

Proceedings from International Scientific Conference

The Impact of the Quality of Institutions on Sustainable Development



Organized by: Institute for Sociological, Political and Juridical Research, Ss. Cyril and Methodius - University in Skopje, Republic of North Macedonia and Institute of Social Sciences from Belgrade (Center for Economic Research), Serbia



International Scientific Conference

The Impact of the Quality of Institutions on Sustainable Development

Belgrade, 23-24 May 2024

Conference Proceedings

Skopje, December 2024

Publisher

Institute for Sociological, Political and Juridical Research, "Ss. Cyril and Methodius" University in Skopje, North Macedonia

Organizers

Institute of Social Sciences, Belgrade, Serbia

Institute for Sociological, Political and Juridical Research, "Ss. Cyril at Methodius" University in Skopje, North Macedonia

Faculty of Law, University of Zenica, Bosnia and Herzegovina

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CIP - Каталогизација во публикација
Национална и универзитетска библиотека
„Св. Климент Охридски“, Скопје

502.131.1:35.075(062)
332.146.2:35.075(062)

INTERNATIONAL Scientific Conference, The Impact of the Quality of Institutions on Sustainable Development (2024 ; Belgrade)

International Scientific Conference [Електронски извор] : the Impact of the Quality of Institutions on Sustainable Development : Belgrade, 23-24 May 2024 : Conference Proceedings / [editors Bojana Naumovska, Milka Dimitrovska, Ivana Ostojić]. - Skopje : Institute for Sociological, Political and Judicial Research, 2024

Начин на пристапување (URL) :

<https://isppi.ukim.edu.mk/izdavastvo/konferencii/zbornik-trudovi-megjunarodna-naucna-konferencija-2024>.

- Текст во PDF формат, содржи 239 стр., илустр. - Наслов преземен од екранот. - Опис на изворот на ден 27.12.2024. - Фусноти кон текстот. - Библиографија кон трудовите

ISBN 978-9989-633-67-6

а) Одржлив развој -- Улога на институции -- Собири

COBISS.MK-ID 65015045

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PREFACE

Aspiring to establish continuous joint effort, collaboration and distinct path to support the ideology and practice of sustainable development notions and policies, the two social science institutes in North Macedonia and Serbia - the Institute for Sociological, Political and Juridical Research (ISPJR) at Ss. Cyril at Methodius University in Skopje and the Institute of Social Sciences in Belgrade (ISS), in cooperation with the Faculty of Law at the University of Zenica, organized the international scientific conference *The Impact of the Quality of Institutions on Sustainable Development*, generously hosted by the ISS – Belgrade on 23-24 May 2024.

The Conference contributed greatly to the scientific and public discourse on the pressing governmental, environmental, economic and political challenges and overall issues concerning Western Balkans and the European Union, as well as to the networking of various experts in the fields of social sciences. Therefore the Editors are honoured to present the Proceedings which successfully conclude the entire collective endeavour.

The essential drive to gather the relevant expertise in said area was the fact that the levels of economic development largely depend on the level of development, quality and efficiency of institutional arrangements. Sustainable policy solutions and inclusive institutions contribute to the rule of law, maximization of efficiency and social well-being, lead to higher rates of economic growth and represent a key factor of economic freedom. One of the phenomena that deserves special attention in this context, is the corruption due to its significant negative effects on sustainable development, undermining non-discrimination, transparency and economic growth, while raising poverty, social insecurity and social injustice.

Namely, functional economic and political mechanisms as well as social resilience are extremely important citizens' protectors in the face of crises and polycrises. Therefore, the Conference aimed to consider the possible advances of and towards sustainable development and the role of institutions in the

newly created circumstances when, in addition to the dangers due to climate change and pollution, other forms of crises occur.

By addressing these issues, each of the papers provides a unique perspective which would hopefully enrich the scientific and professional thought and actions, for which the Editors are immensely grateful. This heartfelt gratitude extends not only to the authors, but to the dedicated reviewers, all conference participants and organization assisting persons, as well.

These Conference Proceedings entail 13 papers, divided into two sections: *Institutions, Governance and Corruption*, and *Green Transition and Policies*, although all papers possess interdisciplinary features and shed a light on aspects of sustainable development. All papers have undergone two double-blind field-related peer reviews, while the linguistic accuracy was formally guaranteed by the authors' confirmation of professional proof-reading.

The Editors hope that this issue would actively contribute to the individual and collective scientific work, to the end of its utilization for governmental, economic and societal consolidation and development.

The Editors

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**INSTITUTIONS,
GOVERNANCE
AND CORRUPTION**

THE INFLUENCE OF THE FINANCIAL SYSTEM EFFICIENCY AND DIVERSITY ON THE SUSTAINABLE DEVELOPMENT OF THE REPUBLIC OF SERBIA

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Abstract

The paper analyzes the degree of bank-centricity of the domestic financial system, as well as the negative consequences for sustainable growth and development resulting from the focus of the financial system on banks. The subject of the research is the concentration level in the domestic banking sector and determining the dominant position of banks. Also, the achieved levels of development of the financial systems of the transition countries in the neighborhood, their structure and diversity will be analyzed and compared with the Serbian financial system. The results of empirical research examining the opinions of experts in the field of economics and finance and representatives of the banking and private sector will be presented and analyzed, which should provide answers to the research questions that were raised in the paper, which concern the analysis of the financial system of Serbia and its bank-centricity, the sustainability of the current structure of financial institutions and giving specific recommendations for the improvement of the financial system of Serbia.

Keywords: bank-centricity, financial system, sustainable development, microfinance, Serbia

1. Introduction

Financial institutions represent significant development factors through their role as financial intermediaries. Also, financial institutions provide financial resources to support projects that result in better developmental outcomes for society (Rajan & Zingales, 2003). Financial institutions operating in a stable financial system contribute to achieving sustainable development goals. Consequently, a developed financial system contributes to sustainable development, especially for underdeveloped countries. According to Silva, Kimura & Sobreiro (2017) financial stability is crucial because it “instills confidence in the financial system and encourages investors, depositors, and savers to supply the funds that would be channeled to deficit units”. Agglomeration of capital, which is achieved through the mobilization of savings, provision of information for the improvement of resource allocation, monitoring of investment projects and influence on the improvement of corporate management, diversification, and risk management, facilitated exchange of goods and services, are some of the indicators of the development of the financial system and its contribution to economic growth, through the development of the private and public sector (Claessens & Feijen, 2006: 25).

According to the available data from the National Bank of Serbia, financial institutions in the domestic financial system are banks, insurance companies, leasing companies, pension funds and payment institutions, and electronic money institutions. The banking sector of Serbia consists of 26 banks, with an organizational network of 1,598 business units, total net balance sheet assets of 4,084.1 billion dinars, and total balance sheet capital of 705.7 billion dinars (NBS, 2020).

The banking sector of Serbia is highly concentrated, taking into account that the concentration ratio of the first 5 banks is over 50% in all categories: total assets, total loans, total deposits, and total income (NBS, 2020). The first 10 banks cover almost 80% of the market in all the mentioned categories. For the rest of the market (20%), there is a competitive battle between the remaining 16 banks. As concentration indicates competition in the banking sector, the analysis of concentration indicators leads to the conclusion that competition between banks in Serbia is threatened, since a few banks with a large market share prevail.

In 2000, the financial system of Serbia consisted of 108 banks. The number of banks in the domestic banking sector is decreasing over time and, according to expectations, this trend will continue in the future, followed by the consolidation of the banking sector, through mergers and acquisitions (Barjaktarović and

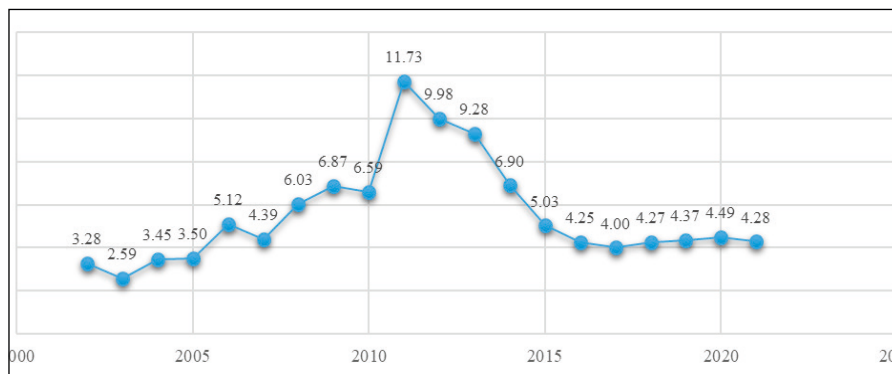
Ječmenica, 2011). In this way, the problem of saturation of the banking sector would be overcome, and the number of banks would be adapted to the number of clients and the size of the market. A further reduction in the number of banks will certainly be reflected in the growth of concentration in the banking sector. Globalization processes and adjustments of the bank's operations toward new business models represent one of the main features in the contemporary banking industry (Mirković, Lukić, Martin, 2019: 31). The development of the financial system and the banking sector requires constant improvement and innovation of banking products and services, which requires significant investments that small banks lack. According to estimates, in the coming years, the number of banks is expected to decrease to 15-20 (Dugalić, 2018).

This is supported by data on financial inclusion which significantly contributes to poverty reduction and sustainable development. According to World Bank data (World Bank, 2022), the share of the population with accounts in banks and other financial institutions is almost 90% and has increased compared to 2017 (71%). The percentage of residents who do not have an account because they do not have enough money to use it is 46%, while 26% of the population does not have an account in banks or other financial institutions because they do not need their services. The share of the population that owns credit cards is only 18%. In developed countries, almost 94% of the population has open accounts in banks or other financial institutions, including the poor and residents of rural areas (over 90%). Almost 55% of the population in high-income countries own credit cards. By comparison with developed countries, it can be noted that Serbia is significantly lagging. The young, the poorly educated, the poor, as well as the population in rural areas use financial services the least. It is necessary to increase financial inclusion and access of all categories of society, especially vulnerable ones, to financial products and services. The application of new technologies, raising the awareness of the population about the ease of using financial services, as well as financial education, are of key importance.

The dominant share of financial sector assets is concentrated in the banking sector of Serbia. How much the domestic financial system is dominated by banks is shown by the bank participation in financial services of 92%, which is not in the function of sustainable development and does not contribute to the development of the financial system. Also, according to the latest data, the banking sector participates in the total assets of the financial sector with 91% (NBS, 2023:56). Other financial institutions participate in the assets of the financial sector with less than 10%. At the end of 2021, the share of net assets of the banking sector in gross domestic product amounted to over 81% (European Banking Federation, 2022). Although it is in second place, right after

the banking sector, the insurance sector in Serbia is underdeveloped and lags behind the neighboring countries, as well as the countries of the European Union. The insurance premium per capita in Serbia is only \$176, while in the European Union is \$2,374. The share of insurance premiums in Serbia's gross domestic product is 2%, while in the European Union is 7% (NBS, 2023: 76).

Graph 1: The movement of interest rates on loans to the private sector in Serbia



Source: CEIC Data, 2021; NBS, 2021.

Since 2000 and the adopted legal solutions, the financial system of Serbia has been extremely bank-centric. Such a structure of the financial system does not support sustainable development. It is important to point out that the dominant position in the banking sector is held by foreign banks, whose participation in the ownership structure is 86% and whose share in the assets of the financial sector is around 80%. Excessive reliance on foreign banks in the conditions of the global economic crisis in 2009 had an unfavorable effect on the stability of the domestic financial system when funds were withdrawn to the parent banks. The biggest consequences were borne by domestic companies that were left without sources of financing. The data from the Graph 1 on interest rate movements in Serbia indicate that domestic companies pay high prices for borrowed funds, which has an unfavorable effect on their operations, but also on sustainable development. In addition, a large number of micro, small and medium-sized enterprises and entrepreneurs are not able to secure the necessary financial resources because, compared to large companies, they are not always desirable clients for commercial banks. On the other hand, the insufficiently dispersed structure of the domestic financial system does not provide them with the opportunity to satisfy the need for liquidity by borrowing from microcredit financial institutions (Ostojić, 2023: 91).

The paper analyzes the degree of bank-centricity of the domestic financial system, as well as the negative consequences that the focus of the financial system on banks has on sustainable growth and development. The subject of the research is the concentration level in the domestic banking sector and determining the dominant position of banks. Also, the achieved levels of development of the financial systems of the transition countries in the neighborhood, their structure and diversity will be analyzed and compared with the Serbian financial system. The results of empirical research examining the opinions of experts in the field of economics and finance and representatives of the banking and private sector will be presented and analyzed, which should provide answers to the research questions that were raised in the paper, which concern the analysis of the financial system of Serbia and its bank-centricity, the sustainability of the current structure of financial institutions and giving specific recommendations for the improvement of the financial system of Serbia.

2. Literature overview

Financial institutions, institutional arrangements, and mechanisms of development represent the important factors for explaining the differences in growth rates and development trends between developed and developing countries (Ostojić and Petrović, 2019). Therefore, it is important to address the issues of stability and efficiency of financial systems in developing countries and how to overcome existing institutional bottlenecks.

Financial institutions are a very important factor in financing the realization of sustainable development goals. As early as 1994, Stiglitz pointed out that access to finance is very important for development (Stiglitz, 1994). Feil (2021) argues that economic development is made possible by stable financial systems that can finance production and that the instability inherent in the financial system can limit the ability of investors to promote sustainable growth.

Cernavskis (2012) states that the enterprise financial stability concept is a mandatory condition for ensuring long-term and sustainable development. According to Ozili and Iorember (2024) financial stability has a positive effect on SDG3 (Ensure healthy lives and promote well-being for all at all ages) and SDG7 (Ensure access to affordable, reliable, sustainable and modern energy for all) in countries where the banking system have a high capital buffer. Adam (2022) also confirmed the complementary relationship between sustainable economic growth and financial development and trade openness in the short run.

Pisano, Martinuzzi and Bruckner (2012) analyze the relationships, linkages, and differences between the financial sector and the sustainable development discourse. Authors point out that „an efficient financial sector is essential to a well-functioning economy because it helps to allocate capital and manage risks, and when this is done in an efficient way, the financial sector provides, therefore, a decisive service to the economy“. Safi et al. (2021) investigate the relationship between financial stability, renewable energy, international trade, national income, and consumption-based carbon emissions with structural breaks. They conclude that „policymakers in G-7 countries should focus more on financial sector stability and encourage firms to use renewable energy. Any policy that targets financial stability, exports, and renewable energy will significantly reduce carbon emissions“.

Weber (2014) analyzing case studies, concludes that incorporating the concept of sustainability in the banking sector represents a strategy that results in multiple gains for both business and sustainable development. Ahmed et al. (2015) identified five tracks through which financial systems support sustainable development: financial stability, financial inclusion, reducing vulnerability, social and environmental activities, and infrastructure finance.

A study by Anton and Nucu (2020) investigates the role of financial sector development in promoting the application of green technology in the energy sector on panel data of 28 EU countries for the period 1990–2015. According to the obtained results, all three different dimensions of financial development (banking sector, bond market, and capital market) have a positive effect on the share of renewable energy consumption and financial development can promote the application of green technologies.

Koirala and Pradhan (2020) examine the factors that determine sustainable development, using panel data for 12 Asian countries for the period 1990–2014. The research confirmed that income per capita and financial development have a positive and significant impact on sustainable development, while on the other hand, they found negative and significant effects of the inflation rate and natural resources rent on sustainable development.

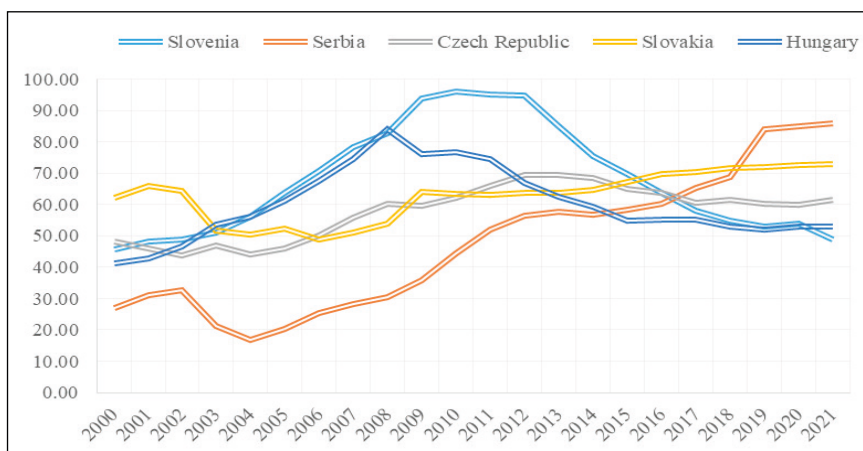
3. Research

To conduct research on the bank-centricity of the Serbian financial system and test the hypothesis „*The high degree of bank-centricity of the Serbian financial system has a limiting effect on sustainable development*“, the paper will present the structure of the domestic financial system, the participation of banks in

financial services, measures of competition and concentration in the domestic banking industry, as well as the share of the banking sector in the total assets of the financial system and the gross domestic product. A comparative method will be used to analyze the concentration level in the banking sector, as well as the share of bank assets in the gross domestic product in neighboring transition countries and developed economies of the European Union. Also, the results of empirical research on the views of experts on the development of the domestic financial system will be presented.

If we consider developed European countries such as Austria, Germany, France and Switzerland, then neighboring transition countries such as Slovenia, the Czech Republic, Slovakia, Poland and Hungary, we can see that they also once had a similar structure of the financial system, but these countries went a step further and improved their financial system by building and developing various financial institutions. In contrast, the financial system of Serbia is mainly represented by banks and insurance funds, which is a feature of a poor financial system.

Graph 2: Banking sector assets to gross domestic product (%), 2000-2021.

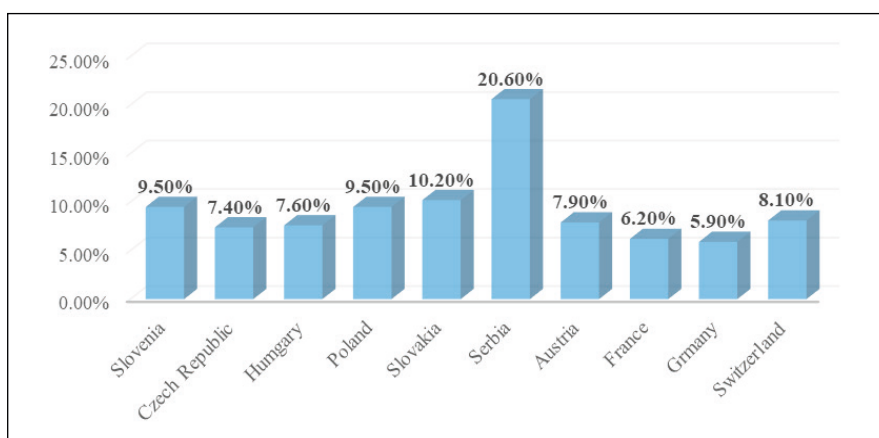


Source: World Bank Data, 2021; NBS, 2021.

The ratio of the total assets of the banking sector to gross domestic product supports the previous statement (Graph 2). Hungary and Slovenia are glaring examples of countries that reduced the share of banking sector assets in the gross domestic product by introducing and developing various financial institutions. Slovenia reached a level of as much as 95.6% of the gross domestic product until 2012. After that, the share of banking sector assets gradually

decreased every year by almost 10% on an annual basis, and in 2021 it was reduced to less than 50% of the gross domestic product. The situation is similar in the Hungarian financial system. After achieving a level of 84% of the gross domestic product in 2008, the share of assets of the banking sector has been declining year by year and in 2021 was around 50%. Slovakia and the Czech Republic have been maintaining the ratio at the level of 60%-70% of the gross domestic product for years and do not record large fluctuations in this indicator. When analyzing data for Serbia, a constant growth in the share of banking sector assets is noticeable from 27% in 2000 to 86% in 2021. The recorded results are significantly higher than in neighboring countries in transition, especially Slovenia and Hungary.

Graph 3: Bank capital to assets ratio (%), 2021.



Source: World Bank Data, 2021a; NBS, 2021.

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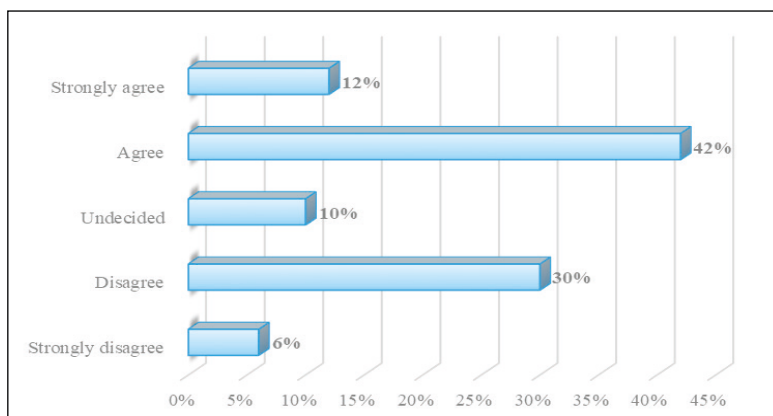
Analysis of the data on the share of banks' capital in the total assets of the financial sector speaks of the expressed bank-centricity of the domestic financial system and the underdevelopment of non-banking financial institutions. Serbia leads among developed neighboring countries, as well as among developed European economies, achieving a bank capital to assets ratio of over 20%, which is twice as much as Slovenia, Slovakia and Poland, three times as much as the Czech Republic and Hungary and four times as much as Germany (Graph 3).

To analyze the bank-centric nature of the domestic financial system and the impact of such a structure on the sustainable development of Serbia, empirical research was conducted through a questionnaire survey. Representatives of micro, small and medium enterprises and entrepreneurs, representatives of the banking sector, as well as economic experts, participated in the research. Statistical data processing is performed using the statistical software package IBM SPSS Statistics 21 (The Statistical Package for the Social Sciences).

The survey collected 150 responses. The number of participants in the research who are employed in the banking sector was 30, the number of entrepreneurs and employees in micro, small and medium enterprises was 65, while the number of respondents belonging to the group of economic experts was 55. The questionnaire with closed questions was sent to 155 addresses, whereas a response was sent from 150 addresses, which indicates a high response rate of 96.8%.

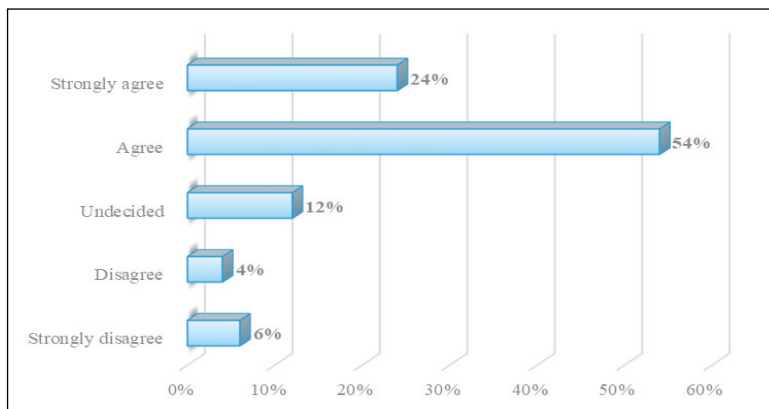
A 5-point Likert scale was used to collect the respondents' attitudes: 1) Strongly agree; 2) Agree; 3) Undecided; 4) Disagree and 5) Strongly disagree. Data was collected from respondents from different organizations - banks, companies and scientific institutions, in one period of time. The survey was conducted through a questionnaire to examine the views of respondents on the degree of bank-centricity of the domestic financial system, the consequences of such a structure of financial institutions on development and possible directions for further improvement of the financial system and overcoming the problem of bank-centricity.

Graph 4: The financial system of Serbia is underdeveloped and poor



Source: Author's research

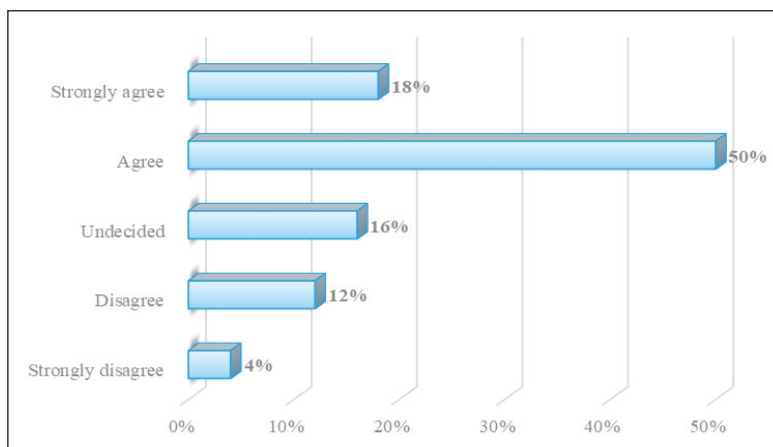
In addition to the questionnaire, banking and economic experts and company representatives were also directly interviewed for more detailed analysis. A semi-structured interview was used to test the hypothesis about the bank-centricity of the domestic financial system and its limiting effect on sustainable development and to additionally investigate aspects of the dominant position of banks as financial service providers. For the financing and therefore the sustainable development of micro, small and medium-sized enterprises and entrepreneurs, it is important that, in addition to banks, there are also non-banking financial institutions in the financial system. Therefore, the following variables were defined in the research: bank-centricity, micro, small and medium enterprises and entrepreneurs, and sustainable development.

Graph 5: The financial system of Serbia is bank-centric

Source: Author's research

The financial system is more developed if a larger number of different financial institutions prevail in its structure. According to the results, 56% of respondents agreed with the statement that the financial system of Serbia is insufficiently developed and poor and that there is no diversity of financial institutions. The share of respondents who do not agree with the mentioned opinion is 36% (Chart 4). Also, the analysis of the results of the conducted research confirmed that 78% of the respondents expressed their agreement with the view that the domestic financial system is bank-centric (Chart 5).

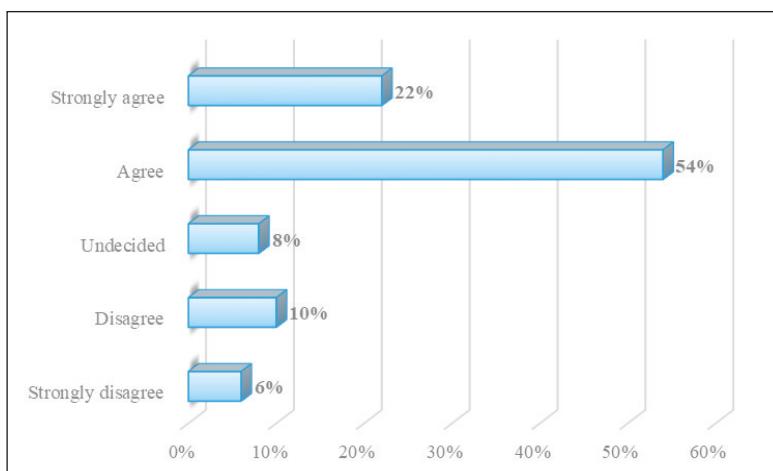
Graph 6: Bank-centricity of the financial system does not stimulate the development of micro, small and medium enterprises and entrepreneurs



Source: Author's research

A share of 68% of respondents agree with the statement that the insufficiently dispersed structure of the financial system inhibits the development of micro, small and medium enterprises and entrepreneurs (Graph 6). The share of respondents who agreed with the view that the bank-centric structure of the domestic financial system does not support Serbia on the way to sustainable development is 76% (Graph 7),

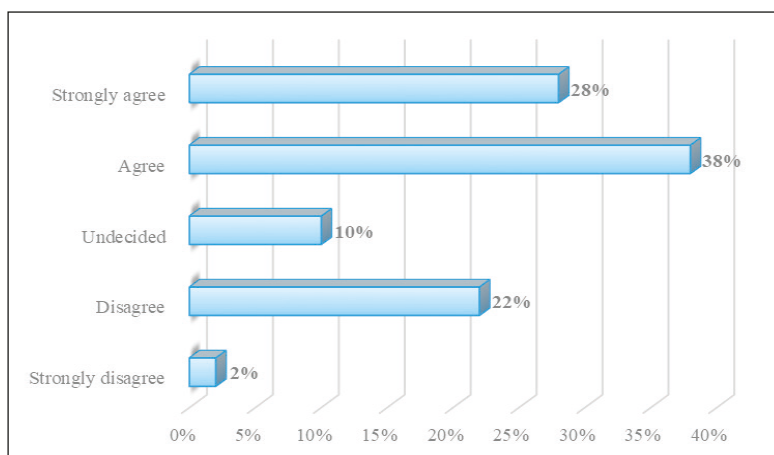
Graph 7. Bank-centricity of the financial system has a limiting effect on sustainable development



Source: Author's research

According to the results, 66% of respondents point out that banks have a dominant position in the domestic financial system (Graph 8). Banks in Serbia represent over 90% of all sources of financing for micro, small and medium enterprises and entrepreneurs. Consequently, it can be concluded that the participation of non-banking financial institutions is negligible and the supply of alternative sources of financing is insufficient (USAID, 2017). Commercial banks charge high interest rates on loans to micro, small and medium enterprises due to the lack of collateral of sufficient value and the perceived high risk of the investment.

Graph 8. Banks have a dominant position in the financial system of Serbia



Source: Author's research

The current situation dictates that only banks can provide micro-financing to the sector of micro, small and medium enterprises, while no other non-banking credit institution is allowed to perform this activity (Beraha and Đurićin, 2015). The development and diversification of the domestic financial system would lead to an increase in competition among financial institutions and banks would no longer feel secure in their current position because they would lose their long-standing dominant position.

4. Discussion

Non-banking financial institutions include 1. Depository financial institutions (savings and credit cooperatives, credit unions); 2. Contractual savings institutions (pension funds and insurance companies); 3. Institutional financial organization (mixed funds, trust funds, closed-end funds); 4. Financial companies and 5. Mixed financial institutions (insurance and export financing agencies, broker-dealer companies) (Ristić, Komazec and Ristić, 2014). The Serbian financial system is dominated by banks that have a dominant position. Representation of non-banking financial institutions is very important for the development of micro, small, and medium enterprises and entrepreneurs because in this way their financing is enabled.

In the literature, considerable attention is paid to the influence of the development of the financial system on the growth of companies and it is emphasized that more developed financial systems ensure faster growth of companies based on innovation and export growth (Leitner, 2016). Bank loans are the most frequently used source of external financing, which many small and medium-sized companies and entrepreneurs rely on, as a traditional form of borrowing to meet financial needs. However, despite the undoubtedly significant role of bank loans in financial support, these companies should use a wide range of financial instruments at their disposal to fulfill investment and innovation activities and stimulate growth and employment. Alternatives to traditional financing are important for companies that intend to improve their capital structure and reduce their debt burden. The global financial crisis has shown the vulnerability of small and medium-sized companies to changes in the credit activity of the banking sector. By mutually strengthening financial stability and financial inclusion, long-term sustainable development is achieved (OECD, 2015).

The Law on Banks from 2005 made impossible further establishment of savings banks, savings and credit cooperatives and other savings and credit organizations. In addition to the change in legislation, other factors also contributed to the closure of savings and credit cooperatives. One of them relates to the significantly greater popularity of banks and savings banks during the nineties of the twentieth century in Serbia, which offered extremely high interest rates on savings and made other financial institutions unattractive. On the other hand, after the loss of savings, depositors lost confidence in all other institutions that were engaged in savings and loan activities (Nikolić, Zakić and Tasić, 2018).

One of the reasons for the closure of savings and credit cooperatives was reflected in their business results, which were weakened by hyperinflation, the loss of the value of deposited funds, but also the impossibility of saving in the circumstances of a general decline in the standard of living of citizens and the growth of poverty. Also, cooperatives are exempt from the privatization process. Namely, in addition to the fact that the property and legal issues of these institutions were not resolved, which was considered a significant problem, savings and credit cooperatives were also characterized by a small number of employees, which is why they were not seen as institutions with development potential that are important for the domestic financial system (Nikolić, Zakić and Tasić, 2018).

The Development Fund of the Republic of Serbia is the only non-banking financial institution that can directly lend financial resources to legal entities and entrepreneurs. Non-bank financial institutions that have the status of limited liability companies cannot directly grant loans to enterprises but can represent partners to banks in microcredit activities. Banks approve loans and disburse financial resources, while the role of non-banking financial institutions is limited to the preparation of loan documentation (European Microfinance Network, 2021a).

The currently represented microfinance model is expensive for companies and inhibits their sustainable development, whereby a potential solution is found in the definition of a regulatory framework for microfinance. In this way, the problem of the extremely bank-centric structure of the domestic financial system, in which banks have a dominant position, would be overcome. Also, the domestic financial system does not include support funds for the approval of microcredits, which are an important stimulating factor for the growth and development of the sector of micro, small and medium enterprises and entrepreneurs, as well as tax incentives for organizations that support the development of microcredit financial institutions (European Microfinance Network, 2021a).

In Croatia, in addition to banks, the possibility of granting loans to micro, small and medium-sized enterprises and entrepreneurs is also available to credit unions, which are legally allowed to lend commercially. The Croatian Law on Consumer Lending also leaves it possible for limited liability companies to pay out loans, with certain limiting conditions, such as granting loans without charging interest and other fees and returning borrowed funds within three months, which makes this financing represented only in theory, but not in practice (European Microfinance Network, 2021b).

By 2008, over 120 savings and loan cooperatives in Croatia had been transformed into credit unions and savings banks by applying new legal provisions. The minimum prescribed capital for the establishment of credit unions was around 68,500 euros, while for savings banks the capital was set at around one million euros. It is interesting to note that all the requests of savings and credit cooperatives for transformation into savings banks were rejected and that there was a possibility to either stop working or reorganize into credit unions (European Microfinance Network, 2021b).

The rate of entrepreneurship in Serbia, which represents the number of new limited liability companies per 1000 able-bodied population, is 1.8%, while in Bosnia and Herzegovina it is 1.1%, North Macedonia 3.9% and Montenegro 6.7% (Culkin & Simmons, 2018). A critical number of small and medium-sized enterprises, which is necessary for the achievement of sustainable development of the entrepreneurial sector of Serbia, has not been achieved, which has a negative impact on the development of the entrepreneurial ecosystem. The importance of non-banking financial institutions for the improvement of the entrepreneurial ecosystem in Serbia is reflected in overcoming the financial problems of companies that limit their development. The improvement of the business environment, in addition to better access to finance, is achieved by reducing bureaucratic procedures and the tax burden (Hadžić and Pavlović, 2018).

5. Conclusions

Based on the analyzed structure of the domestic financial system, the participation of banks in financial services, the degree of concentration in the domestic banking sector, the share of the banking sector in the total assets of the financial system and the gross domestic product, the degree of concentration of the banking sector and the participation of banks and other financial institutions in the gross domestic product in transitional neighboring countries and developed economies of the European Union, presented results of empirical research on respondents' views on the development and bank-centricity of the domestic financial system, as well as the dominant position of banks and the limiting influence on sustainable development, it can be concluded that the hypothesis „*The high degree of bank-centricity of the Serbian financial system has a limiting effect on sustainable development*“ was confirmed by research.

A financial system that is bank-centric with banks as the main providers of financial services does not encourage the sustainable development of Serbia.

This is supported by the practice of developed countries, while international financial institutions point to similar conclusions. Any change in the banking sector will directly affect the operations of micro, small and medium enterprises and entrepreneurs since they are completely dependent on the banking sector. Of all the surrounding countries, Serbia stands out due to the highest unsatisfied demand for microloans. More than half of the sustainable development goals are addressed by financial instruments related to microfinance. In Serbia, microfinance is not regulated by law. Analyzing the surrounding countries, microfinance is regulated by law in Romania, Albania, Montenegro, and Bosnia and Herzegovina. In North Macedonia, Slovenia, Slovakia, Hungary, Bulgaria and Croatia, microfinance is also not legally regulated, but lending to the sector of micro, small and medium enterprises and entrepreneurs is not limited to banks (European Microfinance Network, 2022). Microfinance in Serbia would lead to the diversification of the offer of financial instruments and the introduction of alternative sources of financing. Savings and credit cooperatives or microfinance institutions would contribute to reducing the financial exclusion of small and medium-sized enterprises and entrepreneurs from the financial system.

Acknowledgment: The paper was written as part of the 2024 Research Program of the Institute of Social Sciences with the support of the Ministry of Science, Technological Development and Innovation of the Republic of Serbia.

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A THEORETICAL DISCUSSION ON POLITICAL AND ADMINISTRATIVE ELITES – THE CAUSE OF CORRUPTION OR THE CURE TO ITS END?

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Abstract

The article explores the intricate roles of political and administrative elites in the context of corruption, analyzing whether these elites are primarily the cause of corruption or the key to its eradication. The study addresses also the dual nature of these elites. Drawing from a comprehensive review of secondary sources, the research provides a nuanced understanding of how political and administrative elites influence corruption dynamics and the effectiveness of anti-corruption measures. Political elites, as architects of policy and governance, derive their authority from democratic elections or political appointments. Their decisions significantly impact the legal and institutional frameworks, shaping how corruption is addressed. Administrative elites, responsible for implementing policies, derive their power from professional qualifications and experience within the civil service. The article delves into the complexity of their interdependent roles and the distinct forms of accountability each group faces. The research highlights the importance of robust political will in establishing effective anti-corruption institutions and promoting transparency. Successful anti-corruption efforts require both political and administrative elites to operate under stringent accountability mechanisms. The phenomenon of „elite capture,“ where administrative officials align with political elites for personal gain, underscores the need for a comprehensive

checks and balances system. The article aims to contribute to the ongoing discourse on corruption and (good) governance. It emphasizes the necessity for continuous reform and vigilance in adapting (legislation and practices) to evolving challenges, ensuring that governance structures foster democracy, integrity, transparency, and accountability. Through a dual approach, holding both political and administrative elites accountable is crucial for creating a governance environment resistant to corruption.

Keywords: elites, anti-corruption, accountability, democracy, good governance

1. Introduction

As Rouban said “The question of elites is as old as democracy itself (Rouban, 2009: 121)”. That of course is true, but elites are not limited to democracies. We can find elites in democratic and undemocratic systems. Democracy does not guarantee clean and transparent governance at all, and data shows that democratic systems are still fighting corruption, even in the European Union which is often seen as free of corruption (Kubbe, 2017:249). Rouban (2009) also raises a good question of whether a political system dominated by several social groups with privileged access to resources and positions of power can be regarded as democratic. The question of elites had remained closely linked with populism, which denounces the monopolization of power by a minority at the expense of the majority and defines itself as anti-elitist. One interesting fact is that one of the major developments in political science in the past decade has been the rise of experiments and surveys on political elites (Kertzer & Renshon, 2022: 530).

Corruption has also existed since ancient times when people conducted business with each other and the first forms of public-private business relationships began, as Batagelj and Cvelfar (2013) also assert. The individual’s interest has always driven a person towards personal profit or privilege. Historically, corruption in public administration has existed in all complex societies from Babylon and ancient Egypt onwards, making it a very old social phenomenon and problem (Batagelj & Cvelfar, 2013: 5). Corruption is a word derived from Latin. The word corruption originates from the Latin word “*corruptus*,” which means “soiled” and legally means “the abuse of an entrusted position in one of the branches of power or political or other organizations to gain material benefits that are not legally justified for oneself or others,” (Šumah, 2018: 9). Brejc (2004) also states that corruption is a complex political, social, and administrative deviant phenomenon. The definition of corruption in English reads, “The abuse of an entrusted power for private gain,” as stated by Transparency International on its website and by Rose-Ackerman and Palifka (2016: 485).

In the complex tapestry of governance, political and administrative elites play distinct yet interdependent roles. Both groups wield significant influence over the functioning of the state, but their sources of power and forms of accountability differ. Political elites are the architects of policy and the (mostly public) faces of governance, whose authority typically derives from democratic elections or political appointments, giving them a direct mandate from the electorate. Administrative elites, on the other hand, are the executors of

policy, whose power is derived from professional qualifications, expertise, and experience within the civil service system. They are (or should be) appointed based on merit and are often insulated from direct political pressures. The article explores the dual role of political and administrative elites in either perpetuating corruption or leading efforts to eradicate it. The central scientific problem addressed is whether political and administrative elites are primarily the cause of corruption or the key to its end in a state system. The novelty of this research lies in its comprehensive theoretical examination of the roles of political and administrative elites, drawing on a wide range of secondary sources, including scientific articles, reports from international organizations, and case studies. The research methods employed include a thorough literature review and analysis of secondary data, building on the foundation laid by previous studies, and contributing to the ongoing discourse on corruption and (good) governance. By synthesizing these diverse perspectives, the article aims to provide a nuanced understanding of how these elites influence corruption dynamics and the effectiveness of anti-corruption measures.

2. Literature overview

Given the long history and the long-existing challenge of tackling corruption and anti-corruption policies coming to the front lines in recent decades, it is no wonder we can find an extensive opus of literature on the topic. Different authors tackle the supervision of these elites, especially advocacy, which is very important, meaning any attempt to influence public policy and practice or any other decisions of the institutional elite carried out mainly by various media and non-governmental organizations (Casey, 2014, Grant Craft, 2005, Jenkins, 2006, Casey and Dalton, 2006). On certain institutional practices leading to the formation of elites, we can read that sometimes elites are formed through highly institutionalized practices, starting at the education level (Raynard, Kodeih, & Greenwood, 2021). We can also find literature regarding political elites' visible role in society, where we conclude that political elites usually only form the most visible fraction of state elites (Denord, Palme & Réau, 2020: 71). Since political and administrative elites and their position in society differ from state to state – depending on the political system, and historical development etc, we can find literature focused on specific countries such as the USA (Kertzner & Renshon, 2022), Japan (Koh, 2023), France (Rouban, 2009), etc.

There is also a vast collection of literature regarding (political or administrative) elites and corruption. We can find literature relating to elites and corruption in European democracies (Kubbe, 2017), on concepts and definitions of elite

capture and corruption (Dutta, 2009), on fighting corruption and corrupt elites (Engler, 2020), etc.

3. Research

This chapter delves into the research conducted to explore the role of political and administrative elites in either perpetuating or combating corruption. Given the complexity and multifaceted nature of this topic, the research relies primarily on secondary sources, including existing scientific articles, reports from international organizations, and certain case studies. By synthesizing insights from these sources, this chapter aims to provide a comprehensive understanding of the factors that contribute to corrupt behavior among elites and the effectiveness of various anti-corruption measures focusing on three principles of democracy, accountability, and anti-corruption. Secondary research offers several advantages, particularly in a field as broad and interdisciplinary as corruption studies. It allows for the integration of diverse perspectives and findings from numerous studies, providing a richer and more nuanced analysis than might be possible through primary research alone. Moreover, secondary sources often encompass extensive data and long-term studies, which can offer insights into trends and patterns that are critical for understanding the dynamics of corruption and the role of elites. The research methodology involves a systematic review of the literature, identifying key themes, patterns, and gaps in the existing body of knowledge. This approach not only helps in constructing a solid theoretical framework but also in comparing and contrasting different viewpoints and empirical findings. The subsequent sections will detail the specific sources reviewed, and the key findings that emerged from this literature review. By leveraging secondary sources, this research seeks to build on the foundation laid by previous studies, offering new insights and contributing to the ongoing discourse on corruption and governance.

The public sector is often associated with various adjectives describing aspirations for what the administration should be, such as open, transparent, legitimate, professional, efficient, modern, autonomous, responsible (e.g., towards service users), non-corrupt, and democratic.

