coefficient	-.083	1.000	-.155*	-.070	.089	.151*
		Sig. (2-tailed)	.240	.	.030	.322	.205	.043
		N	148	148	148	148	148	145
	AMS	Correlation coefficient	.289**	-.155*	1.000	-.365**	.045	-.119
		Sig. (2-tailed)	.000	.030	.	.000	.527	.114
		N	148	148	148	148	148	145
	LCDB	Correlation coefficient	-.283**	-.070	-.365**	1.000	-.229**	-.013
		Sig. (2-tailed)	.000	.322	.000	.	.001	.862
		N	148	148	148	148	148	145
	EAMI	Correlation coefficient	.029	.089	.045	-.229**	1.000	.134
		Sig. (2-tailed)	.681	.205	.527	.001	.	.069
		N	148	148	148	148	148	145
	GEPEX	Correlation coefficient	-.138	.151*	-.119	-.013	.134	1.000
		Sig. (2-tailed)	.064	.043	.114	.862	.069	.
		N	145	145	145	145	145	145

Source: by the author's

Table 7. Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.494[a]	.156	.125	1.28444	.156	5.120	5	139	.000	.108

a) Predictors: (constant) GEPEX, LCDB, EADM, EAMI, and AMS.

b) Dependent variable: FDI.

Source: by the author's

In Table 8, the sum of squares for regression is 42.237. This value indicates how much of the variation in the dependent variable (FDI) can be explained by the independent variables. The larger this value, the more variability is explained by the model. The sum of squares for residuals is 229.322. This represents the variability that cannot be explained by the model and corresponds to the errors or variations not captured by the predictors. The total sum of squares is 271.559, which is the total variability of the dependent variable (FDI), including both the explained variability from the model (regression) and the unexplained variability (residuals).

Table 8. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	42.237	5	8.447	5.120	.000
	Residual	229.322	139	1.650		
	Total	271.559	144			

a) Dependent variable: FDI

b) Predictors: (constant) GEPEX, LCDB, EADM, EAMI, and AMS.

Source: by the author's

The df for regression is 5, which indicates there are five predictors in the model. The df for residuals is 139. This number represents the number of observations (144) minus the number of predictors (5) minus 1 (144 - 5 - 1 = 139). The total df is 144, which is the total number of observations minus 1. The mean square is 8.447 and was calculated by dividing the sum of squares for regression by the df for regression:

$$Mean\ square\ for\ regression = \frac{Sum\ of\ squares\ for\ regression}{df\ for\ regression} = \frac{42.237}{5} = 8.447 \quad (8)$$

This value represents the average variation explained by each predictor in the model.

The mean square for residuals was calculated by dividing the sum of squares for residuals by the df for residuals, which is 1.650.

$$Mean\ square\ for\ residuals = \frac{Sum\ of\ squares\ for\ residuals}{df\ for\ regression} = \frac{229.322}{139} = 1.650 \quad (9)$$

The F-statistic is 5.120. This test determines whether the regression model is justifiable for predicting the dependent variable (FDI). A higher F-statistic indicates that the model is more relevant and can explain the changes in FDI adequately. This F-value is compared with a critical value (which can be found in an F-table) to test if it is significantly different from 1 and whether the model is meaningful. p-value (Sig.) is 0.000 for the F-test, and it indicates that the regression model is highly significant ($p < 0.05$), meaning that the predictors in the model have a significant impact on the dependent variable (FDI). The model is statistically significant ($p = 0.000$), suggesting that predictors such as GEPEX, LCDB, etc., significantly influence FDI. The F-statistic value of 5.120 shows that the model is valid and can explain the variability in FDI. Approximately 15.6% of the variability in FDI is explained by the variables used in this model, as indicated by the R^2 in the model summary table.

This model would require improvements to explain more variability in FDI, but it is useful for identifying relationships between several factors and FDI.

