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CONTENTS

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Skopje, December, 2020

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Editor-in-chief

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OPENNESS OF THE MACEDONIAN STATE INSTITUTIONS AND CITIZEN PARTICIPATION IN POLICIES SHAPING AND DECISIONS MAKING OF THE PUBLIC AUTHORITIES

Abstract

Citizens' participation in political life, effective decision-making and accountability of institutions for the policies they implement are activities that are increasingly emphasized in order to increase the openness and transparency of institutions and the development of democracy in the world. This issue is becoming more and more relevant in the Republic of North Macedonia. Hence, there is a necessity for such a paper focusing on openness of institutions and the participation of citizens in the socio-political life of the country. The purpose of this paper is to assess the extent to which the citizens of the country receive timely and understandable information from their institutions and their opportunities and real participation in issues related to the rule of law and good governance, as well as influencing policies and decision-making processes.

The analyzes conducted in the paper are based on primary and secondary data, and the applied methods correspond to the analyzed questions, such as: statistical method, method of analysis, method of synthesis, method of comparison etc. The findings indicate slight progress in meeting the standards and principles of open governance by institutions,

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involving citizens in decision-making process and the creation of public opinion and policy.[1]

Key words: openness of the institutions; citizen's participation, Regional Index of Openness
JEL classification: D7, D02, E02, L31, Z18

Introduction

Openness is the key condition of democracy since it allows the citizens to receive information and knowledge about equal participation in political life, effective decision-making and holding institutions accountable for the policies they conduct. The citizen's participation in the decision-making represent one of the main preconditions for the rule of law and good governance. Hence, it is especially important to encourage citizen involvement in the decision-making process and the creation of public opinion and policies, as well as capacity building of civil societies, to raise sensitive issues.

In order to see the extent and real opportunities for such citizen participation, it is essential to assess the openness of the institutions, as well as the willingness and proactivity of the citizens to be part of this process. Hence, the paper analysis the institutions openness and citizen's participation based on secondary data from the Regional Index for Openness and primary data collected by two tailor made questionnaires. The first type of questionnaires targeted the institutions whilst the second type of institutions targeted the citizens. Data was collected in the period 1.10-12.12. 2019.

The paper is organized in the following structure. Part one determines the extent to which the citizens of the Western Balkans Region receive timely and understandable information from their institutions, the same issues, but at the national level, are subject to analysis in part two. Third part estimates the citizens 'participation in policy making processes in the Macedonian economy.

[1] This paper is a part of the Action SEE Project, implemented by Metamorphosis Foundation - North Macedonia, Westminster Foundation for Democracy - Great Britain, CRTA – Center for Research, Transparency and Accountability - Serbia, Citizens Association Why not? - Bosnia and Herzegovina, Center for Democratic Transition - Montenegro, Open Data Kosovo (ODK) - Kosovo, Levizja Mjaft! - Albania, funded by the European Union

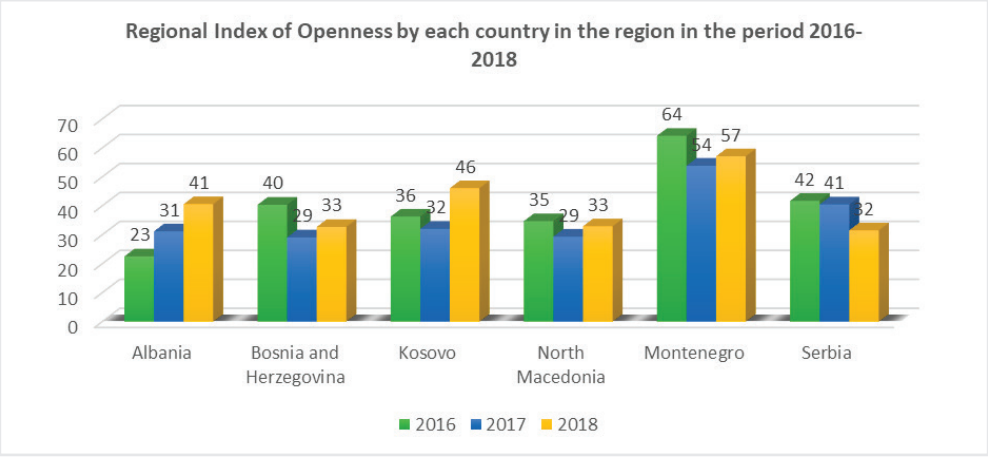
1. MEASURING THE OPENNESS OF THE INSTITUTIONS ON REGIONAL LEVEL

In order to estimate the openness of the institutions toward citizens and CSOs the paper utilize the Regional Index for Openness[2] in general and assessed by 4 principles (Transparency, Accessibility, Integrity and Awareness). The Index of Openness is a composite indicator that measures the degree to which governments in the Western Balkan countries are open to citizens and society, and is designed in order to define to which degree the citizens of the Western Balkans receive opportune and understandable information from their institutions. The Index is used to measure institutional openness, hence it provides a powerful tool for advocacy and fact-based recommendations for improvement.