All the aforementioned characteristics – democratic, accountable, and non-corrupt– are highly abstract concepts, yet they are connected to very concrete consequences in case of their (non)existence. These characteristics form concentric circles that overlap to varying degrees and based on their content, can be found to a greater or lesser extent in any (modern) administration.

The exact scope of characteristics within a particular public sector system is impossible to determine as their extent is dynamic and dependent on changing elements such as changes in legislation, political culture, and the influence of supranational and international elements. For instance, EU administrative space is even said to be three-dimensional as it includes (and cooperates with) national and supranational administrations along with the interested public (stakeholders) both in preparing agendas and in adopting and implementing measures (Herwig, 2008, conclusion). The framework defining the degree of democracy, accountability, and anti-corruption of the administration is diverse, leading to different extents of these characteristics within the administration at different levels and areas of operation.

Accountability as a political principle according to which agencies or organizations, such as government ones, are subject to some form of external control, requiring them to explain and justify their actions – accountability represents an essential concept of democratic public administration. On the other hand, over time, the term accountability has come to be treated as a general term for any mechanism by which influential institutions must be responsive to their (specific) public (Mulgan, 2003). Accountability is one of the components of good administration (good governance) as promoted by the EU and the Organisation for Economic Co-operation and Development (OECD). The administration must follow principles or meet certain requirements to be defined as accountable: 1) the entire organization of the executive function (government) is rational, follows appropriate policies and regulations, and ensures adequate internal political, judicial, social, and independent responsibility; 2) the right to access public information is prescribed by legislation and consistently applied in practice; 3) effective mechanisms are in place to protect both individual rights to good administration and the public interest; 4) fair treatment in administrative disputes is ensured through (internal administrative) complaints and judicial protection; 5) authorities take accountability in cases of unlawful acts and violations and provide compensation and/or appropriate redress. Modern states are characterized by several principles associated with administrative law. One of them is the principle of separation of (functions) of power, within which also lies the (centralized) executive power, which is simultaneously established and supervised or restricted by democratically established legislative power or, in terms of the system of checks and balances, also by the judiciary (e.g., within administrative disputes, the process of assessing the compliance of subordinate regulations with the constitution and laws before the Constitutional court).

One of the challenges of modern public administration is the complexity of the tasks it performs. On the one hand, these require flexible management, while on the other hand, the administration must meet public demands for accountable administration, especially in exercising its authority and spending public funds. This leads to sometimes conflicting demands for the administration to be both flexible and accountable (Feldman and Khademian, 2002, p. 357). This dynamic relationship between flexibility and responsibility requires constant balancing between them. Flexibility in solving complex tasks is associated with the demand for efficient administration, while the demand for responsible administration is primarily associated with transparent administration, where decision-makers are accountable for their mistakes.

Some authors argue that accountability in the field of administration and administrative law often serves as a “conceptual umbrella” encompassing various distinct concepts such as transparency, fairness, democracy, efficiency, responsiveness, accountability, and integrity (Bovens, 2007: 447).

Political elites are accountable to the electorate, who can vote them out of office if dissatisfied with their performance. Additionally, political elites are accountable to their political parties and legislative bodies. This multi-tiered accountability ensures that their actions are subject to scrutiny, promoting a degree of transparency and integrity in their public duties. Administrative elites on the other hand are primarily answerable to higher-ranking officials within the bureaucracy and to oversight bodies. Their performance is evaluated based on their ability to effectively implement policies and manage public resources. Although they are not directly accountable to the public, their work indirectly affects public satisfaction with government services.

Different organizations have typically formed their own bodies and forms of oversight (Kingsbury et al., 2005: 44). There are five typical models of accountability: electoral, hierarchical, supervisory, financial, and legal. The international space is also not immune to questions of accountability of various actors, as it is rare to find writing on global governance – whether by lawyers, political scientists, international relations experts, political theorists, or NGO advocates – that does not call for a higher level of accountability of international organizations through the implementation of various measures, including greater transparency, participation in decision-making, and the requirement for explanation and reporting (Stewart, 2014: 244).

Democracy must be understood primarily as public participation in the processes of preparing proposals and making decisions. Older administrative science often used a negative definition of administration as that part of power

that does not represent the legislative or judicial function of power. They even excluded the (political) part of the executive function. Thus, the administration remained only as the “technical, politically neutral administrative apparatus” based on technological neutrality (Bučar, 1981: 70-72). However, discussions about democratic (public) administration are not new. The key questions of the theory of democratic (public) administration about how to reconcile the desire for democracy and the demand for authority (and efficiency) have existed for a long time (Waldo 1952: 102).

The essence of democratic arrangements is that power belongs to the people. The concept of democracy is certainly important despite the lack of a clear definition of this abstract concept. There are many understandings of the concept of democracy. Public administration and democracy, on the one hand, oppose each other, but on the other hand, they complement each other. They oppose each other because the existence of public administration in a democracy contradicts the understanding of “people’s power”. They complement each other because democracies cannot survive without a strong, professional, efficient, successful, and accountable public administration (Box, 2007: 7). In the administration, often (in specific processes), decisions are made by appointed officials who do not have a direct mandate from the people and represent an intermediary between the people (democracy) and the adoption of certain decisions.

Democratic governance is a model of administration open to the public and directing its policies and services for the benefit of citizens. Democratic governance is a model of administration that goes beyond the managerial sphere and in which the quality of public services is important for citizens. Democratic governance means public administration, but in addition to efficiency and effectiveness, the legitimacy of state measures is also important, considering public policies and services that can promote (a sense of) fairness and add (public) value to state measures. Democratic governance primarily combines three elements important for shaping public administration: 1. the state’s executive and coordination capacity; 2. mechanisms of transparency and accountability; and 3. mechanisms of political participation (Filgueiras, 2018: 80). Democratic governance strengthens mechanisms of transparency and accountability, which should not be understood as synonyms. Transparency refers to greater accessibility of information, enabling the public to assess the added value of measures and services. Information is important in the context of democratic governance. Accountability, on the other hand, refers to the process by which public actors (officials, employees) are fully accountable for their actions and includes the actions of (oversight) institutions competent to

assess their actions if they determine that their actions do not serve the public interest (Filgueiras, 2018: 81). In recent years, countries have been striving to establish a more „open and decentralized governance model to replace the classic (typically rigid) hierarchy“ (Kovač, 2000: 280) of state administration. Through the reform of public administration, countries aim to create a more democratic state administration that is more citizen-friendly or user-friendly while maintaining professionalism. Through public administration reform, countries also strive to create a politically neutral and higher-quality public administration.

Looking at the international or global level, we can assume, that while (national) administrative law contributes to the development of democracy at the state level, e.g., through the requirement for transparent decision-making processes, public participation, and parliamentary and judicial oversight, the question of implementing democracy at the global level is much more challenging. At the global level, there is a lack of judicial oversight and an absence of public participation or at least consultation (Kingsbury et al., 2005: 47-48). One possible solution for how global administrative law could contribute to strengthening democratic institutions in international organizations is if global administration operated primarily in the form of government networks in which participating (national) officials are democratically accountable to their public through the domestic institution that appointed them or which they represent. Within such government networks, it would also be easier to incorporate a system of accountability than in a system of formal international organizations based on international treaties enjoying a high degree of actual autonomy (more on this in Slaughter 2005). This way, direct accountability for decisions at the global level would lie with those who made them and could be recalled in case of poor decisions. In the absence of true oversight and accountability mechanisms (except for rare exceptions) at the international level, these mechanisms could mainly be sought in the form of (national) state mechanisms and institutions (parliamentary, judicial) overseeing the operation of international organizations or by including various non-governmental organizations (NGOs) in different stages of decision-making or implementation of decisions (Kingsbury et al., 2005: 36).

Researchers of global administrative law observe that one of the main purposes of global administrative law is to promote and ensure the accountability of global administrative bodies and institutions by demanding adherence to standards such as transparency and participation in decision-making processes (Okitsu, 2015:100).

At the global level, the problem of the (non)existence of democracy and the (non)existence of the state arises. There is a conceptual connection between legal responsibility and the existence of the state (which also has a monopoly on physical force), making the absence of the state on a global scale very problematic for claiming the existence of global administrative law. The absence of democracy at the global level is problematic because it creates a lack of political accountability, but not a lack of legal accountability, caused by the absence of the state at the global level. We must not confuse political-administrative accountability and legal accountability because legal accountability presupposes the existence of a state, not necessarily democracy, e.g., monarchies (Dyzenhaus, 2009: 11). Both political and legal accountability ultimately converge on the common denominator of whom to be accountable to at the global level – the public (Okitsu 2015: 108).

One of the (historical) problems is the democratic deficit of public administration. Proposals are prepared within various bodies and do not see the light of day until almost adoption. The answer to this closed and arbitrary public administration – as there is no real oversight – is open administration. This openness of administration, allowing public insight into events and participation in the preparation of various solutions, greatly contributes to the democratic nature of public administration. Public participation and engagement of key stakeholders are important from the perspective of democracy and professionalism, as public administration must realize that it is not the bearer of all knowledge and is better off consulting with external stakeholders, especially the addressees of certain legislation who know best what the challenges of the field are – this way, the administration gets the necessary information to adopt appropriate measures to improve the situation.

Legislation typically defines „corruption“ as any breach of duty by officials and responsible persons in the public or private sector, as well as the actions of persons initiating breaches or those benefiting from the breach due to directly or indirectly promised, offered, or given, or requested, accepted, or expected benefits for themselves or others. Corruption occurs in various forms and circumstances. Associated with corruption are (classical) phenomena such as bribery and extortion, with the most common being conflicts of interest, misuse of information, clientelism, or nepotism in employment, revolving door phenomena, and trading in influence. Mostly, the financial benefits for individuals and the loss of public funds are not significant, but the loss of public trust is much greater, consequently reducing governance capacity (Graycar, 2015: 95).

Not long ago (in the context of the last century), understanding corruption was mainly associated with the question of (individuals) morality. The reason for the existence of corruption was believed to lie in evil and dishonest individuals who rose to positions of power and trust. Gradually, however, suspicions began to emerge that corruption is not just a problem of a few individuals with deficient moral standards but a systemic problem. Corruption was understood merely as a deviation from the standards of „normal business,“ and in the sense of corruption, as we understand it now, it did not exist (in the Western world) until the end of the 18th century and is thus a consequence of the emergence of (public) administration and bureaucracy as it appears only after the French Revolution (1789-1799) when clearer standards in the differences in required conduct in the public and private sectors emerged. The administration became a matter of public trust, officials were made available in the service of the community. The public was separated from the private; privileges and hereditary mandates were replaced by positions obtained based on (professional) qualifications or elections, and oversight and responsibility within (hierarchical) administration were established. Before that, some practices, e.g., nepotism, were not punishable and were exploited by rulers. However, there were certain actions that we now understand as corruption that were prosecuted even before the French Revolution, e.g., in ancient Greece and Rome, as documented by well-known writers such as Cicero and later Machiavelli (Caiden and Caiden, 1977: 301, 304, 305). Systemic problems require systemic solutions, including legislation; hence, the 20th century also brought the development of so-called anti-corruption legislation aimed at setting normative, not just moral standards, which must follow the development of (public) administration and society as a whole. More problematic than individual corruption – where an individual goes astray and is relatively easily sanctioned – is systemic corruption, where corrupt actions become the norm, a standard acceptable to achieve certain organizational goals. In such a society, individuals who do not follow these norms (e.g., whistleblowers) are punished, and perpetrators of corrupt actions are protected. Individuals can change or reform, but the system remains and as such is the biggest obstacle to change. Systemic corruption can exist in both developing and developed worlds.

Corruption causes political and social harm by reducing trust in the rule of law, in democratic institutions, causing economic and environmental harm, and threatening security. The negative impact of corruption on development, economic growth, and democracy is undeniable. In the last two decades, various (international) organizations have recommended the establishment of independent anti-corruption agencies, whose effectiveness, however, often depends on the political will that grants them authority, power, and resources.

The EU understands corruption as part of „European crime“ as it threatens not only member states but also the EU. Consequently, the EU can adopt minimum rules concerning the definition of criminal offenses and sanctions in particularly severe forms of crime with cross-border consequences due to the nature or effects of these acts or due to the special need for joint action against them – this also includes the area of corruption. It is in the EU’s common interest that member states have effective anti-corruption policies; hence, the European Commission monitors the success of member states in fighting corruption and supports the implementation of anti-corruption measures at the national level through financing, technical assistance, and exchange of experiences.

Key solutions in fighting corruption in public administration should be sought in a range of measures addressing various aspects of corruption, e.g., meritocracy as a basis for employment and building an impartial and professional (public) administration, the existence of quality non-corrupt leadership, focus on morality and values having a more significant long-term impact on non-corrupt behaviour of employees than salary (Hilmer Pedersen and Johannsen, 2018: 133, 149).

Preventing corruption requires not only prosecution and sanctioning of such actions but also their prevention. When a country strengthens authoritarian tendencies at the expense of democratic standards, a political elite often emerges that begins to interfere with or restrict the autonomy of supervisory (e.g., financial) institutions and public administration (Dávid-Barrett and Fazekas, 2020: 427). Democracy itself is imbued with the idea of responsibility. Where transparency collapses, and there is a lack of oversight, doubts and distrust in the administrators (e.g., government) arise, undermining its effectiveness (Hira and Murillo, 2016). Various forms of broader public oversight (e.g., access to various data via the internet) or independent media contribute to preventing corruption. The development of the information society and e-governance also plays an important role, allowing the public and media to gain insight into current operations within public administration through the publication of drafts and subsequently adopted documents, announcements about current events, etc. In public administration, it is also important to employ people based on objective criteria and professionalism, not based on connections or (political) merits, to prevent corruption. Measures to promote integrity, prevent corruption, and ensure discipline in public administration must be implemented, and a strategy for avoiding corruption must be adopted. Measures such as effective and appropriate legal provisions, institutional arrangements, and tools to promote integrity in public administration, which are applied in practice, must be adopted. Corrupt behaviour of administrative officials and

other involved parties must also be sanctioned, which has a preventive effect outwardly.

4. Discussion

The interplay between political and administrative elites in the context of corruption is complex as this article highlights. Both elites hold significant sway over (every) state's governance, yet their influence can either perpetuate corrupt practices or spearhead efforts to eradicate them. Political elites, due to their roles in policymaking, legislature, and governance, are often viewed as the architects of the framework within which public administration and administrative elites operate. Political elites' decisions shape the legal and institutional landscape, impacting how corruption is addressed or (sometimes even) allowed to flourish. Historical and contemporary examples demonstrate that when political elites prioritize personal or partisan gains over public interest, they set the stage for systemic corruption. This can manifest through patronage systems, weak oversight mechanisms, and the manipulation of anti-corruption institutions to serve political ends rather than genuine accountability. The study by Kubbe (2017) shows how even within the European Union, which is perceived as a bastion of clean governance, corruption persists due to failures at the political level. Conversely, political elites also have the power to enact robust anti-corruption measures. Successful cases, such as certain Scandinavian countries, illustrate that political will is crucial. Here, elites have established independent anti-corruption bodies, transparent governance practices, and stringent accountability mechanisms, thereby fostering a culture of integrity and gaining public trust. The commitment of political leaders to uphold democratic principles and resist corrupt temptations is pivotal in transforming a state's political landscape. Administrative elites, on the other hand, as the executors of policy, play a crucial role in implementing anti-corruption measures in concrete cases and situations. Their professional qualifications and expertise enable them to devise and enforce regulations that curb corrupt practices. However, their effectiveness is often contingent on the support and independence granted by political elites. When administrative bodies and public employees are insulated from political interference and allowed to operate based on meritocratic principles, they can significantly reduce corruption through efficient and impartial public service delivery. This is supported by the findings of Hilmer Pedersen and Johannsen (2018), who emphasize the long-term impact of integrity and professionalism in public administration.

However, administrative elites can also be complicit in corruption, especially in environments where oversight is weak, and political pressures are intense. The phenomenon of „elite capture,“ where administrative officials align with political elites to exploit public resources for personal gain, is a significant barrier to effective governance. This underscores the need for a dual approach where both political and administrative elites are held accountable through comprehensive checks and balances. The discussion reveals that the fight against corruption is not solely a technical challenge but deeply rooted in the political and administrative culture. Anti-corruption efforts must address the systemic issues that enable corrupt practices, including strengthening institutions, promoting transparency, and fostering a culture of accountability. As the research indicates, the collaboration and mutual accountability of both political and administrative elites are crucial for creating a governance environment resistant to corruption. This necessitates ongoing reform and vigilance to adapt to evolving challenges and ensure that the governance structures serve the public interest effectively.

5. Conclusions

The theoretical discussion on the roles of political and administrative elites in the context of corruption reveals a complex and dynamic interplay between these two groups. Both political and administrative elites hold significant power and influence within the governance structure, and their actions can either perpetuate or mitigate corrupt practices. This article has highlighted the dual nature of their roles, emphasizing that while political elites often shape the framework within which public administration operates, administrative elites execute and implement policies within that framework. Political elites, due to their policymaking and legislative roles, have a profound impact on the institutional and legal structures that can either foster transparency and accountability or create opportunities for corruption – for both elites. Historical and contemporary examples indicate that political will is crucial in determining whether anti-corruption measures are effectively enacted and enforced. When political elites prioritize public interest over personal or partisan gains, they can establish robust anti-corruption institutions, promote transparency, and enforce stringent accountability mechanisms. However, when political elites are driven by self-interest, they can undermine these mechanisms, leading to systemic corruption. Administrative elites, on the other hand, are responsible for the practical implementation of policies in concrete cases and the day-to-day functioning of government institutions. Their effectiveness in combating corruption depends on their professional integrity, expertise, and the level of

independence they are granted from political interference. In environments where administrative elites operate based on meritocratic principles and are insulated from political pressures, they can enforce regulations impartially and efficiently, thereby reducing opportunities for corruption. However, the phenomenon of „elite capture,“ where administrative officials collude with political elites for personal gain, poses a significant challenge to effective governance. The risk of corruption increases in situations or countries in which the same political elite is in power for (too) long - several terms. Other public systems are also exposed to this type of risk, e.g. municipalities or all systems in the country where there are no restrictions on extending or accumulating the number of mandates. From this point of view (in functioning democracies), administrative elites are more dangerous for the existence of systemic corruption, as they are not limited by terms of office (except for leading public employees), while people in various political positions change.

The discussion shows the importance of a dual approach to addressing corruption, where both political and administrative elites are (or should be) held accountable through comprehensive checks and balances. This includes strengthening institutions, promoting transparency, fostering a culture of accountability, and ensuring that anti-corruption measures are not only enacted but also rigorously enforced. Additionally, public participation and oversight – not only from official oversight bodies but also from the media, NGOs, etc. - are crucial in holding both groups accountable and ensuring that governance structures serve the public interest.

The fight against corruption is deeply rooted in the political and administrative culture of a state. While political elites have the power to shape the framework within which anti-corruption efforts are conducted, administrative elites play a crucial role in implementing these efforts. The collaboration and mutual accountability of both groups are essential for creating a governance environment resistant to corruption. Ongoing reforms and vigilance are necessary to adapt to evolving challenges and social changes and ensure that governance structures promote democracy, accountability, anti-corruption, and good governance. By addressing the systemic issues that enable corrupt practices and fostering a culture of integrity, it is possible to mitigate the influence of corruption and therefore enhance the effectiveness of public administration.

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DEVALUATION OF THE MACEDONIAN ASSEMBLY: ABUSE OF THE EU HARMONIZATION LEGAL REQUIREMENTS IN THE DELIBERATIVE LEGISLATIVE PROCESS

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Abstract

The rule of law is one of the main principles of contemporary democratic systems, providing security and stability for the citizens as well as a solid basis for economic growth. The separation of powers and the applied checks-and-balances mechanism are necessary for proper functionality of the political system.

The Republic of North Macedonia is in the process of European integration which membership implies previous fulfillment of a set of political, economic, legal and institutional criteria, including gradual harmonization of the national legislation with that of the EU, along with the inevitable promotion and respect of the principle of the rule of law. However, in Macedonia, various impediments regarding such functionality are omnipresent, beginning with the deficient quality of the adopted laws and of the entire deliberative process. That

represents the disrupted relation between the executive and legislative branch, with a strong party influence, leading to respective state capture.

This paper aims to confirm this devaluation of the Macedonian Assembly, through the analysis of the meeting of formal criteria and features of the laws that are being adopted “with European flag”, i.e. that are subsumed under the parliamentary procedure for harmonization of the national with EU law. Ultimately, the improper application of the said procedure for inadequate laws, means a retraction of the Assembly in respect to its control function over the government, with accentuated single-party influence within a complacent governing coalition.

Keywords: Macedonian Assembly, Harmonization, EU Acquis, Parliamentary Deliberation, Checks and Balances

1 Introduction

Functional democratic institutions, inclusive processes and proper rule of law are instruments of and lead to sustainable development, providing stability for the citizens and basis for economic growth. Well-crafted procedures concerning drafting and adoption of laws guarantee democratic representation, stability and possibilities for broader participation of various actors in the process as well as visibility and oversight by the citizens. They also epitomize the separation of powers, which in contemporary terms necessarily concerns the application of checks-and-balances for proper functionality of the political system. Therefore, the adherence to these procedures impacts the quality of the legislative deliberation, hence, ultimately the quality and fairness of the laws.

The Republic of North Macedonia (henceforth: RNM) is nominally a parliamentary democracy with established vast set of democratic rules of constitutional-legal nature and it is conventionally ruled by a governing coalition. This country is in the acceding process of European integration during which a set of political, economic, legal and institutional criteria must be continuously fulfilled, including gradual harmonization of the national legislations with that of EU, along with the inevitable promotion and respect of the rule of law principle.

Despite the EU aspiration, and the 33-year tradition of the newest Macedonian Constitution (1991) stipulating all of the above: separation of powers, checks and balances mechanism, rule of law, as well as clear aspects concerning legislative procedure, still, RNM manifests various democratic deficits regarding the upholding of those principles. Some of the impediments regarding the functionality of the institutions and processes are the deficient quality of the adopted laws and of the entire deliberative process.

This paper aims to confirm this devaluation of the Assembly of RNM, through the analysis of the meeting of formal criteria for the laws adopted “with the European flag”¹, i.e. that were subsumed under the parliamentary procedure for harmonization of the national with EU law, thus assigned to the Assembly’s Committee for European Affairs. The analysed documentation referred to the sample consisted of all law proposals (35 in total) for which this Committee

¹. As the RNM is on the European integration path and has the obligation to adopt the EU law according to the “legal Copenhagen criterion” for accession, when a certain law proposal envisages stipulations which content should align with the EU law, the symbol of the European flag is assigned to the procedural documentation. This is rather synonymous with the legislative procedure for the harmonization of the national with EU law.

had been assigned as the relevant working body, in the period of the entire year of 2023. Ultimately, the improper application of said procedures proved the disrupted relation between the executive and legislative branch in terms of diminished control function of the Assembly, with a strong party influence, leading to respective state capture.

2 Literature overview

This portion would rely on theoretical embedding of certain general notions such as the rule of law or separation of powers, especially concerning the relation between the parliaments and the executive, as well as on aspects and effects of the democratic backsliding of the Western Balkan countries, with focus on RNM.

a. Concept and significance of legal and political democratic principles

Primarily, the rule of law represents the limitation of all public and private actors to act outside of the substantial and procedural law, provided the law is just and well crafted. The ideal is to adhere to *a priori* determined rules in order to minimize the arbitrary legal or political action of the government or other political stakeholders. This limitation should apply to all forms of government, democratic and undemocratic, and to both the executive and the legislative branches (Webber, 2024: 339).

The theories regarding the concept and constitutional elements of the rule of law are generally divided as formal, substantive and functional. However, our focus would be on a single perspective - the significance of the principle of the rule of law itself considering the role of the central institutions within a functional democratic system.

In this context, even Dicey considered the sovereignty of Parliament and the rule or supremacy of law as constitutional pillars. He considered that both the legislative and executive prerogative were only confined by the rule of law (Allan, 1985: 112) what is today widely recognized in all European constitutions, including the one of the Republic of Macedonia (1991); in the EU founding treaties and their legal derivatives; as well as in the international law such as the 1948 Universal Declaration of Human Rights (1948), the European Convention on Human Rights (1950); in the strategic commitments of the UN and OSCE, etc.

Even though the rule of law's dissection varies across contexts, still there is some kind of uniformity regarding its conceptualization. A rather unifying definition

of the rule of law postulates is provided by the constitutionalist Shkarikj. These postulates are: (1) primary significance of the human rights and freedoms, (2) limited government (in substance and by law) (3) separation of powers as legislative, executive and judiciary, (4) functional independent judiciary (5) legal security for the citizen (Sharikj, Siljanovska-Davkova, 2007). This vision largely coincides with the one of Lautenbach (2013), while similar idea have Adams, Meuwese and Ballin (2017). Bedner (2010), who defines the rule of law as an umbrella concept for a number of legal and institutional instruments to protect citizens against the power of the state, proposes an exhaustive list of elements (procedural, substantive and regarding the controlling mechanisms) which he modestly calls only a starter, however, taken integrally they provide a substantially clear picture of the composition of the rule of law (more in: Bedner, 2010). Others, in the ideal or the rule of law along democracy and human rights would include social justice, and economic freedom (Waldron, 2023).

The rule of law can be found in radically different legal and political systems and historical circumstances. As Habermas would concisely put it “there are legal systems without a rule of law, and a rule of law may exist without democratic forms of political will-formation. Both come together only within the frame of constitutional states” (Habermas, 1995, 12). However, in modern and “Western” terms, it is more closely related to good governance and liberal democracy. Democracy is intricately linked to the rule of law (Lautenbach, 2013: 18; Magen and Morlino 2009: 7; Habermas, 1995). Webber (2024), when arguing their interconnectedness, explains even that the rule of law needs democracy so that it can be realized in its full form.

Since the rule of law and democratic legislative and deliberative procedures are idealistic and inherently flawed, even if the law is created according to the procedural democratic requirements, i.e. “in a manner which allows the addressees to consider themselves its authors and guarantees their consent to the content of the law” (Horák and Lacko, 2023: 195), still that does not guarantee objectivity, fairness and justice, per se. Along this line, Bedner would state that “the state has law at its disposal as a powerful weapon without being subject to any restraint it inherently imposes” (Bedner, 2010: 60) and that “democracy is in the end only a procedure, which can never guarantee a substantially just outcome” (Bedner, 2010: 64). In this case we speak of the rule of law empty of meaning. Anyhow, these procedures are the closest possible to legal certainty and confinement of arbitrary governments.

Many scholars as well as organizations/institutions, like in the case of the Council of Europe, accentuate two dimensions of the law: (1) the formal features such as clarity, stability, visibility, intelligibility etc., and (2) the applicative protection of human rights and limitation of state by the judiciary concerning its impartial

ruling and interpretative legal role, especially the judicial oversight of the executive. However, we must not forget that the rule of law begins with a proper design of the law, along with an inclusive and analytical law-drafting procedure, followed by balanced, transparent and quality deliberation in the parliaments, holding the highest citizen trust and directly transferred sovereignty. This dimension concerning the functioning and the role of the assembly is largely overlooked in recent literature, even the EU in its progress reports for the WB countries for a long time has underestimated the work of the parliaments. “Only in 2023 would the Commission stop ignoring the role of the parliaments. Until then, it had focused exclusively on the executive branch and the courts as the main ‘establishers’ of the rule of law” (Hogić, 2024: 5).

One of the recent endeavours to cover the concept more holistically is the World Justice Project’s Rule of Law Index that currently evaluates 142 countries and jurisdictions around the world and is comprised of 8 aspects, the first being constraint of governmental powers which presuppose that governmental powers are effectively limited by the legislature. This part of the index measures whether legislative bodies have the ability to exercise effective checks on and oversight of the government. The index entails many other aspects such as the division of powers and checks and balances (WJP, 2023). The 2023 WJP Rule of Law Index shows that for the sixth year in a row, the rule of law has declined in most countries which is also applicable to RNM. Macedonia is ranked 67th out of 142 countries, the 5th in the region of 15 countries, with an overall score of 0.53 (within the possible score of 1.0) (WJP, 2023) which leaves much improvement to be desired.

Another similar contemporary quality approach to the rule of law is the one of the Venice Commission which within the rule of law checklist under the concept of legality, envisages certain principles on law making powers of the executive – whether the supremacy of the legislature is ensured, including existence of general and abstract rules contained in an Act of Parliament or a regulation based on that Act (Venice Commission, 2016: 12). Under the same “legality”, the Commission presupposes features of the law-making procedures, based on clear constitutional rules where the Parliament is supreme in deciding on the content of the law, the proposed legislation is publicly debated and adequately justified, with a meaningful opportunity given to the public to provide input to the legal drafting (Venice Commission, 2016: 32).

As previously seen, the separation of powers is closely tied with the rule of law, being a much more important and meaningful principle in modern democracies than the latter though. This rule denotes that the powers are divided by their competences and actions in practice, and there is a horizontal applicability

of the separation principle. However, checks and balances must exist, which means meddling among branches, in terms of established control and oversight mechanisms.

The rationale itself for the principle of the separation of powers is to have a system of checks and balances among the branches of the state which prevents monopolistic governmental action, tyranny and the abuse of power (Beatson, 2021: 116), i.e to avoid excessive concentrations of political power in the hands of any one person, group, or agency (Waldron, 2023: 18). “One reason for such separation is to ensure that ministers and public authorities do not make errors which extend the area over which the legislature has granted them jurisdiction” (Beatson, 2021: 117). These postulates could be qualified as conceptually arbitrary, since they are also contextually dependent and comprised of vague and even conflicting political ideas (Bowie and Renan, 2021: 2029).

Although the executive needs to exercise power effectively and efficiently, still it has to be restrained by the law and the Parliament’s sovereignty (Beatson, 2021: 119). However, it is a widespread notion that the separation of powers is dynamic at best (Bowie and Renan, 2021: 2036), but usually executive dominates the political system and the society (Tarlea et al., 2024; König, Lin and Silva, 2023) and that dominant executives are identified as one of the elements causing democratic backsliding (Berlucchi and Kellam, 2023). In this line, Beatson (2021) states that the executive power should be ‘kept within bounds’ and that parliamentary sovereignty ‘provides a cloak of legitimacy for executive and party dominance’ while in truth there is “fundamental imbalance between the executive and the legislature”. There is a contrary point to this, shown by the research of Chaisty and Power (2023) pointing that “relative gains by legislatures are no less frequent than gains by executives, and economic crises do not advantage political executives in consistent ways. Surprisingly, some of the factors expected to benefit executives seem to enhance assembly authority as well”.

Given that, in the last decade, throughout the Western Balkans the democratic backsliding on numerous accounts was prominent while the term “captured state” dominated to depict the more radical state of play. Namely, as Cvetičanin, Bliznakovski and Krstić (2023) summarize: “state capture as a concept relates to seizing the three branches of government by political and economic elites with the aim of exploitation of state/public resources“. Even though some perspectives of captured state largely coincide with high-end corruption, still there are more elaborate outlooks containing the misuse of legislative power as one of the elements of captured state (Cvetičanin, Bliznakovski and Krstić, 2023: 1, 13).

b. Recent trends in the Western Balkans and RNM

The recent trends concerning the rule of law in the EU are unfavourable to the point of being called “under threat” or as the President of the European Court of Human Rights would call it in 2022 “a worrying regression” (more in: Grabowska-Moroz, Grogan, and Kochenov, 2022). As well, as the rule of law is one of the basic precondition in the EU-acceding process of the WB countries, it is more conspicuous than ever how much these countries struggle in their way towards its “attainment”. Hogić (2024) also refers to a study by the European Court of Auditors which had concluded that the support to the rule of law provided to the Western Balkans between 2014 and 2020 has been largely inefficient in responding to the corruption, autocratic tendencies, inefficient judicial council models etc. Since the 1990’s, the Western Balkan countries could fall in the “wide spectrum between consolidated democracies and autocracies, yet never reaching the standing of fully consolidated liberal democracies” (Kmezić , 2022: 278). They provisionally uphold strict system of checks and balances, while in reality, political elites rely *inter alia* on informal structures. The structural weaknesses of democratic institutions are purposefully exploited by domestic regimes (*Ibid.*). More applicatively, Trenseka (2023) when considering the application of different parliamentary procedures on law proposals from RNM, Albania and Serbia, from the years 2021 and 2022, identifies that the rapid adoption of laws »in bulk« might indicate avoidance of proper deliberation, while juxtaposed to the positive outcomes deriving from the strict stipulations in the Albanian Rules of Procedure that limit the use of not ordinary procedures as well as with the EU favoured Serbian improvement of legislature regarding the harmonization rules.

In this sense, RNM is no exception in manifesting various systemic flaws, including challenges regardning upholding standards of the legislature. It was well determined by Tunyan and Goetz (2024) that in the period of 2018-2022 “the Parliament of N.Macedonia relied heavily on nonstandard legislative procedures to expedite parliamentary lawmaking”, in particular, more than half of the laws were adopted in this way during this period (464 or 51% of the total). For instance, amending activity was not effectively linked to broader evidence-based lawmaking processes and standards. (Tunyan and Goetz, 2024: 135) and there was an application of nonstandard scrutiny and approval procedures for EU law transposition (Tunyan and Goetz, 2024: 97, 137). While nonstandard procedures (e.g. extraordinary, emergency, urgent and shortened) allow parliaments and governments to deal expeditiously with urgent issues, their excessive use to adopt legislation creates risks for evidence-based lawmaking,

restrict the scope of parliamentary scrutiny; shorten the time available for scrutiny (Tunyan and Goetz, 2024: 108, 135).

This aspect has been pointed out in many EU Commission's progress reports on Macedonia, especially in the period od 2014-2018, calling for inclusive parliamentary wide debate and consensual acting of the MPs, due to the noted large percentage of laws adopted according to the shortened procedure (for instance, 175 out of 399 laws in 2014) as well as due to the practice of frequent legislative changes without adequate consultation (European Commission, 2014). In 2019 a positive trend was evidenced where 20% of the laws were adopted according to the shortened procedure, as opposed to 75% in the previous period (European Commission, 2019). However, the Report of 2021 dedicates substantially greater attention by directly relating the shortened procedure and the use of the "European flag" or the rules for harmonization of the domestic law with the *acquis*, leading to diminished time for meaningful deliberation of stakeholders. In turn, this affects the quality of laws, legal certainty, quality of implementation of laws and democratic processes (European Commission, 2021). In the Commission's progress report of 2023 the abuse of the EU harmonization procedure is for the first time a major issue, clearly argued with specific examples with the message that "the EU flag" should be used only when it's directly related with laws which main point is to be harmonized with the EU law, not to shorten the debate on significant issues (European Commission, 2023).

3 Research

The research is based on the legally set requirements for adoption of laws, while the central substantive part of the research concerned the total of 35 law proposals in 2023 that were assigned to the Assembly's Committee for European Affairs as a relevant working body, analyzed according to the formal features of the documents for legislative initiation concerning EU legal harmonization rules in the domestic legislation. This documentation was derived from the official web-site of the Assembly of RNM.

The *Rules of Procedure of the Assembly 2008* determine formal criteria regarding the law proposal when harmonizing with EU law. When proposing a law, "if a law proposal is not drafted in accordance with the provisions of these Rules of Procedure, the President of the Assembly shall (...), request from the initiator to make it compliant with the provisions of these Rules of Procedure. If the initiator fails to do that within 15 days from the day of the request by the President of the Assembly, the law proposal shall be considered as not having

been submitted” (Art. 136). Then, an important phase is the review by a working body. “The general review of the law proposal which is harmonized with the *acquis*, in the authorized working body and in the legislative committee can last 3 working days the most” (Art. 171-a), while “the second reading of the law proposal which is harmonized with the *acquis*, in the authorized working body and the legislative committee shall last 3 working days at most” (Art. 171-c).

In case of the use of shortened legislative procedure when harmonizing with EU law, according to Art. 170, “the initiator of a law proposal may suggest to the Assembly to examine the law proposal in shortened procedure in cases of: not complex or extensive laws, termination of validity of a certain law or particular provisions of a law, or not complex or extensive harmonization of a law with the EU legislation.” The examination by the working body of the law proposal being harmonized with the EU law, that is reviewed in shortened or urgent procedure lasts for two working days at most (*Rules of Procedure of the Assembly 2008*, Art. 171-e).

As far as the criteria for the sample analysis are concerned, the features of the law proposal’s documentation included the:

1. **Initiator** – particular ministry;
2. **Type of procedure** applied – whether it was an ordinary or simplified (shortened) procedure;
3. **EU act** with which the harmonization is realized. The data was derived from the correspondent tables EU-MK and MK-EU referring to whether there was adequate data, full title, number and date of the act;
4. Whether there is the **required statement** of harmonization of the national regulation with the EU legislation along with the correspondent table, including whether a minister has signed it and whether the EU act is named and stated with the CELEX number;
5. **Reasons for fulfillment or partial fulfilment of the obligations stemming from the Stabilisation and Association Agreement.** Regarding this criteria, there was a necessity of evoking a study, analysis etc. not only a generalized formulation;
6. **Degree of harmonization with the secondary EU law which should contain the following explanatory aspects:**
 - full, partial harmonization or non – harmonization;
 - reasons for not harmonized or partially harmonized act with the secondary EU law;

- a necessary reference to a study, analysis etc., not only a generalized formulation;
7. Whether the Statement refers to a provided **translation** and utilization of **professional assistance**; and
 8. Whether **opinion** has been provided for the harmonization of the Statement and the correspondent table of the act.

Considering said aspects, we begin with the aggregate calculations regarding the law proposals for the year 2023. In this period, there was a total of 421 proposals of various acts, of which 166 had been law proposals, and as much as 130 have been initiated according to the shortened procedure, and 35 of them assigned to the Committee for European Affairs with an overlap of 22 (both shortened and EU harmonization procedure). Evidently from the Table 1, only 23 law proposals have undergone the completely regular procedure.

Table 1. Law proposals per procedure, total²

Total - law proposals in 2023	Total – law proposals subsumed under shortened procedure	Total – procedure for harmonization with EU law	Total – procedure for harmonization with EU law AND under shortened procedure
166	130	35	22

Table 2 represents the number of laws harmonized with the *acquis*, by initiator. The Ministry of Finance is absolutely the most frequent initiator both according to the EU harmonization and the shortened procedure cumulatively, with 13 laws assigned to the Committee for European Affairs and 10 according to shortened procedure. This is followed by a similar ratio of the Ministry of Information Society and Administration, with 6 law proposals under the EU harmonization procedure, out of which 5 additionally under the shortened procedure, as well as by the Ministry of Transport and Communication (3 according to EU-harmonization and shortened procedure) and the Ministry of Justice (3 according to EU- harmonization procedure out of which 2 according to shortened one). The Ministry of Agriculture, Forestry and Water Economy (MAFWE) has as much as 6 law proposals undergoing the EU law harmonization

². All tables are prepared by the authors.

procedure, however most of them (5) have been subsumed under the regular legislative procedure.

Table 2. Number of laws harmonized with the Acquis, by initiator

Initiator	Number of law proposals(2023)	
	Total	Shortened procedure
Ministry of Economy	1	0
Ministry of Labour and Social Affairs	1	1
Ministry of Culture	2	0
Ministry of Justice	3	2
Ministry of Transport and Communications	3	3
Ministry of Information Society and Administration	6	5
Ministry of Agriculture, Forestry and Water Economy	6	1
Ministry of Finance	13	10

According to the Table 3, one third (11 out of 33 acts) of the legally required documentation regarding provided correspondent table for harmonization of the Macedonian with the EU law, for initiating a law have been deficient.

Table 3. Correspondent table MK-EU and EU-MK provided in the submitted documentation, total

Included	22
Not included	11
No need (specific matter)	2

Table 4 shows that the Ministry of Agriculture, Ministry of Culture and Ministry of Economy had provided said correspondent table in the documentation for each law proposal, while the greatest breach in this sense has been made by the Ministry of Transport and Communication where no tables have been presented, as well as by the Ministry of Finance with 4 deficient documentations out of 13 law proposals.

Table 4. Ministries and provided correspondent table MK-EU and EU-MK in the submitted documentation

Ministries that haven't provided correspondent tables	No. of laws without corr. table	Total submitted laws by the ministry
Ministry of Finance	4	13
Ministry of Information Society and Administration	2 (+ 2 spec. mat)	6
Ministry of Transport and Communications	3	3
Ministry of Justice	1	3
Ministry of Labour and Social Affairs	1	1

Provided tables for all law proposals	MAFWE, MC, ME
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Table 5 denotes that almost one third of the law proposals were deficient regarding the statement of harmonization - 5 missing statements and 5 without adequate data regarding the EU legal act. Table 6 illustrates the deficient data regarding the information on the harmonization of the Macedonian act with the Stabilisation and Association Agreement, in a similar ratio as table 5.

Table 5. Statement of harmonization

Statement provided	25
Statement not provided	5
Statement provided, but without noting the EU legal act and its number	5

Table 6. Harmonization with SAA

Statement provided, but no data	6
Statement not provided	5
Harmonized with SAA	24

Table 7 and Table 8 represent the summary covering all stipulations of all acts that were being harmonized with the domestic legislature. It is visible from table 7 that dominantly (in two thirds of the cases - 24 out of 35 instances) there has been partial harmonization with the secondary EU legal sources, with another 10 instances of deficient documentation. As formal (and rather floscular) reasons for such partial or complete non-harmonization of the existing documentation, for 17 law proposals has been mentioned the following:

- not relevant for MKD – refers only to EU member states or the European Commission;
- already transposed in another law;
- will be transposed in another law;
- the deadline will be determined in the course of the accession negotiations.

Proper elaboration was provided in only 2 accompanying documentations while 5 explications referred to a large infrastructural, yet not inclusively democratically debated project – the construction of Corridors 8 and 10.

Table 7. Level of harmonization with EU secondary legal acts

Partial harmonization with secondary EU legal sources	24
No statement	5
Statement provided, but without data	5
Statement provided, specific matter	1

Table 8. Reasons for partial or complete non-harmonization with the EU secondary legal sources

No elaboration	4
Referring to analysis/ elaboration provided	2
Only formal explication – some of the reasons mentioned above	17
Explication that it is related to Corridor 8 and 10	5
No statement	5
Specific matter (harmonized with other EU legal sources)	2

Table 9 (below) proves similar point that the required translation of the EU acts, which impacts their intelligibility by the public and parliamentarians has not been provided in almost one third of the cases (in 12 instances, as opposed to 18 provided translations), while the ratio of acquired professional assistance during the drafting of the law is the opposite, i.e. more favourable to the expert dimension of the legislative process, yet, still deficient. The administrative opinion in the law-drafting phase has also not been provided in almost one third of the cases (10 versus 18 law proposals).

Table 9. Translation, professional assistance and opinion

Element	Provided	Deficient	Specific matter
Translation	18	12	
Professional assistance	12 (8 precise + 4 general)	18	
Opinion	10	18	2

4 Discussion

To summarize the entire elaborated process, we can easily say that there are clearly stipulated rules for the procedure of harmonizing with the *acquis* as well as additionally provided formal directions for fulfillment of the necessary documents. The legislative procedure concerning harmonization with the EU law means shorter dead-lines and the relevant assigned working body is the Committee for European Affairs, while the shortened procedure should be applied when it comes to laws that are not complex or extensive, or when it comes to not complex or extensive harmonization with the EU law. An important aspect concerning accountability, both legal and political is the crucial role the President of the Assembly plays in the acceptance and procession of laws undergoing the harmonization legislative procedure.