In Table 9, the coefficients in the multiple linear regression model show that the constant coefficient is 2.377, which translates to 237.7% when expressed as a percentage. This indicates that when all independent variables are zero, the value of FDI would be 237.7% of the baseline level. This result is statistically significant, as the p-value for the constant is below 0.05, making the model valid for predicting FDI.

The findings are as follows:

a) EALM ($\beta1 = 0.167$, $p = .002$): The positive coefficient and statistical significance ($p < 0.05$) indicate that for every unit of improvement in access to local markets, FDI inflows increase, demonstrating that the ease of doing business is attractive to foreign investors.

b) AMS ($\beta2 = 0.375$, $p = .000$): Market size has a positive and statistically significant ($p < 0.05$) impact on FDI growth. The positive coefficient indicates that the larger the market, the more attractive it is for foreign investment.

c) LCDB ($\beta3 = -0.037$, $p = 0.675$): This variable is not statistically significant for investors ($p > 0.05$), indicating that an increase in the cost of doing business has a significant negative impact on FDI inflows.

d) EAMI ($\beta4 = 0.106$, $p = 0.257$): The positive but statistically insignificant coefficient ($p > 0.05$) suggests that foreign investors do not see this as a decisive factor, preferring reliable sources of market information from specialized organizations and other institutions.

e) GEPEX ($\beta5 = -0.304$, $p = 0.005$): This factor is statistically significant ($p < 0.05$) but has a negative coefficient, suggesting that the government is not doing enough to support exports. Investors consider it necessary for the government to improve support measures by creating clear guidelines and reforms to attract investments.

As a summary of the findings, EADM and AMS have a significant positive impact on the growth of FDI, while LCDB and EAMI do not significantly affect it. Although GEPEX is important, is has a negative impact, signaling the need for further improvements by the government to support and increase the attractiveness of Kosovo for foreign investors.

Table 9. Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	Constant	2.377	1.004		2.369	.019					
	EALM	.167	.099	.136	1.679	.002	.079	.141	.131	.921	1.086
	AMS	.375	.103	.311	3.632	.000	.331	.294	.283	.828	1.208
	LCDB	-.037	.089	-.036	-.421	.675	-.188	-.036	-.033	.811	1.233
	EAMI	.106	.093	.092	1.137	.257	.121	.096	.089	.934	1.071
	GEPEX	-.304	.169	-.144	-1.797	.005	-.165	-.151	-.140	.946	1.057

a. Dependent variable: FDI.

Source: by the author's

The following equation summarizes the study variables:

$$FDIi,t = \beta_o + \beta1\ EALM\ i,t + \beta2\ AMS\ i,t + \beta3\ LCDB\ i,t + \beta4\ EAMI,t + GEPEX\ i,t + \varepsilon i,t \quad (10)$$

Or, it can be expressed in numerical values as follows:

$$FDIi,t = 2.377 + .167\ \beta1 + .375\ \beta2 + (-.037)\ \beta3 + .106\ \beta4 + (-.304)\ \beta5 = 2.377 + .167 + .375 - .037 - .106 + .304 = 27.8\ percentage\ point \quad (11)$$

The total model score (2.78) suggests a potential increase of 27.8% in FDI for the coming period, if the main variables remain favorable and the government takes measures to improve the factors with negative impact. The percentage of variance explained by this model is 49.4% (according to the model summary table), which means that these factors explain about half of the variability of FDI in Kosovo. Overall, this model suggests that in order to improve FDI attraction, it is important for the Kosovo government to focus on supporting the local market and improving export promotion initiatives and the ease of doing business for foreign investors. Looking at the coefficients and statistical significance of the variables, the alternative hypothesis H2 is supported, while the null hypothesis is rejected.

This means that some factors, such as EADM and AMS, have a significant impact on FDI growth, while factors with a negative impact can be improved with stronger policies from the government.