The openness of the institutions is measured within:

- Legislative authorities (parliaments)
- Executive authorities (governments, ministries, executive agencies)
- Judicial authorities (courts, prosecutors, judges and prosecutors)
- Local self-governments

Graph 1.



Source: Regional Index of Openness. Action SEE, 2016, 2017, 2018. https://opennessindex.actionsee.org/

[2] The ROI was developed within the ACTION SEE project. Index creation can be analysed also by following: In the first measurement of Index, 653 institutions were observed and 404 institutions answered questionnaires. In the second-round measurement 642 institutions were part of the measurement of the ACTION SEE Project.

The Regional Openness Index (ROI) in the Western Balkan Region indicate dominant position of Montenegro in the year 2016 with 64%, whereas at the last position is hold by Albania with 23%. In 2017, Montenegro remains leader with 54% of ROI, whereas last position has the Bosnia and Hercegovina and North Macedonia with 29% of ROI. The situation with ROI has not been changed in 2018 related to the leader which remains Montenegro with 57% ROI, where the last position is hold by Serbia with 32% (Graph1). Summary the ROI index in the period 2016-2018 indicate the trend of rise of the openness at the state institutions in Albania and Kosovo, whereas decreased trend is noticed in case of Bosnia and Hercegovina, Serbia, North Macedonia and Montenegro (Graph 1).

In order to analyse closely the openness of the institutions the ROI is decomposed according to the four principles such as Transparency, Accessibility, Integrity and Awareness. Each of the principles means:[3]

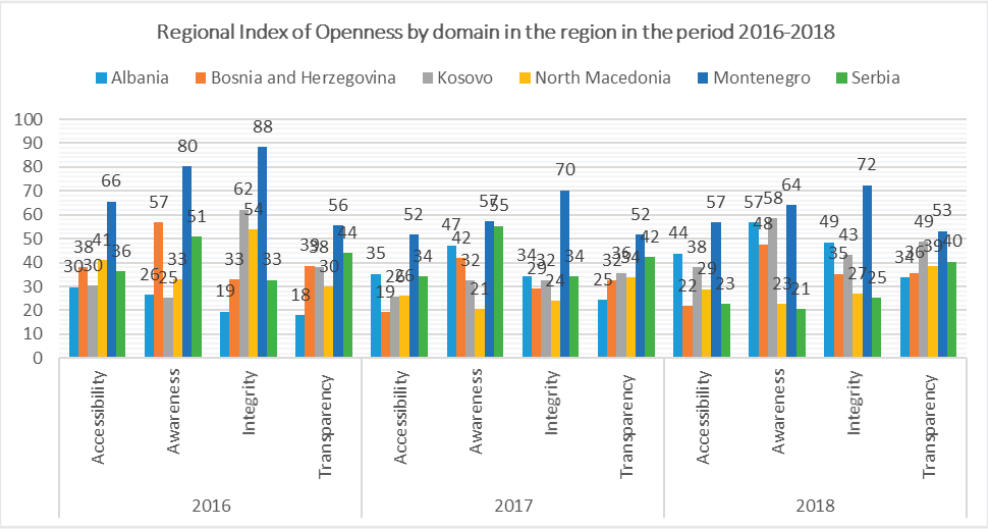
- Transparency implies that organizational information, budget and public procurement procedures are published and are publicly available.
- Accessibility is related to ensuring and respecting procedures for free access to information, improving accessibility of information through the mechanism of public debates and strengthening the interaction with citizens.
- Integrity includes mechanisms for the prevention of corruption, implementation of the Code of Ethics and regulation of lobbying.
- Awareness, is related to the monitoring and evaluation of policies which are conducted by the institutions

The **Accessibility** in the region in the period 2016-2018 indicate the trend of rise of Accessibility in Kosovo and Albania, whereas decreased trend is noticed in case of Bosnia and Hercegovina, Serbia, North Macedonia and minor decrease in Montenegro.