Along with the quantifications in the research portion as well as from the general features of the total documentation, several points come as more prominent. Beginning with the utilizing of the legislative process for a specific economic or political goal, for 9 law proposals, the forms EU-MK and MK-EU were not provided, out of which 5 were the ones pertaining to “Bechtel and ENKA” project, i.e. the one regarding the debate-deficient infrastructural endeavor; and 1 pertaining to the law proposal with contents of systemic character, regarding the Academy for judges and public prosecutors.

Smaller portion of the documentation was crafted with dedication (never reaching above one third of the total law proposals), but even at those instances, deficiencies were detected. At some laws, very small number of transposed stipulations was detected, not in proportion with the entire corpus of legal stipulations of said act or the matter that was being regulated. As well, in certain explications regarding the partial harmonization or complete non-harmonization, it was stated that analysis would follow when the analysis should have been preemptively provided.

Another point is that extensive laws that by their nature require greater deliberation have been subsumed both under the shortened legislative

procedure and under the procedure for harmonization with the *acquis*. There was a lack of parliamentary debate reports on the Assembly's website that would properly reflect the substance of the debate.

Given this, it is important to accentuate the more conspicuous negative aspects of the submitted documentation, i.e. to reflect on the law proposals that were initiated with a greater number of formal shortcomings. These would primarily include the following law proposals related to the infrastructural project "Bechtel and ENKA":

- Law proposal for amendment of the Law for determination of public interest and nominating strategic partner for implementation of the project for building of infrastructural corridor 8 in RNM. This one was initiated by the Ministry of Transport and Communication, signed by minister at the time;
- Law proposal for amendment of the Law on construction - initiated by the Ministry of transport, with signature without a name and illegible stamp;
- Law proposal for amendment of the Law on spatial and urban planning – also initiated by the Ministry of transport, with signature without a name and illegible stamp;
- Law proposal for amendment of the Law on expropriation. This one was initiated by the Ministry of Finance, signed by the minister of the Ministry of Transport and Communication;
- Law proposal for amendment of the Law on Labour Relations - initiated by the Ministry of Labour and signed not by the minister but by the deputy minister.

Most of these actions (such as the improper signatures) stem from members of DUI – a governing coalition party that has been a ruling party for several electoral turns. In addition, the President of the Assembly as well as the President of the Committee for European Affairs were members of the same party, leading to the conclusion that the entire legislative process concerning EU harmonization was in the hands of a single party.

Secondly, a procedurally problematic law proposal is the one for the Academy for judges and public prosecutors - initiated by the ministry of Justice, followed by the withdrawn law proposal on Public Servants.

Lastly, there was a specific case with the Law proposal on amendment of the Criminal Code. The documentation regarding the harmonization with EU law

was very pedantically provided, however, this law, as its title “code” implies, is of special legal and societal importance, therefore only regular procedure and vast consultative procedure is order. Yet it was subsumed under shortened procedure and incorporated other legal stipulations that did not refer only to EU harmonization but served entirely different point of envisaging unprincipled penal mitigation.

Overall, clear breach of the procedural and substantial character of the legislative deliberation is evident, leading to the final conclusion.

5 Conclusions

All institutions have an important role in upholding the rule of law, but especially the central ones from which the law itself stems. Therefore this paper aimed at brining back the attention to the parliament, especially concerning its role to uphold the quality of the process leading to »good laws« and to be bound by the checks and balances mechanism. The extensive use or even the abuse of the nonstandard procedures go opposed to these ideals and undermine the institutional systemic role of the Assembly, since the parliamentary scrutiny and stakeholder’s inclusion are defective in such a process.

This means that the transparent, inclusive, evidence-based legislative procedure along with overall detailed deliberation supported by all relevant institutional factors is still to be significantly improved. Furthermore, the use of the procedure for harmonization of the domestic with the EU law should be consistent and clearly related to the substance and the teleology of the *acquis*, while the shortened procedure should be used selectively and according to the constitutional intention.

As elaborated in the paper, in 2023, 166 law proposals have been initiated, out of which only 23 in completely ordinary procedure (or 14%). The Ministry of Finance has most frequently initiated legislation both according to the procedure for harmonization with the EU law and according to the shortened procedure while given the formal features, the best-crafted legislation stemmed from the Ministry of Agriculture, Forestry and Water Economy and the Ministry of Culture.

More to the point, the President of the Assembly who has a crucial role in the legislative procedure, regarding admitting, in this case, faulty documentation; then, the President of the Assembly’s compulsory working body on EU harmonization procedure; and the ministers that proved to be the greatest

abusers in terms of submission of inadequate documentation and legal drafting, were all from the same governing party - DUI. Hence, it is easy to conclude that the entire process was dominated by a single ruling party, but also abused for facilitated adoption of laws serving certain political or economic gain.

Despite the provided elaborate legal and administrative information and directions concerning submitting proper documentation regarding the law proposals, especially the one regarding the transposition of the *acquis*, there isn't any package of documents that is complete (mostly, the analyses and elaboration of the reasons for non-harmonization are lacking). In this sense, the laws regarding Bechtel and ENKA, the Academy for judges and public prosecutors and the Criminal code should not have been processed according to the legislative procedure for harmonization with the *acquis*, because they do not fulfill the formal criteria, are not examined by the proper committees and cause implications upon the legal system and/or the state budget.

Overall, allowing frequent improper application of the EU harmonization procedure and the shortened procedure, for the Assembly implies devaluation of its control function over the executive, undermined rule of law by diminished quality of adopted legislature and disrupted legislative process, as well as party dominance, mostly by a single party within a complacent governing coalition, over the institutions, procedures and democratic principles. This confirmed that the state capture (according to its traditional general concept) is still an ongoing stance, one that would need substantial prolonged changes in the political culture, monitoring and inclusive practices, electoral system and even in the constitutional-natured legislature itself.

Finally, although certain substantive aspects have been proven, still this research is limited by its very analysis of the procedural and formal aspects of the law proposals, while an additional content analysis by experts in the subject matter of the specific law proposals is needed to confirm the substance-related abuse of the legislative procedure for harmonization with the *acquis*.

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CORRUPTION, THE RULE OF PUBLIC INSTITUTIONS AND ECONOMIC DEVELOPMENT: THE CASE OF THE REPUBLIC OF NORTH MACEDONIA

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Abstract

The research objective of the paper is to examine the impact of the level of corruption on the economic development of the Republic of North Macedonia. The aim is to determine the role of institutions in the public sector in the fight against corruption. The main question of interest in the paper is whether the country's economic growth depends on the level of corruption. The assumption is that the higher the level of corruption, the lower the level of economic development. A methodological concept of statistical analysis of linear correlation is used to study the aims of the paper. The dependent variable is the economic development of the Republic of North Macedonia. The research uses the annual growth rate of GDP as a measure of economic development for the Republic of North Macedonia. According to the theoretical and empirical literature, the following indicators are also used in the research: GDP per capita, investment and political stability of the country as dependent variables. Transparency International's corruption perceptions index is used as an independent variable in the research to measure the level of corruption in the Republic of North Macedonia. The research of the paper confirms that corruption harms the country's economic development.

Keywords: corruption, anti-corruption policy, economic development, public institutions

1 Introduction

The adverse socio-economic effects of corruption have received increased attention over the past few decades. Corruption behaviour significantly undermines trust in the system's institutions and the efficient use of public resources which represents a threat to democracy and the realisation of human rights due to the erosion of social values. The World Bank defines corruption as "the abuse of public office for private gains" (The World Bank, 1997). In the Development Report 1997, the World Bank stated, "an effective state is vital for the provision of the goods and services – and the rules and institutions – that allow markets to flourish and people to lead healthier, happier lives. Without it, sustainable development, both economic and social development, is impossible" (The World Bank, 1997). Less developed European countries must pay special attention to building institutions, upholding the rule of law, and controlling corruption if they want to stop negative trends in migration. These factors take precedence over the dominant economic issues of the 20th century (Molnar, Ostojić & Jovanović, 2024: 24).

In the Republic of North Macedonia, the reports of relevant organisations continuously point to unfavourable situations in dealing with corruption. In this context, the ranking of the Republic of North Macedonia by the Transparency International Corruption Perception Index (CPI) is based on the extent to which corruption is perceived to exist in the public sector. In 2023, the Republic of North Macedonia had a CPI score of 42 out of 100, and compared to the previous year, it had fallen by two places. At the same time, the theoretical and empirical literature indicates that corruption affects the country's economic development. Therefore, the study of the paper focuses on the relationship between the level of corruption and the economic growth of the Republic of North Macedonia. The aim is to identify the measures and activities for suppressing corruption in the country.

The main question of interest is whether the country's economic growth depends on the level of corruption and how. Therefore, the paper aims to research the impact of corruption on the economic development of the Republic of North Macedonia. A methodological concept of statistical analysis of linear correlation is used to study the aims of the paper. To determine the strength of the theoretical and empirical literature, the annual GDP growth rate as a measure of the country's economic development is used as a dependent variable in the research. According to the theoretical and empirical literature, indicators such as GDP per capita, investment and political stability of the country are also used in the research as dependent variables. Transparency

International's corruption perceptions index is used as an independent variable in the research to measure the level of corruption in the Republic of North Macedonia. The study of the paper confirms that corruption harms the country's economic development. The results answer the main question of the paper, which is that the country's economic growth depends on the level of corruption. Other scientific methods, such as inductive and deductive methods, analysis and synthesis, and comparative methods, were also used to analyse the research subject.

The paper is organised in the following manner. Considering the research aims, the theoretical and empirical literature on certain channels through which corruption affects economic growth have been analysed first. Then, the methodological concept of the research has been presented. In this context, the variables subject to statistical analysis have been analysed, and the results of the statistical research of the paper have been presented. The discussion embraces a comprehensive analysis of the current situation related to corruption in the Republic of North Macedonia, relying on the results of the research of the study. In the final segment of the paper, conclusions are given about the future policies of the Republic of North Macedonia in its fight against corruption.

2 Theoretical and Empirical Evidence

Economic literature points out that corruption affects the country's economic growth through a certain channel. According to Jain (Jain, 2001), the channels of transmission that corruption affects economic growth include economic equality, investment, and institution efficiency. For economic equality, it is agreed that corruption does harm income distribution, which promotes economic inequality. The elites are most likely to benefit from corruption, and hence, corruption creates unfairness in opportunities (Mo, 2001). Another channel through which corruption harms an economy is through the adverse effect on investment. However, investors avoid countries with a high level of corruption. Corruption discourages foreign direct investment in the country (Mauro, 1995). Literature based on institutional efficiency argues that corruption may provide the kind of market system that ensures that goods and services are allocated based on who can and is willing to pay for them. Leff (1964) is the pioneer in institutional efficiency-based literature. According to Leff (1964), bureaucratic corruption in less developed economies stimulates competition among entrepreneurs with its attendant pressure for efficiency. Such competition, which is necessary for economic growth, is often absent in

less developed economies, and hence, bureaucratic corruption introduces the tendency toward competition and efficiency.

Regarding empirical evidence, the most significant studies related to the paper's research purpose are subject to analysis. Namely, Mauro (Mauro, 1995) studied the impact of the level of corruption on economic growth in 67 countries between 1980 and 1983. The cross-country regression analysis confirms that corruption decreases economic growth by causing low investment. Another study of the effect of corruption on economic growth was conducted by Mo (Mo, 2001) in a cross-section analysis of 45 countries in the period 1970-1985. It was discovered that a one per cent increase in corruption leads to a reduction in economic growth by 0.7%. Ehrlich and Lui (Lui, 1999) used panel data from 68 countries from 1981 to 1992 to study the relationship between GDP per capita and the Corruption Index. It was found that changes in the country's corruption index negatively affected GDP per capita.

3 Research

The research objective of the paper is to examine the impact of the level of corruption on the economic development of the Republic of North Macedonia. The aim is to determine the role of institutions in the public sector in the fight against corruption. The main question of interest in the paper is whether the economic growth of the country depends on the level of corruption. The assumption is that the higher the level of corruption, the lower the economic development.

A methodological concept of statistical analysis of linear correlation is used to study the aims of the paper. To determine the strength of the theoretical and empirical literature, the economic development of the Republic of North Macedonia is used as a dependent variable. The annual GDP growth rate is used as a measure of the country's economic development. Transparency International's corruption perceptions index (CPI) is used as an independent variable in the research as the measure for the level of corruption in the Republic of North Macedonia. CPI ranks countries in terms of the extent to which corruption is perceived to exist in the public sector. According to the theoretical and empirical literature, the following indicators are also used in the research as a dependent variable: GDP per capita, investment and political stability. The time frame is from 2014 to 2023.

3.1 Variables

The dependent variable in the research is the economic development of the Republic of North Macedonia. The research measures the country's economic development using the annual GDP growth rate obtained from the State Statistic Office of the Republic of North Macedonia from 2014 to 2023.

Table 1. GDP growth in the Republic of North Macedonia (%), 2014-2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
GDP growth	3,6	3,9	2,8	1,1	2,9	3,9	-4,7	4,5	2,2	1,0

Source: State Statistic Office of the Republic of North Macedonia, (2024)

Transparency International's corruption perceptions index (CPI) is used as an independent variable in the research to measure the level of corruption in the Republic of North Macedonia. The CPI is an annual publication of Transparency International, which ranks countries in terms of the extent to which corruption is perceived to exist in the public sector. A country's CPI score represents a perceived level of corruption in its public-sector apparatus. Each country is scored on a scale from 0 to 100, where 0 means a country's public sector is perceived as highly corrupt, whereas 100 means a country's public sector is perceived as very clean. The Republic of North Macedonia's CPI score was 42 in 2023, down two places from the previous year. Out of 180 countries, it is 76th (CPI, 2023).

Table 2. CPI Score of the Republic of North Macedonia, 2014-2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
CPI Score	45	42	37	35	37	35	35	39	40	42

Source: Transparency International CPI, (2024)

According to the theoretical and empirical literature, the following indicators are also used in the research as dependent variables:

- **GDP per capita:** GDP per capita measures the Gross Domestic Product of a country divided by its population. The correlation is expected to be negative. A high level of corruption leads to a lower rate of GDP per capita.
- **Investment:** This research will use the World Bank's Gross Capital Formation as a percentage of GDP as an indicator of investment. This

indicator comprises the amount of money spent on fixed assets in an economy plus the net changes in inventories. The correlation is expected to be negative. A high level of corruption leads to a lower investment rate in the country.

- **Political stability:** Good governance is essential for development. It helps countries improve economic growth, build human capital, and strengthen social cohesion. The World Bank Worldwide Governance Indicator (WGI) captures six dimensions of governance. For the research, the indicator of Political Stability is used. The value of the indicator ranges from -2.5 to 2.5. The correlation is expected to be positive. Political instability leads to a high level of corruption in the country.

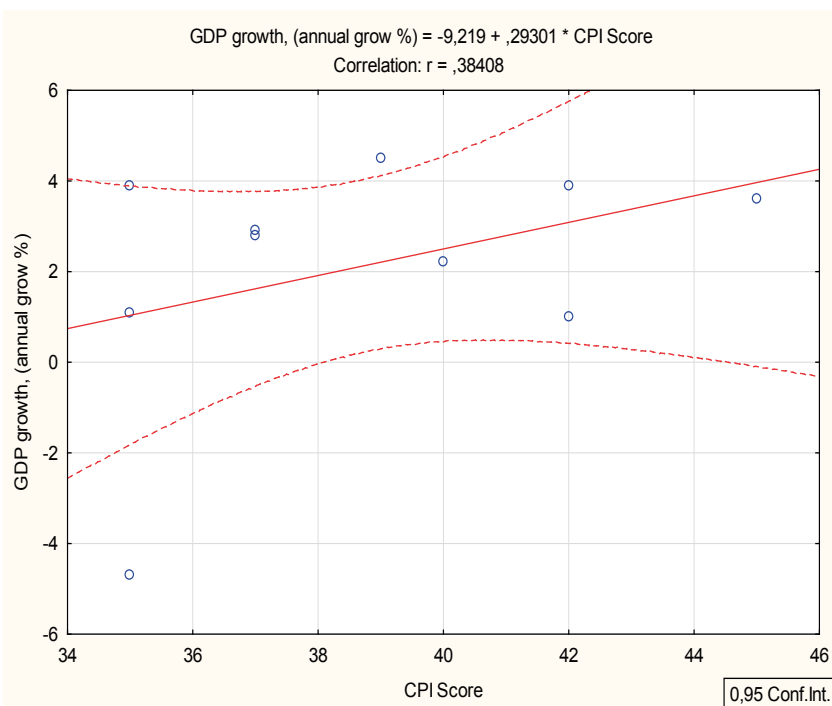
Table 3. GDP per capita, Investment, Inflation, Trade Openness and WGI of the Republic of North Macedonia, 2014-2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
GDP per capita	4.465	4.744	5.066	5.287	5.688	6.002	5.847	6.443	7.115	
Investment, Gross Capital formation as a % of GDP	30,3	30,4	32,5	32,3	32,3	34,3	29,9	32,2	36,0	23,9
WGI, Political Stability	-0,02	0,40	-0,4	-0,35	0,4	-0,42	-0,45	-0,42	0,44	

Source: State Statistic Office of the Republic of North Macedonia and World Bank (2024)

3.2 Results

The research in the paper confirms that the level of corruption harms the country's economic development (adverse effect). The examined correlation between GDP growth and CPI Score is positive, that is, direct ($r=0.38408$). The research shows that GDP growth increases with the increase of the CPI score and vice versa (Graphic 1). The results confirm that the higher the level of corruption, the lower the economic development, and vice versa.

Graph 1 Correlation between GDP growth and CPI Score

Source: Author's calculation

There was an indirect correlation, which means a negative correlation was obtained between GDP per capita and CPI Score ($r=-0.3505$) and also between Investment and gross Capital formation as a percentage of GDP and CPI Score ($r=-0.238$) (Table 4). The results confirm that a high level of corruption leads to a lower rate of GDP per capita and investments, which has a negative impact on the country's economic development.

There was a direct correlation, i.e., a positive correlation between Political stability and CPI Score ($r=0.5232$) (Table 4). The results correlate with theoretical and empirical evidence due to the importance of political stability in the fight against corruption. Political instability leads to a high level of corruption, which confirms the significant role of public institutions in the fight against corruption.

Table 4. Linear correlation

Correlation			
Independent variable	Dependent variables		
CPI Score	GDP per capita	Investment, Gross Capital formation as a % of GDP	Political stability, WGI
R	-0.3505	-0.238	0.5232

Source: Author's calculation

4 Discussion

The research in the paper confirms that the level of corruption does have an adverse effect on the country's economic development. The results from the research show that GDP growth increases with the increase of the CPI Score and vice versa. The examined correlation between GDP growth and CPI Score is positive, that is, direct. According to the research results, we can conclude that the higher the level of corruption, the lower the country's economic development. The research confirms that economic development of the country is possible only under the conditions of low levels of corruption.

The results also confirm that a higher level of corruption leads to a lower GDP per capita and investments that negatively affect the country's economic development. The policy-makers in the Republic of North Macedonia should consider this. The research also confirms that political instability leads to a high level of corruption, which actually points out the importance of public institutions in the fight against corruption.

Although there are clearly established strategic priorities, measures, and activities to reduce corruption, the implementation is not enviable in the Republic of North Macedonia. In the National Strategy for the Prevention of Corruption and Conflict of Interest of the Republic of North Macedonia 2001-2025, priority problems (areas) that generate a high risk of corruption have been detected, and measures to overcome them have been identified. However, the National Strategy has been in force since 2021, and for the following three years, the percentage of the implementation of the activities has not exceeded more than 13%. (SCPC, 2024) In addition, what is disturbing is the fact that in those three sectors, such as public procurement, employment, and political

system, not a single activity has been performed for three years in a row. The reasons and justifications for the unperformed activities listed in the Annual Reports are different, but the insufficient institutional responsibility for implementing the measures is the most common to all of them.

At the same time, the European Commission's reports on the country's progress, as well as the reports of other relevant international institutions, continuously point to unfavourable situations in dealing with corruption. Within the framework of Chapter 23- Justice and Fundamental Rights, in the section on the fight against corruption, the European Commission emphasises that the level of preparedness of the Republic of North Macedonia is between certain and moderate. No progress has been made. Corruption remains widespread in many areas and is a matter of concern. Delays and rescheduling of high-level corruption trials have increased, resulting in some cases becoming time-barred. In this direction were also a large number of negative reactions to the recent amendments to the Criminal Code, following an urgent parliamentary procedure, which had consequences on the application of the statute of limitations and stopping numerous corruption cases (European Commission, 2023).

In this context, the ranking of the Republic of North Macedonia is also based on the Corruption Perception Index for 2023. According to Transparency International, "...as some small signs of progress started to emerge, North Macedonia's judiciary was significantly impaired with undemocratically enacted amendments to the Criminal Code. The decision to reduce penalties for the abuse of official positions for personal gain and shorten deadlines for initiating legal proceedings in suspected corruption cases is a big favour to corrupt people: an estimated 200 cases will be dismissed, including those against former high-level officials. Politically motivated appointments and dismissals of court officials raise additional concerns about the judiciary's ability to effectively fight corruption" (Transparency International CPI, 2023).

However, the results present corruption as a global problem, with the Republic of North Macedonia taking only a tiny part. On the global level, the Transparency International CPI score also shows that corruption is thriving worldwide in 2023. Over two-thirds of countries score below 50 out of 100, which strongly indicates that they have serious corruption problems. The global average is only 43, while most countries have made no progress or declined in the last decade. What is more, 23 countries fell to their lowest scores in 2023. The global trend of weakening justice systems is reducing accountability for public officials, which allows corruption to thrive. Widespread democratic backsliding and weakening justice systems are undermining the control of corruption,

strengthen the rule of law, rights, and democracy, but many are systematically attacking them (Transparency International CPI, 2024).

5 Conclusion

In the Republic of North Macedonia, although there are clearly established strategic priorities, measures, and activities to reduce corruption in the country, the implementation is not at an enviable level. The crucial problem in reducing the level of corruption in the country, which both domestic and international institutions have detected, is precisely the low level of implementation of the established measures and activities for the fight against corruption, which indicates the need for a more serious approach to the fight against corruption at all levels. On the other hand, the research confirmed the significant role of public institutions in the fight against corruption.

Therefore, the following conclusions should positively affect and raise general awareness in the fight against corruption. Firstly, the complexity of the corruption problem indicates the need for a high commitment to government policy and the simultaneous existence of strong and independent institutions at all levels of government. Secondly, it is necessary to establish a strong control mechanism and institutional responsibility to implement the measures. However, the key to success is the cooperation between all stakeholders in society, including public institutions, the private sector, and civil society.

Acknowledgement

The author has read and agreed to the published version of the manuscript.

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GOVERNMENT QUALITY AND EDUCATION: ON THE ROAD TO HUMAN CAPITAL DEVELOPMENT

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Abstract

This paper explores the relationship between government effectiveness and the development of educational systems as a means to foster human capital. It emphasizes the critical role of state institutions in ensuring access to quality education, which, in turn, contributes to broader economic and social development. Historical examples illustrate that autocratic and elitist governance often hindered educational progress, while more balanced and inclusive systems fostered it. The paper highlights that effective governments are more likely to allocate adequate funding for education, ensure widespread access, and promote higher quality schooling. Through a correlation study of 72 countries, including OECD members, it reveals that well-functioning governments tend to spend more on education, which positively impacts both the quantity (increased years of schooling) and quality (better educational outcomes, as measured by PISA scores). However, the paper also notes that the path to human capital development is context-dependent, with different nations requiring tailored approaches to governance and education reform. While it identifies a strong correlation between government quality and education, the paper calls for more nuanced research to explore potential causal relationships and further improve our understanding of the connection between governance and human capital development.

Keywords: Institutional quality; Education; Human capital development; Governance effectiveness; Educational systems

1. Introduction

People have a historical tendency of developing institutions for the sake of common order and mutual benefit (North 1991). However, not all approaches proved effective to the same extent. While some stimulated innovation, education and prosperity, some did not (Acemoglu, et al. 2004: 12). Perhaps, some of the most important institutions were those that were encouraging the spread of knowledge. It can be argued that education was an essential element of statecraft ever since ancient times (Papanastasiou, Clarke 2019). Therefore, the phenomenon of mass education should be viewed as a turning point in history as it spurred human and economic development.

The uneven spread of schooling systems can be attributed to the uneven distribution of political and economic power which intentionally or unintentionally blocked knowledge sharing (Andersson, Berger 2019). The poorest countries of the modern world are those in which governments and markets failed to develop adequate education structures and thus did not manage to mobilize their national human capital to the full extent (Acemoglu, Robinson 2012: 77). However, as Cappelli (2015) shows on Italy's case, private initiatives can only distribute education to a certain level, while state involvement is fundamental for creating well-structured, functioning systems across a vast area. Different studies indicate the superiority of governments due to their ability to affect education through policies regarding funding, infrastructure and mandatory school attendance (Angrist, Kruger 1991; Duflo 2001; Goldin 2016).

That said, Becker (1964: 17) argues that education should be viewed as the prime investment in human capital. While it is difficult to control for all casual forces affecting average income, Lindert (2010) believes that it could mostly be explained by educational attainment. Furthermore, Miller, et al. (1995) show the significance of schooling while analysing its effects on the case of identical twins.

Burns, et al. (2016: 16-20, 176) find that the exact role that the state should take is still highly debatable. There is no particular form of government involvement that guarantees success globally. They also notice that while many developing countries are still trying to centralize their schooling systems, the majority of OECD member states are leaning towards decentralization. This indicates that governing education is a continuous and complex task as it needs to take into account the changing needs of different stakeholders. Thus, it can be argued that state effectiveness should be viewed as a universal value that is necessary for the development and maintenance of adequate schooling.

This paper will analyse the relationship between the quality of governance and the education system, with government quality defined as the state's capability to perform its responsibilities. The idea is that a functioning state apparatus allows other institutions, including schools, to execute their duties well. The paper will be divided into three sections, with the first one being a literature review explaining the historical influence governments had on education, the second being a correlation analysis, while the third section will conclude and give policy implications. The expected outcomes are that more effective governments should be more willing and capable to invest in education and enhance its quantity and quality.

2. Literature review

History shows that autocratic environments, such as those in the nineteenth-century Habsburg Monarchy and Russian Empire, did not incentivise education, or at least not effective education (Freudenberger, 1967; Gregory, 1991), while those with a better balance of power, as in the British Empire, did (Acemoglu, et al., 2004: 76). Furthermore, the ways that the state affected the spread of knowledge were not always direct. Such is the example of the invention of the printing press, which was widely accepted in the western world but was rejected by the Ottomans and thus led to increased divergence in educational levels (Acemoglu, Robinson, 2012: 216-218).

Lindert (2010) believes that this is not a case of democracy versus autocracy, but rather a question of elitist versus populist societies, where he argues that elites are the ones that tend to block the spread of education. However, this cannot be a universal explanation, as Gao (2015) shows that local elites were crucial for developing the education system in China. Andersson and Berger (2019) have similar findings for Sweden while discussing that social and political factors potentially may be more important for schooling than economic ones.

Due to the complexity of forming national education, local schooling was usually the first to emerge (Gao, 2015; Go, Lindert, 2010). However, the positive effects of such systems were limited to prosperous regions, leading to developmental disparity (Cappelli 2015). While other aspects, such as health, should be taken into account, it is crucial to understand that the developmental outcome is not that of a single institution, but rather the whole system (Bleakley 2007) and the way in which it is governed with the central question being its approach to human capital development.

There are numerous cases throughout modern history that indicate that far greater prosperity was reached when the state got involved in education (Acemoglu, et al. 2004: 75; Cappelli, 2015; Goldin, 1998) as it was able to provide universal infrastructure, funding, standards and attainment requirements. As Duflo (2001) shows even simple government policies can have substantial outreach. In his analysis, he finds that increasing the number of schools has a positive effect not only on school attendance but also on wages and living standards. While some may wish that education can function as a private sector it is important to note that universal primary schooling, as the fundament of any knowledge upgrading, was never reached without the government and public taxes (Lindert, 2010).

It is through the provision of public goods that regimes affect the society on which they are dependent. Education should not be viewed only as an investment in individuals, but also in the political and economic spheres of the state. That said, by investing in public education states manage to establish a set of common values across their population (Goldin 2016) which in turn makes it easier to govern. Furthermore, by enhancing human capital the government will eventually increase their revenues through tax collection and other potential sources of income (Lindert, 2010). Investments in schooling are even taught to have larger positive effects in developing countries (Duflo, 2001), which leaves the question of the lack of willingness to invest. One of the possible solutions to this problem may be in strengthening social groups and informal institutions that can help on the path of providing universal education (Gao, 2015). A good example of this is given by Acemoglu and Robinson (2012: 443) who show how the local community in Botswana managed to force the government to use the revenues from diamond extraction for providing various public goods, among which schooling and infrastructure had the top priority.

Another way that institutions and education can benefit human capital and wider prosperity is through new technological achievements (Acemoglu, Robinson, 2012: 75). Nevertheless, Goldin and Katz (2007) argue that technology can create economic losers if it is skill-biased, and thus favours a more advanced workforce. However, such changes are necessary for long-term development. As Acemoglu and Robinson (2012: 343) put it these challenges could be overcome if institutions are inclusive. That said, schooling does not only influence human capital by increasing productivity and income, but it also allows the population to become more engaged in the political debate and state institutions (Castellano, Garcia-Quero, 2012). This is essential in order for states to work for the common and long-term benefit and not only for the immediate economic results. In his work, Chang (2011) discusses some of the

advantages of inclusive governments by showcasing policies that eradicated child labour and thus allowed for long-term human development.

However, despite all the improvements in education many young people continue to struggle in the job market, mostly due to obtaining skills that are not valued (Schleicher 2019). This indicates that effective governance is needed in order to provide contemporary educational incentives and direct the future workforce towards good employment opportunities. Burns, et al. (2016: 186) find that this could be achieved through strategic thinking, accountability and capacity building, while OECD (2009) argues that the focus of policymaking should be on ways of policy implementation, equality of outcomes and building trust. Thus, it can be concluded that in order to build complex and effective educational systems good functioning governments are essential, with their importance rising as institutions become more inclusive due to the increase in the number of stakeholders engaged. This said it is inevitable that the state will continue to play a major role in the provision of quality mass education in the future.

3. Effective governance and education

Burns, et al (2016: 170) believe that effective governance, from an educational perspective, should be viewed as governance that ensures national objectives while considering local specifics. Furthermore, Burns and Cena (2016) find that the main focus should not be on structures, but rather on the processes. This goes in hand with Chang's (2007a; 2007b) perspective that functions are more important than forms, and that same functions could be performed through different forms. While this may cause issues in measuring government quality it can also open a window of viewing governments from the perspective of the extent to which they are performing their responsibilities. This approach further leads to the focus on the final outcomes. Wilkins and Olmedo (2019) believe that standardized PISA testing allows both measuring international competitiveness through education and the effectiveness of government policies. However, the question of what makes effective governments distinctive in enhancing human capital development remains.

4. Data and methodology

Based on data visualisation, this correlation study will analyse the relationship between the functioning of government and education funding, as well as its

quantity and quality. The data of interest will be shown in scatter plot form, thus showing the potential correlation between the variables and suggesting the need for further research of the topic using advanced econometric methods.

The sample that is going to be used consists of 72 sovereign countries, including OECD members and their partner states. The expected results are that higher levels of government quality have a strong positive effect on funding, quantity and quality, thus suggesting the importance of government functioning for human capital development. This idea is based on the theoretical ground laid out in the literature review.

The data that will be used for measuring education will be sourced from the World Bank, the United Nations Development Programme (UNDP) and the Organisation for Economic Co-operation and Development (OECD). Funding of education will be measured through government expenditure on schooling as a percentage of the GDP, the quantity will be viewed as the expected years of schooling, while the quality of schooling will be calculated as the national average of PISA test scores in reading, mathematics and science. In order to overcome the issue of education funding, quantity and quality influencing each other all parameters will be taken from the year 2018, as it is the most recent year from which PISA test results are available.

Government quality will be measured by the Functioning of Government Indicator developed by the Economist Intelligence Unit. This indicator captures the state's capability to perform its responsibilities well, as it covers a broad range of factors such as corruption, transparency, accountability and the government's power to create and implement policies. In order to capture true government quality, this variable will be calculated as the five-year average in the period prior to 2018, as institutions can have both long-term and short-term effects. The average value is supposed to show a more accurate correlation between government effectiveness and schooling over a five-year period, and thus indicate how much can improvements in governance enhance human capital.

5. Results and interpretation

Figure 1: Correlation between government expenditure on education as GDP percentage and the functioning of government indicator. Self-generated. Data source: EIU 2023; World Bank 2023.

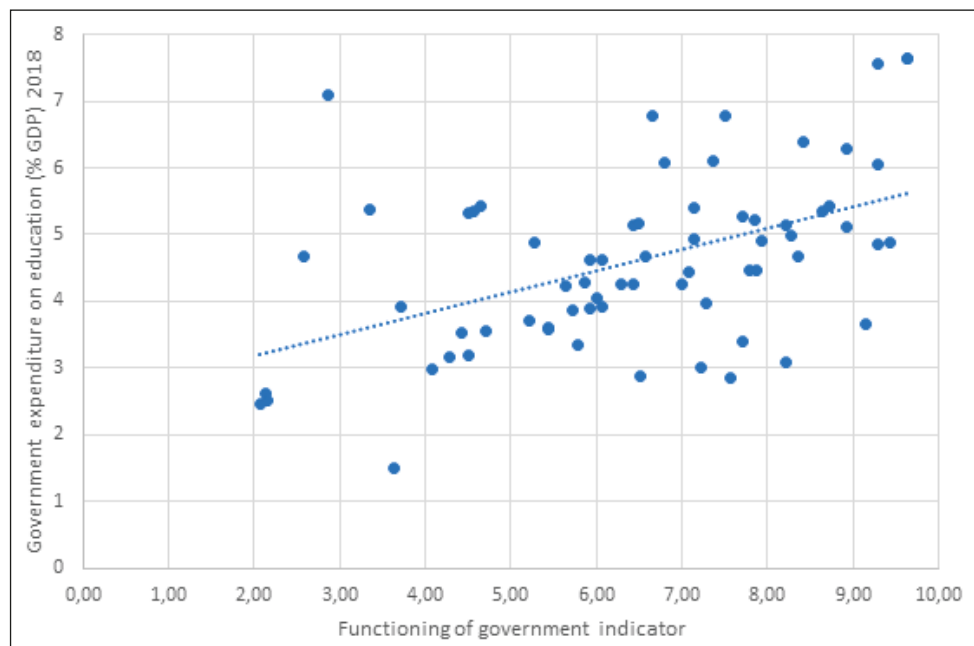
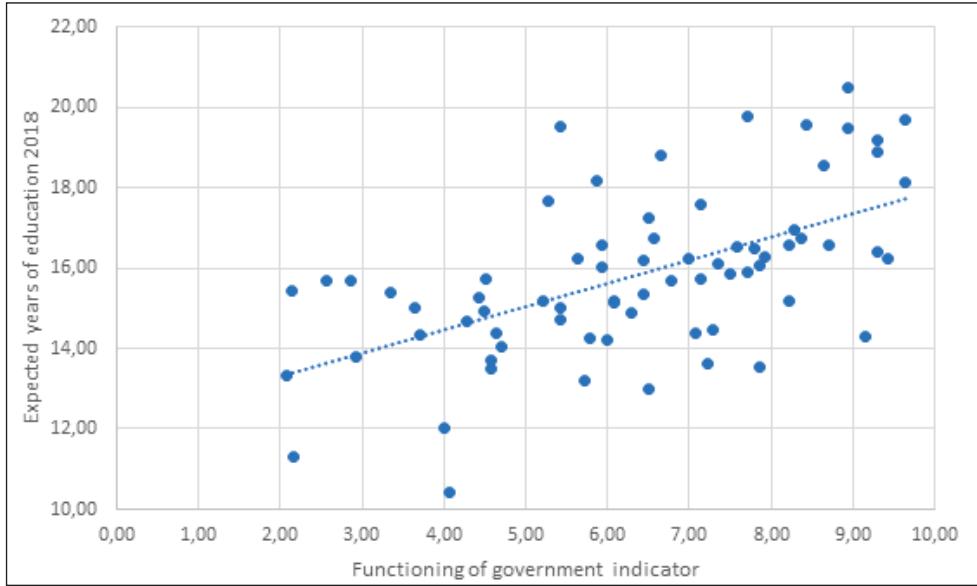


Figure 1 shows a positive correlation between the functioning of government and its expenditure on education. However, this increase may have different underlying causes. Firstly, as governments become more efficient, they may realize the importance of investing in human capital and education, and thus willingly decide to increase their spending. A deeper understanding of this factor is even more important as well-functioning governments are less prone to corruption, thus the state resources are more likely to end up being used in a proper manner. The resources that were not used in dishonest dealings will thus remain in the state's budget and allow it to have further investments, some of which may be in education, thus increasing the government's spending on the schooling system.

However, this increase may as well be a result of different social pressures and the state apparatus managing to provide effective responses efficiently. Meaning that bottom-up pressure can have effects on government spending

and effectiveness. In both cases, larger expenditure enhances the role that the government plays in education and, therefore, enhances its influence and responsibilities. This shows that as independent states improve their effectiveness, their capabilities will enhance and allow them to tackle complex questions like education.

Figure 2: Correlation between expected years of education and the functioning of government indicator: Self-generated. Data Source: EIU 2023; UNDP 2018.

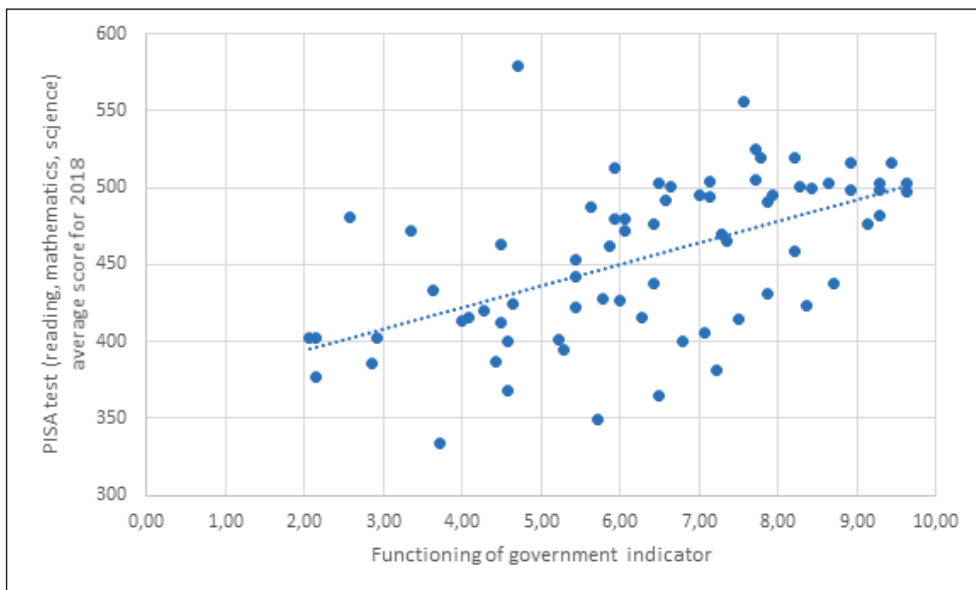


In *figure 2* there is a strong positive correlation between government effectiveness and the expected years of schooling, which indicate the number of years of education a student can expect at his enrolment age. This suggests that the most significant results of well-functioning governments may show their full effects on human capital only in the long run. The increase in years of education does not only suggest the growing quantity of it but also that there are more educational opportunities emerging, especially at secondary and tertiary levels. Thus, allowing students to pursue advanced studies and making them more productive. Furthermore, this also indicates the free will of the population to pursue advanced education as they are more likely to be assured of favourable study conditions and future work opportunities with higher education in well-functioning societies. These changes in human capital may also indicate the potential that the national economy will have in the future

through educated youth. This may lead the governments to design adequate economic environments in which future generations can prosper.

Thus, it can be said that better-functioning governments have a wide spectrum of positive influence on expected years of schooling, from providing an environment in which higher education can prosper to motivating the population to use provided opportunities.

Figure 3: Correlation between PISA test results, calculated as the average of scores in reading, mathematics and science, and the functioning of government indicator. Self-generated. Data Source: EIU 2023; OECD 2019.



Perhaps, the most significant finding of this correlation analysis is in *figure 3*, which suggests that good governance leads to higher education quality. This can be explained as better functioning governments are more likely to be able to motivate the educational staff to teach students effectively by designing favourable policies. Also, better governance is expected to be more responsive to the needs of the students and society, thus creating a schooling environment in which students will be willing to dedicate more of their time and attention towards education.

This indicates that government improvements can indeed have positive effects on human capital formation and can help provide the labour market

with an advanced workforce. This may lead the private sector to invest in new technologies and innovation since they will not have major difficulties in hiring adequate labourers. Such development usually results in higher government revenues, allowing them to invest further and lead the national economy to a period of sustainable growth.

All three figures show that the functioning of government is fundamental for improving education. Well-functioning governments are willing to spend more on education, while at the same time providing an environment in which its quantity and quality can increase. Therefore, the main developmental focus should be on specific processes and policy implementation, rather than the forms in which institutions come. This analysis shows that governments with higher functioning levels are more likely to be adaptable and find the right ways to improve education, than the ones with lower levels.

6. Conclusion

While education can occur outside of schools (Becker 1964: 20), their significance for human capital development is inevitable. Many historical and contemporary factors point to the direction that the government may be the key player in the development of good mass-schooling systems. Nevertheless, it is inevitable that returns on education will get higher as other, especially economic, institutions develop (Rosenzweig 1995). This paper proves Acemoglu and Robinson's (2012: 480) assumption that poor education systems are not a mere coincidence, but they are instead a result of dysfunctional governance. Therefore, it can be concluded that as long as there is space for governments to improve, there is space for human capital to grow purely as a result of bettering the educational system.

In her work, Goldin (2016) declares the twentieth century as "the human capital century". However, this is only true for the most developed economies, as there is still much room left for human development in the rest of the world.

While developing nations can certainly learn a lot about organizing societies and education systems from global economic leaders, there should not be a misconception that "one size fits all". Therefore, national governments should not focus on replicating governing forms from the western world but try to make their own systems function instead. Furthermore, even policy-making should not be viewed as a simple copy-paste process, as there are many context-specific features that need to be taken into account in order for policies to actually work. Establishing functioning governments would be a great deal

easier if the local cultural aspects are considered. This approach would help developing economies in creating an adequate education system that will eventually allow for human capital to spur.

Nevertheless, there are some limitations to the model as it only shows that a correlation between education and government quality is present. This does not, however, show the level and significance of the correlation, nor does it prove causation and imply to what extent the functioning of the state apparatus explains funding, quantity and quality of schooling systems. Thus, further research should be directed towards implementing more advanced methodologies in the analysis of the relationship between government quality and education.

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TRANSFORMING GOVERNANCE: HARNESSING NEW TECHNOLOGIES IN THE FIGHT AGAINST CORRUPTION

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Abstract

This paper addresses the persistent issue of governance corruption and advocates for a forward-thinking solution: strategically integrating transformative technologies. This study uses descriptive and analytical methods to explore how technologies such as blockchain, artificial intelligence, and data analytics can reshape traditional anti-corruption efforts. Through real-world case studies and comprehensive analysis, the paper illustrates how these innovations enhance transparency, reinforce accountability, and improve efficiency within governance systems. Alongside these potential benefits, it examines the complexities of technology implementation, including privacy risks, data security concerns, and the need for equitable access. Although challenges remain, the study highlights the urgent need for cross-sector collaboration to leverage technology as a catalyst for governance reform. This work aims to inspire actionable change and significant progress toward transparent, accountable, and inclusive governance structures by providing a nuanced understanding of the opportunities and obstacles in this endeavor.