5. DISCUSSION

The comparative analysis of the findings of this study with other studies on FDI drivers highlights several relevant themes. Key points include market size, ease of doing business, access to market information, and government attention to export promotion. Below is a structured discussion based on the findings of this study and existing research.

- EADM ($p = 0.008$, $r = 0.666$): The results of this study suggest that EADM significantly influences FDI inflows in Kosovo. This finding aligns with the study by Li [41], which emphasizes the role of diplomatic relations in reducing barriers to market entry. Similarly, Bardakas et al. [42] argued

that a favorable business environment and institutional quality are crucial. This study is also supported by the main findings of Petrović-Ranđelović et al. [43] in the Balkans, which confirm that market size is an important determinant of FDI inflows in the Western Balkan countries. Similarly, Sahiti et al. [22] found that most FDI in Kosovo targets real estate, leasing, and business sectors, suggesting sector-specific opportunities despite market size limitations.

- AMS ($p = 0.000$, $r = 0.335$): The findings of this study show a positive but weak relationship between AMS and FDI. This aligns with studies by Atobatele [44], Asiedu [45], and Asbullah et al. [46], which emphasize the importance of market size for attracting FDI in Africa. Similar dynamics have been observed in Oman, which indicates that FDI flows are positively influenced by the market size [47]. Unlike this study, market size and availability of low-cost inputs are, respectively, the least desirable factors [48]. Despite Kosovo's small consumer base, integration into broader Balkan markets could enhance its FDI appeal. Similar to this study, market size and low input costs have a smaller but positive impact on increasing the motivation to invest. Statistical analysis reveals that these factors do not affect investors from different countries equally [48]. This is consistent with Gashi [27], who highlights trade liberalization's potential for integrating Kosovo's industries into global production networks. The results of this study are similar to the results of the study by Asbullah [46], which indicate that market size has a positive impact on FDI; for this reason, governments should increase the size of market access, increase the infrastructure that facilitates market access, and open up trade with neighboring and more distant countries in order to increase FDI.

- LCDB ($p = 0.023$, $r = -0.187$): Interestingly, a negative relationship between LCDB and FDI was found in this study, indicating potential areas for policy improvement. This result diverges from studies by Mottaleb and Kalirajan [49], who found that low operational costs increase FDI inflows. It suggests that factors beyond direct costs, such as administrative efficiency and investment security, may play a more critical role in Kosovo, as evidenced by findings from Piwonski [50]. Additionally, Kelmendi [25] identified low labor costs and streamlined registration procedures as key advantages, though issues like corruption and law enforcement remain critical concerns.

- EAMI ($p = 0.111$, $r = 0.131$): This study indicates that EAMI is statistically insignificant in attracting FDI. The positive, but statistically insignificant, relationship in the results of this study echoes research that emphasizes the need for transparent and easily accessible information for investors. Weak information channels can limit the effectiveness of FDI. This result contrasts with the findings from Jaiblai and Shenai [51], who demonstrated that transparent and accessible market data significantly boosts FDI. Kosovo could benefit from investing in centralized, easily accessible economic and trade information systems, as recommended by Artige and Nicolini [52]. The Kosovo Chamber of Commerce [31] also stressed promoting accurate market data to boost investor confidence.

- GEPEX ($p = 0.047$, $r = 0.615$): GEPEX is positively significant. GEPEX emerged as a positive factor, aligning with Kyereboah-Coleman and Agyire-Tettey [53], who emphasized the role of government policies in stimulating FDI. The findings of this study suggest that the Kosovo government should further increase export incentives and promote competitive policies for both domestic and foreign businesses because the effect of attracting investors can be even greater, similar to successful practices in countries such as India and Brazil. The Kosovo government could adopt policies similar to those in India and Brazil [52]. Furthermore, Kastrati and Vokshi [30] called for reducing administrative barriers and combating corruption, which can improve FDI-friendly policies.

