What is the Perception of Foreign Investors about Economic Factors? A Study of Foreign Companies in Kosovo

Nakije Kida[1], Vesa Morina[2], Julinda Morina[3], Kosovare Ukshini[4]

Abstract

Over the past decade, geopolitical preferences increasingly drive the geographic footprint of FDI (IMF, 2023). While the approach of investors to these preferences is still unclear. The purpose of the study is to provide the perception of foreign investors for economic factors in Kosovo (The Motive of Foreign Investors, MFI) as a dependent variable measured through independent variables, Exchange Rates (ER), Inflation (INF), Interest Rates (IR), Access to Credit (AC), Competition (CO), E-Banking and Banking Services (E-BBS), Economic Growth (EGr), and Taxes (Tax) as independent variables. Quantitative primary data collected non-randomly with a structured questionnaire, are52 respondents of the largest Foreign Investors operating in Kosovo from January 2021 -August 2023, source, Kosovo Statistics Agency, 2023 and Kosovo Tax Administrations, 2023. The data were processed with the statistical technique SPSS, 25. Through the Multiple Regression method, the Ordinary Least Squares (OLS) Pearson Correlation model, we extract the results, the tests, Principal Component Analysis (PCA) are used in advance; Cronbach's Alpha; Cohen's kappa (κ); One samples Kolmogorov Smirnov and Collinearity, evaluate the reliability of the data. The results of the study find that the increase in the motivation of foreign investors in the scale, intercept β_0 28.66 percentage points is attributed to the factors included in the model: INF has a statistically significantand positive effect of 47.7 units ($\beta_2 = 0.477$, Sig. < 0.010); IR has a negative and statistically significant effect ($\beta_3 = -.842$, Sig. 0.002), E-BBS has a statistically significant negative effect ($\beta_6 = -.402$, Sig. < 0.001); AC has a statistically significant negative effect (β_4 -.388, Sig. < 0.05); EG, has a statistically significant positive effect($\beta_8 = 118.1$ percentage points, Sig. 0.000); Taxes (TAX) have a statistically significant positive effect ($\beta_8 = 0.169$, Sig. < 0.011). Otherwise, ER has a statistically insignificant positive effect ($\beta_1 = 0.077$, Sig. 0.586), while CO has a statistically insignificant positive effect ($\beta_5 = 0.008$, Sig. > 0.953) in increasing the motivation of foreign investors. The results of this study recommend that economic politicians in Kosovo implement better IR, E-BBS, AC and CO policies that promote FDI and increase the flow of FDI into the country.

Keywords: *International Investment; Multinational Firms; Macroeconomic factors; Econometric analysis; Kosovo.*

1. Introduction

This study identifies and analyzes the economic factors that motivate foreign investors to invest in Kosovo. FDI at the global level are more focused on developed countries, but

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[1] Faculty of Economics, AAB College, Prishtina,10000, Republic of Kosovo
[2] Faculty of computer sciences, AAB College, Prishtina,10000, Republic of Kosovo
[3] Faculty of psychology, AAB College, Prishtina,10000, Republic of Kosovo
[4] Faculty of Economics, AAB College, Prishtina,10000, Republic of Kosovo

the need of developing countries and the interest of foreign companies in finding production factors, is changing the direction of FDI at the global level. Globalism reduces the distance between countries and increases the likelihood that developing countries will attract FDI (Bonciu, 2007). However, UNCTAD's World Investment Report 2023 revealed a growing annual investment deficit facing developing countries, the gap is around $4 trillion a year – up from $2.5 trillion in 2015 (https://unctad.org/publication/world-investment-report-2023).

Looking back at the global level in 2019, there was a decrease in FDI due to Covid 2019 that continues in 2020 with only 1 trillion dollars with a non-proportional distribution between countries. A rebound in global FDI in 2021 was followed by a decline of 12% ($1.3 trillion) in 2022 and mainly due to global crises - the war in Ukraine, high food and energy prices and rising public debt. The decline was felt most in developed economies, where FDI fell by 37% to $378 billion. But flows to developing countries increased by percent, Stefan Calimanu, (2023).

The focus of the study is FDI in Kosovo, a transition country, it is a drop of water in the ocean of global FDI, however, it is a good example of encouraging investments by making progress over the years in tax and macroeconomic policy reforms, as well as investments in road infrastructure.

Kosovo continues to attract few large investors, Conrad Adenauer Stiftung, Foundation Ofice Kosovo (2023), but there are many success stories in the financial, energy, trade and repair of motor vehicles, real estate, etc., Central Bank of Kosovo, (CBK, 2023) which motivate investors of foreigners.

Foreign direct investments in Kosovo helped the growth and specialization of human capital and have a significant impact on capital formation, while there are jobs in foreign companies, but not as expected. According to the IMF, Foreign Direct Investment (FDI) in Kosovo remains limited while remittances from the diaspora (representing 16 percent of GDP in 2021) continue to be the country's main economic driver, underscoring the need for Kosovo to diversify its sources of economic growth, the U.S. Department of State (2023).

For friendly treatment for foreign investors, Kosovo has created a solid legal basis in ongoing reforms (2006/2014/2017/2022) in support of foreign investors[5]. Based on the fact that the Kosovo market is already liberalized and has a legal framework (No. 04/L- 220[6], January 2014 https://gzk.rks-gov.net/ActDocumentDetail.aspx?ActID=8982)[7] guarantees you foreign investors[8] the right of inclusion and national treatment in almost every sector of the economy, providing attractive incentives for foreign companies in the country.

Also supported by Law No. 05/L-079, 2017 for Strategic Investments(https://kiesa.rks-gov.net/page.aspx?id=1,153) that determine the administrativeprocedures and criteria for the evaluation, selection, implementation and supervision of strategic projects as well as the determination of the procedures for granting the use of property in Kosovo, has helped the easier access of foreign companies in Kosovo.

Simultaneously has created several support organizations starting from, the Agency for the Promotion of Foreign Investments (APIK) within the framework of the Agency for

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[5] From March 2023, the Kosovo Assembly is working on a draft Law on Sustainable Investments, which, if approved, will supplant the Law on Foreign Investment. The Law on Business Organizations; The Law on Late Payments in Commercial Transactions; The Law on Bankruptcy; The Law on Prevention of Money Laundering and Combating Terrorist Financing; The Credit Guarantee Fund Law;

[6] Specifically, Articles seven and eight of the Foreign Investment Law limit expropriation in cases of clear public interest and protect foreign investments from unreasonable expropriations, guaranteeing due process and timely payment of compensation based on market prices.

[7] The Law on Foreign Trade, and the Law on Anti-Dumping and Countervailing Measures.

[8] As of March 2022, Kosovo, through the Law on Foreign Investments, gives foreign investors the right to resolve investment disputes either in local courts or in international arbitration.

Investments and Enterprise Support in Kosovo (KIESA), a state agency of Kosovo whose mandate is to promote and support investments, export, tourism, SMEs, and Economic Zones in the Republic of Kosovo (https://kiesa.rks-gov.net/page.aspx?id=1,2); National Council for Economic Development (NKZHE); Inter-ministerial Commission for Strategic Investments (https://mint.rks-gov.net/page.aspx?id=1,400); Council ofEuropean Investors - KIE established in 2014 (https://eic-kos.eu/) to promote and support the investment climate in Kosovo.

Important agreements have been concluded and signed: the Stabilization-Association Agreement or SAA in 2015 (https://integrimievropian.rks-gov.net/msa/), the Central European Free Trade Agreement (CEFTA); Double taxation treaties have been signed with several countries and in this direction, inter-institutional coordination is being deepened to improve the services of institutions at the Central and Local level so that foreign investors can receive services quickly and at low cost, feel safe and welcome in Kosovo.

The Ministry of Trade, Industry and Enterprise - MINT (https://mint.rks-gov.net/) together with KIESA organizes the participation of companies from Kosovo in European fairs and beyond. Therefore, it is important to recognize the economic factors that encourage foreign investors in such a way that foreign companies direct their capital to sectors of the economy that are more likely for two-way profit.

The economy of Kosovo has continuous challenges for its sustainable growth because the Kosovar model of economic growth through consumption, remittances and public investments should be replaced by investments in productive enterprises, the stimulus of exporting companies and incentives for Foreign Companies in Kosovo. Real GDP growth in 2019 was 4.8%, while in 2020 there was a decrease in economic growth by -7.4%, which is attributed to the COVID-19 pandemic, which also negatively affected exports of services, private consumption and investments. While this growth in 2022 was 3.13%, while in the first six months of 2023, the real growth of the Gross Domestic Product (GDP) is 3% (https://ask.rks-gov.net/). Remittances provide a great help in economic growth, in June 2023 they were 123.9 million euros, which represents an increase of 18% compared to the same period of 2022 (https://bqk-kos.org/).

According to the Kosovo Statistics Agency (ASK), the Gross Domestic Product (GDP) was 14 billion 24 million euros in 2022 and January-June 2023 is 5.95 billion euros, population of 1,773,971, average salary of 383 euros in 2012 reaches 521 euro in 2022 (ASK, 2023). According to the last published Regular Economic Report of the Western Balkans (The World Bank, 2023), Kosovo has exceeded the pre-pandemic levelsof Gross Domestic Product (GDP), despite the consequences of the war in Ukraine, high energy and food prices, unfavorable weather conditions, tightening of financial conditions.

With an unemployment in 2016 of 27.7% in 2019 it was 29.9%, in 2023 at 11.8% a higher employment can be seen, while Inflation was in 0.5% after 5 years in 2008 of 10.7%, in 2013 it was 2.7% in in 2018 it was 1%, 2019 it was 3.4 while in 2020 it was 14.1%, 2022 it was 11.6%, a decrease in inflation in June 2023 of 3.2% (ASK, 2023. https://ask.rks-gov.net/).

The few investments in Kosovo during 2012/229.1 million euros were the same until 2019 with only 254.6 million euros. The least FDI was in 2014 with only 151.2 million euros. Foreign direct investments in Kosovo have increased to 778.2 million euros in 2022, exceeding the FDI inflows of 2007, which were 440.7 million euros. While the net inflows of FDI until the middle of the year 2023 are 374.2 million euros, it is considereda promising trend compared to a year ago (CBK, 2023). The general trend of FDI in Kosovo for the years 2007-June 2023 captures the figures of 5 billion 741.1 million euros. While portfolio investments have reached the value of 1 billion and 402.1 million euros from 2004 to 2022. The most portfolio investments were in 2016 with 343.6 million

euros and in 2021 they were 283.6 million euros, while there is a decrease in portfolio investments in 2022 only 135.7 million euros, while January-June 2023 portfolio investments are only 86.7 million euros.

Regarding the foreign countries that invest more in Kosovo, Germany ranks first with 1159.1 million euros, Switzerland 964.1 million, Albania 447.8 million euros, USA 427.1 million euros, Turkey 423.1 million euros, Great Britain 412.3 million euros, Austria 398.1 million euros, Slovenia 257.4 million euros, France 82 million, Bulgaria 56 million, etc. Even in the first six months of 2023, the first is Germany with 92.4 million euros, Switzerland 77.1 million, Turkey 42.2 million, Albania 32.7 million euros, Austria 32 million euros, USA 25 million, 15.4 million Slovenia and Hungary 10.6 million while more than 22 other countries bring FDI in low values. While the biggest beneficiaries of FDI in Kosovo according to CBK statistics are real estate and rental activities, followedby financial services and energy, while the food, IT, infrastructure and energy sectors are growing and have likely to attract additional FDI.