Keywords: corruption, technology, effective governance, transparency, accountability

1. Introduction

Corruption is a phenomenon with roots that extend back to the very beginnings of human society. Its exceptional prevalence spans every social system, with observable signs of corruption in nearly every social group. Given the far-reaching effects of such widespread corruption, it is unsurprising that the broader the social domain in which these activities occur, the greater the danger to the functionality of human society. The functionality of human society is significantly determined by the difficulties encountered in identifying and exposing corruption, which is a consequence of the vested interests of all parties involved in corrupt practices to conceal such activities. Thus, the uncovering of corruption has remained an unresolved issue for centuries. Society's efforts in fighting corruption have been directed towards preventive measures in the form of intimidation, aimed at deterring the involved parties from engaging in undesirable and socially unacceptable behaviors associated with corruption (Our World in Data, 2024).

The fact that corruption remains an unresolved problem suggests that its forms and methods outpace those used to combat it. Since preventive measures such as legal sanctions for corrupt activities have proven insufficiently effective, it is clear that establishing a new approach is crucial. This new method, alongside intimidation measures, should prevent activities opposite to the optimal functioning of human society. The rapid spread of Information and Communication Technology (ICT) and digitalization, which are reshaping the 21st century, hold great promise for transforming societal relations and public service delivery. In the fight against corruption, ICT offers new, effective means for prevention, detection, and prosecution. Numerous studies assert that ICT can promote transparency, accountability, and citizen participation, facilitating advocacy and closer interaction between government and citizens. Widely praised tools include websites, mobile phone applications, Distributed Ledger Technology (DLT), big data analysis, and Artificial Intelligence (AI). These technologies enhance access to public information, monitor officials' activities, digitalize public services, and enable corruption reporting (UNODC, 2023).

1.1. What is the corruption?

Corruption is a complex and multifaceted issue, varying greatly across different contexts and influenced by diverse norms and standards of conduct. One of the most widely recognized explanations is the misuse of public office for private gain, which primarily associates corruption with the bribery of public officials. However, this explanation falls short of capturing the full spectrum of

corrupt activities, especially those involving high-level public positions with significant discretionary power, such as members of parliament. Perhaps the best way to describe corruption is by, beyond its common identification with bribery, including protection (patronage over someone), conflicts of interest (Association of Certified Fraud Examiners, 2018), satisfying private business interests through public office, earning income based on public service functions, gaining benefits in a state enterprise by satisfying private business interests, and so on (Our World in Data, 2024).

To better understand this phenomenon we can describe its meaning from different aspects. As a principal-agent issue, corruption defines areas where citizens are the principals and government officials are the agents acting on their behalf. This further means that officials' possession of asymmetric information and discretionary power over resource distribution creates opportunities for corruption. In this context, anti-corruption strategies emphasize reducing discretionary power while enhancing oversight and accountability (Klitgaard, 1998: 16). Corruption, as a collective issue, affects the behaviors of government officials, businesses, and citizens based on social norms and deterrence. To address this problem, a comprehensive approach is needed, including fostering anti-corruption norms, educating the public, and promoting transparency and accountability initiatives while balancing societal inequalities and power differences (Persson, 2013: 449-471).

Generally, corruption occurs in different forms like bribery, fraud, extortion, embezzlement, and nepotism. It happens at high levels with big government spending distortions and at lower levels where public services are affected by street-level bureaucrats. The impact of corruption is profound: eroding public trust in government, diverting funds from essential services, weakening public institutions, undermining the rule of law, discouraging investments, creating economic inefficiencies, and exacerbating income inequality (Lombardi & Trequattrini, 2020).

1.2. Nowadays governance

Traditional governance models may be susceptible to corruption due to inefficiencies, lack of transparency, and insufficient checks and balances. Inefficiencies in bureaucratic processes can create opportunities for corrupt practices to flourish, as cumbersome procedures often lead to delays and the need for unofficial payments to expedite services. Furthermore, a lack of transparency allows corrupt activities to go unnoticed, as there is little oversight or public scrutiny of government actions and decisions. Insufficient

checks and balances mean that power can be concentrated in the hands of a few individuals or groups, increasing the risk of abuse and corruption.

Effective governance, in contrast, ensures that institutions are transparent, accountable, and responsive to citizens' needs. Transparency is crucial in the fight against corruption, as it enables public access to information about government operations, spending, and decision-making processes. It is much harder to conceal corrupt activities when citizens monitor decision-making and resource allocation. Accountability ensures that government officials are held responsible for their actions. Mechanisms such as regular audits, independent oversight bodies, and robust legal frameworks help to ensure that any corrupt behavior is detected and punished. This deters potential corruption and also reinforces public trust in government institutions. Responsiveness to citizens' needs is also vital. When governments actively engage with their citizens and address their concerns, it reduces the public's need to resort to corrupt practices to obtain necessary services. Initiatives like e-government services, which streamline processes and eliminate direct interactions between citizens and officials, can significantly minimize opportunities for bribery and other forms of corruption. By adopting these principles, traditional governance models become more effective systems to combat corruption. Investing in technology, fostering a culture of transparency, and ensuring robust accountability measures are key steps toward achieving this goal (World Bank Group, 2024).

2. Technology as a tool in the fight against corruption

Technology can be seen as a revolutionary tool for reshaping how the government fights corruption. Governments can increase transparency, streamline processes, and improve accountability by using digital solutions. Incorporating technology to combat corruption today, alongside the traditional deterrence methods, presents a promising strategy. ICT can complement legal sanctions and other preventive measures by providing innovative solutions to detect and deter corrupt activities. For example, transparency portals and big data can expose corruption patterns, technologies like blockchain can create secure and tamper-proof records, while AI can predict and prevent corrupt behavior. Society can enhance its efforts to address and mitigate corruption more effectively by leveraging technology, promoting transparency, and fostering citizen engagement.

2.1. Digital transparency tools

Digital transparency tools such as open data initiatives and blockchain technology help combat corruption by ensuring all transactions and records are accessible, tamper-proof, and easily audited. Open Data Initiatives are indispensable in fostering transparency and accountability within government operations. These Initiatives promote government data accessibility which empowers citizens and enhances public scrutiny. An illustrative example is the Open Government Partnership (OGP), which fosters collaboration between governments and civil society organizations to openly share data on critical processes such as public spending and procurement (Lnenicka et al. 2024).

These efforts significantly contribute to the fight against corruption. When government data is openly available, it allows for greater oversight and enables citizens to hold public officials accountable. Such accountability, transparency, and competitiveness in public procurement ensure that processes are fair, without the risk of favoritism and fraud. The collaborative nature of the OGP, bringing together various stakeholders, further strengthens these efforts by ensuring diverse perspectives and expertise are utilized in promoting open governance. Open Data Initiatives also drive innovation and efficiency in public administration. By providing accessible and usable data, these initiatives enable the development of new tools and applications that improve public services and policy-making. For instance, data on public spending can be used to create applications that track government expenditures in real-time, allowing for better budget management and resource allocation. The positive impact of these initiatives extends beyond transparency, fostering a more informed and engaged citizenry and promoting a culture of openness and trust in government institutions (Davies & Walker, 2019: 17-18).

Blockchain technology offers a decentralized, tamper-proof system for recording transactions, providing security and transparency. By decentralizing the database, blockchain eliminates the risk of a single point of failure and reduces the potential for corruption and fraud. This technology ensures that records, such as those in land registers, are immutable and easily verifiable, which is crucial in maintaining the integrity of public records (Nofer et al. 2017: 185).

Countries like Georgia and Sweden have pioneered using blockchain-based systems in their land registries. In Georgia, the National Agency of Public Registry (NAPR) has utilized blockchain technology since 2016 to secure land titles and property transactions. The blockchain system chronologically records every transaction ensuring that any alteration is detectable. This has significantly reduced instances of property fraud and disputes over land ownership, as each record is publicly verifiable. Sweden has also explored the potential of blockchain in its land registry through a pilot project led by Lantmäteriet,

the Swedish mapping, cadastral, and land registration authority. The project demonstrated that blockchain could streamline property transactions, making them faster, more secure, and less susceptible to manipulation. Blockchain technology helps to prevent fraudulent activities such as double spending or unauthorized changes to property records by ensuring that every transaction is recorded on an immutable ledger (Exonum, 2017).

Beyond land registries, blockchain technology can fight corruption in various other areas of public administration. In *public procurement*, blockchain can provide an open and transparent record of all transactions. This includes everything from the initial bidding process to the final delivery of goods and services. Such transparency makes it difficult for corrupt officials to manipulate procurement processes for personal gain. In addition to public procurement, blockchain can enhance transparency in government *financial management*. Governments can create a transparent and tamper-proof audit trail by recording every financial transaction on a blockchain. This option facilitates easy detection of embezzlement, money laundering, and other corrupt activities. For example, the Government of Estonia has implemented blockchain technology to secure government records, including health and judicial records, ensuring their integrity and reducing the risk of corruption. Furthermore, blockchain can improve *the management of welfare and aid distribution* by ensuring that funds reach the intended recipients without diversion. By creating an immutable record of transactions, blockchain can help track aid distribution, reducing the risk of funds being siphoned off by corrupt officials (UNODC, 2013).

2.2. E-government services

E-government services play a crucial role in reducing corruption by minimizing direct interactions between citizens and officials, thereby reducing opportunities for bribery and other corrupt practices. By digitizing services, governments can streamline processes, increase transparency, and improve accountability. Estonia's e-residency program and online tax system are prime examples of how digital services can effectively combat corruption. Estonia's e-Residency program allows individuals to establish a digital identity and access a range of Estonian e-services without residing in Estonia. This program offers a transparent and secure platform for entrepreneurs to start and manage businesses online, reducing the need for face-to-face interactions with government officials. By digitizing the process, Estonia eliminates opportunities for bribery that could occur during business registration or regulatory compliance. Additionally, all transactions and interactions within

the e-residency system are logged and traceable, ensuring accountability and reducing the risk of corrupt practices (Kotka, et al. 2015: 2).

The country's online tax system, another cornerstone of its e-government services, has transformed the traditional tax system. way taxes are filed and collected. This system allows citizens and businesses to file taxes electronically, reducing the need for intermediaries and making this process faster, more efficient, and transparent. Moreover, the system provides real-time data and analytics, which help tax authorities detect anomalies and potential fraud quickly. The transparency and efficiency of the online tax system have not only increased tax compliance rates but also significantly reduced opportunities for corrupt activities within the tax administration. In addition to these specific programs, Estonia's broader e-government ecosystem further illustrates how digital services can reduce corruption. For instance, the X-Road, a secure data exchange platform, allows various government agencies to share information seamlessly and securely. This integration reduces bureaucratic red tape and the need for multiple approvals from different officials, lowering the risk of bribery and favoritism. The transparency ensured by the X-Road also means that any data modification or access is recorded, making it easier to prevent corrupt activities (Kotka et al. 2015: 1-5).

The effectiveness of Estonia's e-government services in fighting corruption is further supported by its international rankings. Estonia consistently ranks high in global anti-corruption indices, reflecting the success of its digital governance model in promoting transparency and accountability. The digitization of government services has made processes more efficient and instilled a culture of openness and integrity in public administration (Transparency International, 2024).

Parallel to e-government services, e-procurement systems create a transparent bidding process that significantly reduces the risk of bid rigging and ensures fair competition. E-procurement can positively impact savings in public procurement by reducing transaction costs of both contracting authorities and bidders and cutting purchasing prices due to more intensive competition (Jovanović & Ostojić, 2019: 140). These systems promote openness, efficiency, and accountability by digitizing procurement processes. During the past decade, the Public Procurement Portal significantly impacted increased transparency and reduced transaction (administrative) costs in Serbian public procurement (Ostojić & Jovanović, 2019: 147).

One notable example is India's Government e-Marketplace (GeM), an online platform designed to conduct public procurement processes transparently.

India's GeM platform streamlines the procurement process by providing a centralized and standardized system where government departments can procure goods and services. This digital marketplace eliminates the need for physical paperwork and face-to-face interactions, which are often avenues for corrupt practices such as personal gain, nepotism, and favoritism. By making all procurement activities visible and traceable, GeM ensures that every transaction is conducted fairly. One of the primary ways GeM fights corruption is through its transparent bidding process. All suppliers have equal access to information about procurement opportunities, and bids are submitted electronically in a standardized format. This transparency prevents bid rigging, where colluding parties manipulate the bidding process to their advantage. On GeM, all bids are visible to relevant stakeholders, and the platform uses algorithms to evaluate and select the best bids based on predefined criteria, ensuring impartiality and fairness. GeM provides comprehensive audit trails for all transactions, which enhances accountability. Every step of the procurement process, from the issuance of tenders to the awarding of contracts and the delivery of goods and services, is recorded and can be audited. This traceability gives options for the irregularities detection and for the investigation of any suspicious activities (World Bank Blogs, 2022).

The platform also employs advanced data analytics and artificial intelligence to monitor procurement activities and detect patterns indicative of fraud or corruption. For instance, unusual bidding patterns or frequent awards to the same supplier can trigger alerts for further investigation. This proactive approach enables authorities to address potential issues before they escalate, maintaining the integrity of the procurement process. Furthermore, GeM fosters competition by widening the pool of potential suppliers. The platform reduces monopolistic practices and promotes a more competitive marketplace by ensuring equal rights for all qualified vendors to register and participate in procurement processes. This ensures better value for money for the government and also reduces the likelihood of corruption by making it harder for any single entity to dominate the market through corrupt means. The effectiveness of GeM in fighting corruption is reflected in the increased confidence of suppliers and buyers in the system. Suppliers are more willing to participate in a transparent and fair process, while government agencies benefit from efficient and cost-effective procurement. This mutual trust and efficiency contribute to a culture of integrity and transparency in public procurement (CSM, 2023).

2.3. Whistleblower platforms

Anonymous reporting tools empower individuals to report bad practices without fear of retribution, playing a crucial role in the fight against corrupt practices. These tools provide secure and confidential channels for whistleblowers to come forward, ensuring their protection and encouraging more people to report wrongdoing. The effectiveness of anonymous reporting tools in combating corruption lies in their ability to bypass traditional barriers to reporting. Fear of retaliation is a significant deterrent for potential whistleblowers. By providing a secure means of communication, these tools encourage more people to come forward with valuable information. This influx of information can lead to increased detection and investigation of corrupt practices, holding perpetrators accountable and deterring future misconduct. When individuals know that they can report corruption anonymously and securely, it fosters a sense of empowerment and responsibility. This cultural shift of transparency and accountability is essential for sustaining long-term anti-corruption efforts, as it encourages continuous vigilance and reporting from within communities and organizations (UNODC, 2024).

Encrypted communication apps like Signal and whistleblower platforms like GlobaLeaks exemplify how technology can support these efforts, enabling safe and anonymous reporting. Encrypted communication apps such as Signal offers end-to-end encryption, ensuring that messages can only be read by the intended recipients. This high level of security is essential for whistleblowers who may fear exposure and retaliation. The app's robust encryption prevents third parties, including potential perpetrators of corruption, from intercepting and deciphering the communications. Whistleblower platforms like GlobaLeaks provide a structured and secure environment for reporting corruption. GlobaLeaks is an open-source software platform designed to facilitate anonymous whistleblowing. It allows users to submit documents and information securely and anonymously through a web-based interface. The platform employs advanced security measures such as encryption, anonymization, and secure data storage to protect the identity of whistleblowers and the integrity of the information they provide. These features are crucial in ensuring that whistleblowers can report corruption without fear of being traced or retaliated against (GlobaLeaks, 2021).

A notable example of how secure communication tools can support whistleblowers is the Panama Papers leak. In 2016, an anonymous whistleblower used secure communication channels to provide journalists with a massive cache of documents from the Panamanian law firm Mossack Fonseca. These documents exposed widespread corruption, tax evasion, and

money laundering involving numerous high-profile individuals and entities worldwide. The whistleblower's use of secure tools ensured their identity remained protected, enabling the safe and effective disclosure of information that had significant global repercussions (ICI, 2013).

2.4. Big Data and AI

Big Data and Artificial Intelligence (AI) are transforming the fight against corruption by enabling the detection and prevention of fraudulent activities. These advanced technologies can analyze large datasets and uncover patterns and anomalies indicative of corruption. One notable example of how these technologies have been used is in Brazil, where the Office of the Comptroller General (CGU) employs AI algorithms to monitor and analyze public spending. By leveraging Big Data, the CGU can process vast amounts of financial data from various government agencies and public entities. The AI algorithms analyze this data to detect irregularities, such as unusual spending patterns, discrepancies in procurement processes, or suspicious financial transactions. These insights enable the CGU to flag potential cases for further investigation, thereby increasing the efficiency and effectiveness of oversight (Hulstijn, 2017: 52-66).

Machine learning models, a subset of AI, are vigorously efficient in predicting and identifying potential fraud. These models are trained on historical data to recognize the characteristics and patterns associated with fraudulent activities. Once trained, they can analyze current and real-time data to predict the likelihood of corruption occurring in specific transactions or areas. For example, if a particular contractor consistently wins bids at inflated prices or delivers substandard work, the machine learning model can identify these patterns and alert authorities to investigate further. The predictive capabilities of AI as early warnings of potential bad activities are crucial in allowing authorities to intervene before fraud occurs by analyzing data in real time. This proactive approach also acts as a deterrent to those considering engaging in corrupt practices. Moreover, Big Data and AI facilitate more comprehensive and systematic audits. Traditional audit methods often involve manual sampling and review, which can be time-consuming and limited in scope. In contrast, AI-powered audits can automatically analyze entire datasets, ensuring no transaction goes unchecked. This thoroughness enhances the likelihood of detecting corruption and reduces the chances of oversight (Köbis, 2022: 418-424).

Beyond financial data, AI and Big Data can also analyze other types of information, such as social media activity, communication records, and public

disclosures, to identify potential corruption. For instance, by examining networks and connections between individuals and entities, AI can reveal hidden relationships and conflicts of interest that may indicate corrupt practices. This multidimensional analysis provides a more holistic view of potential bad practices, enabling more targeted and effective interventions. The implementation of these technologies also promotes transparency and accountability. By making data analysis and findings available to the public, governments can demonstrate their commitment to fighting corruption and fostering trust among citizens. Publicly accessible data platforms powered by AI can allow citizens, journalists, and civil society organizations to monitor government activities and expenditures, further enhancing the oversight and deterrence of corrupt practices.

2.5. Social Media and Crowdsourcing

Social media platforms have become powerful tools for citizens to report corruption and mobilize for greater transparency. By providing a space where individuals can share their experiences and expose corrupt practices, these platforms increase public awareness and influence authorities to take action. Platforms like Twitter and Facebook can be used to disseminate information about corruption and mobilize public support for anti-corruption initiatives. This public engagement is crucial for sustaining pressure on authorities and ensuring accountability.

The “I Paid a Bribe” website in India is a notable example of how social media can be leveraged to combat corruption. This platform allows citizens to anonymously report bribery, shedding light on the prevalence of corrupt practices and encouraging others to share their experiences. “I Paid a Bribe” collects and displays reports from users creating a comprehensive database of bribery incidents. The platform's data can identify patterns and hotspots of corruption, enabling targeted interventions and policy reforms. By empowering citizens to speak out without fear of retribution, “I Paid a Bribe” fosters a culture of accountability and helps build a collective resistance against corruption (GlobalVoices, 2010).

Crowdsourced monitoring tools like Ushahidi further enhance the ability of citizens to report and track corruption in real time. Initially developed to monitor post-election violence in Kenya, Ushahidi has since been adapted for various applications, including the fight against corruption. The platform allows users to submit reports via multiple channels, including SMS, email, and social media, which are then mapped and visualized on a public interface. This real-time

reporting creates a dynamic and up-to-date picture of corrupt activities, making it easier for authorities and civil society organizations to respond promptly. In Kenya, Ushahidi was instrumental in monitoring election violence and corruption, providing a transparent and accessible platform for citizens to report incidents as they occurred. The data collected through Ushahidi was used to create detailed maps and visualizations, highlighting areas with high levels of reported corruption and violence. This information was invaluable for local and international observers, enabling more effective monitoring and intervention efforts. The success of Ushahidi in Kenya demonstrates the potential of crowdsourced monitoring tools to enhance transparency and accountability in various contexts (Ushahidi, 2013).

The effectiveness of these social media platforms and crowdsourced tools in fighting corruption lies in their ability to democratize information and amplify citizen voices. By making it easy for individuals to report corruption anonymously and securely, these tools lower the barriers to participation and encourage more people to come forward. The aggregated data from these reports provides a powerful evidence base that can be used to advocate for change and hold authorities accountable. The public nature of these platforms increases the pressure on governments to act. When corruption reports are widely visible and easily accessible, it becomes harder for officials to ignore or cover up the issues. This visibility can prompt swifter responses and more decisive actions from authorities, leading to more effective anti-corruption measures.

3. Challenges and Limitations

Parallel to the numerous benefits of using technology in the fight against corruption, there are significant challenges and limitations to implementing technological tools in every segment of the governance functioning. First, the digital divide, which refers to the unequal access to technology among different populations, can limit the effectiveness of these anti-corruption efforts. In many regions, especially in less developed areas, access to the internet and digital tools is not widespread. This disparity means that while some citizens can actively participate in reporting and monitoring corruption, others remain excluded, reducing the overall impact of these technologies. To address this, investing in expanding digital infrastructure and ensuring that all citizens have the skills and resources necessary to participate in digital anti-corruption initiatives is crucial. Second, privacy concerns arise with the increased use of open data in surveillance and data analysis in anti-corruption measures. While

technologies such as Big Data and AI can significantly enhance the detection and prevention of corruption, they also pose risks to individuals' privacy. For example, collections of large datasets may inadvertently expose sensitive personal information. To balance anti-corruption measures with the right to privacy, it is essential to implement strong data protection policies and ensure transparency in how data is collected, used, and stored. This can help build public trust and encourage wider participation in digital anti-corruption efforts. Third, as anti-corruption strategies become more sophisticated, corrupt entities may adapt to new technologies, finding innovative ways to evade detection. This necessitates continuous innovation and adaptation in anti-corruption measures. For instance, while blockchain technology can secure land registries and other public records, corrupt actors may develop new methods to manipulate these systems. To stay ahead of such tactics, it is important for anti-corruption efforts to be dynamic and flexible, incorporating the latest technological advancements and best practices. Continuous training and capacity building for both officials and citizens are crucial in this regard. Governments and anti-corruption organizations should invest in regular training programs to keep their personnel updated on the latest technologies and techniques. In this way, governments improve the effectiveness of anti-corruption measures but also help to anticipate and counteract new forms of corruption (Europol, 2019: 5-14).

While the digital divide, privacy concerns, and the adaptability of corrupt entities present significant challenges, the benefits of using technology in the fight against corruption are substantial. By addressing these challenges through investment in digital infrastructure, strong data protection policies, and continuous innovation, technology can significantly enhance the effectiveness of anti-corruption efforts.

4. Conclusions

The ICT usage and the usage of emerging technologies offer a new avenue for governance reform. These technology development and implementation alongside traditional methods to create a comprehensive and effective anti-corruption strategy is essential. Technology has become an indispensable tool in the fight against corruption, playing a pivotal role in enhancing transparency, accountability, and citizen engagement. As technological advancements continue, their potential to further reduce corruption and promote good governance grows exponentially. Governments, NGOs, and the private sector

must invest in and support these technologies to build a more transparent and accountable world.

One of the primary ways technology combats corruption is by increasing transparency. Digital platforms and online databases make information about government operations and spending readily accessible to the public. For example, India's Government e-Marketplace (GeM) provides a transparent bidding process for public procurement, significantly reducing the risk of bid rigging and ensuring fair competition. By making all procurement activities visible and traceable, GeM helps eliminate opportunities for corrupt practices such as favoritism and bribery.

Also, technology enhances accountability through robust data analysis and monitoring capabilities. Big Data and Artificial Intelligence (AI) are particularly effective in detecting patterns and anomalies that indicate fraudulent activities. Brazil's Office of the Comptroller General utilizes AI algorithms to scrutinize public spending, identifying irregularities and preventing fraud. These technologies enable the proactive identification of corruption, allowing authorities to intervene swiftly and mitigate damage.

Citizen engagement is another critical area where technology has made significant strides. Social media platforms and crowdsourced monitoring tools empower individuals to report corruption and mobilize for greater transparency. The "I Paid a Bribe" website in India allows citizens to anonymously report instances of bribery, raising awareness and putting pressure on authorities to take action. Similarly, Ushahidi's crowdsourced platform enables real-time tracking and reporting of corruption, as demonstrated during Kenya's elections, providing a transparent and accessible tool for citizen involvement. Anonymous reporting tools, such as encrypted communication apps like Signal and whistleblower platforms like GlobaLeaks, provide secure channels for individuals to report corruption without fear of retribution. These tools ensure the protection of whistleblowers, encouraging more people to come forward with valuable information about corrupt activities. The Panama Papers leak, facilitated by secure communication tools, exemplifies how technology can support whistleblowers in exposing widespread corruption on a global scale.

Technology has proven to be a powerful ally in the fight against corruption. By enhancing transparency, accountability, and citizen engagement, technological tools help dismantle opportunities for corrupt practices and promote good governance. The ongoing investment and support from governments, NGOs, and the private sector are crucial in harnessing the full potential of these technologies. Despite these advancements, challenges such as the digital divide

and privacy concerns must be addressed to maximize the effectiveness of technology in combating corruption. Unequal access to technology can limit the participation of certain populations, necessitating investments in digital infrastructure and education to ensure inclusive access. Privacy concerns also need to be balanced with the need for increased surveillance and data analysis. Implementing strong data protection policies and maintaining transparency in data usage can help build public trust and encourage wider participation in digital anti-corruption initiatives. Furthermore, as corrupt entities adapt to new technologies, continuous innovation and adaptation in anti-corruption strategies are imperative. Governments and organizations must stay ahead of emerging tactics by investing in the latest technological advancements and ensuring their personnel are well-trained in using these tools effectively. As we continue to innovate and address emerging challenges, technology will play an increasingly vital role in building a more transparent and accountable world, ultimately contributing to a fairer and more just society.

Acknowledgment: The paper was written as part of the 2024 Research Program of the Institute of Social Sciences with the support of the Ministry of Science, Technological Development and Innovation of the Republic of Serbia.

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CATALYSTS FOR CHANGE: LEADERSHIP'S PIVOTAL ROLE IN DESIGNING SUSTAINABLE ORGANIZATIONS IN THE CONTEMPORARY BUSINESS ENVIRONMENT

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Abstract

In the contemporary business landscape, characterized by increasing environmental and social consciousness, the concept of sustainability has become a cornerstone for long-term organizational success. The aim of this paper was to examine the key concepts of sustainable organizations and leadership, through the nuanced lens of organizational design and change. By conducting desk research, the key conclusion of the paper is that sustainable organizations are distinguished by their steadfast commitment to environmental stewardship, social responsibility, and enduring economic viability. These organizations recognize the intrinsic interconnectedness of their operations with both the natural environment and the broader societal context within which they operate. Furthermore, leaders and their leadership approach play an outstanding role in the involvement of the sustainability agenda within these organizations. They are entrusted with the responsibility of articulating a compelling vision for sustainability, seamlessly integrating sustainable practices into core business strategies, and cultivating a corporate culture that values environmental and social responsibility alongside financial performance. This holistic approach ensures that organizations not only mitigate their negative ecological and societal impacts but also actively contribute to a more sustainable future.

Keywords: sustainability, organizational design, organizational change, leadership, green transformational leadership

1 Introduction

Businesses play a crucial role in driving society's shift towards sustainability (Baumgartner & Rauter, 2017). Through their strategies, operations, and innovative solutions, organizations can drive societies toward greater sustainability and progress the Sustainable Development Agenda by contributing to the Sustainable Development Goals (Lozano & Barreiro-Gen, 2022). Building sustainable organizations is important for a multitude of reasons, encompassing environmental, social, and economic dimensions through „triple bottom line“ concept. Policymakers face the challenge of achieving sustainable development and avoiding further environmental degradation (Ostojić, 2023: 24). Sustainable organizations strive to minimize their environmental footprint by reducing resource consumption, waste generation, and pollution. This helps preserve natural resources for future generations and mitigates the negative impacts of climate change. By adopting sustainable practices, organizations can contribute to the protection of ecosystems and biodiversity. This is essential for maintaining a healthy planet and ensuring the long-term viability of businesses that rely on natural resources. Businesses have a responsibility to contribute to the well-being of society and act ethically in their operations.

Sustainable leadership represents a focal point for building sustainable organizations due to its ability to foster a holistic integration of environmental, social, and economic considerations into the organization's core values, strategies, and operations. Sustainable leadership is a management concept that prioritizes a comprehensive and long-term approach to organizational performance. It aims to balance economic profitability, social responsibility, and environmental consciousness (Bencsik & Pangsy-Kania, 2023). This leadership style is not only about achieving financial gains but also about making a positive impact on the well-being of employees, customers, and the broader community. It involves fostering a culture of innovation, trust, and continuous learning within the organization. This enables them to navigate uncertainty, anticipate future trends, and make informed decisions that consider long-term consequences. Furthermore, sustainable leaders are catalysts for innovation and change. They foster a culture of experimentation and learning, empowering employees to find creative solutions to sustainability challenges. This drive for innovation often results in the development of new products, services, and business models that contribute to a more sustainable future.

The aim of this paper is to highlight the focal point of leaders in designing the sustainable organizations, since they play outstanding role in the transition of entire society towards sustainability. This paper is structured to provide a

comprehensive exploration of sustainable organizations and leadership within the contemporary business landscape. It begins by highlighting the critical role of organizational design in prevailing dynamic environment, emphasizing its impact on achieving sustainability goals. The paper then briefly describes the methodological approach applied, providing key information regarding desk research. Next, the core concept of sustainable organizations is thoroughly explained, encompassing their key characteristics, defining principles, and the profound importance of adopting sustainable practices for long-term success. This is followed by an in-depth analysis of sustainable leadership, distinguishing it from green transformational leadership and highlighting the unique attributes required from leaders for driving sustainability initiatives. Finally, the paper provides a concise summary of key findings, drawing out significant implications for both theory and practice. In conclusion are given recommendations for future research directions in this field, aiming to further advance understanding of sustainable organizations and leadership.

2 The Role and Importance of Organizational Design

Organizational design has emerged as a critical factor in the business success of modern enterprises (Burton, 2013; Cummings & Kielser, 2014). It directs the energy of employees, aligns their goals with the objectives and interests of the entire organization, and motivates them to make decisions that create value for all stakeholders (Kates & Galbraith, 2007). Increasingly, organizational design is occupying the position of a strategically important resource for modern organizations and is positioned ahead of raw materials, energy, equipment, technology, and people because its effect integrates all these resources and puts them in service of achieving the goals of a given organization (Mintzberg, 1979). To support strategic goals and guide employees towards their realization, managers must select an appropriate organizational design (Daft, 2015). Increasingly, managers strive to utilize organizational design to establish organizations with superior capabilities (Ulrich & Smallwood, 2009), that is, a combination of knowledge, skills, processes, technologies, and human resources that make the organization unique and provide a solid foundation for gaining a competitive advantage (Kates & Galbraith, 2007).

From an external perspective, design empowers organizations to respond distinctively to environmental challenges and build their competitive advantage. Internally, organizational design imposes on employees the obligation and responsibility to behave in a specific, predefined manner (Jones, 2003). The process of designing an organization involves aligning the interests of various

stakeholders (Grandori, 2002) and making both routine, short-term decisions and complex, long-term decisions about how to shape the key dimensions that determine the functioning of an organization (Burton et al., 2006). When designing an organization, it is necessary to consider (Irwin & Cichocki, 2011): (1) the purpose of the organization's existence and its strategic goals; (2) the required organizational capabilities; (3) the alignment of key dimensions necessary for the organization's functioning; (4) the method for implementing the appropriate organizational design.

Organizational design plays a crucial role in securing sustainable organizations. It encompasses the structures, processes, and systems that shape how an organization functions and interacts with its environment. Organizational design ensures that the structure of the organization aligns with its sustainability strategy (Hahn et al., 2018). This includes creating roles and responsibilities specifically focused on sustainability, establishing cross-functional teams to address sustainability challenges, and integrating sustainability considerations into decision-making processes.

3 Research Method

In this paper is applied a comprehensive desk research methodology with the aim to explore the existing literature regarding the relationship between leadership and the creation of sustainable organizational design. Desk research, also known as secondary research, involves the systematic collection and analysis of existing literature and information sources (Kumar, 2019). This approach offers a robust and cost-effective means of reviewing a broad spectrum of scholarly work, industry reports, and other relevant materials (Saunders et al., 2019). Following the fact that the topic of sustainable organization and leadership has been extensively explored in academic and professional context, desk research enables a thorough review of this diverse body of work. Futhermore, it enables to build a theoretical framework based on established knowledge.

This research seeks to answer the following questions, exploring the interconnected relationship between leadership and sustainability:

RQ1: What are the essential characteristics of sustainable organizations?

RQ2: In what ways does leadership influence the sustainability of an organization?

RQ3: What are the key differences between sustainable and green transformational leadership?

4 Sustainable Organizations: Key Characteristics

A review of existing literature reveals a multitude of definitions concerning sustainable organizations. According to Leon (2013), a sustainable organization is a genuinely ethical business that establishes structures and strategies to achieve goals in economic, environmental, and social areas by utilizing resources responsibly. This perspective underscores the significance of ethics, authenticity, and balanced resource distribution across various sustainability aspects. Rodríguez-Olalla & Avilés-Palacios (2017) describe organizational sustainability as a multifaceted concept that prioritizes sustaining outcomes, fostering knowledge creation, developing capabilities, forming collaborations, and delivering services and products in an efficient and effective manner. This perspective emphasizes the diverse facets of sustainability, such as knowledge generation, capacity development, and partnerships. Lozano (2018) defines organizational sustainability as an organization's active role in maintaining a balance across economic, environmental, and social aspects, both in the present and future. This involves integrating sustainability considerations into various parts of the organization, such as its operations, strategy, governance, and evaluation processes. This perspective highlights how organizations contribute to the wider sustainability landscape and how they embed sustainability into their core functions. While the definitions vary, they share some common themes, such as: (1) multidimensionality: organizational sustainability is not solely focused on environmental concerns. It encompasses economic, social, and environmental dimensions, recognizing the interconnectedness of these aspects; (2) long-term focus: sustainability is a long-term endeavor, requiring a focus on maintaining results, building capacity, and ensuring the organization's viability over time; (3) strategic integration: sustainability is not an isolated initiative but should be integrated into the organization's strategy, operations, and management practices, and (4) leadership and vision: strong leadership and a clear vision are essential for driving sustainability efforts and ensuring their successful implementation.

In practice, there are numerous companies that demonstrate strong orientation to sustainable business. For example, Holcim, a global leader in building materials and solutions, is deeply committed to sustainability and environmental preservation. The company's sustainability strategy is built on four pillars: climate, circularity, nature, and people. Holcim aims to decarbonize construction by developing and scaling up low-carbon products. The company is also investing in carbon capture, utilization, and storage technologies to further reduce its carbon footprint. Holcim is promoting a circular economy in construction by recycling construction and demolition materials into new

building solutions. It is committed to building a nature-positive future by reducing its water consumption, promoting biodiversity, and integrating nature into urban environments through green roofs and permeable concrete. Furthermore, this company prioritizes the well-being of its employees and the communities where it operates. It is highly committed to upholding human rights, ensuring health and safety, and contributing to social development projects (Holcim 2023 Integrated Annual Report). Holcim's commitment to sustainability is evident in its actions and achievements. The company has set ambitious targets to reduce its environmental impact and is actively working towards a net-zero future. By integrating sustainability into its core business strategy, Holcim is demonstrating that environmental preservation and economic growth can go hand in hand.

Sustainable organization excels at harmonizing profitability with environmental responsibility and positive social impact, ensuring its operations benefit both present and future generations (Perrott, 2014). The significance of sustainable organizations lies in their ability to generate long-term value, foster innovation, enhance brand reputation, attract top talent, mitigate risks, and ultimately improve financial performance. They achieve these outcomes by minimizing environmental impact, actively engaging with communities, promoting fair labor practices, adopting robust and ethical business models, collaborating with stakeholders, and upholding strong governance and ethical standards. Organizations can adopt various strategies to implement sustainability management. These may include establishing clear sustainability targets and regularly monitoring progress, adopting eco-friendly technologies and processes, fostering a culture of sustainability awareness and education among employees, and actively engaging with stakeholders to gather valuable feedback and insights on their sustainability efforts (Pérez-López et al., 2015).

5 Designing Sustainable Organizations

Designing an organization to be sustainable involves integrating sustainability into the core business strategy and decision-making processes, setting clear sustainability goals that are aligned with the overall business objectives, and developing sustainable business models. On the operational level, it involves embedding sustainable practices into daily operations, empowering employees to contribute to sustainability initiatives and measuring and monitoring sustainability performance to track progress and identify areas for improvement (Coffay & Bocken, 2023). By addressing these key characteristics, organizations can create a sustainable organizational design that supports the

development and implementation of sustainable business models, ultimately contributing to long-term success and positive environmental and social impact.

Perrott (2014) proposes an integrated model to understand how organizations evolve in their approach to sustainability. It builds upon an existing model that focuses on the social and environmental aspects, adding a crucial economic dimension. The model outlines six distinct phases an organization might transition through on its journey to becoming fully sustainable:

1. **Rejection:** Organizations in this phase exploit ecological and social resources for immediate economic gain, disregarding long-term sustainability and societal well-being.
2. **Non-responsiveness:** Characterized by a lack of awareness or ignorance regarding sustainability, these organizations maintain a “business as usual” approach without integrating sustainability into their decision-making.
3. **Compliance:** Organizations in this phase focus on meeting minimum legal and societal standards for sustainability, primarily to avoid sanctions and negative publicity.
4. **Efficiency:** Sustainability practices are adopted to reduce costs and increase efficiency. This includes investments in employee training, eco-friendly technologies, and process improvements.
5. **Strategic proactivity:** Sustainability becomes central to the organization’s business strategy, aiming for a competitive advantage through innovation and leadership in sustainable practices.
6. **The sustaining organization:** Organizations in this final phase have fully internalized sustainability principles. They actively promote sustainability within their industry and society, viewing themselves as an integral part of a sustainable world.

The model emphasizes that an organization’s progress can vary across the three dimensions of sustainability (economic, social, and environmental) at any given time. The integrated model helps managers assess their organization’s current phase in each dimension and plan for future progress by considering the necessary resources, strategies, and cultural shifts. On the other hand, the “Star Model” developed by Jay Galbraith is a framework frequently used for organizational designing. This model encompasses strategy, structure, people, processes and rewards. It can be used to integrate sustainability into organizational design in the following ways (Gutterman, 2020):

Strategy: The first step is to define what sustainability means for the organization. It is important to get input from both internal and external stakeholders to understand the different aspects of sustainability. Once a definition is agreed upon, sustainability should be integrated into the organization's vision, mission, values, and goals. It is important to make sustainability a top priority for the organization and to include it in performance scorecards. When selecting sustainability projects, organizations should focus on their strengths and choose projects that align with their core competencies.

Structure: The second step is to create a structure that supports sustainability. This includes creating an executive position responsible for sustainability and ensuring that all employees have sustainability roles and goals. It is also important to partner with other organizations to leverage resources and achieve greater outcomes.

People: The third step is to engage employees in sustainability. This includes providing sustainability training and education, creating opportunities for employees to participate in sustainability projects, and giving employees a voice in sustainability decision-making.

Process: The fourth step is to design and implement processes that support sustainability. This includes setting sustainability targets, collecting and reporting data on sustainability performance, and engaging stakeholders in sustainability initiatives.

Rewards: The fifth step is to create a reward system that encourages sustainability. This includes aligning compensation to sustainability performance, recognizing and celebrating sustainability successes, and providing support for new sustainability projects.

By following these steps, organizations can create a sustainable organization that is aligned with their values and goals.

6 Sustainable Leadership: A Lever for Sustainable Organizations

Leaders play a crucial role in driving sustainability within organizations. They are responsible for setting the vision, integrating sustainability into strategies, and fostering a culture that values environmental and social responsibility alongside economic performance. Sustainable leaders play a crucial role in establishing a clear and compelling vision for a sustainable future. This vision acts as a guiding light, aligning the organization's goals with broader environmental and social objectives (Egri & Herman, 2000). Hargreaves &

Fink (2004) conceptualize sustainable leadership in educational settings as the capacity to foster deep and comprehensive learning, plan for long-term continuity, encourage collaborative decision-making, share resources with the broader community, promote diversity, incentivize talent, and learn from past experiences to build a better future. Avery (2005) introduced the concept of sustainable leadership to the business world, defining it as the capacity for long-term decision-making, fostering systematic innovation, developing a dedicated workforce, and delivering high-quality products and services. The aim is to achieve a balance between people, profits, and the planet, ensuring the organization's sustainability through appropriate management practices. Tideman et al. (2013) define sustainable leadership as leadership behaviors that arise from the current context of leaders and organizations, in response to the disruptive and transformative changes occurring in contemporary business and society.

Sustainable leadership represents a leadership style that prioritizes environmental sustainability and social responsibility in organizational decision-making and practices. Sustainable leaders inspire and empower their teams to integrate sustainability into the core values and operations of the organization. This approach goes beyond mere compliance with environmental regulations; it aims to proactively create a positive impact on the planet and society. For example, Indra Nooyi (PepsiCo CEO) leadership style was of tremendous importance in driving PepsiCo's sustainability initiatives. She championed an integrated approach called „Performance with Purpose,“ linking sustainability efforts to corporate performance. Nooyi's leadership is evident in PepsiCo's adoption of technologies to reduce water usage and emissions, as well as their transition to electric delivery trucks (Perrott, 2014).

The key elements of sustainable leadership are presented in Table 1.

Table 1. The key elements of sustainable leadership and concepts used in business

Elements	Concepts used in business
Context	Recognizing the interconnectedness of systems, limitations of resources, and the influence of regulations and trends.
Consciousness	Understanding the importance of mindsets, beliefs, and attitudes in shaping actions and decisions.
Continuity	Embracing a long-term perspective, demonstrating courage and resilience in pursuing a shared purpose, and managing change effectively.
Connectedness	Prioritizing the needs of all stakeholders, fostering cooperation, trust, and fairness in relationships.
Creativity	Driving innovation to create shared value, developing sustainable business models, and rethinking traditional measures of value.
Collectiveness	Enhancing collective impact by integrating sustainability into the core of the business, its structure, and promoting responsible consumption.

Source: adapted from Al Danaf & Szilard, 2021

Some authors propose the concept of green transformational leadership. Green leaders adopt a holistic, systems-oriented approach to problem-solving. They consider the interconnectedness of environmental, social, and economic factors in their decision-making processes (Egri & Herman, 2000). Furthermore, green leaders foster a culture of collaboration and empowerment, encouraging employees to participate in sustainability initiatives. They recognize the importance of diverse perspectives and build strong partnerships with stakeholders (Gilley et al., 2009).

While both green transformational leadership and sustainable leadership share a concern for the environment, there are some differences. In table 2 are presented the key characteristics of both leadership style, their scope, values and depth.