Bevan and Estrin [54] argued that access to local and regional markets is a key motivator for FDI. The results of this study for EADM ($B=0.167$ for all) support this argument, showing that EADM is an important factor for FDI. Blonigen [55] suggested that market size is critical for attracting FDI, especially in emerging markets. The results of this study ($B=0.375$ for all; $r=0.289$ for all) support this theory, showing a strong positive relationship and impact of market size on FDI. Wang et al. [56] proposed that LCDB is critical for attracting FDI. The results of this study ($B=-0.037$ for all; $r=-0.283$ for all) show a negative relationship and impact, suggesting that in the case of Kosovo, this factor is not that important. Beugelsdijk et al. [57] estimate the effects of increased vertical and horizontal activity of US MNEs in 44 host countries over the period 1983–2003, also using traditional total FDI figures as a benchmark. Consistent with the existing literature, we find no significant effects of horizontal or vertical FDI in developing countries.

The results of this study for EAMI ($B=0.106$ for all; $r=0.029$ for all) show a weak and non-significant impact, suggesting that this factor is not perceived as decisive in Kosovo. Dunning mentioned the role of government in creating location advantages for attracting FDI. This factor falls within the framework of factors that the Eclectic Paradigm of Production "a powerful general framework for explaining and analyzing not only the economic rationale of economic production, but many organizational issues and influences related to MNE activity [58]. The analysis takes as its starting point the growing convergence between theories of international trade and production, and argues the case for an integrated approach to international economic involvement, based both on the location-specific endowments of countries and on the specific ownership assets of firms. In pursuing this approach, Dunning presents a systematic explanation of the foreign activities of firms in terms of their ability to capture markets to their advantage [59].

The results of this study for GEPEX ($B=-0.304$ for all; $r=-0.138$ for all) indicate a negative impact and poor perceptions of government policies. This suggests the need for improvements in government initiatives to promote exports.

AMS is the most important factor and is supported by existing literature. Alfaro et al. [60] argued that the impact of market size on attracting FDI is more limited in developing countries. It emphasizes that other factors, such as institutional transparency and infrastructure, are more decisive than the local market in countries with small economies. Morisset [61] found that low business costs do not necessarily have a positive impact on attracting foreign investment, especially when institutions are unstable and the legal framework is uncertain. Bevan and Estrin [12] provided a contrasting result in their study of Central and Eastern Europe, finding that the impact of market size and business costs is lower than the impact of trade relations and integration into international organizations such as the EU. Campos and Kinoshita [62] argued that the quality of institutions and political stability are more important than access to local markets in attracting FDI to developing countries. Bellak et al. [63] emphasized that government export promotion policies are effective only when

combined with other investment-friendly policies, showing that market access alone is not sufficient.

EADM has a moderate positive impact, also in line with theories. GEPEX and LCDB are not as effective in Kosovo as expected, contrary to the suggestions of some authors. EAMI has a weak impact and is not essential in this case. However, AMSAMS is undervalued in developing countries and those with small markets. LCDB is enough without a strong institutional framework. The effects of GEPEX are limited if not accompanied by overall economic stability and support.

As in the case of this study, the creation of Investment Promotion Agencies (IPAs) was considered one of the main policy initiatives for attracting FDI [16]. Countries were encouraged to develop the activities of IPAs because they attract inward FDI; sub-national regional IPAs attract FDI in particular towards less developed areas; IPAs in less developed regions increase FDI inflows by up to 71%; impacts are concentrated in knowledge-intensive sectors and IPAs work best for less experienced investing companies.

The findings of this study confirm that while Kosovo shares several FDI-attracting characteristics with other developing economies, targeted policy improvements could enhance its investment climate. These include expanding market integration, reducing bureaucratic obstacles, and enhancing transparency. Future studies could explore sector-specific FDI dynamics and incorporate broader regional comparisons to provide deeper insights.