A key sector of the economy that has seen strong growth is the wood processing sector, US Department of State (2023). The problem of the study is low FDI in Kosovo, even though there are great investment opportunities in the country in sectors such as agriculture, production, mining, tourism and a workforce with low wages and at a young age. It is important to understand the impact of economic factors on increasing the motivation of foreign investors in Kosovo.

2. Literature Review

In recent decades, there has been an increase in the international movement of capital and an increase in the level of Foreign Direct Investments, attracting the attention of economic researchers regarding the determinants of FDI that motivate foreign investors.

A Definition of Foreign Direct Investment from the International Monetary Fund (IMF), says: "Foreign direct investment is the category of international investment that reflects the objective of an economic entity resident in an economy (the direct investor) to obtaina sustainable interest in an enterprise resident in another economy (direct investment enterprise)", and the minimum percentage of control accepted by most countries is 10- 25%.

While FDI consists of the following components: a) Own capital or the purchase of shares of an enterprise in a country other than that of the direct investor); b) Reinvested profits, and c) Intra-company loans.

Stephen Hymer (1934–1974) was the first author to frame the FDI phenomenon emerging through the internationalization of businesses, a key figure in establishing the theory of the multinational enterprise (MNE), and the founder of the academic subject of international business (Buckley, P. J. (2006).

Hymer (1960) focused attention on the Multinational Enterprise (MNE) and articulated the process of FDI as an international extension (industrial organization theory) of companies while still maintaining ownership rights.

Until then, it was not understood why the MNE transfers intermediate products such as knowledge or technology between its units in different countries without losing their property rights. This allows FDI to be considered as a phenomenon where the MNE maintains control over productive activities outside its national borders.

Duning clarifies the motives of foreign investors through the "Eclectic Paradigm" model, a new concept that synthesizes ideas and approaches from different theories that were unclear. The "Eclectic" theory, and especially the internalization theory, emphasizes three

advantages that motivate FDI: Ownership Advantages, Location Advantages and Internalization Advantages, Dunning, J. H. (1988).

On this basis, the typology of multinational companies (MNC) internationalized through FDI gradually emerged through the four main motivations Fig.1, Dunning, J. H. (1988):

The motive of foreign investors

Search for resources - natural resources, free labor, etc.,

Market research - investors target large markets, competition in local or regional markets in the field of productionof consumer goods and industrial products by eliminating trade barriers.

Seeking efficiency – Investors are initially motivated to invest in natural resources or new markets and then consolidate their business through investments aimed at increasing efficiency.

Search for strategic assets - Foreign investors promote long-term strategic interests by purchasing certain strategic assetsin the host country through privatization.

Fig. 1. The four main motivations of foreign investors to invest in foreign countries.

Numerous studies argue the usefulness of knowing the motivating factors of investors when choosing a place to invest.

The study of the Author, Wang, Q. (2021) which through the gravity model tries to find the factors influencing FDI in China and panel data of 20 countries from 2011-2019 concludes that, the GDP of the host country, the opening trade of the host country, the capacity of the host country's government and the level of intellectual property protection of the host country, national investment guidance policies are positively related to ForeignInvestment in China.

FDI increases the performance of local firms through trade (Bajgar and Javorcik, 2020). Meanwhile, Ubaldo and Siedschlag (2020) provide evidence that foreign companies increase the export and import performance of domestic firms in Ireland.

Even Hanson (2001), argues that there is weak evidence that FDI generates positive spillovers for host economies. Even Lipsey (2002) supports the role of FDI in development and emphasizes that it has positive effects, but there is no relationship between the stock of FDI and economic growth.

2.1 Empirical literature for variables similar to our study

a) Economic growth - Net FDI inflows (% GDP) in Bulgaria, Lithuania and Slovenia are drawn from the GDP growth rate, while in Latvia, Poland and Romania, FDI is drawn from GDP per capita, Burlea-Schiopoiu, A., Brostescu, S., & Popescu, L. (2023). While the study done in Estonia found that economic growth was positively affected by the rate of FDI inflows, Sokhanvar, A. and Jenkins, G.P. (2022).

A study done in Vietnam finds that the impact of FDI on economic growth is short-term and damages growth in the long term. Despite the growth of FDI capital over the years, the effectiveness of FDI is still limited, Nguyen, L. T. H. (2023). The research done for the years 1995-2019, Le (2021) found that FDI inflows had a negative impact on economic growth in the short term, a strong positive impact in the medium term and weaker impacts in the long term.

b)The Exchange Rates - China Initiative from 2018 "One Belt and One Road", in a research by the authors, Liao, Z., Wang, Z., & Guo, K. (2019) find that countries in

Eastern Europe occupy important network positions and play a vital role in spread of exchange rate risks; however, during the initiation process "Belt and Road", exchange rate risks are decentralized geographically, while they are centralized in countries that have deep communication and cooperation.

In a study in Pakistan, findings suggest that exchange rate volatility is negatively related to FDI and is a source of decreasing net foreign investment in Pakistan, Ramzan, M. (2021). While the authors, Faroh, A., & Shen, H. (2015), point out that trade openness and exchange rates are the main determinants of FDI inflows in Sierra Leone, while inflation, Gross Domestic Product (GDP) and the rate of interest (IR), insignificant factors were found.

In another study, they find that exchange rate volatility affects international trade and FDI in a significant but negative way in the countries associated with the "One Belt and One Road" (OBOR) seven developing countries, namely Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, which is related to economic theory that argues that exchange rate volatility can harm international trade and FDI, Latief, R., & Lefen, L. (2018).

c) The Interest rates (IR) - The authors, Wawrosz, P., & Traksel, S. (2023) found that negative interest rates (NIRs) are related to the level of GDP in both Switzerland and Sweden, but that they do not affect their FDI. Empirical findings, show that expansionary monetary policy practices before and during COVID-19 causing high global stock market index and low-interest rates encourage FDI inflows to developing countries, Karahan, Ö., & Bayır, M. (2022). In essence, rising interest rates represent an increase in the cost of borrowed capital. The direct effect of this for Foreign Direct Investment (FDI) can be, the expected return on investment (ROI) is lower. Subsequently, these new FDI projects may not look as attractive or feasible as they did with lower borrowing costs.

d) The Inflation rate (IR): The findings of the study in Alshamsi, K. H., & Azam, M. (2015) show that inflation does not have a significant effect on FDI inflows. According to ResearchFDI Investmnet Attraction, (2023), rises in inflation, if temporary, are not likely to impact FDI flows, but foreign investors will most likely be keeping a watchful eye on inflation levels during their investment selection process.

Authors, Mehak, & Waqas, M. (2023) analyzed the impact of inflation on FDI in Pakistan, the marginal effect of FDI on growth turns out to be positive when inflation is below the threshold of 2.8%, but turns out to be negative when inflation is above the threshold. According to "Unctad's report, which was released on July 5, says last year's "economic headwinds have somewhat subsided, [but] they have not disappeared", FDI Intelligence" (2023).

The empirical findings of the authors, Faruq, A. T. M. (2023) show that most economic factors significantly affect FDI inflows, inflation strongly prevails compared to institutional and political factors.

e) The Access to credit (AC), FDI reduces the availability of finance or other factors for local firms due to multinationals' privileged access to these resources, imposing a long-term cost on the host economy (Agosin and Mayer 2000). When foreign firms borrow heavily from domestic banks, they may drive domestic firms out of domestic capital markets, Harrison, A. E., & McMillan, M. S. (2003). In the context of Uzbekistan, it was found that a 1% increase in bank loans for economic growth reduces the unemployment rate by 0.096 percent over eight years, while a 1 percent positive impact on FDI growth increases the unemployment rate by 0.0036 percent, Suyunov, A. (2022).

f) The E-Banking and banking services (E-BBS) - FDI can increase financial inclusion through the channel of increasing availability of funds to financial institutions, Sharma, U., & Changkakati, B. (2022).

Similarly, adding new technology and knowledge to the economy thus helps financial institutions to improve the quality of services and develop Fin-tech-based financial products to bring those who do not have excessive financial facilities, Sharma, U., & Changkakati, B. (2022).

g) The Competition (CO): Hymer, Stephen (1969) had predicted that the two most advanced regions in the world, Europe and North America would enter into a market research competition using the less developed markets as a battleground, however, a clear and persistent divergence is being observed in the FDI strategies undertaken by MNCs in terms of their functional, sectoral and geographical distribution, Coveri, A., & Zanfei, A. (2023). Using complex competitive repertoires (i.e., diverse and dynamic sets of competitive actions), such as lowering prices or introducing new products, can help firms outperform their competition, Steinberg, P. J., Hennig, J. C., Oehmichen, J., & Heigermoser, J. (2023). Chinese enterprises have accumulated several advantages in technology, branding and channels and are competitive in international markets, Wu, M. (2023). In Kosovo, there are two main laws that regulate transactions for concerns related to competition, the Law on the Protection of Competition is responsible for the Authority of the Department of Competition, while for the Law on Antidumping and Countervailing Measures it is the Ministry of Industry, Enterprise and Trade, US Department of State (2023), so that the obstacles of competition are controlled as much as possible and foreign investors feel comfortable.

h)Taxes rates (TR): Kosovo has imposed a flat tax on corporate income of 10 percent and to encourage investment, the government may grant some privileges related to VAT, such as a six-month deferral of VAT upon presentation of a bank guarantee for companies importing capital goods, while they can export goods and services without being required to collect VAT from foreign buyers, US Department of State (2023).

Moreover, a decreasein the corruption perception index, country risk assessment, income tax (% of commercialprofit) and other taxes paid by companies (% of commercial profit) can positively affect FDI inflows -ve in some of the analyzed countries, Burlea-Schiopoiu, A., Brostescu, S., &Popescu, L. (2023).

Authors, Pavel, J., Tepperová, J., & Arltová, M. (2021) found that investors from EU countries try to take advantage of both tax rate differentials and aggressive tax planning strategies.

3. Research Methodology

In the paper, the choice of variables was made based on numerous empirical studies carried out with a structured questionnaire. In the questionnaire, psychological questions were created to measure the motive of foreign investors, how attractive are the economic factors in Kosovo.

The research is quantitative to complete the objectives and to test the research hypotheses. For the realization of the objectives and the verification of the hypotheses, the study is quantitative descriptive and exploratory.
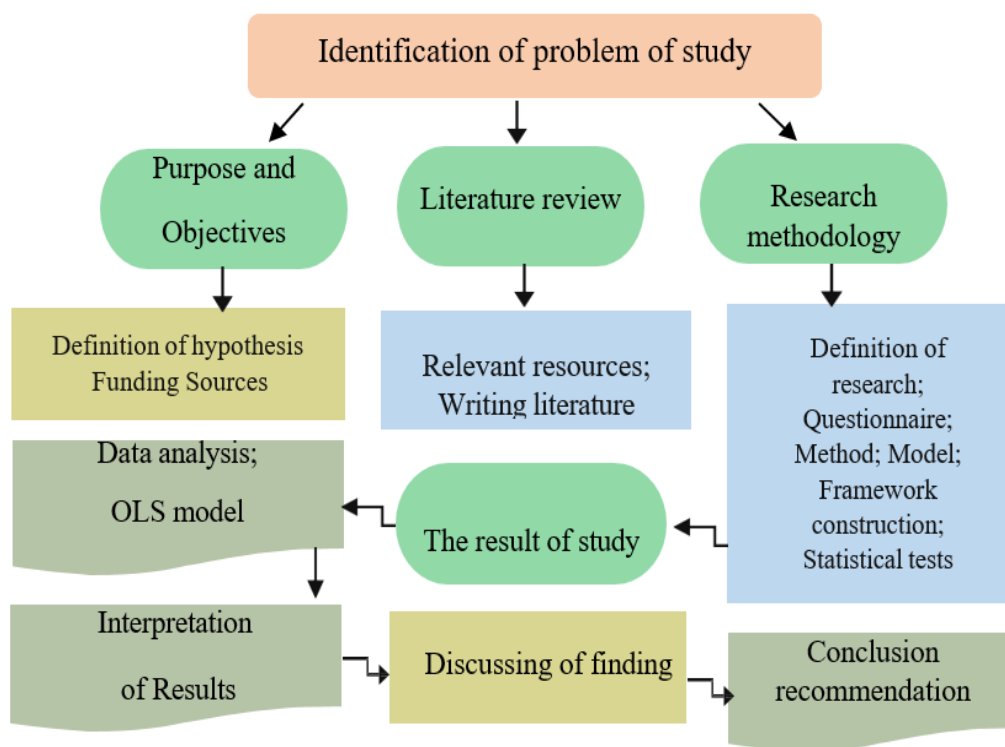
Figure 1. Flowchart for research methodology   Source: The authors' calculations.