Table 2. The key characteristics and differences between green transformational and sustainable leadership

	Green Transformational Leadership	Sustainable Leadership
Key characteristics	Instills green values and environmental goals, motivates exceeding environmental performance expectations.	Balances economic, social, and ecological goals, demonstrates moral courage, long-term vision, and focuses on meeting stakeholder needs and creating shared value.
Scope	The key focus is on environmental goals and promotion of green practices within an organization.	Broader approach, encompassing environmental, social, and economic considerations to achieve a balance between people, profits, and the planet.
Values	Instilling green values and environmental promotion among followers.	Goes beyond environmental values, incorporating ethical principles, social responsibility, and long-term value creation for all stakeholders.
Depth	Extension of transformational leadership, adding a green value orientation to its existing dimensions.	Distinct leadership style with a more comprehensive framework that addresses a wider range of sustainability issues.

Source: Adapted from Liao, 2022

In essence, green transformational leadership is primarily concerned with environmental sustainability, while sustainable leadership takes a more holistic approach, integrating environmental, social, and economic factors into leadership practices.

7 Conclusion

This paper explains how sustainable leadership differs from green transformational leadership by examining sustainable companies and leadership through the lenses of organizational design and change. A sustainable organization demonstrates a strong commitment to environmental protection, social responsibility, and long-term economic success. It actively reduces negative environmental effect, emphasizes stakeholder well-being, and achieves a balance between economic, social, and environmental goals. It also encourages innovation, involves stakeholders, promotes ethical governance, and prioritizes long-term sustainability. Sustainable leadership is the catalyst that transforms an organization's sustainability goals into measurable results.

It gives the vision, direction, and momentum required to address the complex challenges of the twenty-first century and create a more sustainable and fair future for all.

In this paper was used desk research of existing sources regarding sustainable organizations and leadership. While desk research offers valuable insights, it is important to acknowledge its limitations. The findings are inherently dependent on the quality and availability of existing sources. The main recommendation for future research on this topic is to do empirical research using questionnaire or interview techniques, as well as the case study approach, to acquire more in-depth insights in practice about these important issues.

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**GREEN TRANSITION
AND POLICIES**

NAVIGATING CHALLENGES IN THE JUST ENERGY TRANSITION: POLICY AND INSTITUTIONAL DYNAMICS FOR IMPLEMENTATION IN NORTH MACEDONIA

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Abstract

Despite the multiple crises that have challenged the political leadership and slowed down the just energy transition process in the Republic of North Macedonia, the past few years marked significant milestones in the energy and climate sector. The country undertook serious international commitments for enhanced climate action and energy reforms with the submission of the Nationally Determined Contribution to the Paris Agreement and the endorsement of the Sofia Declaration on the Green Agenda for the Western Balkans in 2020 followed by an adoption of an action plan. The decarbonisation roadmap was underpinned with the preparation of the first integrated National Energy and Climate Plan and the agreement on the 2030 energy and climate targets at the 2022 Ministerial Council of the Energy Community. Some efforts to provide pathways to reach those targets have been made also on a national level. However, regardless of the attempts to encompass all the relevant policies and measures in the respective planning documents in a holistic manner, their implementation remains unsuccessful and the institutional approach is fragmented. The climate and energy portfolios continue to be

divided among the competent authority in charge of the environment and the competent authority for energy, that lack the needed capacities deriving from the climate and energy legislation, even in the most restrictive sense of their understanding. The institutional mechanisms for operationalization of the broader concept of energy transition is completely missing, limited to the ad hoc coordination by different institutions. This arrangement does not deliver the needed institutional setup which would facilitate the systemic shift that the just energy transition prerequisites. This paper analyses the obligations deriving from the undertaken climate and energy commitments, the national documents transposing those obligations and their inter-relation with the competent institutions, as well as the capacities for their comprehensive planning, implementation and monitoring.

Keywords: NECP, Western Balkans Green Agenda, climate and energy targets

1. Introduction

Just transition as a concept is very prominent in the policy discussions and regulatory efforts, while still having a broad and varied understanding. Its concrete application is contextual, factored by time and geography, as well as economic, social and cultural dimensions. Together with climate action, it is an area where practice is preceding theory and literature. In that manner, one common used understanding is the definition emerging from its labour-oriented origin,¹ which is seeing it as “greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind” (International Labour Association, 2024). Scholarly debates on just transition appeared more recently and multidisciplinary engagement with the concept has led to divergent interpretations, resulting in multiple and ambiguous definitions (Wang and Lo, 2021: 2).

The common denominator is that it encompasses various dimensions, as a set of principles, processes and practices that aim to ensure that no people, workers, places, sectors, countries or regions are left behind in the transition from a high-carbon to a low-carbon economy (IPPC, 2023: 119-130). It is also the clear manifestation and biggest challenge that the climate agenda has presented to the national governments.

The overall idea for a need to transition into a clean and fossil free energy system, apart from the local pollution, derives from the climate obligations i.e. mitigation commitments. In that way the climate change challenge is largely an energy challenge. This is why the clean energy agenda is interconnected with the climate agenda. While there are many discussions on what climate governance is and how it gets translated on a national level, regardless of the tendencies to integrate these two policy areas, it is still very often the case that the energy sector is governed independently.

The Republic of North Macedonia (or shortly: North Macedonia) is a country vulnerable to climate change, with an ambitious emission reduction commitment, and an energy system heavily relying on coal. This results with coal phase out being the turning point for its achievement of the set greenhouse gas emission reduction target. This also places North Macedonia’s authorities among those challenged by the just energy transition process.

¹. More at: What is the just transition and what does it mean for climate action? 20 February 2024, <https://www.lse.ac.uk/granthaminstitute/explainers/what-is-the-just-transition-and-what-does-it-mean-for-climate-action/> (August 15, 2024)

Until recently, traditionally these two sectors have been governed on a national level by two key institutions in the Government of the Republic of North Macedonia, namely the Ministry of Environment and Physical Planning and the Ministry of Economy. Yet, regardless of the fact that these two portfolios were legally allocated as competences for the named state authorities, different internationally induced processes were often being addressed by other institutions as focal points, such as the case with the previous cabinet of the Vice Prime Minister for Economic Affairs managing the Green Climate Fund related activities. Two months ago, with the establishment of the new Parliamentary majority (right before the establishment of a new Government), the energy portfolio for the first time was elevated as a sole area of responsibility for a specialised Ministry for Energy, Mining and Mineral Resources.

The institutional mechanism for operationalization of the broader concept of energy transition is still not recognizable, remaining limited to the ad hoc coordination by different institutions. This arrangement has failed to deliver the needed institutional setup which would facilitate the systemic shift that the just energy transition prerequisites, until today.

This paper analyses the policy and institutional dynamics for achieving just transition of the energy system in the Republic of North Macedonia, by examining the obligations deriving from the undertaken climate and energy commitments, the national documents transposing those obligations and their inter-relation with the competent institutions, as well as the capacities for their comprehensive planning, implementation and monitoring. In the drafting process, the authors utilised a comprehensive methodology that involved analysing relevant laws, bylaws, and official state documents—including strategies and action plans—alongside a review of comparative experiences and existing literature, complemented by empirical research to foster a nuanced discussion on the topic.

2. Literature overview

Decarbonisation is the key element that brings the climate and energy national agendas closer together. If the energy transition is a process of replacing fossil fuels with low or zero-carbon energy sources (UNDP, 2023: 6), the recent national commitments to carbon neutrality significantly influenced the speed and scale of the transition. This exacerbated the “justice” angle furthermore, requesting an unprecedented system transformation placing the socio-economic and environmental considerations at the forefront.

Within the international climate discussions and efforts (IPCC, 2014) attention has been brought to the fact that effective action to curb climate change depends on well-defined and efficient governance systems (European Environment Agency, 2021). Bearing in mind the nature of climate change as a typical global public issue, traditionally the process of its governance was always structured starting from the highest level, then working downward (Tan et al., 2022: 384-385). With the evolving understanding of governance in the wider sense, but especially the established need for effective and strong national climate frameworks, throughout the years a new governance regime for the global response to climate change was developed, which was finally established with the Paris Agreement in 2015 (*Paris Agreement 2015*).

National climate action efforts both in the mitigation and adaptation areas, can often involve complex governance challenges and new institutions and institutional arrangements (IPCC, 2014: 151). An increasing number of European countries have been adopting national frameworks to organise their climate actions and deliver the Paris Agreement objectives, often in the form of climate laws and national advisory bodies (European Environment Agency: 2021).

With the introduction of the carbon neutrality goal in the climate agenda, much stricter requirements for a systematic and integrated national climate governance system emerged. This also accelerated the development of just transition mechanisms² which would aim to ensure that no one is left behind in the transition.

In more general terms, the concept of governance is considered to have created the groundwork for transition studies because it can capture “the growing complexity of institutional structures, political processes, and social relations involved in the collective pursuit of public, common, or individual interests” (Moss, 2009). In literature however, the concept of just transition still remains ambiguous, encompassing different definitions and frameworks, which is why a need for an overview and consolidation of academic literature has been identified (Wang and Lo, 2021: 2). When it comes to the governance approach of just transition, scholars typically attribute a successful just transition to support from a broad and diverse coalition of actors, dedicated funding streams and to engagement with local initiatives (Wang and Lo, 2021: 6). As Wang and Lo point out, “such an approach is essential to overcome the difficult political

². More at “European Commission, The Just Transition Mechanism: making sure no one is left behind” https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/finance-and-green-deal/just-transition-mechanism_en (August 15, 2024)

trade-offs that characterise a just transition”, but the inclusion of a range of stakeholders, such as labour unions, social movements, non-state actors, and some firms and international organisations also allows different actors to make their own interpretations, which needs to be managed accordingly (*Ibid*).

Literature shows that there are three specific phases of research that mark the beginning of energy justice research and practice, starting by its use as a term in practice by NGOs, followed by early use in academia in 2010 without it being addressed as a concept itself, resulting with its recent beginning to use in academia as a defined concept through the past decade (Heffron and McCauley, 2017: 2). There are growing voices in literature that place justice at the core of the energy transition, and that identifies how the energy sector is changing and focusing its modus operandi on the rights and obligations of different stakeholders (Heffron and McCauley, 2017: 1). As Heffron and McCauley note, “we can witness the rise of human rights, and how our legal institutions are more and more protecting human rights in response to different energy activities across the energy life-cycle and in the context of the different aims of justice” (Heffron and McCauley, 2017: 2). This scholarship identifies that apart from the possibility for a new law to be introduced to ensure justice happens; energy justice principles should also be applied when a dispute arises over an energy issue and the two parties go to the national legal courts to advance justice on a certain issue. By that a responsibility is placed on the national courts as well, to create the boundaries of what behaviour is permitted usually by a Government or an energy company (Heffron and McCauley, 2017: 3).

There has also been an increase in research that focuses on the set of policies and measures that are being implemented at a local scale by municipalities across the globe (Kousky and Schneider, 2003), identifying the local self-government as the ideal drivers for change leading the climate agenda (Anguelovski and Carmin, 2011), the energy planning (Rozhkov, 2023) and overall acceleration of the energy transition (Bayulgen, 2020).

The European Union’s long term climate strategy and energy transition plans led forward the governance and citizen’s engagement perspectives. The last half-decade of climate policy has proved that EU-level actions can incentivise stronger governance practices at the national level (Nick, Schöberlein, Dowe, 2024: 2). To help the EU reach its 2030 climate and energy targets, the Regulation on the Governance of the Energy Union (*Regulation (EU) 2018/1999*)³ set common rules for planning, reporting and monitoring for

³. More at: Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action, amending

member states, while also ensuring that the EU planning and reporting are synchronised with the ambition cycles under the Paris Agreement. One of the key tools of the Regulation are the integrated national energy and climate plans, encompassing five dimensions of the energy union: decarbonisation (greenhouse gas reduction and renewables), energy security, energy efficiency, internal energy market and research, innovation and competitiveness⁴. With the European Green Deal, the target for the EU's energy and climate strategy was set to achieve climate neutrality by 2050. As a way to facilitate such a transition, the European Commission launched the Clean Energy Package where the citizens are empowered to push the energy transition in the member states. The EU has over the years developed and confirmed its vision for a more decentralised and democratic system based on renewable energy, with citizens in the central role in the energy transitions (Wahlund and Palm, 2022: 1).

While energy democracy and energy citizenship are central to this debate, the literature shows that these two concepts exist in parallel and are sometimes even used as synonyms, indicating active citizen participation, such as adopting renewable technologies, joining energy communities, supporting local initiatives, and participating in policy decision-making (Wahlund and Palm, 2022: 2). What needs to be further outlined and analysed, is the relationship between them (*Ibid*).

The role of the institutions and comparative experiences

Up till now within the ongoing climate related discussions, very often the quality of institutions was mostly analysed through the lenses of its vulnerability to corruption. Namely strong and functioning institutions are needed to prevent climate action from being undermined.⁵ Research has also shown that institutional quality plays an important role in supporting the effective implementation of climate policies, and that institutions and cultures have an

Regulations (EC) No 663/2009 and (EC) No 715/2009 of the European Parliament and of the Council, Directives 94/22/EC, 98/70/EC, 2009/31/EC, 2009/73/EC, 2010/31/EU, 2012/27/EU and 2013/30/EU of the European Parliament and of the Council, Council Directives 2009/119/EC and (EU) 2015/652 and repealing Regulation (EU) No 525/2013 of the European Parliament and of the Council (Text with EEA relevance.) OJ L 328, 21.12.2018

⁴. More at: Governance of the Energy Union and Climate Action, European Commission https://climate.ec.europa.eu/eu-action/climate-strategies-targets/governance-energy-union-and-climate-action_en (August 15, 2024)

⁵. More at: Strong institutions are essential for effective climate action, 19 July 2020, <https://unfccc.int/news/strong-institutions-are-essential-for-effective-climate-action>, (August 15, 2024)

effect on people's willingness to pay for climate change policies, at the same time (Chaikumbung, 2023).

There is a growing interest in the analysis of the so-called specific climate institutions, although their understanding is not obvious. There is a division in academic literature on institutions. The narrow view identifies formal, especially governmental, agencies and organisations as the most relevant institutions, while there is also a broader understanding of institutions as "decision-making centres and locations of authority of various kinds, captured in concepts like polycentricity" (Tyler and Hochstetler, 2021: 4). This extensive interpretation is increasingly used in the context of climate governance (*Ibid*).

Challenged by the scale and scope of the climate agenda, many countries have restructured government agencies or developed new institutions to oversee the needed climate reforms (Mildenberge, 2021: 72). There are very few examples of institutional displacement or conversion with a creation of new bodies explicitly to provide an integrated and coordinated state response to climate change (Dubash, 2021: 15-16). In the case of the UK, after the Government enshrined in law an economy-wide Net Zero by 2050, it adopted a Net Zero Strategy for all sectors of the economy to support the transition. Under its Climate Act it established a Climate Change Committee as an independent, statutory body to advise the UK government on emissions targets and to report to Parliament on the mitigation and adaptation progress (Department for Energy Security and Net Zero and Department for Business, Energy and Industrial Strategy, 2022). Germany on the other hand established institutions explicitly to solve coordination problems (Dubash, 2021: 15-16).

However, institutional layering, meaning the adding of new responsibilities or features to existing institutions, is a more common approach. US is one of those countries, where the climate approach mirrors other policy domains, such as the energy policy (Mildenberge, 2021: 72). But they have also been an example of the crossing of energy justice into practice, with the decision in 2021 of the then newly elected President to appoint a Deputy Director of Energy Justice in the Department of Energy.⁶

In many countries institutional layering is achieved with the ministries of environment having typically been tasked with coordinating the actions of other departments related to mitigation. Yet the regulative scope of environment

⁶. More at: Northeastern Global News, Shalanda Baker is bringing her energy justice mission to the Biden administration, <https://news.northeastern.edu/2021/01/23/shalanda-baker-is-bringing-her-energy-justice-mission-to-the-biden-administration/> (August 15, 2024)

ministry is often limited, their ability to engage sectoral interests poor, and their standing within ministerial hierarchies frequently low. (Dunbash, 2021: 15-16). This issue is prominent in India but also present in Germany, where the environment authority struggles to influence the transport sector, and in South Africa, where the environment department has had little success in reducing emissions across different sectors. The institutional arrangement is further complicated by the layering of climate responsibilities on finance ministries. In the case of South Africa, the Treasury implemented an economy wide carbon tax without aligning it with the environment ministry's emission limit goals, while in Brazil, the finance ministry developed emissions trading proposals independently of the environment ministry's parallel efforts. (Ibid) Many countries attempt coordination through inter-ministerial committees to implement cross-sectoral coordination, however there is very limited evidence that these committees successfully manage climate policy integration, as these committees often lack a cohesive framework for understanding sectoral connections and mechanisms for linking various policy areas and authority relationships. An alternative approach is to give heads of government a more prominent decision-making role without formal institutional support, such as the cases of the Indian Prime Minister's Office and the specialized office in the U.S. White House. The impact of these informal coordination efforts varies by context, as in situations where climate issues are less politically charged, such as in India's solar energy sector, these mechanisms can effectively stimulate and incentivize mitigation actions. However, in cases where there is significant political division over specific sectors, these coordination efforts often fall short. (Dunbash, 2021: 15-16).

On the other hand, despite of the complex institutional and regulatory framework managing the countries energy policies, several countries have established Just Transition Commissions as legal tools to advise governments on just transition planning, monitor the impacts of other policies on just transition and enable stakeholder engagement.⁷ There are currently at least ten forms of such a commission in the following jurisdictions: Canada, Germany, Scotland, Australia, Ireland, New Zealand, the USA (Appalachia), South Africa, the EU and the UN (Heffron, 2021).

In the recent special report on strengthening energy systems, prepared by the United Nations Development Program, inclusive and effective institutions are identified among the four key entry points for just transition (UNDP, 2023: 10).

⁷. More at: What is the just transition and what does it mean for climate action? 20 February 2024, <https://www.lse.ac.uk/granthaminstitute/explainers/what-is-the-just-transition-and-what-does-it-mean-for-climate-action/>, (August 15, 2024)

Integrity, competence, collaboration and transparency are considered as the preconditions for inclusive and effective institutions, in that regard.

For instance, apart from the benefit from general political stability, sound regulatory frameworks, effective governance and secure property rights, like with any other investment (Brunnschweiler, 2010), the analyses have shown that complex and lengthy bureaucratic procedures and corruption are decisive for the achievement of the needed level of investment in renewable energy (Stojilkovska and Kolovrat, 2024: 21), especially for citizen-led projects.

3. Research and Discussion

The initial step for a country's energy transition journey is typically to commit to emissions reduction targets and eventually a Net Zero target that is enshrined in legislation, followed by development of specific roadmaps, such as comprehensive and integrated energy and climate plans, and then an establishment of a robust institutional framework with effective regulatory mechanisms (UNDP, 2024: 12).

Apart from setting up regulating institutions in the energy domain, such as agencies, electricity regulators, among others, and broader climate regulatory bodies, in order for them to be able to execute a substantial mandate, they need to be suitably resourced. This includes appropriate authority, budgets and staff (UNDP, 2024: 16). In the UN recommendations for the establishment of coherent just transition governance systems, it is observed that agencies could be supported by a National Taskforce, an Oversight Board, and other bodies, but that these bodies alone would be insufficient for the mandate at hand (*Ibid*). An appropriately established framework of regulatory institutions can help to assign roles and responsibilities to various actors in the energy sector afterwards, including asset owners and operators, energy suppliers, standards bodies, market operators, consumers, etc (*Ibid*).

North Macedonia's climate and energy agenda

North Macedonia is an EU candidate country, continuously working on its alignment with the EU's climate and energy acquis within its accession process. Within these efforts, as an emanation of the EU Green Deal target, the country together with its neighbours, has committed to carbon neutrality by

2050 endorsing a Green Agenda for the Western Balkans⁸ back in 2020. This was followed by an adoption of an action plan a year later. On the other hand, within the United Nations Framework Convention for Climate Change regime, North Macedonia as party to the Paris Agreement and regardless of its status of non-annex 1 country, i.e. being a developing nation, was among the first economies that submitted its intended nationally determined contribution (hereinafter: NDC) followed by the adoption of an enhanced NDC. By that the Government pledged to a 51% reduction of greenhouse gas emissions by 2030 compared to 1990 levels, which is a net reduction target of 82%, based on a coal-phase out plan.⁹ Yet it was only in December 2022, during the Ministerial Council of the Energy Community, that North Macedonia undertook a legally binding obligation to achieve headline climate and energy targets by 2030, confirming the NDC declared greenhouse gas emission reduction, and adopting new energy efficiency and renewable energy share targets. This was a result of the longer process of regional facilitation by the Energy Community, in line with the Decarbonisation roadmap until 2030 and beyond, encompassing the transposition and implementation of the clean energy package and further strengthened by the addition of the electricity integration package in 2022.

However, regardless of these undertaken obligations that require an incremental systemic transformation on national level, up until recently, the country has mostly incorporated the added obligations by the approach of institutional layering. Namely the Ministry of Environment and Physical Planning has been the focal point for all UNFCCC related obligations as well as reporting to the EU on the approximation of the vast majority of the climate acquis, whereas the Ministry of Economy managed the energy portfolio (which is about to change per recent administrative lay out reforms). With the adoption of the updated Energy Development Strategy¹⁰ up till 2040, whose green scenario was the basis for the enhanced NDC, new energy legislation was set on track, which also envisaged the creation of new bodies, such as the Energy Efficiency Fund. However, none of these were established, and the leading competences were concentrated in the energy department within the Ministry of Economy.

The Ministry of Economy had the mandate to lead the policies and implement the obligations deriving from the Law on Energy, Law on Mineral Resources, Law

⁸. Sofia Declaration on the Green Agenda for the Western Balkans, 10 November 2020 | DECLARATION/DECISION, <https://www.rcc.int/docs/546/sofia-declaration-on-the-green-agenda-for-the-western-balkans-rn>

⁹. Enhanced Nationally Determined Contribution submission by the Republic of North Macedonia, 2021

¹⁰. Strategy for Energy Development in the Republic of North Macedonia till 2040, 2019.

on Energy Efficiency and the Law on Biofuels. The Ministry has also presented a new draft Law on Energy and a draft Law on Renewable Energy Sources last year¹¹, aiming to transpose the requirements deriving from the clean energy package. In 2024 the ministries were reformed, in such way that the Ministry of Economy was transformed into Ministry of Economy and Labour, while a new Ministry of Energy, Mining and Mineral Resources was founded. The Ministry of Energy, Mining and Mineral Resources is now gradually taking over the competences in relation to energy from the former Ministry of Economy.

The Ministry of Environment and Physical Planning has submitted the NDC to the Paris Agreement and prepared the first Long-term Strategy for Climate Action with an action plan, encompassing economy-wide measures with a perspective up until 2050. The Ministry has also prepared a draft Law on Climate Action¹², that apart from transposing some of the elements of the EU acquis related to monitoring, reporting and verification of emissions, also made an effort in institutionalising the climate intersectoral coordination by 1) envisaging an obligation to incorporate climate perspectives in the development of all sectoral policies by the other organs, 2) proposing the establishment of a national coordination mechanism for climate action, consisted out of a high level organ - National coordination council for climate action, a National council for sustainable development and a Scientific advisory body. Although this draft law was presented in the beginning of 2022, after the public consultations, it has not been moved forward in the legislative procedure.

National competent authorities, capacities and recent added areas of regulation

As already pointed out, up until recently the Ministry of Economy was the key authority in the area of energy. The Ministry of Economy was the competent authority for the policy development and implementation of several crucial laws. In addition, an Energy Agency existed, as an independent administrative authority which answered to the Government of the Republic of North Macedonia. The Energy Agency basically cooperated closely with the Ministry of Economy in the area of energy, as it was tasked with: 1) preparation of mid-term and long-term strategies and development plans, as well as developing a database for energy in the Republic of North Macedonia; 2) preparation of

¹¹ Draft Law on Energy and Law on Renewable Energy Sources, <https://economy.gov.mk/mk-MK/news/nacrt-predlog-zakon-za-energetika-i-zakon-za-obnovlivi-izvori-na-energija.nsp> (August 15, 2024)

¹² Draft Law on Climate Action, https://ener.gov.mk/Default.aspx?item=pub-regulation&subitem=view_reg_detail&itemid=77486 (August 15, 2024)

long-term and short-term programs for the Ministry of Economy to submit to the Government of the Republic of North Macedonia for adoption; 3) giving initiatives, proposing and coordinating the development of studies and projects for energy efficiency and renewable energy sources; 4) undertaking preparatory and coordination activities for the implementation of investment projects; 5) regional cooperation and coordination of regional projects in the field of energy; 6) preparation of proposals for laws, bylaws, technical regulations etc. in the field of energy; 7) performing other tasks in the field of energy. Thus, it is safe to state that the Ministry of Economy and the Energy Agency were operating in the same field. The Ministry of Economy as a hierarchically higher authority was dealing with policy development and was submitting proposals for laws, strategies, programs, etc. to the Government for adoption, while the Energy Agency was performing the day-to-day tasks such as data gathering and management and was drafting documents for the Ministry of Economy. Within the Ministry of Economy a Sector for energy existed, as an internal unit, composed of several departments: Department for electro energy, analysis, development and investment projects in the energy area; Department for fossil fuels; Department for energy efficiency; Department for sustainable energy sources and Department for strategic projects and strategic documents in the energy area.¹³

In 2024 a reform in the organization of the public administration authorities took place, as the Parliamentary majority adopted amendments to the systemic Law on Organisation and Operation of State Administrative Authorities. The Ministry of Economy became the Ministry of Economy and Labour, while a new Ministry for Energy, Mining and Mineral Resources was founded. The latter is undertaking the tasks of the former Ministry of Economy in the area of energy. This is an undergoing process, as it implies transfer of employees, adoption of a rulebook for internal organization and systematization of jobs in the newly formed ministry, and other necessary steps. The Energy Agency was also dissolved in mid-2024. All of its tasks were transferred to the Ministry of Energy, Mining and Mineral Resources as well. It is still early to analyse, i.e. to critically observe the work of the Ministry of Energy, Mining and Mineral Resources as this authority is yet to become fully operational. Even though it was founded by the amendments of the Law on Organisation and Operation of State Administrative Authorities adopted in June 2024, the Ministry is still in its inception phase, and how prominent the coal-phase out agenda will be is too soon to be assessed.

¹³ Organigram of the Ministry of Economy 2022, <https://economy.gov.mk/mk-MK/organogram.nspix> (August 15, 2024)

As for the climate, the key authority remains the Ministry of Environment and Physical Planning. Yet, the Ministry of Environment and Physical Planning has relatively weak capacities when it comes to the preparation and implementation of climate-related policies. The Ministry of Environment and Physical Planning has operated with only one state advisor for climate change (as an high-rank administrative servant/employee) for many years and a Department for climate change policies within the Sector for sustainable development and investments, which has never been fully resourced.¹⁴ The climate area is regulated within the framework environmental legislation and a separate climate law still has been prepared, but not adopted.

Additionally, the Ministry of Transport (formerly Ministry of Transport and Connections) has a crucial role in developing policies for decarbonisation, as it is tasked with policy creation and implementation of the laws in the area of road traffic and infrastructure, the railroads and infrastructure, the air traffic and infrastructure, as well as with the residential and communal works and the appropriate infrastructure. Bearing in mind that the usage of renewable energy sources in the transport sector is quite low, as it is in cooling and heating in residential buildings, the Ministry of Transport should closely collaborate with the Ministry of Energy, Mining and Mineral Resources and the Ministry of Environment and Physical Planning on achieving better results in the future. As for maintenance of roads and railroads, there are several state companies (the Public Enterprise for State Roads, the Railways Ltd., the Public Enterprise Railways Infrastructure, the Public Enterprise for Main and Regional Roads, etc.)

Another essential authority in the area of energy is the Regulatory Commission for Energy, Water Services and Services for Communal Waste Management, more often referred to the Energy Regulatory Commission. The Energy Regulatory Commission is an independent regulatory body with the mandate to ensure safe, secure and quality supply to the energy consumers, i.e. to protect consumers, introduce and protect the competitive energy market, ensure nature and environment protection, etc. Speaking of the energy sector, the Energy Regulatory Commission work is substantial since it issues the licenses for producing electricity from renewable energy sources. The Energy Regulatory Commission also controls these producers.

Finally, it is important to mention the commercial companies which are involved in the energy sector: the state-owned company ESM (Elektrani na

¹⁴ Organigram of the Ministry of Environment and Physical Planning, <https://www.moepp.gov.mk/sites/default/files/alfa/doc/organogram-ministerstvo-zivotna-sredina-prostorno-planiranje.pdf> (August 15, 2024)

Severna Makedonija) is the electricity producer which further on controls the largest producers of electric power (two thermal power plants – REK Bitola and REK Oslomej and several hydro power plants). The Austrian company EVN is responsible for electricity distribution in North Macedonia since entering the market in 2006, while the state-owned company MEPSO is the country's electricity transmission system operator. Another company – MEMO DOOEL, fully owned by MEPSO is the operator of the organized electricity market.

Moreover, the Ministry of Finance and the authority within it called State Revenue Service, would have a new important role, if carbon taxes are introduced in the future as planned.

Broadly speaking, the anticorruption institutional framework is also relevant for the just energy transition process. As pointed out by the UNDP, studies show how in many countries the energy sector has already become a breeding ground for corruption (as there are indicators for inflated capital costs for new renewable energy projects, burdening emerging economies and hindering their capacity to expand renewable generation). Yet, it would be too burdensome for this paper to present the anticorruption institutional framework and its successes in details.

Municipalities must be highlighted for their potential to be a powerful player in the just transition process. Namely, even though national governments have traditionally been the main actors in the energy transition, in recent years it can be noted that subnational entities are undertaking decisive initiatives as well. However, in reality the Macedonian municipalities are facing numerous challenges which are questioning the success of the entire decentralization process in the country, which is a topic for a separate analysis. As a result, municipalities are basically little to not involved at all in energy and climate policies development at the moment.

To conclude, the institutional framework for energy and climate is quite fragmented, with various tasks given to multiple institutional factors, many of which are hierarchically on the same level. There is an absence of a specific institution which coordinates the climate and energy agenda. Instead multiple institutions have different tasks which are supposed to be carried out simultaneously for successful just energy transition. Thus, it is vivid that reforms in the institutional framework are necessary. Governments are responsible to steer the just energy transitions by balancing climate commitments with economic viability and social equity, which requires a more coordinated approach across the entire government (UNDP, 2023: 12). A fragmented institutional framework may result in incoherent policies and initiatives.

Integrated approaches

Regardless of the absence of specific institutions coordinating the climate and energy agenda, i.e. ensuring the just energy transition, there have been integrated planning efforts aiming at aligning the sectorial activities and providing the needed economy-wide system transformation which the climate commitments bring.

First effort of such kind was the development of the Strategy for Energy Development up until 2040, which incorporated a climate action element for decarbonisation of the economy and presented a vision and three scenarios: referring scenario, scenario for moderate transition and a green scenario. On the basis of the green scenario, the NDC up until 2030 was developed, which encompassed 63 policies and measures across many areas, such as energy, transport, waste, land use etc. The Long Term Strategy for Climate action and action plan, went a step further by presenting a cross-cutting/horizontal objective, in addition to the mitigation and adaptation objectives. This translated into measures that would provide a comprehensive cross-sectoral policy design and implementation for the green transition, actions related to education, research, and development, innovation, social inclusion and equal opportunities for women and men.

The biggest step forward in integrated energy and climate planning was however achieved with the adoption of the National Energy and Climate Plan (hereinafter: NECP) in 2022, deriving from the obligation to transpose the EU Governance Regulation. The document completely followed the structure of the Regulation providing policies and measures of the five dimensions of the energy union: decarbonisation, energy efficiency, energy security, internal energy market and research, innovation and competitiveness. Although it presented ambitious climate and energy targets, the lack of a legal basis for it at the moment of adoption made it not of a binding character. It does contain a coal phase out date, but without clear decommissioning plans for existing coal-powered plants, with exact timeline and financial resources secured. The document has only a reference to the just transition, without concrete indicators and targets. The development and consultation process of the NECP was considered exemplary, however it failed to result in a public consultation report showcasing this engagement, and ensuring the multi-level, wide participation in the preparation of such an important strategic document (Antonovska and Berishaj, 2022: 24). North Macedonia needed to revise its NECP by June 2024, providing the pathways to the adopted headline energy and climate targets up till 2030, while also incorporating the public consultation process inputs and

Energy Community Secretariat recommendations. The country has still not published a draft or announced formal consultation process up to the date of the preparation of this paper.

The first official just transition related document was the development of the Just Transition Roadmap¹⁵ in 2023. The roadmap proposed a hybrid model for the country, as a way to benefit from the advantages and mitigate the disadvantages of implementing either a strict bottom-up or top-down governance approach. The process is envisaged to be led by the Government in the beginning, which would eventually delegate its responsibilities to the local stakeholders, after a capacity-building process is conducted.¹⁶

The roadmap suggested the establishment of a Council for Just Transition composed of relevant ministries that will politically steer the just transition and be chaired by the Minister of Economy as National Just Transition Coordinator. With the reorganisation of the state organs and the establishment of the new Ministry for Energy, Mining and Mineral Resources, the first session of this Council was held chaired by the respective Minister.¹⁷

The Just Transition Roadmap also envisaged the creation of a Just Transition Secretariat which would propose policies and measures to the Council and facilitate the implementation of the Council's Decisions, as well as several working groups that will operate and work in different sectors, Regional Fora and a National Investment Committee.¹⁸

This was then followed by the Just Transition Investment Platform, which was presented as an acceleration Coal Transition Investment Plan for North Macedonia. It contains three key components:

- Retiring coal assets and repowering with renewable energy,
- Socio-economic regeneration of Pelagonija and southwest regions and
- Energy efficiency, clean heating, and distributed generation program.

¹⁵ Just Transition Diagnostic: Just Transition Roadmap, Planet, May 2023

¹⁶ Just Transition Diagnostic: Just Transition Roadmap, Planet, May 2023: 10

¹⁷ The Ministry for Energy starts the implementation of the Just Transition Roadmap, available at <https://365.com.mk/ministerstvo-za-energetika-pochnuva-implementacijata-na-patokazot-za-pravedna-tranzicija/> (August 15, 2024)

¹⁸ Just Transition Diagnostic: Just Transition Roadmap, Planet, May 2023: 10

Earlier this year, 85\$ Million were approved by the Climate Investment Funds¹⁹, for this platform.

It is worth mentioning that what is often criticized in light of all of the strategic documents enlisted so far is the fact that they have predominantly been prepared by outsourcing capacities for the competent authorities, with an international support. This approach has resulted with lack of ownership of the overall processes, but most importantly, the results, and low institutional capacities for their implementation.

4. Conclusion

The emerging concept of just energy transition is still not widely recognized in North Macedonia, while the current institutional framework is not adequate for the effective operationalization of a comprehensive energy transition. The fragmented and ad hoc coordination among various institutions has failed to provide the cohesive and robust institutional framework necessary for a systemic shift towards a just energy transition. This lack of a structured approach has hindered the implementation of policies and measures that are crucial for meeting climate and energy commitments. As an example, the country has already postponed the coal-phase out deadline from 2027 to 2030, and while the NECP is the reflection of the integrated approach, reality is not following it nor its targets.

To address these challenges, several key recommendations emerge. First, policy development must be more inclusive and coordinated, ensuring that 1) all relevant stakeholders are actively involved but also that 2) institutions have capacities to draft their policy documents and not be so dependent on outsourcing. This way institutions would have ownership over the policy documents, unlike at the moment where a discrepancy exists: external experts are most often preparing the documents which are later on supposed to be implemented by institutions. Second, the climate agenda needs to be mainstreamed in the work of all institutions, while institutional capacities must be build and maintained. It is unacceptable that only several individuals work on climate within the Ministry of Environment and Physical Planning, while an entire ministry is dedicated to energy, mining and mineral resources.

¹⁹ Climate Investment Funds Approves \$85 Million To Launch North Macedonia Coal Phase-Out, available at <https://www.cif.org/news/climate-investment-funds-approves-85-million-launch-north-macedonia-coal-phase-out#:~:text=WASHINGTON%20%2D%20Today%2C%20the%20governing%20board,coal%20and%20embrace%20clean%20energy> (August 15, 2024)

While the work of the Ministry of Energy, Mining and Mineral Resources is yet to be observed, it can be noted right away that there is a serious lack of resources within the Ministry of Environment and Physical Planning. At the same time, the capacities need to also derive from the other relevant sectors and institutions, such as finance, transport and social affairs. Third, the Just Transition Roadmap must be fully implemented, especially in terms of the work of the Just Transition Council and the founding the Just Transition Secretariat, while equipping it with the necessary resources. Fourth, the Law on Climate Action is yet to be adopted by the Parliament of North Macedonia, which is a crucial prerequisite for a successful overall policy implementation. Finally, improving the capacity to absorb financial assistance is critical, ensuring that available funds are utilized efficiently and effectively to support the transition process.

By focusing on these areas, North Macedonia can strengthen its institutional framework, making it more resilient and capable of driving the systemic changes required for a just and sustainable energy transition.

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“JUST TRANSITION” – A PATH TOWARDS SUSTAINABLE GREEN ECONOMIC DEVELOPMENT

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Abstract

A just transition is a process that should lead to green and sustainable development of the local community. As such, it derives from the process of the Green Agenda of the European Union, as well as the Green Agenda for the Western Balkans, and should represent an alternative solution for the regions covered by coal, which is used fossil fuel for the production of electricity. In the Republic of North Macedonia we have two regions that are covered by coal and thermal power plants that produce electricity by using coal. The Republic of North Macedonia, in accordance with the Green Agenda and the policies of the EU, has undertaken the obligation that by 2030 it will close or convert the energy production of the thermal power plants. The new way of producing electricity will mean at least halving the number of employees in the power plants due to the different way of production and the different need for manpower to maintain the plants which means that there will be negative impacts to the local economy as well as to the economic development of the state. This is where the main questions arise - does the local population have enough information about the processes, do we have enough alternative sources of income, but also do we have a guideline on how to get involved in

the processes and make the municipalities greener. Also, it is very important to know the role of each of stakeholders in the process which is related to the legal regulation in the area, capacity and efficiency of institutions and municipalities to deal with this processes etc. This research paper is trying to answer the most of these questions that are arising when we have in focus green transition, economic development and the capacity of institutions.

Keywords: green transition, economic development, institutions, Green Agenda, Western Balkan

1. Introduction

Following the European Union Member States and many other countries, the Western Balkans are making their first steps in the coal phase-out and energy transition in the context of the Paris Agreement, the Green Agenda for the Western Balkans and an increasingly more ambitious *acquis communautaire* in energy and environment, by balancing the prices of different types of energy, the security of the supply of imported energy, the risk for the physical security of energy infrastructures, the costs of different energy technologies and the financing terms available for different technologies. In the past few years, the prices of different types of energy have been changing very fast relative to each other. As a result, some types of energy are getting relatively much cheaper and others relatively more expensive. For instance, renewable energy is getting much cheaper than it was in the past. Also, to some extent, we have seen the cost of energy storage, including medium and long-duration storage, getting much cheaper. As a result, “renewables, grids and storage now account for more than eighty per cent of total power sector investment and solar PV makes up almost half of the new investment in renewables” (International Energy Agency, 2024: 22).

Moreover, almost everywhere but to different extents, the security of supply has become increasingly uncertain, particularly where energy is imported and particularly for natural gas. So, countries need to have an approach to that because the security of supply is fundamental to well-being, economic growth and stability. Especially during the past few months and particularly after the Russian invasion of Ukraine, the impact of which on the energy markets is severe and expected to be long-term, energy security (or rather energy independency) has become a fundamental piece of energy strategies Europe wide since it affects various economic and social aspects, including affordability of energy for people. The same will increasingly apply to the physical security of energy infrastructures. We also need to be aware that financing terms and availability for different technologies can vary a lot. Concessional/ subsidized financing internationally is becoming available only for clean technologies because of the concerns about climate change, which countries need to keep in mind when deciding to invest in one or another technology. This is particularly important at a time when financing costs seem to tighten, as is now the case.

The main point is that all the above factors are changing much faster and more unpredictably than countries have been accustomed to in the past. In this dynamic situation, the question becomes the following: Do we freeze and carry on with the technologies we already have, which in the case of North Macedonia

is predominantly coal or do we accelerate by taking advantage of new and clean technologies while low-interest rate funding and grants are becoming increasingly available for green transition and good-quality projects? That’s a fundamental decision that needs to be made.

2. Literature overview

During the preparation of this research paper we have consulted different literature as well as national and EU legislative in the area of just transition and usage of renewable sources of energy. Also, we have consulted through the interviews the most relevant stakeholders in the sector, local institutions as well as local population in order to have broader and comprehensively overview of the real situation with just transition processes in the country and in the region as well. The Western Balkan (WB) countries, with the exception of Albania, generate most of their energy from lignite, which contributes to the highest levels of air pollution in Europe. Energy shortages and high electricity costs are major issues in the WB region, with significant political implications. The region’s reliance on coal does not comply with the EU acquis or the Paris Agreement, leading to potential delays in EU accession negotiations. The transition to renewable energy sources also faces many legislative and political obstacles. It is consequently imperative that the current energy systems be transformed. In order to facilitate private-sector investment and an efficient, cost-effective energy supply, this shift will require regional collaboration in the production, transfer and supply of energy as well as the quick and resolute adoption of renewable energy sources. To increase renewable energy use, WB governments need to increase related public spending, ensure that a reliable regulatory framework is in place, modernize energy infrastructure and pursue energy-efficiency measures. International partners should adjust their approach to the region, providing much more financial support and helping to streamline energy policies based on local needs. (Frey, 2024: 54). In the National Investment Plan and Just transition roadmap we could see that for 2021, North Macedonia has intensively working on establishing on some plans but also and investments when we are talking about the just transition process. Namely, The Accelerating Coal Transition (ACT) Program was established by the Climate Investment Funds (CIF) in March 2021 as a holistic toolkit to support countries transitioning from coal, tackling challenges linked to three pillars: governance, people and communities, and infrastructure. North Macedonia was selected as an ACT pilot country on February 1, 2023, and invited to develop an Investment Plan (IP) in collaboration with relevant CIF partner multilateral development banks (MDBs), namely, European Bank

for Reconstruction and Development (EBRD – lead), World Bank (WB), and International Finance Corporation (IFC). This IP, prepared by the Government of North Macedonia, is a business plan proposing areas for ACT-financed investments and technical assistance and exploring the possibility of securing complementary co-financing from bilateral, multilateral, and private sources. In its enhanced Nationally Determined Contributions (NDC), North Macedonia has set a target to decrease GHG (greenhouse gas) emission by 52% or achieve a net reduction of 82% GHG emissions by 2030 compared to 1990 levels. But, while, While North Macedonia is committed to a coal phase out, it faces several key challenges. The biggest challenge is to maintain energy security during the green energy transition. Additionally, North Macedonia belongs to the group of import dependent countries. In 2022, it imported circa 2.2 TWh of electricity, making it valuable for outside shocks. Pairing renewables with storage and other baseload solutions is essential to ensure system stability. Second, it needs to scale up the deployment of renewables and speed up grid investments to enable the displacement of coal capacities with low carbon sources, while implementing demand side measures through energy efficiency programmes. Third, while the green economy transition is expected to create net economic gains, people, and businesses in the Southwest and Pelagonia regions may be affected unevenly due to reliance on coal value chains. It is important to ensure the transition is just by providing socioeconomic opportunities to people employed in coal power plants, mining, and relevant supply chains, as well as broader communities, including women and youth, poor and disadvantaged households. Fourth, upstream land repurposing for coal mines and decommissioning/repurposing of power plants will require support for environmental remediation. (Government of North Macedonia, 2023) Taking into consideration the substantial differences between the EU just transition and the process in the Western Balkans we have consulted the literature but also and organizations that are working on field with local stakeholders in order to see the level of involvement and participation of different stakeholders in the process of just transition. Taking into consideration the substantial differences between the EU just transition and the process in the Western Balkans our results show considerable differences among the five countries on the state of the just transition, with some countries having advanced plans (ex. North Macedonia), while others are at the very initial stages. However, in terms of local population and stakeholders engagement, while most countries did conduct public consultations for their just transition plans, we could not identify any evidence or instances of direct and crucial continuous involvement of local stakeholders in the processes of creation as well as implementation of just transition plans and activities so we are missing the “local voices”. (Jonoski,

2022: 23 and Manca and Chavdarska, 2023: 43). During the implementation of interviews with local stakeholders in both regions, as well as our consultation with national institutions like Ministry for environment and physical planning, Ministry of economy and labor as well as Ministry of agriculture, forestry and water management we have got a lot of quantitative and qualitative data which are also presented in the paragraphs of this research paper. The other literature that we have consulted is listed in the references of the research paper.