6. CONCLUSIONS

In general, it can be said that Kosovo has the potential to increase the level of foreign investment by addressing several important aspects, such as infrastructure, support for exports and access to information. Policies can support competition and opportunities for expanding some opportunities in foreign markets, while such a slow and small market can be a limitation for investment.

First, EADM ($p = 0.008$, $r = 0.666$) emphasizes several aspects, such as the modernization of transport logistics (roads, railways, ports, and airports) to facilitate the movement of goods and others, the development of free economic zones and industrial parks to have access to sales and easy markets, and the facilitation of administrative procedures for businesses and the reduction of bureaucratic barriers that hinder market entry. Second, AMS ($p = 0.000$, $r = 0.335$) emphasizes the development of trade cooperation opportunities for foreign investors with Kosovar businesses by creating cooperation alliances outside Kosovo. Diversification of economic sectors, including the technology industry, tourism and services, may have FDI investment opportunities. Third, LCDB ($p = 0.023$, $r = -0.187$) emphasizes several aspects, such as simplification and transparency of administrative procedures, low initial costs and quick profit opportunities, and the support for filling the work capacities that investors lack. Fourth, EAMI ($p = 0.111$, $r = 0.131$) suggests several aspects, such as the creation of online platforms and information centers for investors, the improvement of government transparency, and the support for agencies that promote not only Kosovo in the eyes of investors but also successful investors in Kosovo who give a positive message to their partners in the country of origin. Fifth, GEPEX ($p = 0.047$, $r = 0.615$) shows that it is necessary to take several initiatives, such as expanding job opportunities in the export sector, creating friendly policies for investors aiming to invest in strategic sectors, mining, energy, telecommunications, agriculture and manufacturing, and creating a supporting infrastructure for exporters, including a platform for information and connections with the country's foreign partners. Finally, the results of the variable EAMI shows that access to information that investors have is low and various consultancy offers for foreign investors should be increased to orient themselves in the market with a more favorable environment. Investors are also interested in a qualified, trained and motivated workforce. The government should initiate training and vocational education programs for youth with the skills required by the industry where foreign investors are involved.

Based on the findings, this picture shows that foreign investors in Kosovo are interested in investing and expect a push from the government to reduce the country's weaknesses in certain sectors of the economy, as follows:

- Improving market access, both domestically and internationally, should remain a priority. This could include reducing barriers to entry, improving logistics and infrastructure, and facilitating easier trade routes.
- Promoting the development of a larger and more integrated market through regional cooperation or improving domestic market conditions is likely to attract more foreign investors.
- Prioritizing export promotion programs, as these are directly linked to foreign investment. These initiatives could include export subsidies, trade agreements, and incentives for foreign companies to enter the export sector.
- Lowering the cost of doing business is often seen as beneficial, and Kosovo needs to ensure that this does not undermine perceptions of economic stability. Strategic investments in infrastructure and the business environment can help mitigate any negative associations with low business costs.

The analysis confirms that Kosovo has several favorable factors for attracting FDI, but attention to specific areas such as the cost of doing business, market access and government policies remains to be improved. For all investors, the government should implement reforms that will simplify administrative procedures, shorten procedures even after opening a business and ensure a stable system so that investment plans do not fail.

CONTRIBUTING AUTHORS

Nakije Kida, Remzi Smajli, Delvina Gjuraj, Vesa Morina, Julinda Morina: Validation, Supervision, Writing – original draft, Methodology. Nakije Kida, Remzi Smajli, Delvina Xhuraj: Writing – review and editing, Nakije Kida, Vesa Morina dhe Julinda Morina; Writing – original draft, Visualization. Remzi Smajli, Vesa Morina dhe Julinda Morina, Nakije Kida, Delvina Gjuraj: Software, Sources, Project administration, Conceptualization. Nakije Kida, Julinda Morina, Remzi Smajli dhe Delvina Xhuraj: Methodology, Investigation, Formal analysis, Data curation.

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