The 450 small, medium and large businesses with foreign investors were registered in Kosovo in the years 2018 to August 2023. Of them, 60 are the largest foreign companies from 2021 until August 2023. A non-random sample of 52 foreign companies was selected.

The surveyed at a confidence level of 95%. The purpose of the study is to identify the economic factors that motivate foreign investors to make a decision to invest in Kosovo. The data was obtained from the Statistics Agency of Kosovo (ASK) and the Tax Administration of Kosovo (ATK).

The sample was determined through, Taro Yamane's (1967) formula, and Cochran, W.G. (1977), to include the most representative sample. To calculate a sample size of 60 using the Yamane formula, you'll need to know the population size (N) and the desired margin of error (e).

Let's assume you have a population size of 60 and a margin of error of 5% (0.05).

$$n = \frac{N}{1 + N (e)^2} = \frac{60}{1 + 60 (0.05)^2} = \frac{60}{1 + 60 (0.0025)} = \frac{60}{1,15} = 52 \qquad (1)$$

n = 52, is the required sample size from the population under study;

N= 60, is the entire population under study;

e = 0.05 of 5%, is the sampling precision or error.

The realization of the study was made possible through a structured questionnaire consisting of 23 questions on a Likert scale, (Hair et al., 2021): (1) completely disagree; (2) disagree; (3) neutral; (4) agree and (5) strongly agree.

3.1 The questionnaire is divided into three sections:

- *The first part* of the questionnaire contains 5 questions about the demographics of Foreign Investors:

  a. What is the origin of the foreign investor?

  b. Which sector best describes your business?

  c. How many workers did the foreign company employ?

  d. How many years did you work as a formal employee before running this business?

  e. What is the level of competition for your business?

- *The second part* of the questionnaire consists of 8 variables representing economic factors: Exchange Rate; Inflation Rate; Rate of Interest Rates; Access to Credit; Competition; E-banking and Banking Services; Economic Growth, Taxes.

- *The third* part consists of 10 statements to find the Motive of Foreign Investors to start a business in Kosovo, the representative variables are: Easy access to local markets; Available market size; Manpower availability; Low market competition; Low cost of doing business; Ease of access to market information; Sound economic policies; Weak business environment; The government takes care of investment promotion; Investment laws and regulations.

The realization of the research was made possible by distributing the questionnaires created through physical contact with accountants and managers of foreign investors.

The research has an objective to reach the verification of the raised hypothesis.

3.2 Objective of the study:

- ✓ To recognize the economic motivating factors of foreign investors and their expectations in the future;

- ✓ To measure the impact of the exchange rate, inflation, interest rates, access to credit, E-banking and bank services, competition, economic growth and taxes in increasing the motivation of foreign investors to invest in Kosovo;

- ✓ To measure the relationship between the variables of the study.

3.3 The Study hypotheses:

Hypothesis 1: Economic factors have a positive effect on increasing the motivation of foreign investors to invest in Kosovo.

Hypothesis 2: The connection between the Motive of foreign investors to invest in Kosovo and economic factors is positive.

- *The dependent variable for hypothesizes, is represented by these factors*: Motive of foreign investors (MFI) for opening a business in Kosovo and is represented by the symbol (Y).

- *The Independent variable for Hypothesis:* Economic factors and is represented as (X) on the right side of the graph with the independent variables, Exchange Rates (ER),Inflation (INF), Interest Rates (IR), Access to Credit (AC), Competition (CO), E-Banking and Banking Services (E-BBS), Economic Growth (EGr), and Tax-es (Tax).

3.4 Instrumental test and Classical assumption test

In order to arrive at a reliable result, Instrumental test and Classical assumption test are performed first, and then Inferential statistical and hypothesis testing. The study used descriptive statistical tools, measuring the mean value and standard deviation.

The questionnaire

Validity statistic → Statistical Test → Reliability statistic

Correlation Analysis Pearson:
* If Sig. < 0,05, valid
* If Sig. > 0,05, not valid

Correlation coefficient: $\rho(x,y) = \sum[(xi-x)(yi-y)]/ \delta x * \delta y;$

a. Factor Analysis (Principal Components Analysis -PCA), Fig. no.3.
b. The instrument is reliability, table no.2.
* If Cronbach's Alpha > 0,6
* If Cronbach's Alpha < 0,6

Figure 2: Instrumental tests Source: The authors' calculations.

In order to arrive at a reliable result, Instrumental test and Classical assumption test are performed first, and then Inferential statistical and hypothesis testing. The study used descriptive statistical tools, measuring the mean value and standard deviation.
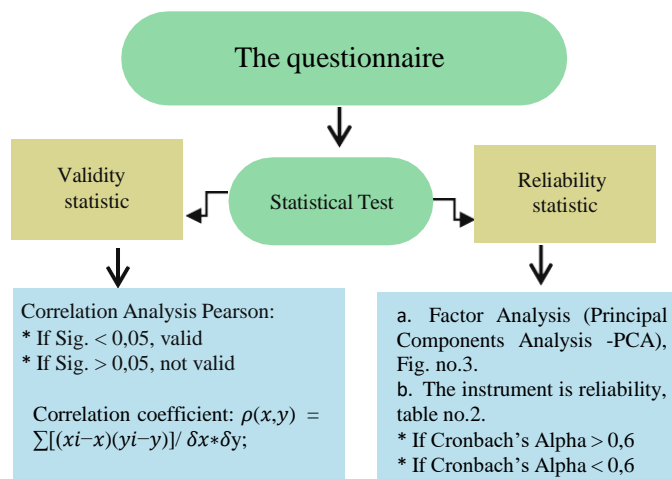
In Table 1, in the results of the study, a descriptive analysis was performed for the variables of the questionnaire and the weighted arithmetic mean was used, which represents the ratio of the amount obtained as a result of multiplying the data with their frequencies divided by the sum of the magnitudes of the frequencies of series variants.

The arithmetic mean is calculated as follows, Equ. 2 and 3, also applied by Hajdari, M., Qerimi, F., & Qerimi, A. (2023):

$$x_i = \frac{\text{Upper class limit} + \text{Lower class limit}}{2} \tag{2}$$

$$\text{Mean} = \bar{x} = \frac{\sum f i x i}{f i} \tag{3}$$

After the benefit of variance as an absolute indicator of deviations, another indicator is used to measure the variables, such as the Sample Standard Deviation Formula, through the following equation, also applied by Byjus math formulas (2023):

$$\sigma = \sqrt{\frac{\sum(x \ \bar{x})^2)}{n-1}} \tag{4}$$

σ = Standard Deviation; x_i = terms given in the data; $\bar{x}$ = mean; n = total number of term

The next step is the calculation:

3.4.1 The Pearson correlation coefficient

The Pearson correlation coefficient also known as the bivariate correlation (table 2). Correlation analysis is applied to quantifying the relationship between two continuous variables, for example, a dependent and independent variable or between two independent variables. The correlation coefficient is estimated between -1 and +1. The sign of the correlation coefficient indicates the direction of the association, while the magnitude of the coefficient indicates the strength of the association. To find the Correlation

Coefficient (r), let's assume the two variables as x and y, then the correlation coefficient r is calculated, according to Byjus math formula (2023):

$$r = \frac{n(\sum xy)-(\sum x)(\sum y)}{\sqrt{[n\sum x^2-(\sum x)^2][n\sum y^2-(\sum y)^2]}} \qquad (5)$$

Where,

r = Pearson correlation coefficient;

 x = Values in the first set of data;

y = Values in the second set of

 data.

n = Total number of values.

We need, population Correlation coefficient formula, Byjus math formulas, (2023):

$$\rho xy = \frac{\sigma xy}{\sigma x\, \sigma y} \qquad (5a)$$

The population correlation coefficient uses σ_x and σ_y as the population standard deviations and σ_{xy} as the population covariance. Instrumental tests were used, validity test used to measure relationships between dependent and independent variables (Pearson's correlation analysis).

3.4.2   The test of Reliability Principal Components Analysis (PCA)

Graph 1 was used, a test necessary to verify the reliability of some psychological questions in the survey that measure the motivation of investors to invest in Kosovo, which questions are not distinguished by Cronbach's Alpha test. The advantage of using Principal Component Analysis (PCA) results in high variance. Since there are as many principal components as there are data variables, the principal components are constructed so that the first principal component accounts for the largest possible variance in the data set. Calculating initial variables helps to categorize by dominating other variables.

The variables are transformed in this order, Analytic Vidhja (2020):

Standardization of data; Calculating the covariance matrix for the features in the data set; Calculation of eigenvalues and eigenvectors for the covariance matrix; Order of eigenvalues and their corresponding eigenvectors; Solving (k) eigenvalues and forming an eigenvector matrix; and finally, the transformation of the original matrix.

Therefore, a vector (v) is called an eigenvector and a scalar (λ) is called an eigenvalue of the covariance matrix (A). Therefore, An = λv, the eigenvalue is related to the eigenvector of the matrix A, (Eq. 6 and 6a), (Pennsylvania State University, (2023):

$$\mathbf{A_v} - \lambda \mathbf{v} = \mathbf{0}; \ (\mathbf{A} - \lambda \mathbf{I})\mathbf{v} = \mathbf{0} \qquad (6)$$

The vector v is not zero, while the following equation is equal to zero:

$$\mathbf{A} - \lambda \mathbf{I} = \mathbf{0} \qquad (6a)$$

The Principal Component method of factor analysis eliminates some less important variables, thus preserving the transparency of all information.

3.4.3   Cronbach's alpha Tests

Test Reliability is viewed as the degree to which a test is free of measurement error, since the more measurement error occurs, the less reliable it is (Fraenkel & Wallen, 2003). Cronbach's Alpha tests in our case (table 3) provide an overall reliability coefficient for a group of 20 questions (variables) in sections 2 and 3 of the survey. The Cronbach's alpha measures the reliability of the measuring instrument with multiple Likert questions.