3. Research

In general terms, North Macedonia seems to have done relatively well in its post-Federal period. After a plunge in the first years of its independence, unemployment and poverty decreased, and GDP increased. Still, according to our research, discrepancies from the EU average remain and are more evident for specific segments of the society, like young people and women especially in the regions that are out of Skopje in which also belong South-west and Pelagonia region (two coal - dependent regions in the country)

The country seems to be facing several developmental traps; a population decline and a rapidly ageing population (National Census, State Statistical Office, 2021: 12) the lock-up to labour-intensive products, and the dependence on imported fossil fuels are some of those traps hindering its further development prospects and prosperity. To this end, attaining higher levels of economic development and faster convergence with other European countries presupposes different qualities in sectors like resource efficiency and infrastructure, human capital and addressing the gender gap in women’s labour force participation, research and innovation. Moreover, North Macedonia is struggling with increasing foreign fossil fuel dependence, something recent geopolitical events have illustrated is a serious vulnerability for the country, threatening its economy and social cohesion.

The coal-dependent regions of the country, the Southwest region and Pelagonija, are facing similar problems but even more strongly. Energy, a sector the regions excel in, seems unable to cope with the requirements for cheaper, greener and more secure energy. Despite a temporary resurgence of lignite in the energy mix of the country lately, gross electricity produced by lignite steadily declines. However, renewables are just starting to pick up in the coal-regions. Moreover, the two regions are facing a coal-income trap, meaning that many direct and indirect jobs and income in some areas still come from the declining coal sector and coal-related activities such as mining and power generation. According to ESM data (2021), there are 3,116 employees in REK Bitola and 1,150 employees

in REK Oslomej (including employees in FOD and FORD). The Input-Output analysis showed that the indirect and induced jobs at the national level resulting from coal-related activities are almost equal to the direct jobs. However, Input-Output models carry inherent weaknesses that should be taken into account (Company Elektrani na Severna Makedonija, 2021: 21).

Therefore, finding a real alternative to the coal sector is important in order to help the affected communities save existing jobs and create new ones. In addition, the largest part of the production base is conventional, while foreign direct investments are few and concern exclusively labor-intensive industries, at least up to now. To this end, unemployment remains high, for low, medium and high-skilled workers. Young people and women are more vulnerable to such conditions. Poor air quality and inadequacy of infrastructures are factors affecting the quality of life. The above mentioned combined make the regions less appealing, resulting in low fertility rates and outmigration.

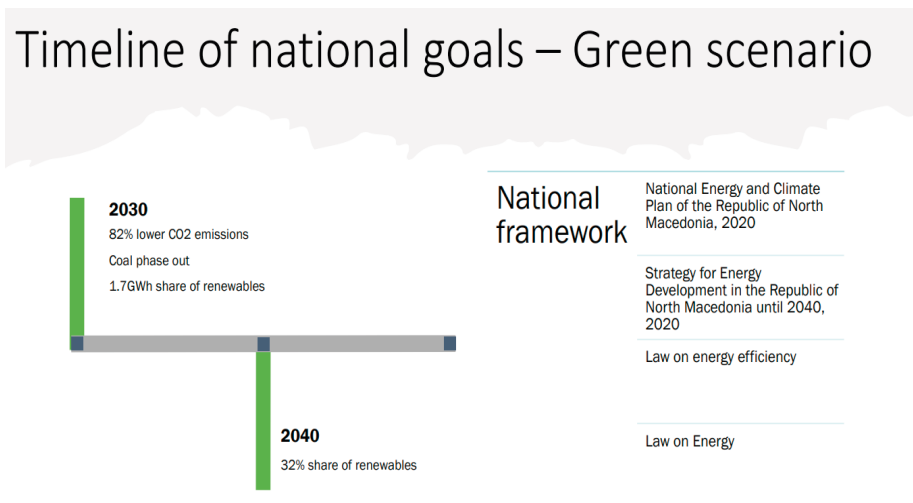
To a large extent, the regional regeneration of the coal-dependent regions and the country goes through the modernization and the expansion of the energy sector, which plays a key role in attracting foreign investments. Like every coal-dependent region, the Southwest region and Pelagonija have human capital with expertise in the energy sector, power plants and transmission lines in place. Also, there is available land in the mines that can be used both for clean energy production and energy storage. To this end, the country needs to benefit from these now, enhancing the first-mover advantage by establishing an „Alternative Energy and Storage Hub“ in the coal-dependent regions. In brief, the regions have the potential worth investigating for: pumped storage, power blocks in power plants that could be reconfigured to run on heat generated by renewable electricity with the aid of thermal storage, the possibility of large-scale stationary storage in batteries, and the production in future of green gas to be utilized in power blocks or otherwise.

According to the European Commission (Delegation of EU in North Macedonia, 2023: 17), The adjacent Greek coal-dependent areas neighboring Bitola and Oslomej are also in the process of phasing-out coal. They also promote the establishment of an alternative energy and storage hub in their just transition plans, which have already been approved by the European Commission, giving access to grants and financial instruments. Combining forces would turn the once „Black Triangle of the Southern Balkans“, comprising Kozani, Bitola and Oslomej, into a „Cross border Balkans Alternative Energy and Storage Hub“ providing clean energy and storage services to the wider region.

While North Macedonia is considered one of the most advanced in the Western Balkans region when it comes to moving away from coal, the government is still sending mixed messages and failing to include local people in the process.

North Macedonia has been touted as pioneering the transition away from coal among the Western Balkan countries. As of 2020, the government adopted the Energy Development Strategy (Government of North Macedonia, 2020), which proposes three coal phase-out scenarios; a business-as-usual scenario with a total coal phase-out by 2040, and two scenarios aiming at 2025. To get there, the government ambitiously seeks to boost its renewable power generation capacities to 50 percent by 2024 (Balkan Energy Greens, 2020: 43) (Picture 1).

Picture 1. Green scenario for just transition of North Macedonia



Source: Balkan Energy Greens, 2020: 43.

3.1. Just or “fast” transition of power plants in Pelagonia and Southwest region

A coal phase-out process has been underway in North Macedonia for several years, with the share of lignite in the energy mix gradually retreating from 80 per cent at the dawn of the 21st century to a historic low of 34.3 per cent in 2020. A resurgence of lignite due to the invasion of Russia to Ukraine has been attributed to factors like the dependence on imported fuels and the country’s very few renewables and will be temporary, as international experience⁵ and economic evidence for and from the country show. (European Electricity

Review, 2023: 45). Since North Macedonia has very few renewables, during the fossil gas-centred energy crisis, which started in the second half of 2021, it reacted by ramping up lignite production and decreasing gas use. The latest available monthly data for net electricity production from Eurostat (nrg_cb_pem) reveal that in the first 11 months of 2022, North Macedonia raised the output of its two lignite power plants by 36.7 per cent compared to the same period in 2021, whereas the contribution from fossil gas and hydro dropped by 38.4 per cent and 9.9 per cent, respectively, according to the latest available monthly data for net electricity production from Eurostat.

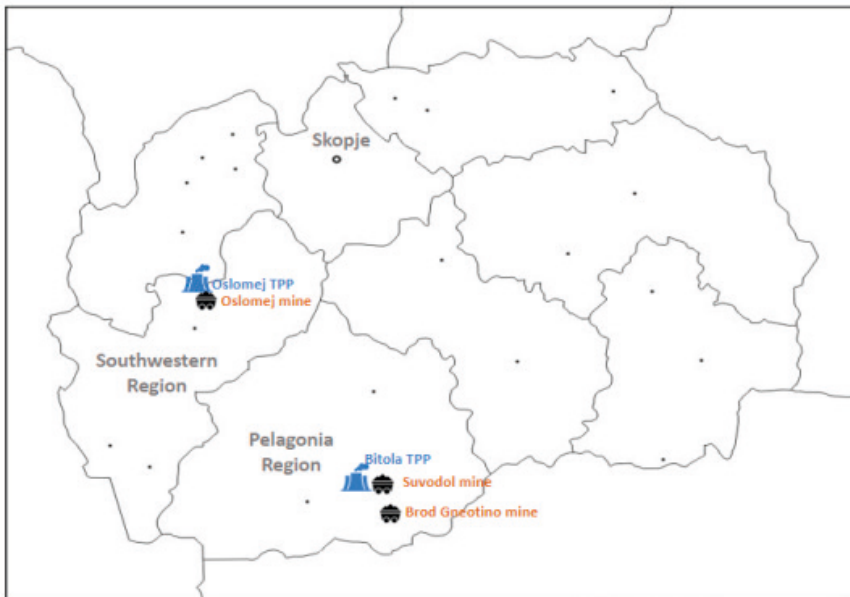
In North Macedonia, coal mining and combustion take place in two regions, namely Pelagonija and the Southwest region, both in the country's southwest. (Picture 2). The lignite deposits in Pelagonija are used today in the three units of the Thermal Power Plant Bitola (Bitola 1, 2, 3) with an installed capacity of 233 MW each. In the Southwest region, Oslomej, on the outskirts of Kicevo, used to be a quite significant lignite extraction and energy production centre in the country. It has the second most important thermal power plant with one unit and an installed capacity of 125 MW. However, its role in lignite extraction and energy production is small today. The "Oslomej - West" mine produces an insignificant quantity of lignite, and the thermal power plant operates with imported and much more expensive lignite.

Despite its diminishing role in the energy mix, coal-related employment is significant for a country of that size and, therefore, plays an important economic role both locally and nationally. According to ESM data (2021), there are 3,116 employees in REK Bitola and 1,150 in REK Oslomej (including those in FOD and FORD). In Bitola, there are 1,514 jobs in mining and 1,010 in electricity production, approximately 290 non-permanent workers, and 302 workers (54 of them are non-permanent) in FOD. In Oslomej, there are 554 jobs in mining and 401 in electricity production, approximately a hundred non-permanent workers and 95 workers in FORD. Most employees are men (87 per cent in REK Bitola and 92 per cent in REK Oslomej), which reflects gender segregation based on specific professions, such as mine workers, engineers and technicians. Their direct value-added annually to the local economies is EUR 84,858,506.977 in Pelagonija and EUR 31,725,910.5 million in the Southwest region. (Ministry of Economy, Just Transition Roadmap of North Macedonia, 2023: 44-46)

In Pelagonija, most workers of REK Bitola reside primarily in the Municipalities of Bitola, Mogila and Novaci. In the Southwest region, most workers of REK Oslomej reside in the Municipality of Kicevo. These areas are largely dependent on coal-related activities. However, the country's small size means the impact of coal-phase out will be felt throughout the regions and North Macedonia.

Both the indirect and the induced impact on employment and value added at the national level are comparable to the direct impact that the operation of the mines and the power plants has (e.g., approximately 10,000 indirect and induced jobs depend on coal, almost equally divided between the two coal regions). These data and information are given during the conducting of the interviews with representatives of the municipalities of Bitola, Novaci and Kicevo.

Picture 2. Location of thermal plants REK Bitola and REK Oslomej



Source: Company Elektrani na Severna Makedonija, 2021.

In the last couple of years, Oslomej and now Bitola have become major fields in developing the country’s energy sector, as new photovoltaic parks of several megawatts are underway in the depleted mines. However, the potential of those places remains largely untapped given their assets, mainly the human capital, the power plants, the land of the mines and the energy transmission grids, which can help modernize and repower the country’s energy sector. Another comparative advantage of those areas is their location, as they border several other countries, and their coal assets form a large conglomeration with the similar assets of Greece, where coal phase-out is also underway, and parallel processes to take advantage of the existing assets are taking place.

Furthermore, various sources (Europe Beyond Coal, 2019: 15-16) indicate that the operation of REK Bitola and REK Oslomej has significant health impacts on the citizens of the coal-dependent areas, their regions and the country. This, in conjunction with the inadequacy of basic and social infrastructures (water, waste management, heating, childcare, etc.), affects the quality of life of their citizens.

To this end, the analysis shows that the coal-dependent regions would need to restructure their development pattern anyway. If we let the coal phase-out affect employment, the impact will add up to the existing regional structural deficits making things more difficult to handle. The coal phase-out process should be seen as an opportunity to save jobs, overcome the regional structural deficits and environmental deadlocks, and create new jobs in emerging sectors, including green energy.

Here we are putting several questions for discussion that we will elaborate in the next paragraphs of this research paper:

- How will this just transition affect on labor market and business structure in these two regions?
- Are there any specific programs that will support economic growth of these two regions during and after the coal-out phase?
- Which is the level of inclusion of local population? Where are the local voices?

4. Discussion

The discussion here we are starting with the effects of just transition on labor market and business structure. Namely, the employees from the company Elektrani na Severna Makedonija directly contribute to the local economies as local inhabitants in coal regions. On the one hand, there is the need of supporting workers who will need to change workplace due to the phase-out, through reskilling and redeployment, and on the other hand creating opportunities for those that are not active in the labour market, especially women and youth. The ESM's thermo power plants transformation will also affect suppliers servicing REK Bitola and Oslomej. Furthermore, between 25- 30% of citizens in North Macedonia, reflected also in these two regions, live in energy poverty, that can further affect vulnerable communities, if measures are not undertaken during the coal phase out. (Stojilovska, 2023: 42)

According to the Ministry of Labour and Social Policy, there are no specific programs for the Southwest and Pelagonia region regarding the social factors

and consequences of the coal phase-out process. On a national level, this Ministry provides social transfers during the heating season, especially during the COVID-19 pandemic and energy crisis periods. Various projects have been implemented to support purchasing inverter air conditioners and energy efficiency. Still, the users of social help (most vulnerable consumers) live in dire, sub-standard conditions and do not see the potential for improvements. There are also no early retirement schemes/programs for coal value chain employees, only social pensions. The Employment Agency administers programs for unemployed people but not exclusively for the targeted regions.

Currently, the non-government initiatives to support affected people in the two regions are also limited. One example is the investment of European Bank for Reconstruction and Development along with the ESM for the construction and operation of a 30 MW solar photovoltaic project across two sites. As part of the investment, the Bank supports the capacity enhancement of the company to actively contribute to the preparation of regional economic development measures, as well as the development and implementation reskilling and redeployment initiative to improve access to market-relevant skills and employment opportunities for affected workers. Here we also ask the question – where are the local voices?

Mirroring the other Western Balkan countries, the energy transition has been ushered in by the national government with priority given to the development of renewable energy. Yet, much more needs to be done in terms of designing the process and opening it up for participation. So far, the government is working without a clear definition of just transition in its draft National Energy and Climate Plan. It has also not included any plans to transition from coal-dependency into alternative economic development in Bitola and Kicevo in its Energy Development Strategy. Additionally, by trying to steer the energy transition entirely from the central level, the government risks the legitimacy and efficiency of this process.

There have not been any efforts made to include local communities and workers in national-level debates on social relief, investments, and the restructuring of the mining sector in the regions. From the other side, the involvement of affected communities and workers, however, is a prerequisite to a just energy transition. Based on interviews with key stakeholders and citizens from Kičevo and Bitola, it conducted an alternative economic development analysis and a feasibility study of rooftop solar photovoltaic systems. To link the bottom-up approach in Kičevo and Bitola and the ongoing central-level policy processes working groups as well as advisory bodies should be established in both, local and national level in order to have significant participation of local population

in creation and implementation of policies and measures that are linked to just transition starting from dissemination of information to practical work on field.

5. Conclusions

In summary, the energy transition in Pelagonia and the Southwest regions can catalyse innovative green development based on the strengths and opportunities for the regions, with appropriate planning, investments, and governance structures. These observations build upon the Just Transition Roadmap which advocates for a paradigm shift that will allow these regions to use the coal phase-out as an opportunity to achieve a high development rate and disentangle from their reliance on low value-added activities. Robust policy framework and market mechanisms (e.g., auctions) can help the country attract investments in the regions and gain access to cheaper and abundant clean energy. Green economy transition will also create new high value-added opportunities, in a field where technologies are changing rapidly, creating new investment opportunities and knock-on effects from increased innovation. Therefore, both regions can move from labour-intensive to knowledge-intensive and resource-efficient sectors, through restructuring their development patterns and ensuring human capital development. Information of local population as well as their involvement and participation in the processes of creation and implementation of measures and policies that will guarantee the process of just transition in two coal depended regions in the country. Acceleration of the process of just transition is also urgently needed.

Acknowledgments

We would like to express our deepest gratitude to the individuals, representatives of local and national institutions, as well as to our colleagues from Law Faculty and University St. Kliment Ohridski, Bitola, whose support and contributions have been instrumental in the completion of this research.

We extend our heartfelt thanks to the representatives of the Ministry for environment and physical planning, Ministry of economy and Ministry of agriculture, forestry and water management for the guidance, invaluable insights and continuous support and openness for consultations during the writing of our research paper. Their expertise and commitments have significantly enriched the quality of our work.

This research would not have been possible without the support of professors of Law faculty Kicevo, as well as without the support of the colleagues from

NGO sector in our country. Their expertise give significant impact of the value of this research paper especially in the part of advancing of scientific knowledge on the themes related to just transition in North Macedonia. Special thanks to Saso Dukovski, Laze Jakimoski, Goran Ilikj as professors of the Faculty for their engagement and contribution in the research as well as to Nevena Smilevska, Elena Nikolovska and Boban Kostadinovski as great experts and representatives of NGOs that many years are working on the just transition processes in our country as well as in the countries of Western Balkan.

We extend our appreciation to the mayors of Kicevo and Bitola, Mr. Fatmir Dehari and Mr. Toni Konjanovski and their teams from the departments for local economic development and protection of environment as well as to the mayor of the municipality of Novaci, Mr. Stevce Stevanovski where power plant REK Bitola is situated, for their transparency and cooperation during our research and conducting our interviews with them as well as with the employees of the power plants in both regions.

Lastly, we are deeply thankful to Rural Coalition and its' team for their support especially in summarizing and analysis of the data and information as well as for their understanding and encouragement in the preparation of this research paper.

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GREEN TRANSITION AND HUMAN RESOURCES MANAGEMENT: THE EXAMPLE OF SERBIA

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Abstract

The issue of green transition and human resource management was imposed only as a topic for this paper, because it raises many other economic and social issues. In addition to being topical, this topic raises issues of sustainability, issues of decent work and the right to health care for all. The aim of this paper is to point out the connection between human resource management and sustainable development, and to cite Serbia as a successful example. Serbia is a small country, but it is very involved in the process of sustainability, as well as long processes such as digitalization, development of biomedical sciences and information and communication technologies. In the context of sustainable development, it improves its legislation and harmonizes it with the legislation of the European Union, but also with the guidelines of the United Nations. It strives to follow trends in the field of green industry and wants to maintain the stability of human resource management parameters, viewed through the goals of sustainable development, namely goals 1 to 5, 8 and 10. A desk research was conducted, and the conclusion was reached on the basis of quantitative and qualitative data. The source of the data used in this paper is the Republic Institute of Statistics.

Keywords: sustainability development, green transition, green economy, Human Resource Management, Example Serbia

1. Introduction

Today, there is no country in the world that does not consider issues of sustainable development. The question is justified: What drives research on the topic of sustainable development? The answer to this question should be sought in: intensive growth of industrial production, the fact that agricultural production is increasingly using pesticides; the fact that the life of a large number of inhabitants takes place in a predominantly urban environment, which causes a large consumption of resources; then, in factories that appear as major air polluters; but also to the issue of excessive depletion of the planet earth's resources. Such market behavior is called into question, because it is disrupted by crises such as natural disasters, i.e. tsunamis, earthquakes, or other climate problems, such as crises caused by health pandemics. For example, it can be the corona virus, which has changed the way of communication, the way of working (isolation and working from home), thus calling into question the survival of supply chains. "Thus, the COVID-19 pandemic has led to the biggest economic crisis since the Great Depression of 1929. The crisis of 2020 is bigger than the financial crisis of 2008/09. COVID-19 led to a decline, almost a collapse of economic activity and an increase in unemployment already in the first months of 2020" (Maksimović & Cvetičanin, 2021: 936). "The conclusion is that during the pandemic, communication was disrupted and social distance was highlighted. For these reasons, digital marketing was used to replace the communication of producers with employees and consumers." (Maksimović, 2022: 55).

However, taking the foregoing into account, it can be said that the definition of sustainable development requires exactly the opposite. The United Nations (2023) definition states that sustainable development is "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (United Nation, 2015). "A green economy is an economy that results in improved human well-being and social equality while simultaneously reducing environmental risks and environmental scarcity." Within the green economy, a vision is accepted that strives to direct economic development in the direction of sustainable patterns of production and consumption with five key elements of support along the way." (Đorić, 2021: 70). Those five elements are: production and use of renewable energy, energy efficiency, waste minimization and management, protection and sustainable use of natural resources and creation and generation of green jobs. The latter is also the topic of this paper and implies dignified work and decent working conditions, adequate salary, safe work and guaranteed respect for workers'

rights. However, it is safe to say that there are many similar definitions in the literature, but there is no one comprehensive and unique definition.

Therefore, what is expected from the green transition is the rational use of natural resources and the protection of employees and the entire population. Does sustainable development defined in this way actually represent reindustrialization, and the transition to green industry and green industrial policy? The new, current industrial policy should influence the shaping of the market, because global warming and the climate crisis lead to the destruction of resources, the destabilization of territories, and thus the economy. Therefore, the new economic policy should encourage the economy to sustainable and inclusive growth. Therefore, the state must take care of the management of the public interest, that is, take care of investment in public services, and take care of the balance of the public and private sectors. All sectors must be involved in shaping the market, and the revival of industrial policy must include a clearly defined relationship between labor and capital. For example, the National Development Bank of Germany (KfW), through its energy efficiency program, provides loans with a low interest rate for the decarbonization of production. And so, the greater the energy efficiency, the greater the credit facility. In parallel, countries must take care not to fall into green protectionism while protecting their green development (Mazzucato, 2021; Mazzucato & Rodrik, 2023; Mazzucato & Collington, 2023). Thus, the green economy has become a business model, which requires research and development at all management and entrepreneurial levels.

The work consists of four parts, with an additional introduction and conclusion. The first part presents the importance of green transformation from the aspect of green economy, the second part is a review of the literature on human resource management and sustainable development, the third part presents considerations on human resource management and the attractiveness of green jobs, and the fourth part contains the example of Serbia through the presentation of the legal framework and human resource management resources viewed through the goals of sustainable development, namely those goals that concern human resources.

2. Literature overview

When talking about sustainable development and human resource management, one gets the impression that almost every university in the world can find papers on that topic, but again, it is as widely represented as some other concepts. A review of the literature indicates that one research describes the

imperative of the concept of sustainability, but also the misconceptions related to human resource management, and that an attempt is made to provide a model of sustainable human resource management (Duvnjak & Kohont, 2021). Thus, Ehnert et al. (2014) emphasize the need to manage human resources in accordance with sustainability, so they assume that these two concepts in interaction should lead to the development of sustainable business operations of the organization, which takes care of saving and rational consumption of natural resources, and cares about people. Furthermore, the literature includes research on human resource management and natural disasters, the world economic crisis of 2007/8, or the Covid 19 crisis (Jóhannsdóttir et al., 2022). When the topic of sustainability was brought up to date in the 21st century, there was a need to connect HRM with sustainability, because exactly goals 1-5, 8 and 10 refer to human resources, and the goal is to improve the role of human resources (as a population and as employees). In a corporate sense, to emphasize the strategic role of HRM as a source of competitive advantage based on sustainability, not just profitability (Papalexandris, 2022). Maksimović (2020, 2022a, 2022b, 2023) wrote about green workplaces and human resource management in the circular economy, emphasizing that it is green workplaces that should improve employment, and green industries should enable employees to retrain in accordance with sustainable development. And Maksimović and Zvezdanović Lobanova (2023), highlighted the connection between green marketing and HRM, observing the green transition in the light of green production and green products, green advertising and so on. Furthermore, Janković and Sovilj (2024), emphasize the connection between the green economy and new business models such as Uber, Airbnb and Blockchain. These business models through digital technology are changing the way of decision-making, which is becoming decentralized, and resource management, and aim to achieve sustainable development. Also, in the literature you can find research on one specific area, namely sustainable agriculture and the status of workers, which points to the fact, on the one hand, that agriculture is under the influence of weather, climate and biochemical changes. And on the other hand, that workers have a lower quality of life due to low incomes, and they are expected to have a high level of awareness and that their activity should take care of preserving the soil from pollution, preserving biodiversity and the environment as a whole (Dimitrovska, 2024). According to the International Labor Organization (ILO), the fight against land degradation is necessary to improve social justice and promote decent work. A just ecological transition should provide about 100 million jobs in 2030. Agriculture employs about 1.1 billion people on planet earth, and degradation would negatively affect this result. In this sense, the green transition and ecological sustainability should

prevent labor migration. In addition, they should save other workers from poverty by providing them with social inclusion and dignified work, as well as investments in intellectual capital (ILO, 2024).

3. Research: Green Transformation From The Aspect Of The Green Economy

“Today, man is witnessing great changes on planet Earth.” These are climatic, ecological, oceanic changes, as well as changes in relationships between people, changes in the workplace, changes in terms of the increased need for respect for women and children” (Maksimović, 2020: 251).

The accepted concept of sustainable development is divided into three basic dimensions: ecological, economic and social sustainability. Ecological sustainability or the issue of the environment, should actually take care of the natural environment that nature has created, and keep it vital. Economic sustainability actually implies an economic environment that conserves natural resources and takes care of economic efficiency. Social sustainability actually concerns social development in the context of meeting the needs of current and future generations. Long ago, Kotler (2012) pointed out that chances or dangers in the environment come from: economic or competitive environment, demographic environment, natural environment, scientific and technological environment, political and legal environment, as well as socio-cultural environment. This includes all three pillars or three environments that are important for sustainable development. Of those mentioned, the economic environment stands out because it is the only one that creates a competitive environment that encourages innovation and entrepreneurship in other environments.

In the three mentioned pillars or dimensions, seventeen development goals are arranged, the implementation of the 17 Sustainable Goals (SDGs) set by the United Nations (UN, 2015) is required¹. Those goals are given in Figure 1. These goals contain the concept of green marketing, including green financing and green promotion (Maksimović, 2023).

¹. „These goals are the product of a long period of efforts starting with the 1992 Earth Summit in Rio de Janeiro, followed by the 2000 Millenium Summit in New York during which the Global Compact was launched, the 2002 World Summit in South Africa, the 2006 U.N. Principles for Responsible Investment, the 2012 U.N. Conference again in Brazil and finally the 2015 Agenda for the 17 SDGs.“ (Papalexandris, 2022: 29).

Graph 1. Mapping the 17 Sustainable Development Goals (SDGs)



Source: Smale & Hilbrecht, 2016: 38.

When we talk about sustainable economy, we talk about qualitative improvement and quantitative increase. Namely, qualitative improvement is actually development that is ecologically, economically and socially sustainable - and it is a characteristic approach for developed countries. While quantitative increase is synonymous with the development of underdeveloped countries that need to “grow” economically, i.e. improve their macroeconomic indicators - the approach of poor countries. Furthermore, it is interesting, and immediately noticeable, that Agenda 2030, in addition to the economic and environmental aspects, strongly emphasizes the social dimension of sustainable development. This social dimension was neglected for the previous thirty years. “It is a global development agenda for the period after 2015. In the next 15 years, the signatory countries are expected to mobilize all resources to eradicate poverty, fight inequality and find answers to climate change. The Sustainable Development Goals, also known as the Global Goals, emerged from the Millennium Development Goals and recognize that the fight against poverty goes hand in hand with economic growth and industrialization, targeting a number of social needs including health, education, social protection and a healthy environment and resilient communities to climate change” (UN Agenda 2030, 2023). The principle of sustainability is contained in this, the principle of environmental preservation, tolerance, joint responsibility, as well as solidarity, equality and freedom are especially emphasized.

Therefore, the United Nations, as well as the European Union, as part of the green economy, promote steady growth. It is an economy based on knowledge and innovation, and sustainable growth based on promoting a more resource-efficient, greener and more competitive economy, which uses leadership strengths and abilities (Pejanović & Tomaš-Simin, 2014:3). In this connection, there are ten key sectors that are the most important for green transformation and smart growth, and they are given in Table 1.

Table 1. Ten sectors that are key to green transformation

Sectors	Sectors
1. Agriculture (sustainable)	6. Waste management (recycling)
2. Forestry	7. Water management
3. Fishing	8. Construction (green construction)
4. Energy (energy efficiency and renewable energy)	9. Green traffic (transport)
5. Clean technologies	10. Sustainable tourism

Source: Compiled by the author

The green economy is in focus in the second decade of the 21st century, and aims to achieve greater human well-being and increase social capital, and at the same time should reduce the risk to the environment. A green economy is expected to use raw materials responsibly while being more efficient and productive. A good example of this practice is the example of Japan, one of the most industrially developed countries in the world, which emphasizes the “extended responsibility of producers, but also consumers of industrial products (collection, sorting and storage of industrial and any other waste)” (Pokrajac & Josipović, 2015: 206 - 210). Another example is Germany, which with the Berlin initiative is looking for new ways to create new jobs in the environmental protection sector (Tapper & Shovelton, 1995: 17–18, 61).

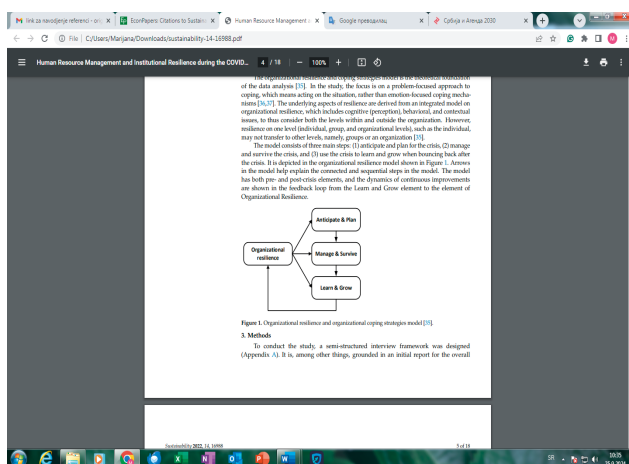
Geopolitical and geoeconomic tensions, disasters caused by climate disturbances and conflicts around the world do not help the economic transformation towards ecological sustainability and circular economy. These major crises hinder the progress of the green transition, jeopardizing the speed of implementation of the aforementioned development goals. Although there is continuous investment in sustainable development sectors, especially in the second and third decades of the 21st century, the rising cost of living and borrowing, especially in underdeveloped countries, slows down progress in

the field of green industry and economy as the funding funds for the 17 SDGs record a lack of finance (Adamkiewicz, 2024).

3.1. Human Resource Management and Green Jobs

Human resource management in times of crisis, for example during Covid 19², as well as in times of climate change and natural disasters, represents a major challenge for countries and companies. Elements of surprise, short deadlines for an adequate reaction and threats stand on one side and on the other, protection of the population and employees, maintenance of health and safety. Above all, the big issue in any context is the issue of communication, which is difficult in such circumstances. Management under these circumstances can be a key determinant for the resilience of the organization and its survival. Major weather disasters such as earthquakes, floods, hurricanes, affect the management of human resources, can lead to the damage of certain industrial plants, lack or unavailability of human resources in such conditions. There is also a big question of availability of information and operational capacities (Jóhannsdóttir et al., 2022; Das & Singh, 2016).

Graph 2 Presentation of organizational resilience and possible coping strategies



Source: Jóhannsdóttir et al., 2022: 4.

² Observed after the peak of the pandemic, the most noticeable disturbances and changes in the medical profession, i.e. the health and safety of people, workforce, supply chains, sales and marketing that moved to a digital way of communicating with consumers, the focus of consumers that was shifted from traveling and buying luxury products, to lower-priced products (Jóhannsdóttir et al., 2022).

Apart from scientific, the practice of human resource management is important for the survival of corporate sustainability, it can be said to be crucial. The current perception of strategic human resource management is that it is focused on profit and the achievement of financial goals, and this is a traditional concept. However, the green concept requires a new approach that focuses on sustainability, including sustainable HRM. For these reasons, companies must strive to change existing HRM practices, and strive for sustainable HRM practices. "The aim for an organization to be able to survive long-term presupposes more or less explicit environmental management; however, more and more organizations are now starting to acknowledge also the social dimension of sustainable development. The crucial part of changing the business strategy relates to HRM" (Duvnjak & Kohont, 2021:3). Companies and their practices have an impact on the local and global environment, regardless of their size. Reduced to the level of company activity, behavioral theories are used to explain human behavior, and in the last twenty years, pro-environmental theories of behavior have become increasingly prevalent (Jovanović, 2023).

In fact, sustainable human resource management requires managers to create such work practices that balance economic, social and environmental survival, respecting traditional and social achievements of sustainability. One of the main capabilities of the company will be to implement changes that come from the outside into the company and turn them into internal changes (Brewster & Brookes, 2024). For example, in addition to sustainability goals, it is also the implementation of digitalization. Thus, the practice of HRM is crucial after natural disasters and disasters, it should create a safe environment, the feeling among employees that they are safe and that they can devote themselves to work (Štěpánka & Špaček, 2021; Labella-Fernández & Martínez-del-Río, 2019). "In doing so, HR practices can help create an effective workforce and a connection with the community, while acknowledging and addressing their vulnerabilities, whether they are of physical, psychological, social, political, economic or other nature" (Duvnjak & Kohont, 2021: 7). In fact, the concept of sustainable human resource management implies taking into account the approach to stakeholders, just like before, but the new thing is that it requires taking into account the needs and interests of other stakeholders in terms of the company, namely employees, local community, customers, society, providers and families of employees. In the concept of sustainability, a balance between people, profit, socially responsible business, but also corporate sustainability is necessary (Agrawal & Bansal, 2022). "It is well recognized that HR can play a critical role in enhancing corporate sustainability through policies and practices that benefit its people and society in general and that all these initiatives must be documented and reported to gain visibility and credibility" (Papalexandris,

2022: 27). In today's conditions, human resource management, viewed through the prism of sustainability, should meet the current needs of the company, respect the needs of society as a whole, while not questioning, that is, not allowing the satisfaction of the future needs of the individual, individually and in interaction with the company and society. Therefore, we need employment that is socially and economically efficient, preferably long-term and fair employment, with dignified treatment of people. This led to the fact that the very definition of human resource management includes the achievement of economic, social and environmental goals (Ehnert et al., 2014; Khaled et al., 2023). Sustainable management of human resources in the company should be seen in terms of employee recruitment, their training, talent management, and a better balance between work and private life is expected in order to reduce turnover. When there is less dissatisfaction at work, there is less stress, and therefore a loss of motivation and morale. Also, human resource management in society is actually socially responsible human resource management, it implies the involvement of employees in activities within the company, but also more widely outside it, in activities that are important for the environment and society as a whole (Papalexandris, 2022: 27).

3.2. Example of Serbia: Human Resource Management and Sustainable Development

Serbia is a medium-developed country with a long tradition of ecology and sustainable development. From the very beginning, the main goal was to ensure production, not to damage biodiversity and natural resources. In addition, a transition from a high-carbon economy to one with low CO₂ emissions and a reduction in air pollution is expected.

In the middle of the 19th century, the first attempts to protect the environment appeared in Serbia. The result was the protection of Obedska Bara, and it became the first protected natural area in Serbia in 1874. Laws are passed to prevent excessive exploitation of forests (Forest Act 1891) and hunting and fishing (Hunting Act and Fishing Act, both passed in 1898). In those years, the first organizations for nature protection were created. After the Second World War, work on nature protection continued and organizations were founded for this purpose, such as the Federal Hydrometeorological Institute of Yugoslavia (1947) and the Republic Institute for Nature Protection (1948). A provision on the protection of the core of life has been included in the Constitution itself, and the establishment of other organizations and movements continues. However, any non-institutional framework of action was prohibited. During the nineties, there were no environmental protests in Serbia.

“The reality that cities have become places where most of the world’s population is living and where most resource consumption takes place has generated increasing pressure to find ways to reconcile economic growth, well-being, and the sustainable use of natural resources” (Jovanović, Ostojić & Nikolić, 2023: 86). However, with the development of ecological awareness, there is an engagement of citizens in the protection of nature. “Environmental citizenship means the existence of ecologically informed and responsible citizens, interested and ready to engage in the preservation of the natural environment that they value highly” (Petrović, 2020: 52). The further perception of a negative attitude towards nature only contributed to the growth of the idea of limiting economic growth and excessive consumption of limited natural resources.

Today, Serbia, like other countries in the world, in the third decade of the 21st century, is faced with the transformation of its economy in accordance with the concept of sustainability proclaimed by the United Nations in Agenda 2030 (17 principles). For these reasons, the country and companies adapt their operations in accordance with the regulations of the national legislation, but also with the legislation of the United Nations and in accordance with the Green Deal of the European Union.

Serbia passed a whole series of laws, with which it wanted to round off the protection of nature, energy sources and renewable energy sources. The goal was a green transition, a sustainable economy, and decarbonization in that context represents the biggest transformation in the field of economy. The adopted laws are:

– *The Law on Environmental Protection* from 2018, should regulate and protect the environmental protection system of the Republic of Serbia, as well as enable the realization of the rights of its inhabitants to live, work and develop in a healthy environment. It should also contribute to the balance of the relationship between environmental protection and economic development of the country, that is, to create an environment of sustainable development. This is achieved through (Article 2) sustainable management, preservation of the quality of natural values, survival of people and other living beings, to prevent environmental pollution. It regulates the use of protected natural assets (Article 17), the use and protection of public natural assets (Article 18), the use of space (Article 19), and the use of public green areas (Article 20). It further foresees soil and soil protection (Article 22), water protection (Article 23), air protection (Article 24), protection and conservation of forests (Article 25), preservation of the biosphere and protection of biodiversity (Article 26), protection of flora and fauna (Article 27), protection of wild flora and fauna (Article 28), protection against dangerous substances (Article 29), waste

management (Article 30), protection against noise and vibration, as well as protection against radiation (Article 31 and 32).

– *The Law on the Use of Renewable Energy Sources* from 2023, actually represents a law that should contribute to more successful management of energy crises. Then, it regulates the goals of using energy from renewable sources, issues related to electricity, issues of sources of use, whether they are renewable or not, the guarantee of the origin of electricity, as well as the way of cooperation with other countries related to renewable energy. In Article 3 of this law, the goals of energy use and the reduction of the use of fossil fuels are highlighted; reducing the import of energy products: encouraging competitiveness in the field of energy; introduction of principles of economy, efficiency in the field of renewable energy sources, as well as digitization; regulation of market prices of electricity; as well as a stable incentive system. In Article 5, power plants that use renewable energy sources are enumerated, namely 1) hydroelectric power plant; 2) biomass power plant; 3) biogas power plant; 4) wind power plant; 5) solar power plant; 6) geothermal power plant; 7) biodegradable waste power plant; 8) landfill gas power plant; 9) a gas-fired power plant from a municipal wastewater treatment plant and 10) a power plant that uses other renewable energy sources. In addition, this Law regulates premiums, the status of contractual or privileged parties, and all those issues related to the development and entrepreneurship of renewable energy sources.

– Then, *the Law on Climate Change* from 2021, which refers to the limitation of greenhouse gas (GHG) emissions. This Law should prescribe and improve the establishment of the GHG system and support and facilitate adaptation to major changes in the area of climate and climatic conditions. The reduction of losses and damages from variable climatic disasters directly affects the reduction of the negative impact of climate on the gross domestic product (GDP). This law prescribes documents such as: low-carbon development strategy; action plan for implementing the strategy; and the program of adaptation to changed climatic conditions (Article 6). Therefore, this Law is expected to contribute to the regulation and limitation of emissions with the greenhouse effect caused by human activity or due to climate change.

– *The Law on Energy* from 2023, aims to manage safe and high-quality energy supply. Already in Article 1, it emphasizes the importance of energy policy; the importance of conditions for reliable and safe supply of energy; high-quality cooperation with energy buyers and safe supply; the conditions under which energy activities are carried out, as well as the construction of energy facilities. It also regulates the work of the Energy Agency of the Republic of Serbia. The goals of the energy policy are clearly defined in Article 3 given a picture

of the strategy (Article 4), the promotion of regional cooperation (Article 9), the presentation of energy activities (Article 16) and a whole series of issues related to the energy sector, for example energy storage or energy reserves support is given to institutions and public policies.

– *The Law on Energy Efficiency and Rational Use of Energy* from 2021, was adopted with the aim of saving energy and efficient use of energy sources. In Article 1, the importance of the policy of efficient use of energy, the management system in the field of energy, but also the use of energy by customers and other energy users - physical persons - is highlighted. The main goals are energy saving and security of supply. Then follow the goals (Article 2) such as increasing competitiveness, sustainable use of natural energy resources, and reducing energy poverty.

4 Discussion

What must be said is that there are criticisms of certain legal provisions of the aforementioned laws, and that their revision is expected. For example, Todić (2022) in the area of climate change and emergency situations, and the related law, states that there is incompleteness, inconsistency, and that this area and the legislative framework itself should be further developed. In addition to the construction of the legislative framework³, the green economy requires the construction of institutions that would follow the given legislation, but also the development of science, which must be in accordance with the latest achievements in the energy field.

The adoption of the aforementioned laws contributed to the introduction of order in the management of human resources in the field of environmental protection and biodiversity. Furthermore, in an economic sense, jobs that arise in the context of the green economy are various profiles of engineers in the green sector (for example, mechanical, construction); managers in the green sector at all levels; employees in the transport sector (for example, drivers, pilots, ship's crew); in tourism (tourist workers); in the banking sector (bankers working on green financing); IT workers, fitters and other employees in the energy sector.

³. As far as European legislation in the field of energy is concerned, the most important is The European Green Deal, and the goal is for Europe to become an „energy neutral continent“ (European Commission, 2023). Then, the United Nations Framework Convention on Climate Change (UNFCCC) is significant, which defined the concept and term of adaptation to changed climate conditions. This Convention, together with the Kyoto Protocol, has as its main goal the reduction of GHG emissions (United Nation Climate Change, 2024). The Republic of Serbia has been a member of the UNFCCC since 2021, and ratified the Paris Agreement in 2017.

Looking at it in another way, through the 17 SDGs, macroeconomic parameters related to human resources in Serbia will be listed. The Republic Statistical Office of Serbia (RZS, 2024) is cited as the source of this data.