So, Cronbach's Alpha is a reliability test developed by Cronbach (1951) and is used to measure the internal consistency of a set of scale questions in a survey. Cronbach's Alpha coefficient, UEDUFI, (2023) tells us how well the scale items vary together as a group, and are they correlated. Conbach's Alpha formula is, Bonett and Wright, (2015):

$$a = \left(\frac{K}{K-1}\right) + \frac{Sy^2 - Sum\ Si^2}{Sy^2} \qquad (7)$$

Where: α = Cronbach's Alpha; K = the number of items in the scale; Si = the sum of the item scores for each item; S = the sum of the total scores for all items

3.4.4 Cohen's kappa (κ) Tests

Cohen's kappa (κ), measures inter-rater reliability. Cohen's kappa (κ), which is a statistic designed to account for agreement by chance, is used in the table of symmetric measures. In our case, the most practical is the use of Cohen's kappa (κ), which, according to the guidelines in Landis and Koch, indicates a substantial level of agreement Warrens, M. J. (2015):

$$K = \frac{P_0 - P_e}{1 - P_e} \qquad (8)$$

3.4.5 One samples Kolmogorov Smirnov test

The non-parametric one sample Kolmogorov Smirnov test was used, which shows the distribution of the data - the observed sample was examined for normality, when the empirical frequency distribution is based on a normal distribution, Filion, G. J. (2015); Gail, M. H., & Green, S. B. (1976) and King Saud university, (2023), Equ. 9, 9a, 10, 10a, 10b 10c and 10d:

$$M = (Xmax - Xmin)/2, \qquad (9)$$

where, (Xmax) is largest value in samples and (Xmin) is smallest value in the sample.

$$S = \sqrt{\frac{\sum f_i x_i^2 - \frac{(\sum f_i x_i)^2}{n}}{n-1}} \qquad (9a)$$

Use the midpoint and standard deviation to calculate z-scores for the sample values xi, using the following formula:

$$Z = \left|\frac{x_i - M}{s}\right| \qquad (10)$$

We find the relative values of the observed frequency distribution

$$f_r, \quad f_r = \frac{fi}{n} \qquad (10a)$$

The following formulas were used to find the Most Extreme Differences, the absolute value divergence and D between the cumulative frequency.

Use the following formulas to find the absolute value divergence $\tilde{D}$ **and D** between the cumulative frequency distributions, Tutorial Spoint, (2023):

$$Z = \left|\frac{x_i - M}{s}\right| \qquad (10b)$$

Use the largest divergence with the next formula to calculate the Kolmogorov–Smirnov test statistic Z, Tutorial Spoint, (2023) and (https://faculty.ksu.edu.sa/sites/default/files/lect._3b.pd):

$$\tilde{D} = \left|\hat{F}_{xi} - S_{xi}\right| \quad and, D = \left|\hat{F}_{xi} - S_{xi-1}\right| \qquad (10\ c)$$

Use the largest divergence with the next formula to calculate the Kolmogorov– Smirnov test statistic Z, Tutorial Spoint, (2023) and (https://faculty.ksu.edu.sa/sites/default/files/lect._3b.pd):

$$Z = \sqrt{n\ max}\ |D|, |\tilde{D}|) \qquad (10\ d)$$

3.4.6 Collinearity test

Collinearity describes the situation where two or more predictor variables in a statistical model are linearly related sometimes also called multicollinearity, Alin, (2010). According to Alin, care should be taken for collinearity because parameter estimates can be unstable and standard errors with inflated estimates. In general, the VIF is calculated.

In general, the VIF is calculated for all independent variables of a model. In a second step the variables showing the greatest values are removed from the model, and as a rule of thumb, the VIF of all variables should be less than 10 in order to avoid problems with the stability of the coefficients, Stine, R. A. (1995).

As a result, in our research (table 6) the collinearity test was performed to evaluate the coefficients of the simple linear regression, are they reliable or not reliable by preceding a multicollinearity analysis, following formula:

$$Y = a + bX + E \tag{11}$$

Measuring multicollinearity with Variance Inflation Factor is computed for each independent variable, using the following formula, EPINA DATA LAB, (2023):

$$\textbf{VIF}_k = 1/(1-r_k^2) \tag{11a}$$

Where, rk2 is the goodness of fit of the linear model for xk based on all other variables.

3.5   Inferential Statistical Analysis - Simple and Multiple Linear Regression Model

The term "regression" is from the author, Francis Galton (1870), regression is a method for studying the relationship between a response variable Y and a covariate X (two sizes, dependent Y and independent X). So, regression investigates the impact of changing the value of the independent variable on the value of the dependent variable and represents the average quantitative ratio between two or more mass phenomena.

Linear regression is the most basic and most used predictive analysis for discovering functional relationships between two variables, Gujarati, N. D., & Porter, D. C. (2009) and Weisberg, S. (2005). One variable is considered to be explanatory and the other is considered to be a dependent variable by constructing, Equation (12) Simple Linear Regression, Farmer School of Business (2023), originally given by, Gujarati, N. D., & Porter, D. C. (2009), Byjus math formulas (2023), to then move to, Equation (13) Multiple Linear Regression, Gujarati, N. D., & Porter, D. C. (2009), Farmer School of Business (2023) Equ.12 to 18 and, Weisberg, S. (2005):

$$y = a + bx \tag{12}$$

a and b are given by the following formulas:

$$\textbf{a(intercept)} = \frac{\sum y \sum x^2 - \sum x \sum xy}{(\sum x^2) - (\sum x)^2} \tag{12a}$$

$$\textbf{b(slope)} = \frac{n\sum xy - (\sum x)(\sum y)}{n\sum x^2 - (\sum x)^2} \tag{12b}$$

Where, x and y are two variables in the regression line; b = Slope of the line; a = y - cut of the line; x = Values of the first data set; y = Values of the second data set.

The Equation of the Theoretical Model of Multiple Linear Regression:

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + ... + \beta_p x_p + \varepsilon \tag{13}$$

Y: The response variable; β_0- is the y-intercept; β_1: The average effect on Y of a one unit increase in X_j, holding all other predictors fixed; X_1: The first predictor variable; ε: the error term. The values for β_0, β_1, B_2, … , β_p are chosen using the Least Square Method, whichminimizes the Sum of Squared Residuals (RSS):

$$\textbf{RSS} = \Sigma(y_i - \hat{y}_i)^2 \tag{14}$$

Where: Σ: A Greek symbol that means a lot (sum); yi: Actual response value for observation I;

$\hat{y}$i: Predicted response value based on multiple linear regression model.

Also, the F distribution with degrees of freedom is used for regression

$$F = df_R = p \tag{15}$$

Where, p = number of independent variables (predictors) and degrees of freedom for the error = df_E = n-p-1,

and, where, n is the number of pairs.

The right-tailed ANOVA test also tests whether the variation in the regression model is greater than the variation in the error. While the Test Statistic and the (p) value are the last two values on the right in the ANOVA table, the (p) value is part of the result, but a critical value.

The test (t) is used to see if the variable is significant by itself in the prediction of (y), which is found in the same table.

We see the following flow: t-test for β_1; t-test is a test for only β_1 (not entire regression):

$$t_{n-k} = \frac{b1}{\text{Std error of b1}} \tag{16}$$

$$\text{Std error of } b_1: (Sb_1) = \frac{\sqrt{MSE}}{\sqrt{(X-\bar{X})^2}} \tag{17}$$

Explanation of the coefficients of the Model Summary table, based on a combination:

a)   Multiple (r) - Multiple correlation coefficient (r). This represents the multiple correlation between the response variable and the two predictor variables.

b)   R-Square- Coefficient of Determinant- (R^2). This is the proportion of variance in the response variable that can be explained by the predictor variables. The value for R-squared can range from 0 to 1. A value of 0 indicates that the response variable cannot be explained at all by the predictor variable. A value of 1 indicates that the response variable can be perfectly explained without error by the predictor variable.

c)   Adjusted R square - R^2 Adjusted for Degree of Freedom for Multiple Regression:

Calculated as: Adjusted $R^2 = 1 – [(1-R^2)*(n-1)/(n-k-1)]$ (18)

R^2: The R^2 of the model; n: The number of observations; k: The number of predictor

variables. This represents the R-squared value, adjusted for the number of predictor variables in the model.

d)   Standard error - It is the average distance that the observed values fall from the regression line. The smaller the standard error, the better a model is able to fit the data.

Standard error of Estimate (Residual Standard Deviation) = s

e)   F, is the overall F statistic for the regression model, calculated as the regression MS and the residual MS.

f)   The F-significance, is the p-value associated with the overall statistic, tells us whether the regression model as a whole is statistically significant. In other words, it tells us whether the two explanatory variables combined have a statistically significant relationship with the response variable.

g)   P-values The individual (p) values tell us whether or not each explanatory variable is statistically significant.

Below are the results of the multiple regression worked through the technique, SPSS, 25.

4. Results of the study

4.1 Demographic details of the respondents

First, graphs 3 to 5 are presented, demographic details of the respondents. The research was conducted through a structured questionnaire distributed to 52 largest foreign investors in Kosovo, with different origins and activities currently operating in Kosovo.

The sample includes 29 countries that invest in Kosovo, from which a non-randomsample of 8 countries with the most represented population was taken: Germany with 21% of the population; Switzerland with 19.75%; Albania 12%; Austria 6.28%; United States 9.14%; Great Britain 18.1%; Turkey 15.28%; France 10.57%. The countries that have contributed the most to the FDI inflow are the countries presented in figure 3.
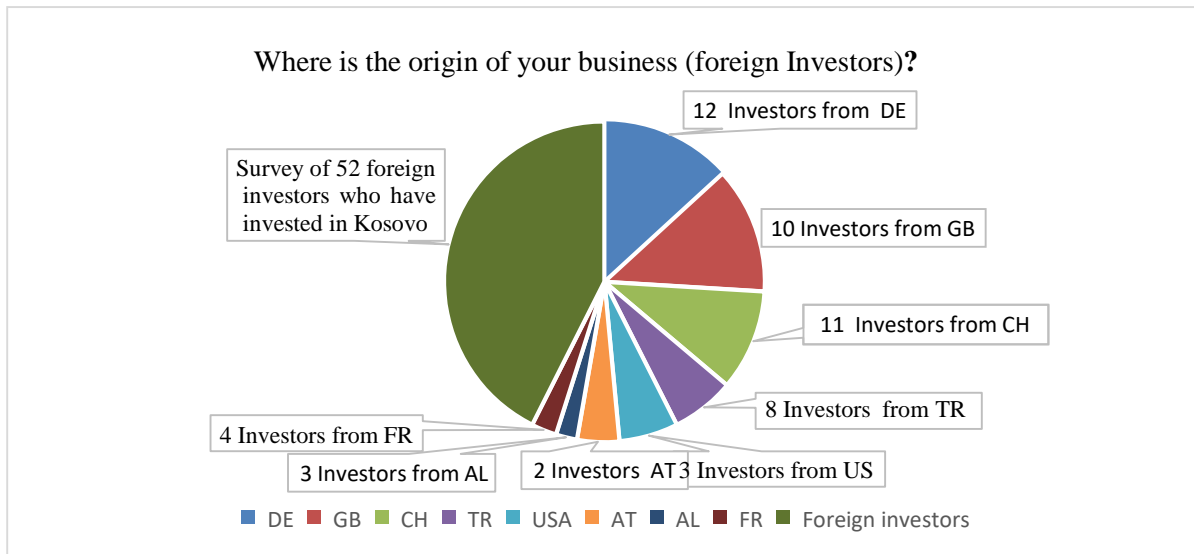

Figure 3. Origin and sectors that best describe their business. Source: The authors' calculations.

From the opinion of Foreign Investors (Fig.4) it can be seen that they have invested mostly in the Finance sector, banking services and business services, their real estate50%. Medical services 12%, ICT communication sector 13%, Manufacturing 4%, Agriculture 2%, Construction 10%, Food, restaurants and beverages 1%, Retail andwholesale 8%. Investment in health and social work activities and in information and communication activities is increasing due to Covid-19 compared to the years before the pandemic and constitutes an innovation.
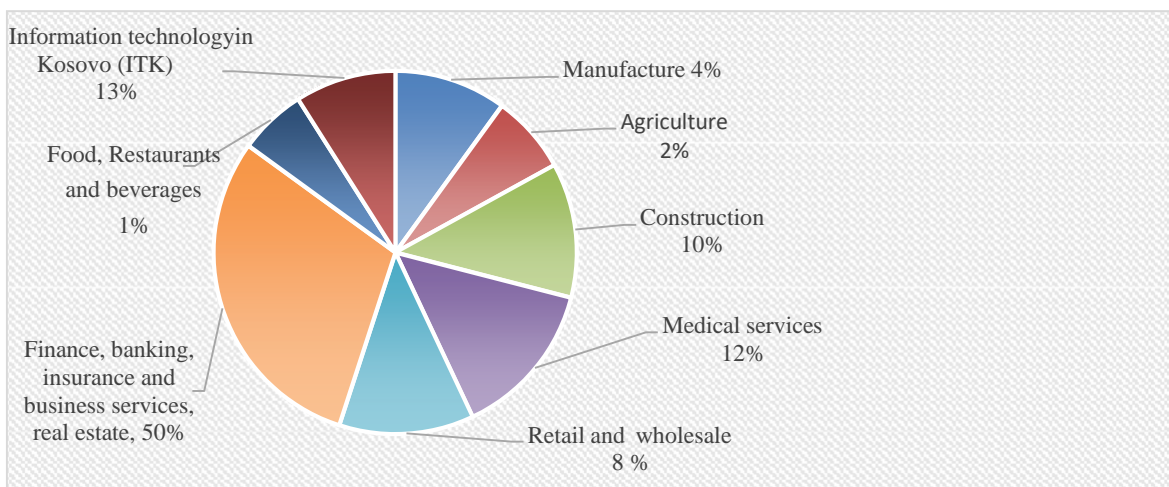

Figure 4. Which sector best describes your business? Source: The authors' calculations.

Foreign companies within the framework of each country have stated that the number of employees is as follows: Companies from Germany 12 of them or 23% of the respondents are companies from Germany employed, they have 41 employees; 10 companies or 19% of respondents from Great Britain employ 31 workers; 8 companies or 15% of the respondents are from Switzerland and employ 47 employees;
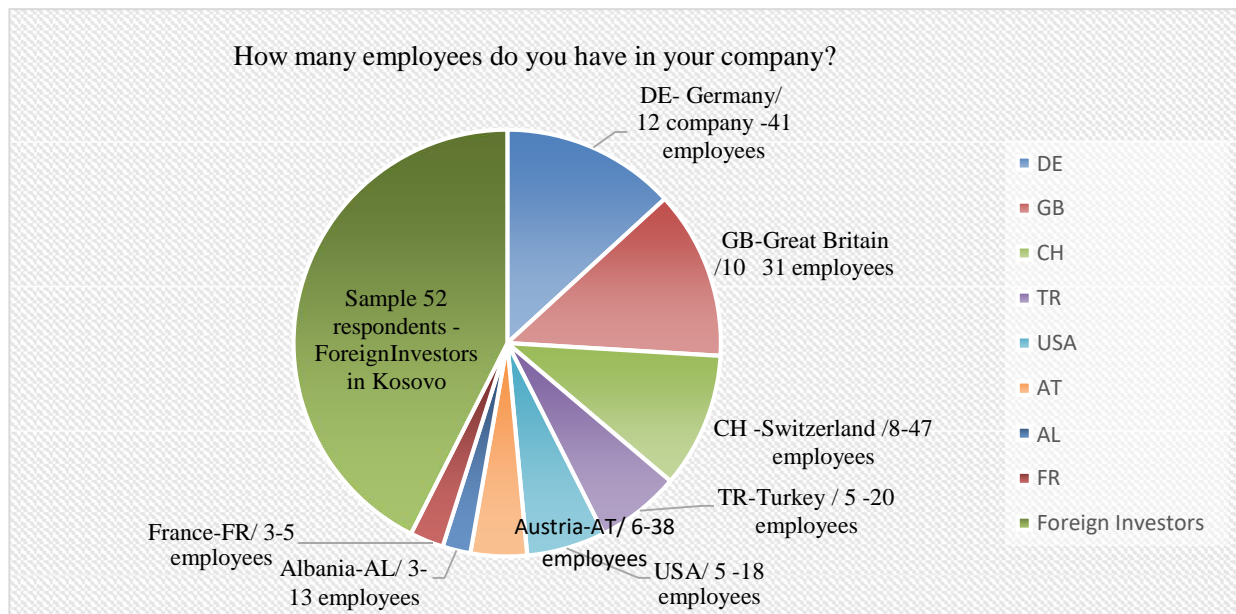

Figure 5. The origin of investors and employees in foreign companies in Kosovo Source: The authors' calculations.

They are 6 companies or 11.4% of the respondents are from Austria, they employ 38 workers; 5 companies or 9.8% of the respondents are from the United States and have 18 employees; 5 companies or 9.8 of the respondents are from Turkey, they employ 20 workers, 3 companies or 6% of the respondents are from Albania, they employ 13 workers; 3 companies or 6% of the respondents are from France and have 5 employees.

It can be seen that the biggest contribution to employment in Kosovo is made by foreign companies from Germany, Great Britain, Switzerland, Turkey and the USA. Businesses from Albania are more in Kosovo according to their number, but their contribution to bringing in foreign capital and employment is small.

4.2 Descriptive analysis of the study results

The following research is also based on descriptive analysis, where the data includes variables of the state of economic factors and the motivation of foreign investors. Also included are the number of observations for each variable, the mean, the standard deviation, and the minimum and maximum points.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Motive for foreign investors to do business in Kosovo	52	1.00	5.00	3.72	1.363
Exchange rate	52	1	6	4.43	1.910

Inflation rate	52	2	6	3.97	1.154
Interest rate	52	3	7	5.45	.891
Access to credit Access to loans	52	4	7	6.07	1.073
Competition	52	1	7	4.63	1.907
E-banking and banking services	52	1	6	4.10	1.465
Economic growth	52	2	7	5.00	1.119
Taxes	52	3	7	5.87	1.058
Valid N (leastwise)	52				

Source: Survey data. The authors' calculations.

- First, in the model it is found that the values of the variable, the Interest Rate, are more concentrated around the average than the other variables because the distribution of the values is .891 units from the average of 5.45 units, this distribution is the lowest.

- The second variable, Taxes, is more concentrated around the average than the other variables because the distribution of values is 1.058 units from the average of 5.87 units, this distribution is low.

- The third variable with the best distribution is Access to credit, having an average of 6.07 units with a distribution from the average of 1.07 units, which shows that even in this case the distribution is concentrated during our analysis period.

In Economic Growth, the distribution of values is 1.11 units from the average of 5 units. This shows that these variables have a concentrated distribution throughout the analysis period. The same conclusion is reached for all variables. The above findings help to reach the conclusion that the further interpretation of the variables by means of the econometric model will have high reliability because the variables have a concentrated distribution of their variable values around the mean. However, instrumental and classical tests were performed for all preliminary variables, especially the test for the normality of the mean distribution.

4.3 The instrumental tests

In the following, the evaluation of instrumental tests is presented:

a) Validity Test- Pearsons Correlation -Table 2.

b) PCA Test – Graphs 1.

c) Reliability Test-Table

3.Also the Classic tests:

a) Collinearity Test (Sarstedt & Mooi, 2019; Chapter 7), table 4.

b) Normality Test - table 5.

Composite reliability Rho, is a measure of internal consistency reliability, which, unlike Cronbach's alpha, does not assume equal indicator loadings. It should be above 0.70 (in exploratory research, 0.60 to 0.70 is considered acceptable), Hair Jr, J. F., Hult, G. T. M., Ringle, C. M., Sarstedt, M., Danks, N. P., & Ray, S. (2021). Validity can be seen as the essence of any form of assessment that is reliable and accurate (Bond, 2003, p. 179).

Result Table 2 presents Pearson's correlation analysis, a test that measures the relationship between the independent variables and the dependent variable.

The Pearson correlation coefficient, r = 0.715 and Sig < 0.01, indicates that the economic factors (independent variable) and the motive of foreign investors (dependent variable) have a positive linear relationship. The result is that if economic factors perform positively, the motivation of foreign investors to invest in Kosovo will increase and vice versa.

Table 2. Validity Test- Pearson Correlation

	Investors' motive foreign	Economic factors
Investors' motive foreign	1	.715[**]
	-	0.000
	52	52
Economic factors	.715[**]	1
	0.000	-
	52	2

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

Source: The authors' calculations.

4.3.1 Test Principal Component Analysis (PCA)

The instrumental Principal Components Analysis (PCA) test was performed using the SPSS technique, the first step "Analysis", the second step "Dimension Reduction", the third step "Factor", the 20 observed variables were transferred to the SPSS box to be analyzed and as a result the common variance takes the total variance (see chart 1 below).

Before extracting the result from SPSS, we also click on the "Eigenvalue" box, which represent the total amount of variance that can be explained by a certain main component. Eigenvalues explain variance that is always positive. If the Eigenvalues are greater than zero, then it is a good sign. Negative eigenvalues mean that the model is not conditional. Eigenvalues close to zero mean that there is multicollinearity of the variables, since all the variance can be captured by the first component. Eigenvectors represent a weight for each eigenvalue. The eigenvector times the square root of the eigenvalue gives the component loadings which can be interpreted as the correlation of each item with the principal component.

These combinations are made in such a way that the new variables (i.e., the principal components) are uncorrelated and most of the information within the original variables is compressed into the first components. The idea is that 20-dimensional data like in our case gives you 20 principal components, but PCA tries to put the maximum information possible into the first component, then the maximum remaining information into the second and so on, see graphs above.

For this particular PCA of variables-19, the eigenvector associated with Item 1 on the first component is , 0.315 and the eigenvalue of Item 1 is 4.408. Next, the first component.

$$(0.315)\sqrt{4.408} = 0.658 \tag{16b}$$

In this case, we can say that the correlation of the first item with the first component is 0.824.

Let's now move on to the component matrix.

Component Matrix of the 8-component PCA- Let's continue with the PCA Component Matrix with 19 components. The components can be interpreted as the correlation of each variable with the component. Each item has a loading corresponding to each of the 20 components. For example, point 1 is correlated with the first component, 0.824, with the second component, 0.004, and with the third, 0.065, the fourth, 0.092, the fifth, 0.024, the sixth, 0.320, and the seventh, 0.200.

The square of each loading represents the proportion of variance (think of it as an R^2 statistic) explained by a particular component matrix. For Item 1, $(0.824)^2 = 0.678$ or 67.8% of its variance is explained by the first component. Subsequently, $(0.004)^2 = 0.001$ or 0.01% of the variance in Item 1 is explained by the second component matrix. Third components $(0.065)^2 = 0.06$ or 006%, fourth components $(0.092)^2 = 0.084$ or 8.4%, the
fifth $(0.024)^2 = 0.005$ or 0.05 %, sixth $(0.320)^2 = 0.102$ or 10.2 %, the seventh $(0.200)^2 = 0.04$ or 4%.

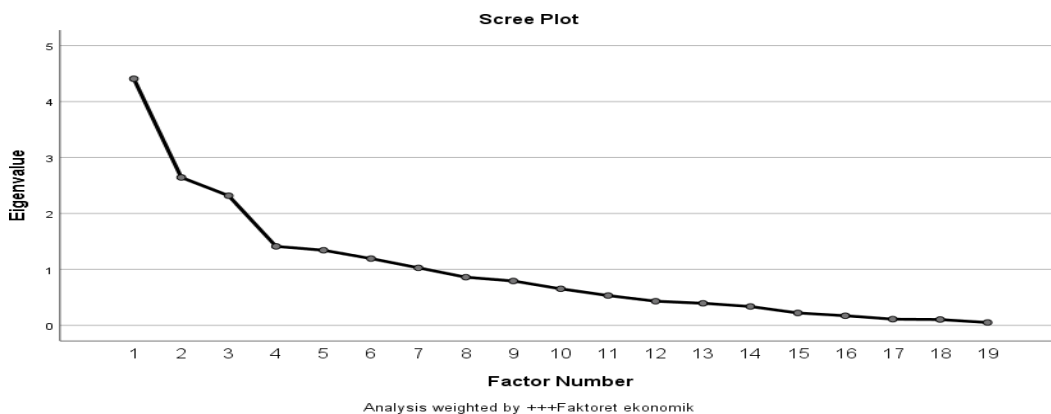The total variance explained by both components is thus 67.8% + 0.01%+ 0.06%+8.4%+ 0.05%+ 10.2% + 4% = 90.52%

If you keep going on adding the squared loadings cumulatively down the components, you find that it sums to 1 or 100%. This is also known as the communality, and in a PCA the communality for each item is equal to the total variance.