Goal 1. A world without poverty, actually expresses the desire and efforts of the UN to reduce poverty everywhere in the world. As far as Serbia is concerned, the poverty risk rate in 2018 was 24.3%, while in 2022 it was 20.0%, representing a decrease of 4.3%. The rate of risk of poverty or social exclusion was 33.9% in 2018, and 28.1% in 2022, which means that it decreased by 5.1% in the observed period. When looking at the share of the population living below the poverty line, a downward trend can also be observed. In the last 10 years, the percentage of such population was the highest and in 2014 it was 6.9%, since then it has been in constant decline and in 2021 (the last available data in official statistics) it was 1.2%. Furthermore, deaths caused by disasters in 2015 amounted to 2,832 people, while that number in 2021 is 3 people. Since education and health care are considered important elements of the fight against poverty, an overview of the share of total state expenditures for basic services (education, health and social protection) shows that in 2015 it amounted to a total of 56% and in 2023 it amounted to 49.8%, and represents a drop of about 6%, which, viewed structurally, represents a decrease in social protection services, while education and healthcare recorded an increase in value (RZS, 2024).

Goal 2. A world without hunger. This goal means ending hunger and ensuring adequate nutrition for all people, every day. This is especially true for poor and vulnerable populations. The prevention of insufficient nutrition in the Republic of Serbia from 2007 until 2021 (last data) is 2.5%, which means that it has stabilized at that level. The index of state expenditures for agriculture in 2018 was 0.33, while it will be 0.59 in 2023.

Goal 3. Good health. This goal implies taking care of the health of the inhabitants, as well as the well-being of all, regardless of gender or age. The mortality rate of children under the age of five has decreased in Serbia in the last ten years, and in 2014 it was 6.6%, while in 2023 it was 5.5%. Also, the mortality rate attributed to cardiovascular diseases, cancer, diabetes or chronic respiratory diseases is decreasing and in 2018 it was 20.6%, while in 2023 it was 19.6%. It is in decline by 1%, just like the child mortality rate in the observed period.

Goal 4. Quality education. Formal education, as well as on-the-job training, represent a significant segment of the able-bodied individual for the achievement of employment, and the fight against inequality and inclusion. In the Republic of Serbia, in 2015 there were 72% of children who achieved the

lowest results at the end of the first cycle of education (from 1 to 4 grades), and in 2019 it was 68%. The participation rate of young people and adults in formal education and training in the last year totaled 65.8% in 2018, and 69.8% in 2023 (RZS, 2024; Nikoć, 2023).

Goal 5. Gender equality. Gender equality is a topic that has been written about a lot in recent years in scientific circles, but it is also a current topic of public policies. As far as Serbia is concerned, the share of time spent performing unpaid work in the household and taking care of others, according to gender, age and type of settlement, shows that this share is in decline. Namely, in 2015 this share of time was 14.1%, while in 2021 it was 13.1%. The data on the share of women in the national parliament is interesting and almost the same in the last eight years. In 2016, it amounted to 37.2%, and in 2023 it was 37.6%.

Goal 8. Decent work and economic growth. This goal envisages inclusive and sustainable growth, decent work for all and full employment. In the Republic of Serbia, the share of informal employment in total employment by sector in 2018 was 19.5%, while in 2023 it was 12.5%. This trend can be characterized as successful, because formal employment is growing, and in economic theory it is known that it implies regulated working hours, social and health contributions, and overall better protection at work, as well as higher wages. The number of young people (from 15 to 24 years of age) who are not included in education, employment and training is also decreasing, and in 2018 it was 16.5%, and in 2023 it was 12.4% (RZS, 2024). This points to the fact that hidden unemployment is reduced in this way. The employment rate in the second quarter of 2024 was 51.4%, while the unemployment rate in the same period was 8.2%. In that period, the activity rate was 56.0%.

Goal 10. Reduction of inequality. The reduction of inequality is closely related to the reduction of unemployment. The opposite of that is an increase in well-being and an increase in the involvement of the working-age population in one of the forms of work that are available on the labor market. One of the indicators within this goal is the share of labor in the gross domestic product (GDP). It represents the total benefits intended for employees, which are expressed as a percentage of GDP, which is in terms of total output. Therefore, the share of labor in GDP was 40% in 2018, while in 2022 it was 43.9%⁴.

⁴. The activity rate represents the share of the active population in the total observed population (population aged 15 and over).

5 Conclusions

The United Nations' approach to climate change and sustainable development is based on the principle of shared responsibility. Therefore, the goal is for every country, economy or individual to be responsible for the protection of the environment, biodiversity and human health. Effective use of capital for the purpose of sustainable development of the national economy and encouraging the creation of green jobs, as well as a new approach to human resource management, is not possible without the participation of everyone, it is only possible with social consensus at all levels of management and work.

The goals and value of the green transition, green economy and green industrial policy are sustainability, reduction of pollution of the planet Earth and defense against climate disasters. The intensive growth of industrial production, air pollution beyond the permissible limit, depletion of non-renewable energy sources, deforestation and other related issues have led to the need to protect people and natural resources. Today's economic development should be such that it meets the needs of the economy and society, without questioning the lives of people and other living beings on earth. He must not question environmental sustainability either. It must not bring the life of future generations into question either. Therefore, countries need smart growth, rational use of resources and economically stable and healthy life of the population. The traditional approach to corporate sustainability, which is based on profit, must be replaced by a green concept, in which the focus is on green sustainability. This means that there is a need to change the current practice. In the future, both governments and companies will require the purchase of green products that are environmentally friendly and comply with environmental sustainability laws. Companies will primarily work on the promotion and improvement of green sectors, striving to improve brand value, but also business performance (Stanković, 2018: 37).

The example of Serbia points to facts that speak of the improvement of economic parameters in terms of the poverty rate, employment rate and unemployment rate. It indicates that the mortality rate of children has decreased in the last ten years, and that the participation of young people and adults in formal education has increased, and it is 69.8% of what it was in 2023. Serbia works intensively on issues of gender equality, both through public policies and in practice on the labor market. All countries, as well as Serbia, continue to persevere in greening their economies, with the aim of improving life on planet earth.

Acknowledgment: The paper was written as part of the 2024 Research Program of the Institute of Social Sciences with the support of the Ministry of Science, Technological Development and Innovation of the Republic of Serbia.

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ECONOMIC PRAGMA OR (GEO)POLITICAL AND IDEOLOGICAL DICTATES: THE CURRENT CHALLENGES OF THE FEDERAL REPUBLIC OF GERMANY

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Abstract

The German economy is having a lot of problems; the government's 2024 growth estimate was lowered from 1.3% to 0.2%. Considering that the economy shrank by 0.3% in the fourth quarter of 2023, there are signs that the nation may already be in a recession. Economic output is anticipated to be impacted by ongoing stressors until the beginning of 2024. The findings about „troubled waters“, about the „dramatically bad“ economic situation in the country and about revising growth for 2024 to only 0.2%, in addition to the „black“ findings and forecasts of the German Central Bank (not neglecting here the phenomenon of „secondary stagnation“ characteristic of developed economies, when there is already talk of growth of „only“ 0.2%, but that growth of „only“ gets its true meaning in a comparative context - with the growth rates of the previous, pre-crisis years), are not findings, as is the rule confirmed through the experiences of the political and political-propaganda competition, of an opposition politician who tries as much as possible to use every opportunity for political-propaganda criticism and attack on ministers and other government

officials, on their specific policies and the situation in the country. On the contrary, these are the findings of the Minister of Economy Robert Habeck. All this is the concrete challenge for this sociological (economic-sociological and political-sociological) work to be dedicated to a kind of anatomy of several of the most essential and fundamental challenges of FR Germany today. Those that lead to the „dramatically bad“ situation in the country, but also those that are its reflections and consequences.

Keywords: macroeconomic indicators, green transition, trade competitiveness, Alliance 90/The Greens, Social Democratic Party of Germany (SPD), Free Democratic Party (FDP)

1 Introduction

The current German Minister of Economy openly and directly declares that the German economy is in „troubled waters“. The largest and most powerful European economy. The dilemma and the question of how it is possible and how it happened can be purely rhetorical. And as much as asking these or similar questions, most realistically and objectively perceiving the current situation with the German economy, the explanation for the factors and circumstances that led to the fall of the German economy into „troubled waters“ is unequivocally imposed: the internal ideological and political insistence on the implementation of the (ultra)liberal green agenda, along with yielding to both internal and even more external pressures and impositions to sacrifice economic interests before certain (geo)political interests and determinants.

This is a sociological research, determination and fact that primarily implies and means that it is a text written primarily from the position of economic sociology as a special sociology or a special sociological discipline in relation to general sociology, with quite present, notable and relevant content contributions from the scientific fields of political sociology, also as a special sociological discipline in relation to general sociology, and political economy as an interweaving and amalgamation of economic and political approaches, components and contents.

It is a conscious and deliberate decision that this text should not be filled and burdened with quantitative indicators, except for a few really most necessary, cardinal and crucial ones in relation to the topic of the text, and instead that the approach to the defined topic of the text to be qualitative, to be qualitative analysis and synthesis.

The text is actually a synthesis of two main parts. First part is description and explanation of the state of the German economy today. And the second part that refers to the analysis of the programmatic, ideological and political determinations of the political parties that make up the ruling coalition, in relation to the various aspects and components of the complex of the concrete state of the German economy today. This is exactly the situation that the Minister of Economy very vividly presented.

2 The structure and indicators of the „troubled waters“ of the German economy

These economic and economic-sociological dynamics, which Robert Habeck essentially and subliminally defines as „troubled waters“–perhaps with a degree of mitigation of the real relationships and events–can be analyzed and interpreted, allowing for appropriate conclusions to be drawn on several academic bases and in various directions, both interdisciplinary and multidisciplinary. In this research, the academic approach is multidisciplinary, representing a productive symbiosis of economic sociology, political sociology, and political economy. This approach directly stems from the academic profiles of the authors of this research and text. The authors believe that the previously indicated approach is entirely academically relevant, which does not preclude or deny the potential for other productive multidisciplinary approaches. They also contend that it is critically important to focus research attention on the political and ideological relationships–understood as specific and independent, while acknowledging the real ideological intentions that lead to a form of ideological convergence–toward the negative economic, or rather economic-sociological, movements and conditions characteristic of the current German economy and, more broadly, of German society, as viewed by the political parties in the three-member government coalition.

This approach is particularly sociologically and, more specifically, politically focused, significant due to the evident ideological divergence among the political parties that formed the coalition out of a pragmatic need to come to power. This coalition was formed to avoid a grand coalition between the two largest German political parties, at least at the time of the parliamentary elections that shaped the current political and ideological structure of the German parliament.

In the following, in the most concrete and precise way, the most important arguments and evidence that can confirm the statement, or rather the recognition of the German Minister of Economy for the „troubled waters“ in which the German economy is found, are presented. For example, and especially when it refers to macroeconomic indicators, but without any special analysis and elaboration on them, on this occasion the following key indicators and forecasts can be explained and emphasized. Of course, by emphasizing that they should be placed and analyzed in the context of the previous, pre-crisis German economic circumstances and precisely in this necessary context to draw conclusions about the state of the German economy. These are indicators that do not indicate any particularly significant change during

this year: worsening orders situation in all economic sectors, low backorders, high diseases rates, ongoing strikes; economic output is likely to continue its decline in the current quarter and fall by 0,1 percentage points compared to the previous quarter, price-adjusted gross domestic product this year will increase by only 0,2 percentage points compared to the previous year, which represents a significant decrease of 0,7 percentage points compared to the winter of 2023; the economy has been in recession for the last quarter; economic weakness will slow employment growth and initially cause unemployment to rise further, the unemployment rate will average 5.9% this year, up 0.2 percentage points from 2023; the inflation rate will continue to fall from an average of 5.9% last year to 2.3% this year, the core inflation rate will decrease more slowly, at 2.8% this year, inflation especially among labor-intensive service providers will decline slowly as rising wage costs keep pressure on prices; the budget deficit will fall to 1.8%.¹

However, analyzing qualitatively, the greatest attention, and that quite realistically and objectively, must be devoted to the decline in the competitive ability of the German economy, given that the German gross domestic product is generated as export GDP. In this way, one comes to the special problem of the energy situation and its consequences for the competitiveness of the German economy (Borger, 2014). An energy situation that can and should be concretized through the geopolitical and ideological determination of the apparently insufficiently thought out, conceptualized and operationalized green transition, primarily reflected through the abandonment of electricity produced by nuclear power plants, as well as through its own cancellation and external coercion to gradually but rapidly abandon the cheap Russian (gas and oil) energy, cheaper in relation to the competition, especially in relation to American LNG, and even in relation to Qatari LNG.² This statement, probably the most vividly, can and must be expressed and emphasized especially through the example of the (undoubtedly external, foreign) blasting of the Nord Stream 2 gas pipeline. A pipeline that, as much as it was in Russian interest, was very obviously in German interest as well. Also, Russian gas ownership was (and still is) 51%, and the remaining 49% was (and still is) owned by large, global energy companies from Western Europe (Lang, 2017).

¹. Economic Forecast Spring (2024) German Economy Paralyzed, available at www.ifo.de/en/facts/2024-03-06/ifo-economic-forecast-spring-2024-german-economy-paralyzed (25.05.2024)

². Key Facts about the Energy Transition in Germany (2022), BERLIN ENERGY TRANSITION DIALOGUE.22, available at www.energydialogue.berlin/app/uploads/2022/03/betd_factsheet_2022.pdf (25.05.2024)

Also, the competitiveness of the economy is also caused by another factor which was actually one of its main competitive performance and advantages before. Especially when it comes to the key economic branch of the overall structure of the German economy, the branch that was a symbol of its competitiveness and power. That, of course, is the branch of the machine industry, including the automotive industry. It is about the lagging factor of the German machine industry in general, including and especially the automotive industry, primarily in terms of their ability and power to be leaders, as they were before, of innovative solutions. Solutions that were not expressed primarily through their lower price, but through their quality in relation to global competitors. Namely, it is about the German machine industry lagging behind in terms of innovation. Innovation that is very clearly expressed in terms of achievements in the field of industries that are the bearers of the fourth industrial revolution, as well as in relation to the industries that are the bearers of the green transition. Especially in relation to the corresponding industrial achievements of the Chinese economy, including even in the field of the automobile industry. In this area, the dominance of the Chinese automotive industry is indisputable, with special emphasis on the innovative, manufacturing and commercial achievements and results of its industry precisely on electric cars (Naude, 2021).

In these circumstances, this must be especially emphasized, as a possible primary intervention measure to improve the competitiveness of the German economy, the measure of wage reduction cannot realistically be applied. So as the government of Chancellor Schroder (1998-2005) did, at least as a quick and intervention measure, simply because now the state of the labor market does not allow it. And that situation is determined by the unfavorable (even catastrophic) demographic situation and by the negative demographic trends in FR Germany. That is why the immigration to FR Germany of the able-bodied population is needed, with practically all levels of education and in relation to practically all professions and occupations. In this way, the price of the labor market can really be reduced to a certain level, but with adverse negative consequences (negative from a liberal-democratic point of view) on the worldview, ideological and political determinations of the population, that is, the electorate. At the same time, it must be emphasized that the immigration of the able-bodied population can increase consumption, which ultimately depends on the shares of capital and labor in the distribution of the newly created value, and thus contributed to the growth of personal consumption as part of aggregate consumption and GDP growth (Czepek, 2021). Just as the immigration of the working population can have positive effects on the unfavorable dynamics of the balance sheets of the pension system and the funds by increasing the total capital fund of payments to the pension funds.

The fact is that there is an increasing need to allocate a larger and larger part of the budget and direct it to pension funds for the purpose of consolidation and ensuring their solvency and liquidity (Werding, 2015).

3 The challenge of the political-party turbulence in conditions of „troubled waters“ of the German economy

In addition to the fact that the German economy is generally in „troubled waters“, as stated by the Minister of Economy Robert Habeck, certainly due to determinism and the power of political and political-economic inevitability, the German political and political-party scene is located in the same waters. In fact, it is quite right to point out the feedback effect between economic and political-party instabilities and problems. Especially in conditions when crisis economic situations, regardless of whether they are autonomously or heteronomously caused, or, perhaps, are a combination of negative effects of both autonomous and heteronomous factors, cannot actually be overcome through the action of “natural” the laws of the free market, rather, the anti-crisis action of state interventionism is inevitable. In Germany, although we do not consider it and do not emphasize it as a factor of decisive influence on the state of the German economy, the fact is that in power is a coalition composed of three political parties that have basic programmatic, ideological and political determinations and commitments, that, quite realistically and objectively looking, analyzing and concluding, can be very difficult to bring and reduce them to some programmatic, ideological and political smallest common content, which will really be highly functional and effective. Or, at very least, it will be functional and effective, at least at a minimally optimal and necessary level that determines and imposes the concrete, serious economic situation with all its force. The ruling German coalition is made up of political parties that are declaratively programmatically, ideologically and politically self-determining and self-defining as social democratic, green and liberal (Debus, 2021). This coalition was a necessity caused by the results of the parliamentary elections and the dictates of the wishes and needs of these political parties to form a government and be parties in power. Just as at the given moment, the further sharing of political authority and power with the Christian Democratic Union was unacceptable for the Social Democrats, with whom they were in power, as a grand coalition-coalition of the two largest political parties, until the last parliamentary elections, in which the Social Democrats won more votes than the Christian Democrats. An alternative for the social democrats was the formation of the current governing coalition, in which for the first time both the Greens and the Liberals enter. Even before, there have been governments in

which the social democrats and the liberals or the Christian Democrats and the Liberals have been in coalition, but there has never been a government in which both the greens and the liberals are in coalition. They were certainly united by the desire to form a government and to come and be in power, after years spent in opposition during the government of the grand coalition. It is obvious that programmatically, ideologically and politically the line of divergences between the greens and the liberals is in fact and essentially the line of instability and the government falling into „troubled waters“, just like the German economy. Governmental „troubled waters“ which will additionally, but very essentially, strongly and powerfully cloud and stir both the external and internal negative and crisis situations with which this current three-member government coalition was and still is faced, and which situation were a challenge for the government to solve in favor of the German economy and in general for the benefit of the German state and German society-German state interests and the welfare of German society, in fact what remained of the German welfare state after the implementation of the Agenda 2010 (Koffas, 2016).

„From the beginning of the modernization of Germany until today, the famous slogan „prosperity for all“ has been maintained, and it speaks of the aspiration of public policy makers to create a regulatory environment in which this goal can be realized.“ (Maksimović, 2021). And yet a lot of the welfare state remained, especially from the point of view of the German budget's ability to finance that welfare state, especially in conditions when fiscal spending is burdened with significant costs that were not previously contained in the budget expenditure structure, especially, of course, before the war in Ukraine. Costs that inevitably require and impose the maximum possible balancing of the income and expenditure budget side, in order not to disturb macroeconomic stability more deeply, are theoretically up to the level of crisis dysfunctionality. That balancing can be carried out with intervention measures on both the revenue and expenditure side of the budget. For example, by increasing budget revenues through various types and from various parties, by increase the fiscal burden, or by reducing budget expenditures through reducing the costs for the welfare state and for the green energy transition, when it is no longer possible to reduce or cancel military expenses. The reduction of expenses, as an additional reduction for the welfare state and for the green transition, are programmatically, ideologically and politically unacceptable for the Social democrats and Liberals, and the increase in fiscal revenues, which would be realized primarily through an additional burden on the German economy, which is already is facing a decline in competitiveness on various grounds-and the German GDP is by definition export-generated, is unacceptable for the Liberals, as by definition a pro-business party. Politically, and strictly daily-politically,

the determination and reach for budget borrowing, that is, for the growth of the budget deficit, as well as for the growth of the public debt, including and especially in the part of the state debt, is inevitably imposed. And when the budget deficit is burdened by the previous stimulus spending to both the economy and the citizenry during the pandemic crisis and during the energy and food crisis, crisis that were recessionary and inflationary, i.e. stagflation crises. The fact that practically, especially in the world of “the global north” or “the global west”, there is no country that in these crisis circumstances has not significantly increased its debts can be a kind of consolation and an open space for the rationalization of the increase in debts. Just as the growth of global debt has in fact almost leveled off, it has practically equaled the value of global GDP (Boysen-Hogrefe, 2023).

This is the programmatic, ideological and political place and moment when the government coalition faces its most serious, deepest and most essential existential challenge, and especially in conditions when the rating of the government and the coalition partners is at historically lowest levels for a German government in the period after the Second World War, with a primary threat to the Liberals in the future parliamentary elections even if they do not meet the census of received votes needed to participate in the distribution of parliamentary mandates (Leistner, 2024).

This political party, or perhaps more precisely a kind of political movement, Alliance 90/The Greens, is a kind of phenomenon on the national political scene. And not only because it is a party without which, after last parliamentary elections, it would not have been possible to form a coalition that would not have been a large coalition between the Social Democrats and the Christian Democrats (along with the Social Christians), in this context Alternative for Germany/ AfD does not enter, but for something much more important and noteworthy. This party is actually the party from the German political-party mosaic that dictates the German ideological and political structure and dynamics with its programmatic, ideological and political identity. That structure and dynamics that represents the ideological and political master direction of movement. And which direction is followed, promoted and imposed by the majority parts of German public life-academic community, media, civil society organizations...

Thus, it is a party, or a movement, which devises, builds and imposes its programmatic, ideological and political identity, certainly together with its socially powerful allies-as previously explained, an identity generally placed on several essential pillars.

One of them is the pillar of international political interventionism conceived, created and implemented on the basis of the ideologization of liberal values (whatever those values actually mean and what their content is) and the liberal global order of power. In this way, this party, which was originally a pacifist party, is now the most militant political party, not only on the German political scene, but also on the political scene of „old“ Europe in general, meaning without relevant political parties from the Eastern European and Baltic countries. At the same time, with unconcealed historical-revanchist motives, interests and goals. Wherein, this special finding and this special conclusion is of the utmost importance, the geopolitical, political and ideological determinations and profiles of the party, as it has become common globally, are transformed and disguised as moral, ethical values, principles and postulates. And all the opposite geopolitical, political and ideological determinations are strictly marked, disqualified and demonized as immoral, that is, as ethical, as humanistic and as civilizationally wrong, unacceptable and hostile. And as such they have no legitimacy, no right to citizenship and should be sanctioned and eliminated.

Another pillar, which we also highlight on this occasion, is the pillar of the green transition and climate change, primarily in relation to the energy green transition, even at the cost of those programmatic, ideological and political determinations resulting in serious consequences for the German economy, as they actually result. Primarily through the practical deconstruction of its competitive ability, its export competitiveness, with further consequences on the rate of economic growth, given that traditionally and conceptually German economic and social growth and well-being are export-based, not aggregate consumption. So, the ideological and political formulas and postulates, even without their empirical verification, must have primacy in relation to the „bare“ economic pragma and benefit.

The third pillar that should be emphasized on this occasion is the pillar of (ultra) liberal programmatic, ideological and political determinations, postulates and formulas, the pillar of the ideologies of new identities and the „new normality“, such as (trans)gender ideologies. In fact, ideologies that in the most direct, most essential and most basic way and power, are set and declared as a postmodern deconstruction of the concepts and narratives of modernism, of modern society-the concepts and narratives of (biological) sex, of marriage, of family, of ethnicity and the people, of Westphalian sovereignty and the Westphalian nation-state, of... In reality and essentially, the German Greens carried out a programmatic, ideological and political transition following the example of the corresponding programmatic, ideological and political setting and profile of

the American Democratic Party from the time of Presidents Clinton and Obama (Maillard, 2021; Angenendt, 2023).

This finding in this place and in the context of an analysis of the German political-party scene is very significant because, seeing, understanding and concluding strictly in general and framework, the same programmatic, ideological and political adaptation, not really a deeper reform but in any case exactly such an adaptation was carried out among the German Christian Democrats at the time when Angela Merkel was their president. Then the party was generally and framework adapted to the foundation of the liberal cultural-sociological determinations and postulates of the American Democrats. And because of that, the Christian Democrats still have programmatic, ideological and political, euphemistically speaking, misunderstandings with the Bavarian Social Christians. Very clearly, without consequences for their relationship, at least when it comes to power, of traditionally „sister“ parties. And precisely because of this cultural-sociological liberal programmatic, ideological and political adaptation of the Christian Democrats, some future coalition with the Greens is possible. A coalition that the Christian Democrats openly mention (Lees, 2013).

The Social Democratic Party (SPD), just like the liberals, is certainly the party that suffers the negative consequences of the fervor of the ultra-liberal cultural-sociological pressure of the Greens, as well as of their (the Greens) liberal foreign policy interventionism and ideologization the climate policies and the policies of the “green” energy transition. Although at the very beginning of these ideological and political turbulences, the Social democrats showed a significant ability to defend themselves against the pressures for a practical and realistic sacrifice of economic pragmatism before the onslaught of the liberal geopolitical and ideological dictates of the Greens, than they almost completely gave way in terms of relations with Ukraine and with Russia, with a clear and precise sacrifice of the export competitiveness of the German economy. In relation to the People’s Republic of China, among the Social democrats, it can be stated quite objectively, resistance in relation to the complete termination of relations, which, most realistically looking and evaluating, are in mutual interest, despite the creation and initial implementation of the „reduction of risk“ policies in relations with the People’s Republic of China.³

³. Social Democratic international policy in the Zeitenwende (2023) , Position Paper of the SPD Parliamentary Group, available at www.spdfraktion.de/system/files/documents/positionpaper_zeitenwende.pdf (25.05.2024)

The Liberals/Free Democratic Party (FDP) is the second party, after the Social Democrats, from the triple „traffic light“ coalition, which is a big loser due to bowing down and yielding to the pressures of the Greens. That is, before the dictation by the Greens in terms of the ideological coloring and determination of the government, and by putting in the background the ideologies and policies of economic and economic-sociological pragmatism. A pragmatism that can actually and essentially be highlighted and embodied through its core or its heart of the export competitiveness of the German economy. Liberals have always been and still are the party of the German business community and its original interests, although by definition economically and sociologically, they are still ideologically and politically a party that was especially positively oriented and open to the interests of the communities of small and medium businesses. But of course without excluding the interests of global German businesses. Liberals have always known how to synchronize and balance all these business interests as a common and universal German business interest (Saalfeld, 2010). It is very important to underline at this point that the cooperation of the Liberals with the Social democrats in coalition governments was possible and was really functional and effective, because it was placed, among other things, on the basis of respecting the theoretical concept and the practical model of the German social state and the German social, economic-sociological pact legally established and functionalized already in the time of chancellor Bismarck-in the second half and at the end of the 19th century (Palier, 2006). Even then they were harmonized and agreed, by definition, the different and conflicting interests of capital and labor, in the larger interest of the integration and cohesion of the German state and the German social community. That's when the German social state, the German welfare state, was created. The social state was somewhat undetermined, but not overthrown, by the Social democratic Agenda 2010, promoted in 2003, when the Social democrat Gerhard Schroder was chancellor. That Agenda is set on the basis of a certain new, (neo)liberal balancing of the interests of the sides of labor and capital, with an ideological and political movement towards the interests of capital and the competitiveness of the German economy, but still without a thorough and essential undermining of the interests of the labor side (Сасајковски/Sasajkovski, 2005). At that time, serious reforms were implemented in the labor market and the pension system (Sasajkovski, 2013).

The Liberals in the existing circumstances of the German economy falling into „troubled waters“, certainly naturally due to the strength of their programmatic, ideological and political determination and profiling as a promoter, propagandist and protector of the interests of the German business community, must be the biggest losers. Simply, if the German economy is in troubled waters, the most

elementary and logical question arises as to how the Liberals as part of the government coalition allowed this to happen. And, further along the same logical line of reasoning, what will they do to help the German economy get out of those „troubled waters“. As the rating of the government falls, it is normal that the party rating of all members of the current government coalition must also fall. But that fall in relation to the Liberals has the most far-reaching consequences because it crosses the „red“ line of failure to meet the electoral census, a census necessarily required for participation in the distribution of parliamentary mandates. In this sense they are especially the biggest losers. Although the massive anti-crisis fiscal interventions of the government and the EU, including the anti-crisis monetary interventions of the European Central Bank, were also aimed at the German economy amid challenging stagflationary circumstances (Guntermann, 2022).

In such political, economic and overall social circumstances comes the „moment of truth“ for Liberals. This moment may even be the key and crucial point in the further course of the German political-party scene, together with the future possible policies of either this or another government coalition in which the Liberals would also participate. The projection and budget plan for the future year 2025 could very easily be the point at which the current government coalition partners will have to clear up their relations with each other. But the parliamentary-political arithmetic is inexorable: both the Greens and the Liberals are necessary to ensure a parliamentary majority for both the Social Democrats and the Christian Democrats. Of course, theoretically on the condition that a large coalition is ruled out, the Alternative's participation in a future government coalition is ruled out, and extraordinary elections are ruled out, which the government coalition participants certainly don't want. The Liberals will certainly demand a frugal budget in accordance with their programmatic, ideological and political determinations. They will require targeting fiscal stimulus primarily and at scale to help and revitalize the competitiveness of the German economy, including enabling the German research and innovation community to make initial connections with global leaders in the field of the fourth industrial revolution. And all this inevitably at the expense of cutting budget social transfers - transfers to the German welfare state. At the same time, due to the pressures from within, primarily from the Greens, and from outside, primarily from the United States, the government will not be able to give up the huge fiscal spending on armaments. The Greens will not accept serious spending cuts for the climate agenda and the green energy transition. Austerity must not be accepted by Social democrats either, clearly primarily for the sake of the welfare state, or what is left of the old, original German welfare state, and realistically speaking what is left is not at

all small, primarily if one take into account the existing budgetary possibilities and potentials fiscal interventions, subsidies and incentives. And that is the equation with several unknowns, for the solution of which it will be necessary to invest and manifest originality, innovation and skill almost on the border of the impossible. Or even to cross and enter the realms of “magic” of daily political negotiating and bargaining. The easiest in the sense of the most opportune and in the sense of going along the line of least resistance is to find the solution in the hypocrisy of daily political resourcefulness-however, despite all ideological and political declarations-increasing the budget debt. And on a daily-political level, everyone should be fiscally satisfied (Grundler, 2020). When globally virtually no one is saving and when global debt has nominally reached global GDP.

4 Conclusions

The German economy is currently and without a doubt in »troubled waters«. If this is ascertained and said by the current German Minister of Economy, even as a gesture of a certain political masochism, and not by an opposition politician, that observation can and should be accepted as reliable. This finding is also based on the basic macroeconomic indicators such as current quantifications and of course compared to their previous quantifications. So, a finding that, in relation to macroeconomic indicators, follows and is based on their dynamics of change. But even more, that finding refers to the indicators, placed in the context of a qualitative, systemic and structural analysis and synthesis of the dynamics of quantitative indicators and balances. And primarily in relation to the competitive ability and power of the German economy, as well as in relation to the balance sheets of the German pension system, together with the indicators of the dynamics of the demographic balance sheets and with the indicators of the balance sheets in relation to the innovative potential and capacity of the German research community.

The research, which focuses on the state of FR Germany and German society as a whole—especially the economic, or rather economic-sociological state—derives its relevance and justification primarily from FR Germany's status and power as the country with the largest economy in the EU. It is the largest and most powerful country in terms of GDP—both in nominal terms and GDP per capita, as well as purchasing power. This economic power must be projected and expanded as political power. Historically, this political power has primarily been used to promote, protect, and implement German economic interests. However, a reversal is currently occurring in response to the events

in and around Ukraine and Russia, as FR Germany finds itself in a situation where it is less determined to prioritize its economic interests. The country is being forced - both from external and internal pressures - to adapt and even sacrifice its economic state interests in favor of imposed geopolitical needs and intentions. When the German economy and its power face unfavorable or potentially crisis-driven dynamics, these movements and situations must naturally be reflected in terms of economic and overall relations within the EU. This includes implications for the future (para)constitutional, organizational, and institutional development of the Union. All of this will inevitably affect the Union's attitude toward candidate countries seeking membership.

In such economic-sociological circumstances, the German political parties that are members of the government coalition are burdened with (ultra) liberal programmatic, ideological and (geo)political agendas in relation to climate change, the green transition and of global systemic and structural dynamics, changes and power constellations. At the expense of the economic pragma, that is, at the expense of the negative shifts in the balance sheets of the macroeconomic indicators and primarily the competitive ability and power of the German economy.

Acknowledgment: This research paper was written at the end of May 2024.

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AN INSTITUTIONAL ANALYSIS OF THE DUALISM BETWEEN NORTHERN AND SOUTHERN ITALY: EXPLORING THE EMERGENCE OF TWO DISTINCT NATIONS WITHIN A SINGLE POLITICAL BOUNDARY

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Abstract

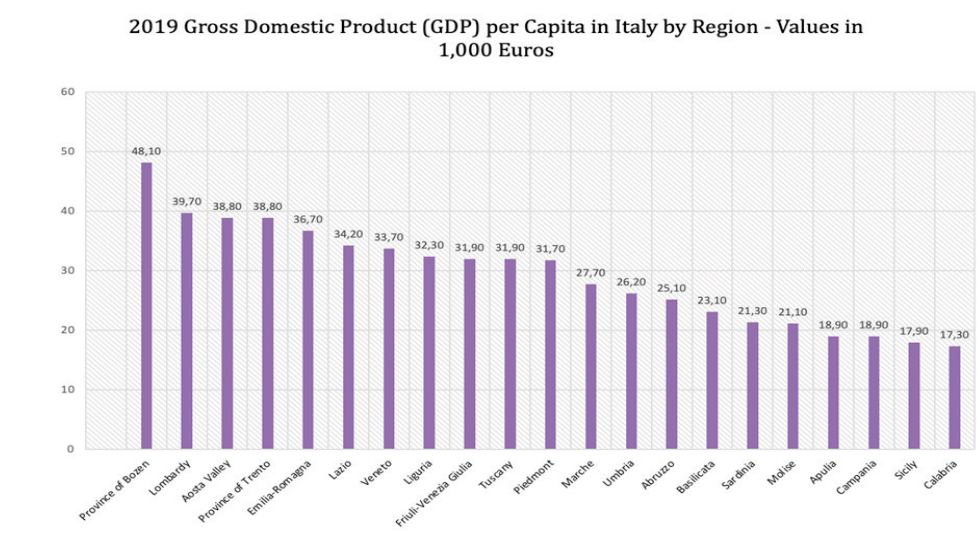
This paper presents an institutional analysis of the persistent economic and social dualism between Northern and Southern Italy, exploring the emergence of two distinct regions within a unified political boundary. Despite Italy's economic progress as the world's eighth-largest economy, the North-South divide has remained a significant barrier to national cohesion. The study examines various indicators such as GDP per capita and unemployment rates, revealing a long-standing disparity exacerbated by different institutional structures. By applying New Institutional Economics (NIE) and exploring both *de jure* (formal) and *de facto* (informal) institutions, the research highlights how institutional inefficiencies in the South, compounded by low social capital and pervasive patronage, contrast sharply with the more inclusive institutions of the North. Additionally, the role of organized crime in the form of extractive institutions further entrenches economic stagnation in the Mezzogiorno. The paper concludes by emphasizing the need to address these institutional discrepancies to foster sustainable development and bridge the North-South divide in Italy.

Keywords: Inclusive Institutions – Organized Crime – Extractive Institutions – Italy – North-South Divide

1 Introduction

Numerous sovereign states demonstrate significant divergence within their borders across various dimensions, encompassing economic growth, development, inequality, and other social science metrics, such as development and human capital indices. A prime illustration of this can be found in Italy, which despite being the world's eighth-largest economy and maintaining unity for over 160 years, has failed to bridge the North-South economic divide. To facilitate this study, we will classify the regions into two categories: north-center and south. The north-center division will consist of the following regions: Bolzano, Lombardy, Valle d'Aosta, Piedmont, Emilia-Romagna, Veneto, Trento, Friuli-Venezia-Giulia, Marche, Tuscany, Lazio, and Umbria. Conversely, the south division (Mezzogiorno) will encompass the remaining regions: Abruzzo, Molise, Basilicata, Calabria, Campania, Apulia, Sicily, and Sardinia.

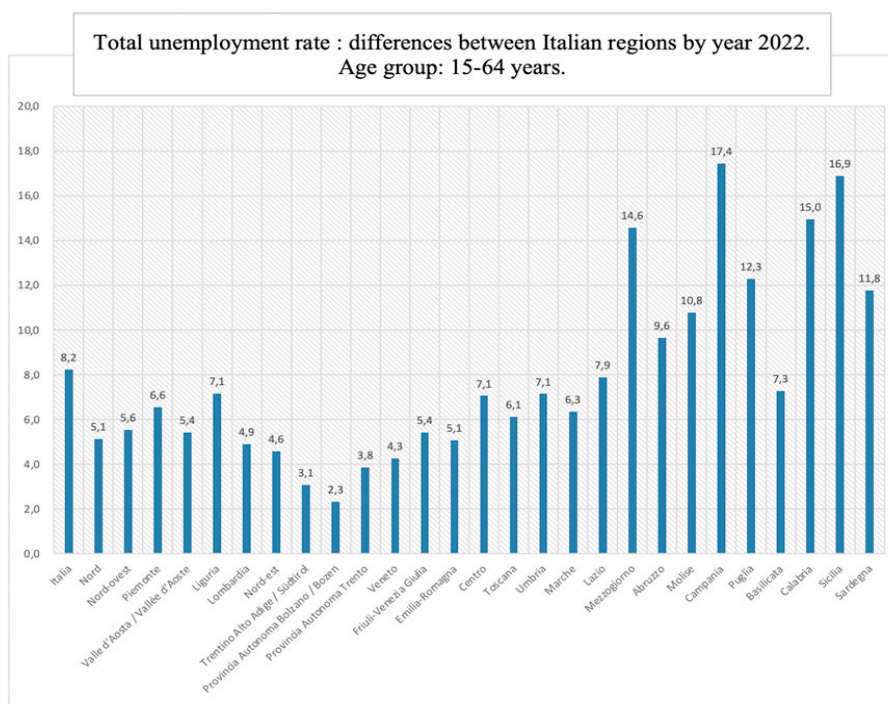
In 1972 a publication of „Corriere della Sera,“ a prominent newspaper in the country, postulated that the enduring economic chasm between Italy's North and South would be surmounted by 2020. At present, in the year 2023, the soundest indicators of economic development and growth unequivocally reveal that the envisioned process of convergence has yet to occur. The most recent data collected by the National Institute of Statistics (ISTAT) and other research bodies such as SVIMEZ (Association for the Development of Industry in the South) indicate an increasing accentuation of this historical trend during the last decades. As per the findings of a Bank of Italy study conducted by Accetturo et al. (2022), there was a significant rise in the proportion of Gross Domestic Product (GDP) per capita in Mezzogiorno compared to that of the Center-North. The ratio increased from just above 50% in the early 1960s to around 60% in the early 1980s, during the Italian economic boom from the 1960s to the 1980s, indicating a path towards convergence. Nonetheless, in the following forty years, a gradual decline ensued, resulting in the ratio dropping to 55 percent at the onset of the pandemic. Figure 1 provides clear evidence that the per capita GDP of southern regions, such as Calabria, is merely 46.7 percent of that of the northern Lombardy region, indicating an observable disparity.

Figure 1.

Source : Data retrieved from ISTAT 2019, visualized by the author of this paper.

Moreover, it is pertinent to note that several other economic development and growth parameters demonstrate a similar trend, including the total unemployment rate, further accentuating this profound discrepancy. Figure 2 serves as an illustrative testament to the disproportionality between the central-northern and southern regions of the nation, as evinced by the stark contrast in unemployment rates. As of 2022, the mean unemployment rate in the northern provinces registered at 5.1%, while the southern counterparts averaged 14.6%, with regions such as Campania and Sicilia recording alarmingly high rates of 17.4% and 16.9%, correspondingly (ISTAT, 2023).

Figure 2.



Source : Data retrieved from ISTAT 2023, visualized by the author of this paper.

Both scholars and politicians have attempted to solve this conundrum, but have failed to come up with a conclusive explanation. Among the most notable theories are those grounded in geography, history, social dynamics, and culture. This research, however, will prioritize an investigation into the fundamental differences between institutions and how their distinctive nature and operations consign this country to a perpetual internal division. By adopting an institutionalist approach, this study will not disregard the significance of other contributing factors. By contrast, the focus of the investigation will be on the institutional aspect, which, upon careful review of the available literature, appears to be a glaring omission.

Henceforth, this research shall originate from the following research question:

What institutional factors sustain the economic and social division between Northern Italy and Southern Italy?

2 De Jure and De Facto: The Societal and Institutional Incongruity in Italy

In the quest to understand the disparities between northern and southern Italy, Putnam (1993: 180-181) invoked a venerable theory in the social sciences: the theory of collective action. Collective action typically aims at the production of public goods, which are characterized by non-excludability in consumption and an absence of rivalry in consumption, where the consumption of a good by one individual does not preclude its consumption by another. Instances of public goods encompass the safeguarding of the nation's territory, assurance of security and public order, the provision of law and justice, educational institutions, infrastructure such as roads, as well as air and water quality, all of which epitomize commodities that are utilized by the community and entail a process of socialization.

At the crux of collective action lies the paradox of the free rider or hitter, whereby a self-interested individual who intentionally abstains from cooperation reaps the benefits of the collective action without bearing its costs. Mancur Olson (1971: 98-99) argues that this predicament poses a challenge to the production of public goods, and it is precisely at this critical juncture that the significance of institutions as the rules of the game become paramount (North, 1991) to navigate this complex process and promote collaboration among economic agents towards a shared objective.

The theoretical structure posited by North, Wallis, and Weingast (1991, 2006), along with other scholars belonging to the NIE (New Institutional Economics), identifies that the primary origin of disparities in economic advancement and affluence among nations emanates from variations in institutions that establish the apportionment of resources and economic consequences. The institutionalists' framework, in its proposition, typically involves a comparison between states, often overlooking the differences between institutions within the states themselves. The NIE possesses a tendency to regard nation-states as monolithic entities, thereby regarding their institutions as uniform. However, Chang (2007) highlights the limitations of this view, noting that specific institutional forms do not necessarily lead to certain outcomes. This presents a significant challenge to the NIE's perspective. In defining institutions as instruments or rules, we must consider their dual nature. The *de jure* institutions comprise official, formal rules, while the *de facto* institutions are those enforced and followed in practice (Foldvari, 2016). The concept of *de jure* institutions refers to official and formal rules that are observable as written rules and regulations. Alternatively, the notion of *De facto* institutions refers to the

practical implementation and outcomes of those rules and regulations. Having recognized this intrinsic binary nature of political power and, consequently, of institutions, we can better understand how that paradigm of the supposed homogeneity of institutions in the same nation-state is misleading.