Summing the squared component loadings across the components (columns) gives you the communality estimates for each item, and summing each squared loading down the items (rows) gives you the eigenvalue for each component.

For example, to obtain the first eigenvalue we calculate and 19 factor number:

$$\lambda = (\mathbf{0.824} + (.\mathbf{706})^2 + (\mathbf{0.682})^2 + (\mathbf{0.762})^2 + (\mathbf{0.793})^2 + (\mathbf{0.599})^2 + (\mathbf{0.601})^2 + (\mathbf{0.647})^2 + (.\mathbf{151}) + (.\mathbf{241} + (\mathbf{0.116})^2 + (\mathbf{0.358})^2 + (.\mathbf{203})^2 + (\mathbf{0.257})^2 + (.\mathbf{183})^2 + (\mathbf{0.144})^2 + (\mathbf{0.106})^2 + (.\mathbf{114})^2 + (\mathbf{0.095})^2 = \mathbf{4.408}$$

(16 c)

Graphs1. Principal Component Analysis (PCA) Source: The authors' calculations.

Since the purpose of running a PCA is to reduce our set of variables. One criterion is the selection of components that have eigenvalues greater than 1. In the Total Variance explained plot, we see that the first component has an eigenvalue greater than 1. This can be confirmed by the Graphs 1. showing the eigenvalue (total variance explained) by the number of components. The first component will always have the highest total variance and the last component will always have the lowest. If you look at component 2 and 4, you see nodes.

This is the point where it is probably not very useful to continue extracting the components further. Some criteria state that the total variance explained by all components should be between 70% and 80% of the variance, which in this case would mean about four to five components. In our case, the total variance explained by all components is 90.52%.

4.3.2 Cronbach's Alpha Test

Below is the table of Reliability Statistics that gives the actual value for Cronbach's Alpha.

Table 3. Reliability Instrumental Statistics (Conbrach's Alpha Test)

Variables	Cronbach's Alpha coefficients
Economic factors	.789
Foreign investors motive	.821
Total	.785

Source: The authors' calculations.

Cronbach's alpha A measure of internal consistency reliability that assumes equal indicator loadings, Hair Jr, J. F., Hult, G. T. M., Ringle, C. M., Sarstedt, M., Danks, N. P.,& Ray, S. (2021).

Reliability analysis is performed using Cronbach's Alpha which was found to be greater than 0.7 variable with values ranging from 0.7 to 0.821, indicating adequate internal consistency of the indicators. According to the Alpha Cronbach coefficient, the reliability of the measuring instrument for the group of variables "Economic Factors" is $\alpha = 0.789$, while for the group of variables "Motive of foreign investors", it is $\alpha = 0.821$. SPSS calculated a total p- value, $\alpha = 0.785$, for our example indicating an acceptable level of reliability between the variables in the scale

4.3.3 Collinearity statistical test

Multicollinearity is a potential problem when the VIF is greater than 4; and, a serious problem when it is greater than 10. Multicollinearity is a phenomenon when two or more predictors are related, if this happens, the standard error of the coefficients will increase, Daoud, J. I. (2017). Our results showed that the VIF value is no higher than 3.528, the model has no problem with multicollinearity because the minimum values are 1.737 and the maximum 3.528. If collinearity is a problem, a frequently used option is to create higher order constructs (Hair, Risher, Sarstedt, & Ringle, 2019; Hair, Sarstedt, Ringle, & Gudergan, 2018; Chap. 2; Sarstedt et al., 2019).

Table 4. Collinearity Statistics

Model		Tolerance	VIF
1	ER	.283	3.528
	INF	.500	2.000
	IR	.426	2.346
	AC	.452	2.212
	CO	.353	2.837
	E-BBS	.580	1.725
	EGr	.484	2.067

TAX	.576	1.737

a. Dependent Variable: Motive to start business in Kosovo

Source: The author's calculations.

4.3.4 Shapiro-Wilk Normality Test

To test the normality of the data, the focus is mainly on normality tests table and Normal Q-Q Plots, numerical and graphical methods.

The Motive of Foreign Investors (MFI) as a dependent variable is measured through independent variables, Exchange Rates (ER), Inflation (INF), Interest Rates (IR), Access to Credit (AC), Competition (CO), E-Banking and Banking Services (E-BBS), Economic Growth (EGr), and Taxes (Tax) as independent variables.

Table 4. Test of Normality

Dependent Variables	Independent VariablesEconomic factors	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
		Statistic	df	Sig.	Statistic	df	Sig.
The Motive of Foreign Investors (MFI)	ER	.169	10	.200*	.898	10	.209
	INF	.176	13	.180	.876	12	.210
	IR	.154	15	.145	.987	15	.145
	AC	.187	14	.186	.762	19	.211
	CO	.169	16	.200*	.882	16	.041
	E-BBS	.260	2	.190	.772	15	.221
	EGr	.223	10	.172	.858	10	.073
	Tax	.145	12	.200*	.956	12	.719

*. This is a lower bound of the true significance. a. Lilliefors Significance Correction.

Source: The authors' calculations.

The table above presents the results from two popular tests of normality, namely the Kolmogorov-Smirnov Test and the Shapiro-Wilk Test. The Shapiro-Wilk test is best suited for small sample sizes (< 50 samples), Laerd statistic, (2023). For this reason, we will use the Shapiro-Wilk test as our numerical tool for assessing normality. From the above table we can see that the Economic Factors are normally distributed. See Sig. Shapiro-Wilk test value is greater than 0.05, data are normal.

4.4 Hypothesis testing

To analyze the data in the research, the usual method of multifactorial linear regression is used a lot. While the most appropriate model to measure the impact of economic factors on the motivation of Foreign Investors in our analysis is Ordinary Least Squares (OLS) Pedhazur, E. J. (1997). The method discussed here is called ordinary least squares, or OLS, in which parameter estimates are chosen to minimize a quantity called the residual sum of squares, parameters are unknown quantities that characterize a mode, Weisberg, S.(2005). The form of regression applied is Multiple Linear Regression with multiple independent variables to predict the dependent variable Motive of foreign investors in Kosovo.

To arrive at a reliable result, tests were performed as prerequisites for reliable results, the instrumental PCA test in our case, the total variance explained by all components is 90.52% to remove the reliability dilemma of some psychological questions in the survey. Meanwhile, the Validity Test expressed through Pearson's correlation gives the data

reliability and accuracy. Even the Reliability test gives a total value for, Alpha Cronbach α = 0.785, for our example it shows an acceptable level of reliability between the variables in the scale. While the results of the Collinearity test show the VIF values are minimum 1.737 and maximum 3.528, our data has no problem with multicollinearity. While the Normality test was repeated where the normal distribution according to the Kolmogorov - Smirnov and Shapiro - Wilk test, shows that the data has no problems with autocorrelation, the values of "Sig." in the Shapiro - Wilk test is greater than 0.05, i.e., the data are normal.

4.4.1 Hypothesis testing H1:

The results of Multiple Linear Regression - starting from Table 6, Model Summary, the value of R- Coefficient of Multiple Correlation is presented, a measure of the quality of the prediction of the dependent variable "Motive to foreign investors" represents the R^2 value (also called the coefficient of determination), which is the proportion of variance in the dependent variable that can be explained by the independent variables, Hair Jr, J. F., Hult, G. T. M., Ringle, C. M., Sarstedt, M., Danks, N. P., & Ray, S. (2021).

R^2, expresses what percentage of the dependent variable is explained by the independent variable. R^2 = 0,627 shows that 62.7% of the variation of the dependent variable (Motivation of foreign investors) is explained by the independent variables of the model (Taxes, Interest rate, Inflation rate, Access to credit, E-banking and bank services, Competition, Economic growth and Exchange rate), while the remaining 37.3% is explained by variables that are not included in the model.

The coefficient of determination R in our model is 0.792, R square is 0.627, while Adjusted R Square is 0.555. The standard error of estimation is 1.01748, where the observed values fall on average 1.01 units from the regression line. According to the significance value F (8, 41) = 8.630; sig = 0.000), the model is significant.

Table 6. Model Summary[b]

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | | F Durbin-Watson |
					R Square Change	F Change	df1	df2	Sig. Change	
1	.792[a]	.627	.555	1.01748	.627	8.630	8	41	.000	1.632

a. Predictors: (Constant), Tax, IR, INF, AC, E-BBS, CO, EGr, ER.

b. Dependent   Variable: MFI

Source: The authors' calculations.

Statistical significance - This is the overall F statistic for the regression model, calculated as Mean Square Regression / Mean Square Residual. The F ratio in the ANOVA table (Table 7) tests whether the overall regression model is appropriate for the data. The table shows that the independent variables statistically significantly predict the dependent variable, F(8, 41) = 8.934, p < .000.

Table 7. ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	71.474	8	8.934	8.630	.000[b]
	Residual	42.446	41	1.035		
	Total	113.920	49			

a. Dependent Variable: MFI

b. Predictors: (Constant), Tax, IR, INF, AC, E-BBS, CO, EGr, ER.

Source: The authors' calculations.

So, in the Sig. column, is the value (p) associated with the overall statistic (F). It tells us that the regression model as a whole is statistically significant. In this case the value (p) is equal to 0.000, which indicates that the model is significant.

The Model OLS- Based on the above information, the empirical model to examine the impact of the dependent variables on the Motive of foreign investors in Kosovo is as follows:

$$MFI_{it} = \alpha + \beta1\ ER_{it} + \beta2\ INF_{it} + \beta3\ IR_{it} + \beta4AC_{it} + \beta5\ CO_{it} + \beta6\ E\text{-}BBS_{it} + \beta7\ EGr_{it} + \beta8\ Tax_{it} + \varepsilon_{it}$$
(13a)

Where MFI-The Motive of Foreign Investors, ER-Exchange Rates, INF-Inflation, IR-Interest Rates, AC-Access to Credit, CO -Competition, EBBS-E-Banking and Banking Services, EG -Economic Growth, and TAX- Tax-es Further, α, β, i, t, and ε denote constant or intercept, coefficient slope, i-unit, t period, and residual (error term), respectively.

$$y_{(MFE)} = 2.866 + 0.077 \times X_{(ER)} + 0.477 \times X_{(INF)} + (-0.842) \times X_{(IR)} + (-0.388) \times X_{(ACt)} + 0.008 \times X_{(CO)} + (-0.402) \times X_{(E-BBS)} + 1.181 \times X_{(EGr)} + 0.169 \times X_{(Tax)} = 2.866 + 0.077 + 0.477 - 0.842 - 0.388 + 0.008 - 0.402 + 1.181 + 0.169 = 4.146$$
(13b)

Unstandardized coefficients show how much the dependent variable varies with an independent variable when all other independent variables are held constant. Meanwhile, the statistical significance of the independent variables is seen in the Sig. column, which tests whether the unstandardized (or standardized) coefficients are equal to 0 (zero) in the population. Since $p < .05$, we can conclude that the coefficients are statistically significantly different from 0 (zero).

According to the results of the OLS Model (table 8) from the Coefficient's analysis expressed by equation (13b) the value of the constant ($\beta0 = 2.866$, Sig. < 0.05), tests the statistical significance that states that the good performance of Economic Factors, motivates foreign investors to invest in Kosovo, with the increase of each unit in an independent variable, the motivation of foreign investors increases.

Interpretation of the most important numbers in the table (8):

Unstandardized β (constant $\beta0$): This tells us the average value of the dependent variable when all eight predictor variables are zero. In this example, the Motivation of foreign investors is 2,866 when the variables X1 to X8 taxes are equal to zero.

Unstandardized β (Exchange Rate): This tells us the average change in Foreign Investor Motive associated with a one-unit increase in the exchange rate, assuming the other 7 variables remain constant. In this case, every 1 additional percentage point in the increase of the exchange rate is associated with a positive but statistically insignificant coefficient in the increase of the motive of foreign investors in Kosovo ($\beta1 = 0.077$, or 7.1 units, p. 0.586 or Sig. > 0.05).

Unstandardized β (Inflation): This tells us the average change in the Motive of foreign investors associated with a one-unit increase in Inflation, assuming that other independent variables remain constant. In this case, every 1 additional percentage point in the increase of Inflation is associated with a positive coefficient (coefficient $\beta2 = 0.477$, or 47.1 percentage points) and statistically significant (p. 0.010 or Sig. > 0.05) in the increase of the motive of foreign investors in Kosovo.

Unstandardized β (Interest Rate): This tells us the average change in the Motive of foreign investors associated with a one-unit increase in Interest Rates, assuming that other independent variables remain constant. In this case, every 1 percentage point in the reduction of interest rates is accompanied by a reduction of - 84.2 percentage points in the reduction of the Motive of foreign investors, assuming that other independent variables are kept constant. The coefficient is negative (β3 = -0.842, or 84.2 percentage points) and statistically significant (p. 0.002 or Sig. < 0.05) in reducing the Motive of foreign investors.

Table 8 . Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant MFI)	2.866	1.393		2.057	0.046		
	ER	.077	.140	.098	.548	0.586	.283	3.528
	INF	.477	.178	.363	2.690	0.010	.500	2.000
	IR	-.842	.252	-.488	-3.339	0.002	.426	2.346
	AC	-.388	.194	-.284	-2.004	- 0.050	.452	2.212
	CO	.008	.132	.009	.055	0.953	.353	2.837
	E-BBS	-.402	.115	-.437	-3.487	0.001	.580	1.725
	EGr	1.181	.168	.963	7.028	0.000	.484	2.067
	Tax	.169	.186	.115	.912	0.011	.576	1.737

a. Dependent Variable: The motive of foreign investors

Source: The authors' calculations.

Unstandardized β (Access to Credit): This tells us the average change in the Motive of foreign investors associated with a one-unit increase in Access to Credit, assuming that other independent variables remain constant. In this case, every 1 percentage point in the reduction of the Cry in credit is associated with a negative coefficient (β3 = -0388, or 38.8 units) statistically significant (p. -0.052 or Sig. < 0.05) reduces the Motive of foreign investors.

Unstandardized β (Competition CO): This tells us the average change in the Motive of foreign investors associated with a one-unit increase in competition, assuming that other independent variables remain constant. In this case, each additional 1 percentage point in the increase of competition is associated with an increase of 0.8 points in the increase of the Motive of foreign investors. We conclude that Competition has a positive coefficient (β5 = 0.008) but statistically not significant (p. 0.953 Sig. > 0.05) for the Motive of foreign investors.

Unstandardized β (E-Banking and banking services): This tells us the average change in the Motive of foreign investors associated with a one-unit increase in E-banking and banking services, assuming that other independent variables remain constant. In this case, every 1 percentage point in the reduction of E-banking and bank services is accompanied by a reduction of - 40.2 points in the reduction of the Motive of foreign investors. (β6 = -0.402, or 40.2 units). We conclude that Competition has a statistically significant negative coefficient (β6 = -0.402) (p. 0.001 or Sig. < 0.05) for the Motive of foreign investors.

Unstandardized β (Economic Growth): This tells us the average change in the Motive of foreign investors associated with a one-unit increase in economic growth, assuming that other independent variables remain constant. In this case, every 1 percentage point in the increase in Economic Growth is associated with an increase of 181.1 percentage points in the increase in the Motive of foreign investors, when other independent variables are kept constant. ($β7 = 1.181$, or 181.1 units). We conclude that the economic growth has a positive and statistically significant coefficient in the growth of the Motive of foreign investors (p. 0.000 or Sig. < 0.05).

Unstandardized β (Taxes): This tells us the average change in the Motive of foreign investors associated with a one-unit increase in taxes, assuming that other independent variables remain constant. In this case, every 1 percentage point in the increase of Taxes is associated with an increase of 16.9 points in the increase of the Motive of foreign investors, assuming that other independent variables are kept constant. ($β8 = 0.169$, or 16.9 units).

We conclude that Competition has a positive and statistically significant coefficient with the Motive of foreign investors (p. 0.011 or Sig. > 0.05). From the equation (13.b) of the OLS model, it confirms that the increase of 286.6 percentage points in the Motivation of foreign investors in Kosovo is a result of the variables, Inflation, Economic Growth and Taxes are statistically significant and positive. The variables, competition are statistically insignificant while the variables Interest rates, access to credit, E-banking and bank services are statistically significant but negative in the motive of foreign investors in Kosovo. While the exchange rate is positive but statistically insignificant for Foreign Investors.

From the tested results, First Hypothesis (H1) is partially verified:

Hypothesis H1: Economic factors have a positive effect on increasing the motivation of foreign investors to invest in Kosovo.

- First, the economic factors that have positive coefficients and are statistically significant for increasing the motivation of foreign investors in Kosovo are: Economic growth, Inflation and Taxes.

- Second, the economic factors that have statistically significant negative coefficients for reducing the motivation of foreign investors in Kosovo are: Interest rates, Access to credit, E-banking and Banking services.

- Thirdly, the economic factors that are statistically insignificant for increasing the motivation of investors are: Exchange rate and Competition.

4.4.2 Testing the Second hypothesis -H2

Hypothesis 2: The relationship between the Motive of foreign investors to invest in Kosovo and economic factors is positive.

The second hypothesis is partially verified, because foreign investors are not positively motivated by two of the five economic factors, the exchange rate (ER) and competition (CO), because their relationship is statistically significant and negative.

From table 9, Bivariate Correlations, we see that the foreign MFI variable has a negative relationship with ER in the value of the Pearson coefficient of (-0.523**), while it is statistically significant (p.0.006). The motive of investors is positively and statistically significant (p.0.000) with INF in the Pearson coefficient value of (.337**).

MFI is positively related and statistically significant in the value of the Pearson coefficient of (.631**). MFI has a positive and statistically significant relationship (p.0.000) with AC in the Pearson coefficient value of (.452**). MFI has a negative relationship with CO in Pearson coefficient values of (-.240**) and statistically positive (p.0.006).

MFI has a positive and statistically significant relationship with E-BBS (594**), EG (736**) and Tax (278**) in Pearson coefficient values.

Table 9. Correlations Bivariate

		MFI	ER	INF	IR	AC	CO	E-BBS	EGr	Tax
MFI	Pearson Correlation	1	-.523**	.337**	.631**	.452**	-.240**	.594**	.736**	.278**
	Sig. (2-tailed)		.006	.000	.007	.000	.003	.004	.003	.001
	N	52	52	52	52	52	52	52	52	52
ER	Pearson Correlation	-.523**	1	.487**	.572**	.623**	.859**	.305**	.388**	.415**
	Sig. (2-tailed)	.116		.002	.008	.001	.000	.000	.000	.000
	N	52	52	52	52	52	52	52	52	52
INF	Pearson Correlation	.337**	.487**	1	.349**	.507**	.487**	.661**	.211*	.309**
	Sig. (2-tailed)	.000	.000		.000	.000	.000	.000	.010	.000
	N	52	52	52	52	52	52	52	52	52
IR	Pearson Correlation	.631**	.572**	.349**	1	.359**	.592**	.272**	.669**	.221**
	Sig. (2-tailed)	.007	.000	.000		.000	.000	.001	.000	.007
	N	52	52	52	52	52	52	52	52	52
AC	Pearson Correlation	.452**	.623**	.507**	.359**	1	.511**	.346**	.368**	.649**
	Sig. (2-tailed)	.000	.000	.000	.000		.000	.000	.000	.000
	N	52	52	52	52	52	52	52	52	52
CO	Pearson Correlation	-.240**	.859**	.487**	.592**	.511**	1	.328**	.303**	.347**
	Sig. (2-tailed)	.003	.000	.000	.000	.000		.000	.000	.000
	N	52	52	52	52	52	52	52	52	52
E-BBS	Pearson Correlation	.594**	.305**	.661**	.272**	.346**	.328**	1	.237**	.452**
	Sig. (2-tailed)	.004	.000	.000	.001	.000	.000		.004	.000
	N	52	52	52	52	52	52	52	52	52
EGr	Pearson Correlation	.736**	.388**	.211*	.669**	.368**	.303**	.237**	1	.437**

Sig. (2-tailed)	.003	.000	.010	.000	.000	.000	.004		.000
N	52	52	52	52	52	52	52	52	52
TAX Pearson Correlation	.278**	.415**	.309**	.221**	.649**	.347**	.452**	.437**	1
Sig. (2-tailed)	.001	.002	.007	.007	.000	.000	.000	.000	
N	52	52	52	52	52	52	52	52	52

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

*. Correlation is significant at the 0.05 level (2- tailed).

Source: The authors' calculations.

From the Pearson Correlation Matrix, we can conclude that policy makers should take into account the importance of economic factors that motivate foreign investors to cometo Kosovo because in the last 6 year's investors are expanding their investment chain in different sectors of the economy. They have received information about the economic environment in Kosovo and their profits now exist.

The opinion of foreign investors on economic factors is presented in the created Graph 2.
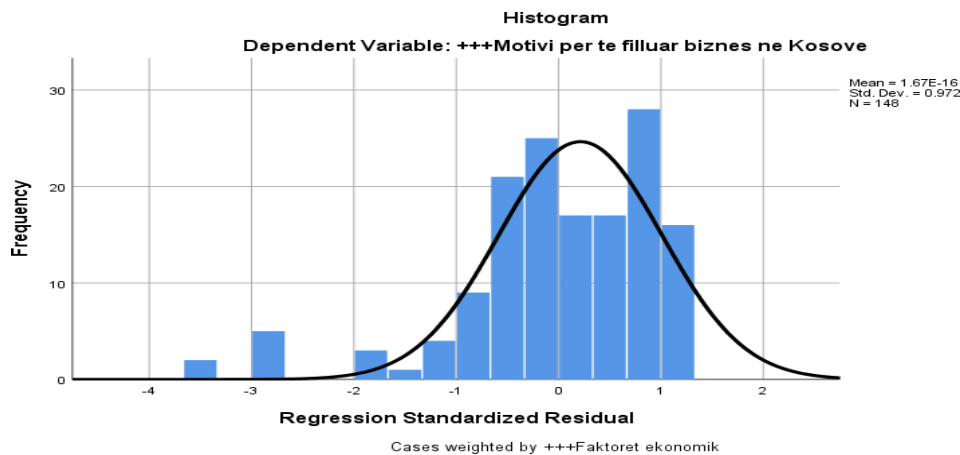
Graphs 2. The correlation the between Independent variable "Economic Factors" (Faktoret Ekonomik) and dependent variable the "Motive of Foreign Investors" (Motivi per te filluar nje biznes ne Kosove).