The case of Italy, with its peculiarities and institutional and cultural biodiversity, provides an exemplary illustration of how institutional disparities extend beyond national boundaries to encompass regional distinctions within a state. When considering the interregional differences in the manifestation of institutions in northern and southern Italy, Putnam (1993: 180-181) postulated that such disparities stemmed from the divergence in social capital. Putnam's observations of substantial distinctions in social capital, encompassing trust, political participation, and social networks, between the North and South, prompted him to identify these factors as causal elements affecting social policy, institutional efficiency, and economic growth. According to Putnam (1993: 180-181), the difference in social capital, attributable to late-medieval institutional differences, with the self-government of wealthy urban society prevalent in Central and Northern Italy and an absolutist state existing in the South, was responsible for condemning southern Italy to incurable backwardness. While this perspective is both captivating and germane, Felice (2018) expeditiously elucidates its limitations. He underscores that the sizeable difference in social capital noted by Putnam (1993) is a more recent phenomenon, dating back to the Risorgimento (the political and social movement that led to the unification of Italy), with exacerbation commencing from March 17, 1861, when Italy emerged as a unified nation. Since that historic date, homogeneous *de jure* institutions were gradually enforced throughout the entirety of United Italy, with this progression reaching its zenith during the twenty years of fascist rule. Despite this exertion, the *de jure* equal institutions have functioned in the realm of *de facto* in vastly divergent ways, resulting in distinctly contrasting and enduring ramifications for economic and social development. The genesis of this phenomenon lies in the inevitable interface of *de jure* formal institutions with *de facto* formal and informal southern institutions, compounded by low levels of social capital (Putnam, 1993), pervasive patronage (Felice, 2018), and lower levels of schooling (Cappelli, 2016). These factors have wielded a deleterious effect on the efficacy of these very institutions, which in the North had proved instrumental in spurring industrialization and economic growth. Acemoglu et al. (2004) argue that differences in economic growth and prosperity between countries can be attributed to varying economic institutions that determine resource allocation and shape outcomes, resulting from conflicting interests and political power dynamics that favor the group with greater influence. By applying these assumptions at the sub-national level, it is possible

to argue that having the same formal institutions *de jure* is not enough, and it is necessary to take an additional step. Henceforth, while the theories advocated by the NIE do furnish a comprehensive framework for tackling the institutional predicament and the concomitant challenge of economic development, they must not disregard the imperative task of scrutinizing and factoring in the concrete outcomes derived from such institutions. As per Chang's (2007) findings, identical institutions translate into a heterogeneous range of results. Therefore, in light of the interregional inequality prevalent in Italy, it is incumbent upon us to advance our efforts in investigating the concealed portion of the institutional iceberg - an enormous expanse of formal and informal institutions that remain submerged beneath the surface.

3 Beneath the surface: delving into the submerged part of Italian Institutions

In the Italian collective consciousness, a pivotal figure in national history represents an allegory of the dichotomy in the *de facto* level of Italian institutions: Giolitti. The five-time Prime Minister of the then Kingdom of Italy is a striking example of how the same *de jure* institution manifested in two distinct ways in the North, where it did not suppress strikes and supported the organization of workers' associations, and in the South, where the master of political transformism, Giolitti, exploited the unfavorable preconditions of the region, controlled political elections by resorting to prefects, prevented opponents from holding electoral rallies, falsified electoral results, and used organized crime to intimidate adversaries (De Felice, 1969).

Through his questionable actions, Giolitti provides a means of comprehending the two facets of this nation's institutional framework. The *de jure* institutions, which are barely distinguishable, diverge into two paths: extractive and inclusive. Inclusive economic institutions are responsible for creating incentives and opportunities that enable the liberation of the energy, creativity, and entrepreneurship of society, while extractive economic institutions do not, as identified by Robinson (2013).

Therefore, with a focus on these extractive institutions that constrain and inhibit the emergence of a prosperous economy, a significant factor that has unfortunately brought notoriety to this country is the Mafia. This formal yet extra-*legem* institution has a substantial impact on Italy's economy. According to a study by the Bank of Italy (Mocetti and Rizzica, 2021), illegal business activities used to finance and enrich organized crime account for more than 2 percent of the country's GDP. Furthermore, the Mafia gains profits from

their infiltration into the legal economy, further increasing their economic significance. Since the 19th century, organized crime groups such as the Mafia, Camorra, and more recently, 'Ndrangheta, have functioned as formal economic institutions in the Southern region of Italy (Felice,2018). These groups create incentives that discourage free entrepreneurship and competition, instead favoring monopolies or cartels enforced through violence or the threat of it, and impose significant costs on firms operating in their territories through racketeering (Felice, 2018). The presence of such extractive institutions represents a real challenge to state institutions. The Mafia constitutes a state within the state, as it competes with the Italian state to secure those elements that by definition (North, 1991) belong to the state itself, namely the monopoly of violence and the ability to tax its citizens.

The Mafia stands as a quintessential example of an extractive institution that impedes the state's attainment of a monopoly on violence and the ability to levy taxes on its citizens. As a result, the Mezzogiorno finds itself unable to achieve the coveted Open Access Society status, as posited by North (2006), that is essential to maintain social order through political and economic competition, as opposed to rent-creation. The Mezzogiorno finds itself ensnared in a Limited Access Order (North, 2006), where economic control is divided among political elites and extra-*legem* interest groups, such as the Mafia.

The widespread prevalence of extractive institutions, such as the Mafia, and pervasive kleptocracy, have significantly impeded the developmental progress of Southern Italy. This situation has resulted in an inability to converge with the more prosperous northern regions, and instead, has fostered an unproductive passive modernization, as noted by Felice and Vasta (2014), citing Cafagna (1988). In contrast, the natural outcome of inclusive institutions, as explained by Robinson (2013), is an active modernization process, which is exemplified by the Northern Italian model of modernization (Felice and Vasta, 2015). Regrettably, Southern Italy's passive modernization has led to a sub-optimal pattern, inhibiting the region's developmental growth, as highlighted by Felice and Vasta (2015).

4 Conclusions

In summation, it must be acknowledged that the economic and social discrepancies between the northern and southern regions of Italy have endured for many years, despite concerted efforts to bridge the gap. While numerous hypotheses exist to explain this dilemma, this study accords

primacy to an investigation of the institutional elements that underpin the persistent economic and social divisions between the two regions. Employing an institutionalist framework, this study seeks to explore the fundamental distinctions between institutions and how their distinct character consigns Italy to a protracted internal divide. The ultimate aim of this research is to identify the institutional factors that sustain the North-South divide. Through the application of institutionalist theories, expounded in this study, to the cross-regional context of a developed nation, one can attain a more profound comprehension of the constraints inherent in such theories. The goal is not only to gain a more comprehensive understanding of the present case but also to derive conclusions that can be implemented in diverse contexts.

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A CRISIS OR AN OPPORTUNITY: MIGRATION AS A TOOL FOR ECONOMIC AND SOCIAL DEVELOPMENT IN CROATIA

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Abstract

Migration and demographic trends are emerging as key policy concerns in Croatia, influenced by both global crises and domestic factors. Migration to Europe has positioned Croatia as a transit country for migrants *en route* to Western Europe. At the same time, Croatia faces significant demographic decline due to low birth rates and emigration, presenting long-term economic and social challenges. This paper explores Croatia's response to these pressures, focusing on policy approaches toward migration and demographic sustainability. While recent policies aim to address labor shortages by increasing work permits and encouraging immigration, Croatia faces the dual challenge of maintaining an open-door policy for foreign workers while ensuring their effective integration into Croatian society.

Keywords: Croatia, migration, labor, demographic decline, integration

1. Introduction

Migration and demographic trends have become critical policy issues for Croatia in recent years. The migration surge into Europe, triggered by geopolitical upheavals such as the Arab Spring, placed Croatia along a key transit route for refugees and migrants heading west. Simultaneously, Croatia's persistent demographic decline, exacerbated by low birth rates and high emigration, presents serious economic and societal challenges. Together, these migration and demographic pressures underscore the necessity for a comprehensive policy approach that addresses both the immediate needs of migrants and the long-term sustainability of Croatia's population.

This paper is based on a hypothesis that dual pressures of demographic decline and migration flows have driven Croatia to adopt a securitized yet selectively open migration policy, shaped by EU policymaking and national labor demands. It explores the complexities of Croatia's migration crisis and demographic policy, evaluating how the nation has responded to external migration flows while confronting internal population decline. By examining recent policy developments, labor market challenges, and integration strategies, this paper sheds light on the opportunities and challenges posed by migration for Croatia's future.

2. Historical and political migration context

The second decade of the 21st century was marked by one of the most significant migration movements since World War II, largely driven by the geopolitical upheavals in the Middle East and North Africa following the Arab Spring. In 2015 this mass migration saw Europe as a primary destination with over 1.8 million refugees arriving at European borders (Frontex, 2016). Croatia, situated along the Western Balkan route, became a critical transit country for migrants with almost 560.000 migrants crossing the Croatian border with Serbia by the end of that year (Ministry of the Interior, 2016).

In 2013, prior to the peak of the migration crisis, Croatia became a full member of the European Union (EU). As a result, its migration policies have been shaped by EU-level discussions, including its aspirations to join the Schengen Area. Croatia has aligned its migration approach with the EU's broader strategies, notably supporting the Migration and Asylum Pact, which was adopted in 2023 and aims for full implementation across member states by 2026. The Pact emphasizes the protection of the EU's external borders, a policy Croatia's

political leadership has endorsed, framing it as consistent with the country's existing "rational" approach to border management (Hrvatska radio televizija, 2024). This securitized approach has also manifested in Croatia's handling of asylum claims, where only a small percentage of applications have been approved (Figure 1). Between 2013 and 2022, over 24.000 asylum requests were submitted, with an approval rate of less than 4% (851 asylums and 106 subsidiary protections) (Official Gazette, 2024). The low approval rate is attributed to factors such as a cautious stance on refugee intake and Croatia's role primarily as a transit country for migrants aiming to settle in wealthier EU nations. While public sentiment initially expressed solidarity with refugees during the early stages of the crisis in 2015-2016, over time, the focus has shifted towards security concerns and border protection, overshadowing the humanitarian aspect.

Despite the restrictive approach to migration, focused on irregular migration, Croatia has experienced an increase in immigration in recent years, culminating in its first recorded instance of positive net migration in 2022 (Figures 2 and 3) (Croatian Bureau of Statistics, 2024). This shift is partly driven by the arrival of displaced individuals from Ukraine (13,101) and neighboring countries, especially Bosnia and Herzegovina. Additionally, there has been a modest yet notable increase in immigration from Asian and African countries, although these groups still represent a relatively small proportion of the overall immigrant population (Figure 4). The rise in immigration is primarily linked to the growing number of residence and work permits issued, while the number of asylum approvals remains comparatively low (Figure 1).

This evolving demographic trend signals a transformation for Croatia, historically a country of emigration. The shift introduces new social and political dynamics, posing both challenges and opportunities. Addressing these challenges will require thoughtful policy responses and a willingness to engage in informed public discourse, especially as society adjusts to an increasingly diverse population after decades of relative homogeneity. Political leadership will play a crucial role in navigating this transition, ensuring that societal integration is balanced with security concerns in a way that reflects Croatia's evolving identity within the European context.

3. Demographic challenges and workforce shortages in Croatia

In recent years, Croatia has faced a growing workforce shortage, which poses significant challenges to the country's economic stability. This labor crisis is intrinsically linked to a broader demographic crisis that has affected the

country for decades. Croatia's population has been steadily decreasing due to both natural demographic factors (low birth rates and mortality) and migration trends. The demographic crisis began in the early 1990s and was exacerbated by the war, which resulted in the loss of approximately 300,000 people. Low birth rates, high emigration, and limited immigration rates have continued to drive this decline (Butković, Samardžija and Rukavina, 2022). Following the 2008 economic crisis and Croatia's accession to the European Union in 2013, the emigration wave intensified. Between 2013 and 2017 alone, nearly 6% of the population emigrated (Jerić, 2019). In 1991, Croatia had a population of over 4.7 million, but by the 2021 census, this figure had dropped to around 3.9 million, reflecting a 9.64% decline compared to the 2011 census (Figure 5).

The Central State Office for Croats Abroad estimates that approximately 3.2 million Croatian emigrants and their descendants reside outside the country. Popular emigration destinations include Germany, home to half a million Croats; Switzerland, with around 80,000 Croats; and Argentina, which hosts around 250,000 Croats. The demographic decline has been particularly pronounced in certain counties, such as Vukovar-Srijem, which saw the emigration of 179,521 people between 2011 and 2021 (Pokos and Turk, 2022). This uneven depopulation has left many areas, particularly rural regions, significantly depleted of both population and economic activity, driving the remaining residents toward the country's financial centers, primarily Zagreb.

According to the Croatian Bureau of Statistics, a significant proportion of emigrants (around 40%) are between the ages of 25 and 44, meaning that Croatia is losing a substantial share of its prime working-age population, exacerbating an already low birth rate. Since 1991, the mortality rate in Croatia has consistently surpassed the birth rate. Projections from the Croatian Bureau of Statistics indicate that, depending on future birth rates and net migration levels, the population could decline to 3.1 million by 2051 (Croatian Bureau of Statistics, 2006). By the end of the century, the United Nations approximates that Croatia's population will further drop to 2.1 million. This demographic shift contributes to the population aging, marked by the continuous shrinkage of the working-age population relative to the growing retired population (United Nations, 2024). Eurostat projects that by the end of the century, Croatia will have one of the highest old-age dependency ratios in the EU, with over 60% of the population aged 65 and older relying on fewer than two working-age individuals to support them (Eurostat, 2023).

While the emigration of young people may create an illusion of reduced unemployment and a more favorable labor market, the reality is that Croatia's negative migration balance, compounded by low birth rates and population

aging, is generating one of the most severe socio-economic crises the country has faced. The labor shortage is already placing pressure on key sectors, including healthcare, the pension system and the broader welfare state. Population aging brings about new demands, such as the need to adapt welfare and public health systems to meet the growing demand for social services and care for the elderly.

This situation is not unique to Croatia but is part of a broader European trend. The EU population is expected to peak at 453.3 million in 2026 before gradually declining to 447.9 million by 2050 and 419.5 million in 2100, with an overall decrease of 27.3 million (-6.1 %) from 2022 levels (Eurostat, 2023). Crucially, the predicted decline in population assumes continued immigration into the EU; without it, the population decline would be even more pronounced, with a reduction of over 30% by 2100 (figure 6).

A recent study on the economic effect of population aging predicts that by 2050, this demographic shift will lead to a global slowdown in economic growth (Kotschy and Bloom, 2023). The expected negative impact on Croatia's per capita annual growth rates is between 0.5 and 1 %. To mitigate the impact of population aging, it is essential to expand the working-age population by increasing labor force participation rates, enhancing the activity of the older population (prospective aging) and enhancing productivity through technological innovation and skills development. Currently, labor force participation in Croatia among the population 15-64 is one of the lowest in the EU, at less than 70% (Croatian Bureau of Statistics, 2024). The Croatian National Bank (HNB) estimates that Croatia would gain 120.000 participants in the labor market if it reached the EU average of around 75% (Vujčić, 2024). However, this figure falls significantly short of the projected labor demand, which anticipates a shortage of 400,000 workers over the next 20 years (Poslovni dnevnik, 2023). Even with extraordinary policy efforts to maximize labor market productivity, Croatia's demographic and economic challenges are expected to intensify.

4. Demography policy in Croatia

In response to concerning demographic trends, the Croatian government has made demographic revitalization a key national priority. Democratic revitalization is listed as one of the nine strategic priorities in the current *Strategy for National Security of Republic of Croatia*. Policy instruments utilized for this aim have mostly focused on emphasizing the importance of a favorable environment for families and young people and strengthening connections with the Croatian population living abroad. These priorities are also reflected

in *Croatia's National Development strategy until 2030*, which outlines policies aimed at addressing the demographic decline. The first set of measures primarily targets increasing birth rates by offering financial support to young families and new parents. These include paid parental leave, varying financial support for each child, subsidized childcare, and school meals or textbooks. Such measures have been employed across member states with similar aims, but results in reversing population decline have been mixed (Vollset *et al.*, 2020) resource and health-care needs, and environmental and economic landscapes. Future fertility patterns are a key input to estimation of future population size, but they are surrounded by substantial uncertainty and diverging methodologies of estimation and forecasting, leading to important differences in global population projections. Changing population size and age structure might have profound economic, social, and geopolitical impacts in many countries. In this study, we developed novel methods for forecasting mortality, fertility, migration, and population. We also assessed potential economic and geopolitical effects of future demographic shifts.

METHODS: We modelled future population in reference and alternative scenarios as a function of fertility, migration, and mortality rates. We developed statistical models for completed cohort fertility at age 50 years (CCF50) resource and health-care needs, and environmental and economic landscapes. Future fertility patterns are a key input to estimation of future population size, but they are surrounded by substantial uncertainty and diverging methodologies of estimation and forecasting, leading to important differences in global population projections. Changing population size and age structure might have profound economic, social, and geopolitical impacts in many countries. In this study, we developed novel methods for forecasting mortality, fertility, migration, and population. We also assessed potential economic and geopolitical effects of future demographic shifts.

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The second major policy initiative centers on encouraging the return of Croatia's diaspora. A government office offering support to those considering repatriation was established and in 2021, the government introduced an 'I Choose Croatia' program which offers financial incentives to returning emigrants. However, the program has fallen short of its targets; in two years it attracted 428 diaspora members back to Croatia (Župan, 2024) – around 10% of the 4,500 immigrants anticipated by the initial plan (Penić, 2021). Although ambitiously projected in writing, these strategies do not seem to yield any significant impact. 2014 data shows that although Croatia has one of the EU's largest diasporas, it has one of the lowest return migration rates in Central and Eastern Europe (Figure

7). According to a 2018 World Bank study, this is particularly true of highly educated returnees who struggle to reintegrate into the domestic labor market (The World Bank, 2024).

While unsatisfactory employment outlooks and financial prospects undoubtedly influence Croatians' decision to move abroad, particularly high-skilled labor, other societal and political factors play a crucial role in emigration such as a poorly organized state, incompetent political leadership, corruption, low levels of social trust and widespread political disillusionment (Bogdanić, 2017; Jurić, 2017). When faced with deeply rooted institutional and societal issues, the government's narrow policies are inadequate to generate tangible results and risk being perceived as performative efforts designed to appease public opinion.

Immigration of foreign population is generally omitted from demographic policy. For example, in the *National Development Strategy for Republic of Croatia until 2030*, the government highlights the significance of demographic challenges but fails to acknowledge the potential of the foreign population in forming the solution. For the first time, the *Strategy for Demographic Revitalization of Republic of Croatia until 2033* mentions immigrants from foreign countries as a potential part of the demographic strategy. However, this policy is described in very general terms highlighting that alongside facilitating "return migration of Croatian emigrants and their descendants, who are prioritized in Croatia's migration policy" attention should be given to "balanced immigration of European Union citizens and third-country nationals in accordance with the country's economic needs". This guideline is not further explained or qualified, but instead recommends adopting the National Migration Plan with a comprehensive migration policy.

An important gap in Croatia's demographic policy is its limited focus on immigration. The *National Development Strategy* recognizes demographic challenges but does not adequately address the role of foreign immigration as a potential solution. The *Strategy for Demographic Revitalization* briefly mentions the potential contribution of foreign immigrants but places primary emphasis on the return migration of Croatian emigrants and their descendants. It also calls for "balanced immigration of EU citizens and third-country nationals in line with the country's economic needs," though this policy remains vague and lacks detailed planning. The strategy suggests the creation of a National Migration Plan to outline a comprehensive migration policy, though concrete proposals have yet to materialize.

Many economists agree that Croatia's economic development now depends significantly on the inflow of foreign workers (Čengić *et al.*, 2024). Sectors relying heavily on manual labor and having a significant seasonal focus, such as tourism and construction, face critical labor shortages (Butković, Samardžija and Rukavina, 2022). Faced with the imminent shortage of workforce and pressure from employers' organizations, the Croatian government has updated its immigration policy in the last years, and in 2023 alone, it issued 172.499 work permits (Ministry of the Interior, 2023).

Croatia's government has progressively refined its policies on foreign labor, mainly through the Aliens Act, which regulates the conditions of entry, residence, and employment of third-country nationals. The version of the Act enacted in 2018 aligned Croatian legislation with the EU *acquis* and operated under a quota system, where the government annually determined the number of work permits for non-EU workers. However, significant changes were introduced with the updated *Aliens Act 2020*, which came into force in January 2021. Under the new framework, the quota system was abolished, and employers are now required to request a labor market test before hiring third-country nationals. The Croatian Employment Service conducts this test to ensure there are no unemployed local workers who meet the employer's needs. If no suitable candidates are found, employers may apply for a residence and work permit, which should be processed within 30 days. There are exceptions to the labor market test, particularly for occupations in shortage, key personnel, or specific sectors like agriculture and tourism, where seasonal work is capped at 90 days per year.

The government is working to further improve the Aliens Act, with planned updates set for discussion in late 2024. The objective is to enhance the integration of foreign workers by addressing issues such as work permit duration, accommodation standards, and working conditions. Key proposals include extending the validity of work permits from one year to at least three years and increasing the maximum duration for seasonal work from six to nine months. Additionally, new regulations will establish minimum accommodation standards to ensure adequate living conditions for foreign workers, including sufficient space, health, and hygiene conditions. These changes reflect a growing recognition of the need to balance labor market needs with fair treatment and social integration of foreign workers.

5. Migration in Croatia - opportunities and challenges

Immigration of foreign citizens to Croatia could open many opportunities for the society and economy. Immigrants can address labor market shortages and enhance the productive capacity of the host economy, thereby preventing the adverse effects of population aging. Research indicates that increases in migration flows have had, “positive effects on European economies”, including increased per capita GDP, reduced unemployment, and improved public finances (d’Albis, Boubtane and Coulibaly, 2018). The fiscal impact of migrants, often labeled as the “refugee burden,” is typically offset by increased tax revenues, with these benefits becoming apparent within a year. On the other hand, an influx of refugees also positively affects the economy, but this effect becomes evident after 3-7 years. HNB’s recent research provides similar conclusions, highlighting that higher participation of the foreign workforce in Croatia leads to a higher potential GDP growth rate from 2018 to 2024 (see Figure 8) (Croatian National Bank, 2023).

However, migration also poses challenges for the host society, particularly in fostering social cohesion. As can be witnessed in many societies with significant immigrant populations, the presence of diverse immigrant populations does not guarantee an integrated and tolerant society. It can instead lead to social fragmentation, ghettoization, and division within society. Croatia requires a proactive integration strategy that not only supports migrants but also prepares the domestic population for a multicultural society. Immigrants cannot be left on the margins of society if Croatia wants to avoid becoming a state where the imported workforce will live secluded from the native society and its cultural circulation.

Unfortunately, Croatia lacks a comprehensive integration strategy. The country has produced two policy documents addressing migration in the past. The first document, *Migration Policy of Republic of Croatia for year 2007/2008*, mostly focused on integration in the context of refugees, as the number of immigrants was low at the time (Lalić Novak and Giljević, 2019). After Croatia acceded to the European Union, a new migration policy was introduced for 2013–2015 (*Migration Policy for Republic of Croatia for years 2013-2015*). The main critique of this document concerned the securitization narrative it adopted, portraying migration as a social problem rather than a potential driver of positive economic and social transformation (Božić, 2014). Since the expiration of this policy in 2015, no new comprehensive migration strategy has been enacted. The absence of a dedicated policy framework reflects a broader lack of direction in Croatia’s

approach to migration and integration, as exemplified by the omission of these issues in the *National Development Strategy for Republic of Croatia until 2030*.

This lack of strategic planning has serious implications for immigrant integration outcomes. Systematic support is currently available only to immigrants under international protection, meaning that most migrants have no access to language or professional training unless they fund it themselves. The civil sector organizes some language classes, but they are sporadic and insufficient for fostering genuine integration (Butković, Samardžija and Rukavina, 2022). State-sponsored language courses are restricted to asylum-seekers, further limiting access to critical integration services for the wider immigrant population. Moreover, Butković, Samardžija and Rukavina, (2022) highlight that a significant portion of Croatia's entire migration policy is implemented solely based on the Action Plan for the Integration of Persons Granted International Protection.

In addition to language barriers, Croatia faces a range of other integration challenges. These include the lack of recognition of foreign qualifications, skills mismatches, and lower employment rates among immigrants (Butković, Samardžija and Rukavina, 2022). This is largely due to restrictive policies on work permits for third-country nationals, including those residing for family reunification purposes, as family members can register with the employment office once they or their relatives are granted permanent residence (Butković, Samardžija and Rukavina, 2022). European Commission highlights the importance of effective labor market integration policies and programs (European Commission, 2019). The integration strategy should extend beyond language acquisition to include social aspects such as vocational training and cultural adaptation. Integration policies should thus be twofold, targeting both immigrants and the domestic society to foster tolerance and inclusivity.

According to the Eurobarometer survey (2022: 21), only 5% of the Croatian population reported daily interactions with immigrants. Although the survey generally found a correlation between the proportion of immigrants in a society and the frequency of interaction, Croatia presents an exception. At the time of the survey, 11% of Croatia's population consisted of non-EU immigrants, a proportion comparable to countries such as Luxembourg and Sweden. However, in Luxembourg and Sweden, daily interaction with immigrants was significantly higher, with 21% and 29% of respondents reporting such interactions, respectively. In contrast, countries such as Bulgaria, Hungary, and Romania, where less than 5% of respondents reported daily contact with immigrants, had immigrant populations no larger than 3%. This discrepancy in Croatia can be partially attributed to the fact that many immigrants originate

from neighboring countries, leading Croatian citizens to potentially not perceive them as immigrants.

Furthermore, the survey revealed that 47% of Croatian respondents believed that the integration of immigrants in their area had been unsuccessful. The proportion of those who viewed integration as successful declined by 6% between 2017 and 2021. While in the majority of EU states (23 out of 27), the percentage of respondents who believed that immigrant integration at the national level had been successful remained stable or increased, Croatia saw a 4% decrease in this view over the same period. This indicates a negative trend in public perception of immigrant integration in Croatia.

However, it is important to note that these findings were collected before the significant rise in immigration that occurred in 2022. As the survey was conducted at the end of 2021, the attitudes reflected in the data were formed prior to this demographic shift. Additionally, the politicization of migration in the period following the survey is likely to have further influenced public opinion. As a result, future surveys will be crucial in assessing the long-term impact of these developments on societal perceptions of immigration and integration in Croatia. The data from these upcoming surveys will offer important insights into how public attitudes toward immigrant integration may evolve in response to both increased immigration and the broader political discourse surrounding migration.

According to Tatalović and Jakešević (Tatalović and Jakešević, 2016: 22) the reason for the current lack of integration strategy partly lies in the fact that during the 2015 migration crisis Croatia was a transit country and anticipated no need for adequate integration policies. Lalić Novak and Giljević (2019) agree, noting that Croatia's integration policies were largely shaped by external EU influences rather than by internal recognition of their importance. Additionally, at the time of the migration crises, Croatia had low employment rates and limited incentives to attract and maintain foreign workers. Most of the workforce that came from abroad originated from neighboring countries and didn't require structured assistance for cultural integration. However, in recent years, the growing reliance on a foreign workforce has made the need for comprehensive policies more urgent, even as the government continues to lack an official integration strategy.

One potential reason for the government's inertness could be a concern over public sentiment toward the integration of migrants from distant countries. When analyzing the results from the European Social Surveys from 2021 and 2023, Bagić (2024) highlighted a change in perception of immigration that

occurred in the period withing Croatia's society. While 42% saw immigration as dominantly positive phenomenon in 2021, in 2023 only 33% percent of those surveyed shared this perception. The time between the two surveys captures the crucial period in which Croatia's society experienced strong increase in immigration and in which politicization of the phenomenon became more prominent in the society. Another study reveals that while Croatians generally maintain a neutral stance toward immigration, they exhibit a notably more positive perception of immigrants from the EU countries compared to those from third countries (Croatian Law Centre *et al.*, 2023).

Although the studies above do not analyze the data according to party affiliation, Eurobarometer does show that "those who see themselves as politically left-wing are more likely than those who place themselves on the right-wing to say they have weekly contact with immigrants" and that they also feel significantly more comfortable with interaction with all social categories of immigrants than those who place themselves on the right scale (76% compared to 48%) (Eurobarometer, 2022: 31). Given that the ruling party in Croatia largely draws its support from right-leaning segments of the population, implementing pro-integration policies could alienate this voter base, producing a potential political damage for the government.

The government continues to project the view that foreign workers merely serve as a temporary solution to labor shortages in Croatia's market. *Strategy for Demographic Revitalization of Republic of Croatia until 2033* explains that although a number of foreign workers have been employed in various sectors of the economy "there has been no significant permanent settlement or family reunification thus far". This same notion is offered by policymakers and is presented as a mitigating factor in both economic and social sense. It is argued that foreign workers leave Croatia before reaching retirement age and thus contribute to the pension system without burdening it, as they would need to work 15 years in Croatia to qualify for a pension. Similarly, it is argued these workers never become a burden on the national health system and other social services.

This narrative is regularly employed to placate public concern, prioritizing political stability over addressing the long-term challenges this demographic reality may impose on the country. Croatia's reliance on a foreign labor force will persist in the coming years, and failure to meet this demand could have severe repercussions for the nation's economy. Data from the Ministry of the Interior shows that not many work permits are being renewed in Croatia. It is important to understand that the same issues that motivate Croats to leave and discourage them from returning are the same issues that prevent the

retention of foreign workers, especially qualified ones. After a while, foreign workers who are not well integrated into Croatian society move on to other European countries with better prospects (Butković, Samardžija and Rukavina, 2022). Relying on a transient labor force is not a viable long-term solution for Croatia's economic and demographic challenges. A more sustainable approach would involve government investment in the integration of first-generation migrants, facilitating their long-term settlement and enabling their children to actively participate in society. By fostering social inclusion, this strategy could significantly contribute to the stabilization of Croatia's demographic trajectory, ensuring a more balanced and resilient population structure.

Integration policy would also provide short-term benefits for the national economy, such as reducing outflow of remittance. Migrants living and working in the EU redirect around €63 billion yearly to foreign economies (European Union, 2022). If foreign workers were better integrated and able to reunite with their families in Croatia, a greater share of their earnings would remain in the domestic economy, benefiting Croatia more directly. Contrary to the prevailing narrative, Croatia stands to gain by incorporating foreign workers into both its economic and demographic strategies. However, the success and sustainability of such policies are inherently contingent on a robust and well-researched integration strategy. The key challenge lies in the will and the capacity of political leaders to proactively address migration.

6. Conclusion

Croatia faces a dual challenge of managing migration while addressing its demographic crisis. The influx of migrants, driven by regional instability, has tested the country's border policies, and its integration strategies remain underdeveloped. At the same time, Croatia's declining population, marked by low birth rates and high emigration, has created labor shortages that cannot be resolved solely through domestic measures. Migration presents both a necessary solution to workforce gaps and a long-term challenge regarding integration and societal cohesion. Moving forward, Croatia must adopt a forward-thinking migration policy that balances the needs of its economy with the realities of cultural integration, fostering a society that is both inclusive and resilient in the face of demographic transformation. Addressing these complex issues will require political will, comprehensive policy reform, and active engagement with both domestic and migrant populations.

Figures

Figure 1

Statistički pokazatelj i osoba kojima je odobrena međunarodna zaštita u Republici Hrvatskoj zaključno do 30.06.2024.

ZASTITA/VRSTA	2006.	2008.	2009.	2010.	2011.	2012.	2013.	2014.	2015.	2016.	2017.	2018.	2019.	2020.	2021.	2022.	2023.	2024.	Ukupni izbroj
Azil	1	3	11	5	9	21	7	15	35	83	184	244	158	36	68	21	50	33	984
M	0	3	6	4	5	15	4	11	31	50	133	156	91	22	39	11	27	21	629
0-13			3		1	3	2		3	7	33	43	31	8	15	8	9	6	172
14-17			1	1	1	3				5	4	14	8	1	8				49
18-34		3	1	3	1	4		8	21	29	81	67	26	10	8	3	8	10	283
35-64			1		2	5	2	3	7	9	15	32	26	3	7		10	2	124
65+															1				1
Z	1	0	5	1	4	6	3	4	4	33	51	88	67	14	29	10	23	12	355
0-13			3		3	2	2	1	1	15	22	35	25	5	10	8	8	6	146
14-17						1				1	2	14	5		4	1		1	29
18-34	1			1	1	3		3	2	15	17	17	17	5	7	1	7	4	101
35-64			2				1		1	2	10	21	19	4	8		8	1	77
65+												1	1						2
Suspiđarna zaštita	0	3	2	9	4	14	18	9	7	17	27	21	1	6	0	0	2	5	145
M	0	3	2	6	3	8	10	9	5	11	17	10	1	4	0	0	2	3	94
0-13				1		2	3			3	5	4		1				1	20
14-17				2	1	1	1	1		2	3	2	1						14
18-34		3	2	1	2	2	6	7	3	6	5			2					39
35-64				2		3		1	2		4	4	1				2	2	21
Z	0	0	0	3	1	6	8	0	2	6	10	11	0	2	0	0	0	2	51
0-13				1		2	3		1	1	2	7		2					19
14-17							2				4								6
18-34				2	1	2	2			2	3	2						1	15
35-64						2	1		1	3	1	2						1	11

Source: Ministry of Interior Republic of Croatia

Figure 2

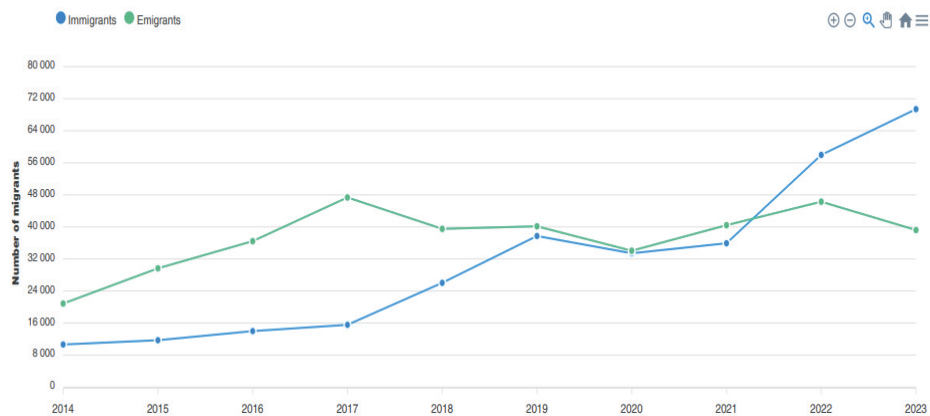
1 INTERNATIONAL MIGRATION OF POPULATION OF REPUBLIC OF CROATIA

	Immigrants	Emigrants	Net migration	
2014		10 638	20 858	-10 220
2015		11 706	29 651	-17 945
2016		13 985	36 436	-22 451
2017		15 553	47 352	-31 799
2018		26 029	39 515	-13 486
2019		37 726	40 148	-2 422
2020		33 414	34 046	-632
2021		35 912	40 424	-4 512
2022		57 972	46 287	11 685
2023		69 396	39 218	30 178

Source: Croatian Bureau of Statistics

Figure 3

G-1 NET MIGRATION OF POPULATION OF REPUBLIC OF CROATIA WITH FOREIGN COUNTRIES, 2014 - 2023



Source: Croatian Bureau of Statistics

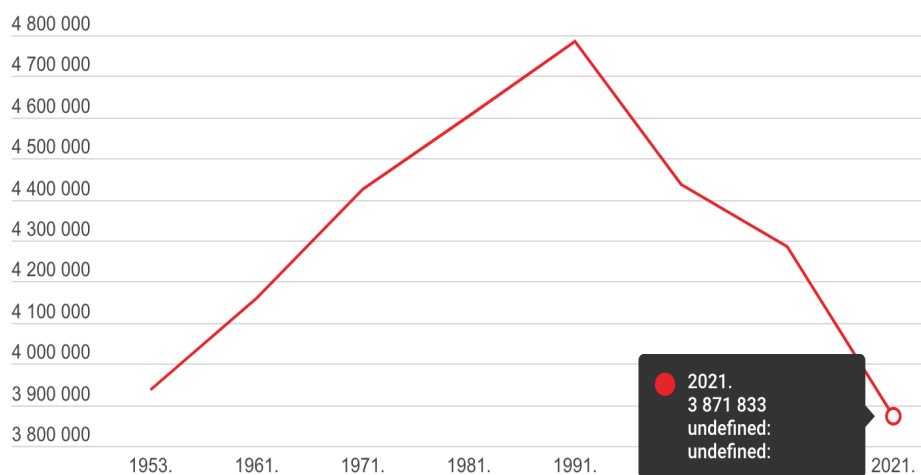
Figure 4

2 INTERNATIONAL MIGRATION OF POPULATION, BY COUNTRY OF CITIZENSHIP

Country of citizenship	2019		2020		2021		2022		2023	
	Immigrants	Emigrants	Immigrants	Emigrants	Immigrants	Emigrants	Immigrants	Emigrants	Immigrants	Emigrants
Total	37 726	40 148	33 414	34 046	35 912	40 424	57 972	46 287	69 396	39 218
Croatia	9 882	32 453	8 460	20 886	10 622	25 950	10 340	32 739	10 852	25 427
Europe	24 194	7 224	22 220	11 988	20 223	12 704	34 367	11 255	38 054	10 526
European Union ¹⁾	2 314	971	3 814	923	4 753	987	5 167	960	4 649	457
Austria	132	63	224	66	317	64	306	32	282	12
Bulgaria	65	30	54	23	90	21	211	17	240	29
Czech Republic	42	19	137	28	159	16	140	24	130	4
France	100	58	116	34	303	46	287	33	198	18
Italy	307	131	376	140	449	156	590	167	467	73
Hungary	118	40	132	47	162	49	200	41	219	14
Netherlands	45	16	75	17	95	29	119	10	138	16
Germany	487	192	823	200	1 134	173	1 407	182	1 190	69
Poland	79	27	97	37	291	31	290	48	212	23
Romania	70	40	61	20	96	30	168	21	114	30
Slovakia	49	28	81	22	160	21	139	32	142	13
Slovenia	573	247	1 331	187	859	241	727	222	815	103
Sweden	52	36	67	33	107	24	105	24	114	7
Other European countries ¹⁾	21 880	6 253	18 406	11 065	15 470	11 717	29 200	10 295	33 405	10 069
Albania	1 304	292	1 091	680	1 024	764	1 131	787	1 219	687
Bosnia and Herzegovina	9 680	3 241	7 634	4 530	6 371	4 661	6 949	4 213	7 010	3 710
Montenegro	156	46	217	71	229	125	219	152	234	147
Kosovo	3 635	597	2 443	1 656	1 835	1 725	2 258	1 346	2 336	1 201
Russian Federation	146	47	177	73	156	84	558	57	727	165
North Macedonia ²⁾	1 462	391	1 106	805	1 027	743	1 578	589	2 118	738
Serbia	3 995	1 156	4 191	2 446	3 131	2 891	3 948	2 261	4 897	2 289
United Kingdom ¹⁾	196	47	277	32	187	39	134	33	122	41
Ukraine	1 071	364	951	640	735	538	11 121	534	13 101	316
Asia	3 084	231	2 159	871	4 358	1 454	11 874	1 980	17 923	2 813
Africa	139	24	135	58	177	65	675	59	1 673	110
North and Central America	235	119	277	150	293	175	343	143	371	164
South America	145	47	136	58	200	56	304	87	431	145
Oceania	37	22	22	24	38	15	65	19	86	32
Unknown	10	28	5	11	1	5	4	5	6	1

Source: Croatian Bureau of Statistics

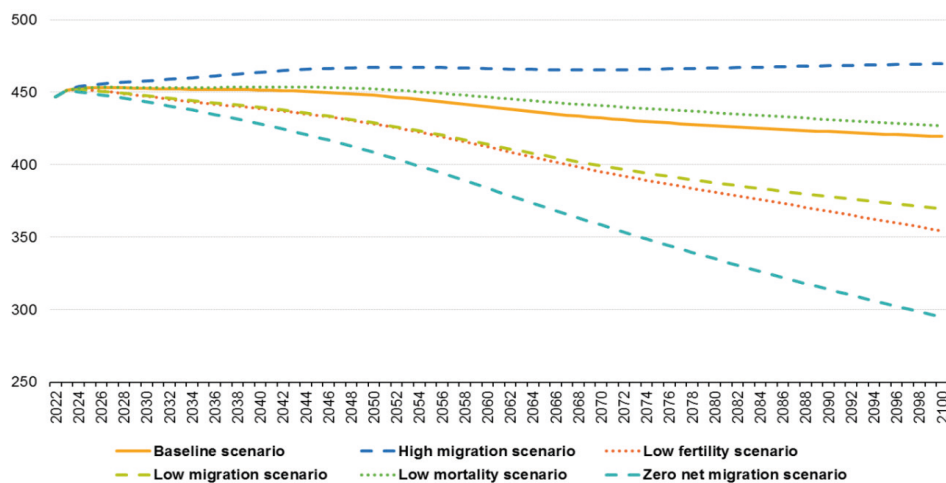
Figure 5



Source: Croatian Bureau of Statistics

Figure 6

Projected population in the EU under the baseline and five scenarios (million)



Source: Eurostat (online data code: proj_23ndbi)



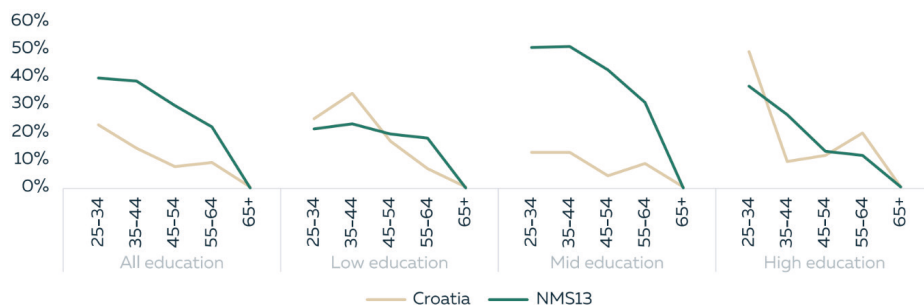
Figure 10: Projected population for baseline and 5 scenarios, EU, 2022-2100

(million)

Source: Eurostat ([proj_23ndbi](#))

Figure 7

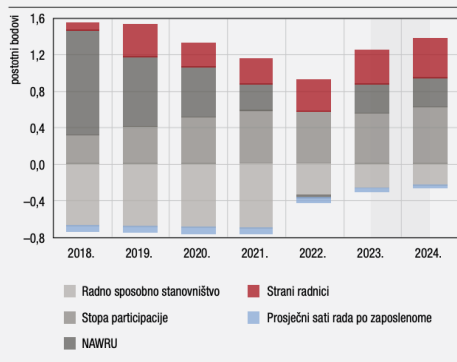
FIGURE 12: Share of Emigrants in 2010 who had returned by 2014, by Education and Age



Source: DIOC (Database on Immigrants in OECD and Non-OECD Countries), reference years 2010/11, OECD, and EU-LFS ad-hoc module of 2014.

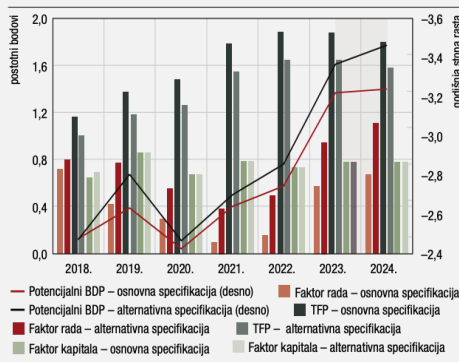
Figure 8

Slika 2.2. Doprinosi faktoru rada u alternativnoj specifikaciji modela



Napomena: Sivo označeno područje označuje projekcijski horizont.
Izvor: HNB

Slika 2.3. Stopa rasta potencijalnog BDP-a (%) i doprinosi pojedinih sastavnica u osnovnoj i alternativnoj specifikaciji modela



Napomena: Sivo označeno područje označuje projekcijski horizont.
Izvori: DZS; HZMO; HNB

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