Motive of investors and the performance of economic factor's.

Graph 2 shows the relationship between economic factors and the motive of foreign investors through a trend line that passes through the pillars. It can be seen that the motive of foreign investors in their beginnings (at point -4 to -1) for some variables was negative, while it also reaches its peak point 1 with some statistically significant and positive variables, while this trend took a positive course but not statistically significant for some other variables.
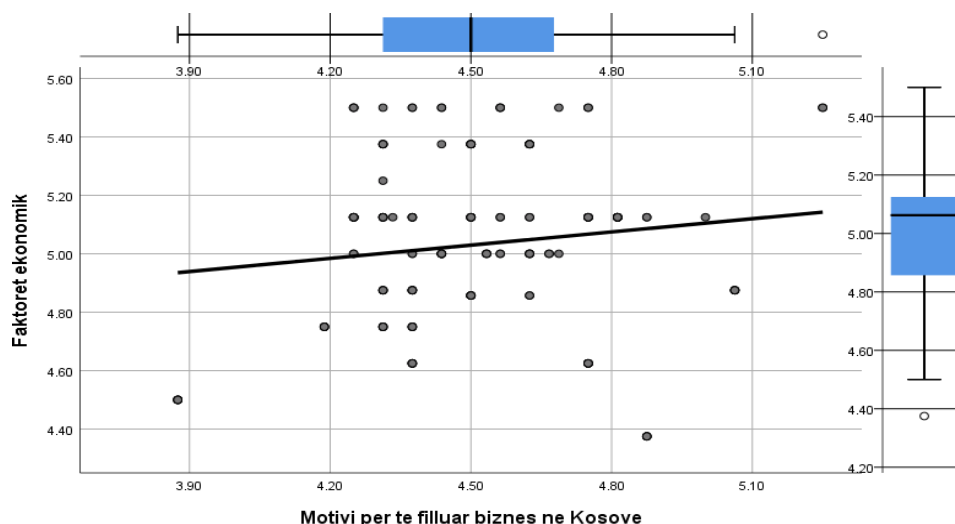
Graph 3. The connection between "Economic Factors" (Faktoret Ekonomik) and the "Motive to start a business in Kosovo" (Motivi per te filluar nje biznes ne Kosove).

In graph 3, the motive of foreign investors is placed on the (x) axis and the economic factors on the (y) axis. We see the tendency of the line to increase, which shows a positive relationship in growth. This shows that the values increase in the graph when the motivation of investors increases due to the economic factors that motivate them more. But if we look at the economic factors in (y) the growth trends of the motivation of foreign investors are increasing for some of the economic factors, not all.

So, the closer to 4.2 to 5.1, the closer each of these points is to justice. The points that are as close as possible to 0 and distributed throughout the graph show that there are economic factors that are difficult to determine if they have an important connection with the investors' motive.

5. Discussion of Study Results

The results of the OLS model show that not all economic factors motivate foreigninvestors to invest in Kosovo. The value of the coefficient of determination suggests that the model selected in this study is significant (R square is 0.627 and Standard Error of estimation is 1.01748).

The Ordinario Least Squares (OLS) model tests the study's hypotheses by accepting or rejecting them. The importance of variables based on the p-value, variables, Taxes is presented; The rate of inflation, economic growth has a positive and statistically significant coefficient. While the variables, Interest Rate, Access to credit, E-banking and banking system services have a statistically significant negative coefficient in the Sig value. $p < 0.05$. Finally, the variables Exchange rate and Competition do not turn out tobe important to influence the decision of foreign investors to invest, they have a coefficient positive but statistically insignificant in the Sig value. $p > 0.05$.

The results of this study are contrary to what was found by Devereux and Engel (1999), according to them, exchange rate volatility can be freely associated with higher MNE activity. Also the findings of the authors, Faroh, A., & Shen, H. (2015) argue that exchange rates are the main determinants of FDI inflows in Sierra Leone. While in contrast with our results is the same study done in Sierra Leone for Inflation (IN) and Interest Rate (IR), where insignificant factors were found in the attraction of investors. Similar to our study is the study, MWITTA, N. Z. (2022) according to which FDI affects sustainable economic growth compared to local investments and vice versa in any period of time (Melnyk, Kubatko & Pysarenko, 2014). While in contrast to our study is a study

done in Kazakhstan by the authors, Rakhmatullayeva, et.al (2020), neither negative nor positive impact of FDI on economic growth and vice versa was discovered. While, another study similar to ours revealed a statistically significant positive relationshipbetween real GDP growth rate and FDI inflows, MWITTA, N. Z. (2022).

Contrary results to our study shows that interest rates do not negatively affect foreign investment, Wawrosz, P., & Traksel, S. (2023). Likewise, the study done by Alshamsi, K. H., & Azam, M. (2015) contrary to our results shows that inflation does not have a significant effect on FDI inflows, Alshamsi, K. H., & Azam, M. (2015). Even the study of the authors, Mehak, & Waqas, M. (2023) in Pakistan, along with our study, shows that the marginal effect of FDI on growth turns out to be positive when inflation is below the threshold of 2.8%, but turns out to be negative when inflation is above the threshold.

It is the Access to Credit research, when foreign firms borrow too much from domestic banks they can drive domestic firms away from domestic capital markets, Harrison, A. E., & McMillan, M. S. (2003) along with our study. The E-Banking and banking services (E-B^BS) consider other motivational studies for foreign investors because they bring new technology and knowledge to the economy thus helping financial institutions to improve the quality of services and develop fin-tech based products financial to bring those who do not have excessive financial facilities, Sharma, U., & Changkakati, B. (2022), while our study gave negative results, that is, there is not enough capital in the banking sector and many innovative products.

While the Competition factor in our study has an insignificant impact on the motive of foreign investors because they are mostly focused on the service sector with the same prices and less on other sectors that are so necessary to develop. The last factor Tax rates (TR) in our study motivates investors along with the study, Farah, B., Elias, R., Chakravarty, D., & Beamish, P. (2021), where they point out that some national governments (p. e.g., the UK, Ireland and recently the USA) have reduced corporate taxesin order to stimulate their economies and attract foreign investment.

Even Kosovo has a tax of 10% in Corporations, two tax rates of 18 and 8% in Value Added Tax, exports at 0% and the elimination of double taxation, taxes are considered thelowest in Europe.

6. Conclusion and recommendations

Kosovo as a new country that declared its independence on February 17, 2008, and with a history of devastating war in 1998/99, did not attract enough foreign investors despite its strategic geographical position, privatization process of many public and social enterprises, power young female worker who speaks many foreign languages, low cost of wages, abundant natural resources, massive use of the Internet and technology by young people. The first statistics for FDI was recorded in 2004 with 42 million euros, 2007 is considered the peak of FDI with 440.7 million euros, which was repeated only in 2021 with the entry of FDI of 420.7 million euros. Between 2005 and 2021, the lowest FDI inflows in Kosovo were in 2014, no more than 151.2 million euros.

The largest increase in FDI occurred in 2022 with an inflow of 770.2 million euros considered insufficient, while from January to August 2023 FDI entered Kosovo in the amount of 514.1 million euros. A hope that the growth of FDI will continue in 2024 is attributed not only to some stable economic factors but also to the action of the European Union in the liberalization of visas for Kosovo, a factor that will promote the free movement of people and foreign capital.

The opinion of foreign companies that invest in Kosovo proves that Kosovo is attractive, but there are obstacles of an economic nature that, where there is room for improvement. The OLS model tests the opinion of foreign investors, preliminary tests proved the

reliability of the research. The results show that the economic motivators are statistically significant and positive, economic growth, inflation and taxes. Economic motivators with a positive but statistically insignificant coefficient are the exchange rate and competition. The economic factors with a negative and statistically significant impact on reducing the motivation of foreign investors are, Interest rates, Access to credit, E-banking and bank services. The results of the study show that Foreign Investors want to invest in Kosovo and do not hesitate to show the obstacles that reduce their motivation to invest, such asthe exchange rate, interest rates, E-banking and bank services, Access to Credit.

They also prefer an increase in more innovative products and more digital services in banks operating in Kosovo to facilitate access to credit, easier international transfers and cheaper banking services. While the results of the Pearson correlation analysis show a positive relationship between the Motive of foreign investors and most of the variables of the study except, Concurrence and Exchange Rate which had a statistically insignificant and negative relationship with the other factors. In conclusion, it is argued that most economic factors are attractive for foreign investors and there is an increase in the motivation of investors to bring capital and expertise to Kosovo. The disturbing factors found in the study may help explain some of the less optimistic expectations for investments. Considering the study findings and conclusions, the following recommendations are given: The results of this study recommend for policymakers in Kosovo to implement exchange rate policies that encourage FDI and increase the flow of FDI in the country, however Kosovo does not create monetary policy but administers it, therefore it is outside the domain of the Central Bank of Kosovo.

From a policy perspective, it is important for the Government of Kosovo to direct FDI to the economic sectors that have the most benefits, the production sector through increased exports, the mining sector would reactivate the destroyed mines and with outdated machinery, the energy sector to increase capacities and reactivate outdatedmachinery that pollutes the environment a lot, professional financial services, increasing the possibility of investments in infrastructure and equipment in the medical sector, creative, media and software industries, etc. Incentive factors of foreign investments are the formation of financial markets, the involvement of the private sector in the industrialization of the country, while the government invests in education, health and social protection. The government must assess whether the incentives offered are appropriate, especially after the Covid 19 pandemic, to promote incentives in step withthe times, reformulating the investment promotion strategy. The government should focuson attracting investments that are directed from the region, capturing them in time and space, especially investments that are directed to production and services that create morejobs.

The Agency for the Promotion of Investments in Kosovo (APIK) must create the priorities that foreign investors seek in certain areas where Kosovo has its advantages. Kosovo should make efforts to improve the investment climate by supporting doing business and articulate concerns of investors why they do not expand their capacities and why they do not reinvest their profits. The central and local governments should increase their commitment to improving the notification system through electronic media, social networks and the creation of a free consultancy center and an active feedback for which foreign investors seeking free legal and business advice, the systems of complaints management, transparency of procedures and regulators, easier and faster access to information for investors; promotion of consultations with relevant stakeholders, but not free accounting services. To increase the quality of the services of commercial banks in Kosovo in terms of the physical environment and the credibility of the client for access to credit and to improve the competition in the prices of services and products because equal prices have been created for products and services in the entire banking sector.

Kosovo to continue to improve the quality of human resources to be effective in providing services to foreign investors. To improve the road infrastructure, the stability of

the Internet, telephone, energy and water. Solving the above problems improves the business environment in Kosovo, where foreign investors also benefit.

7. Declarations

a.   Author Contributions

"Conceptualization, N.K., V.M.; methodology, N.K., V.M.; and J.M.; software, N.K., V.M.; validation, N.K., V.M.; K.U and J.M; formal analysis, N.K; V.M.; investigation, N.K, V.M and J.M.; resources, N.K., V.M.; J.M and K.U.; data curation, N.K., V.M.; J.M and K.U.; writing—original draft preparation, N.K., V.M.; J.M.; writing—review and editing, N.K., V.M.; J.M.; visualization, N.K., V.M and K.U.; supervision, N.K; project administration, N.K.,V.M.; funding acquisition, N.K, V.M. All authors have read and agreed to the published version of the manuscript."

b.   Data Availability Statement

•   Data is contained within the article or supplementary material: The data presented in this study are available in [insert article or supplementary material here].

c.   Funding

d.   Acknowledgements

e.   Conflicts of Interest

The author declares that there is no conflict of interests regarding the publication of this manuscript.

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