The **Awareness** in the region in the period 2016-2018 indicate the trend of rise of Awareness in Kosovo and Albania, whereas decreased trend is noticed in case of Bosnia and Hercegovina, Serbia, North Macedonia and minor decrease in Montenegro. It is evident that Kosovo from last position in 2016 managed to increase the level of Awareness of the State institutions from 25% to 58% in the year 2018 and to hold the second position after Montenegro.

[3] Metamorphosis Foundation for Internet and Society, ACTION SEE project, Roadmap on good governance for state institutions in the Republic of North Macedonia: Based on the Regional Index of Openness of state institutions: Based on the measurement for 2018, Skopje, July 2019, P: 27

Graph 2.



Source: Regional Index of Openness. Action SEE, 2016, 2017, 2018. https://opennessindex.actionsee.org/

The leader in the Region according to the principle of **Integrity** is Montenegro in the years 2016, 2017 and 2018. The last position belongs to Albania in the year 2016, North Macedonia in 2017 and Serbia for 2018. Hence, the Integrity in the region in the period 2016-2018 indicate the trend of rise of Integrity in Albania and Bosnia and Hercegovina, whereas decreased trend is noticed in case of Kosovo, Serbia, North Macedonia and minor decrease in Montenegro.

According to the principle of **Transparency**, the leader in the Region is Montenegro in the years 2016, 2017 and 2018. Although, Albania is holding the last position with the principle of Transparency, it demonstrates the shift toward improving the Transparency from 18% in the year 2016 to 34% in the year 2018. Nevertheless, the Transparency in the region in the period 2016-2018 indicate the trend of rise of Transparency in North Macedonia, Albania and Kosovo, whereas minor decreased trend is noticed in case of Serbia, Bosnia and Hercegovina and Montenegro.

It can be summed up that Montenegro is a leader in openness in the region, regardless the observed aspect, whereas other countries should use its experience in order to improve their positions. What gives confidence for progress is that in some countries such as Kosovo, Albania, and a certain segment and in the North Macedonia has registered progress in terms of individual principles.

2. OPENNESS OF THE INSTITUTIONS ON NATIONAL LEVEL

In order to perceive the openness of the institutions in the Republic of North Macedonia, in addition to the data obtained from the Index, this paper also uses data from the Questionnaires toward state institutions.

The Openness in the state institutions of the Republic of North Macedonia according to the ROI is presented in the following Graph 3.

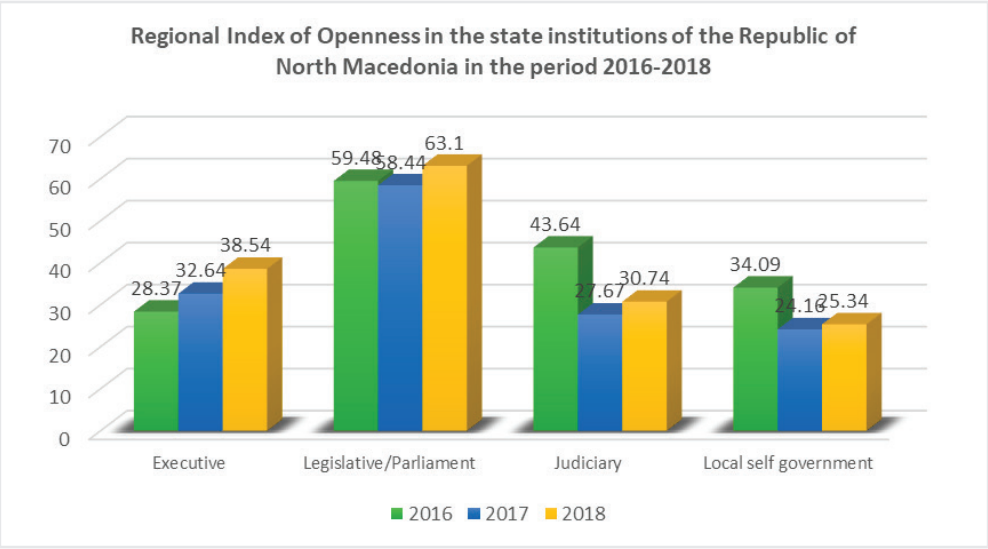
The Regional Openness index of the executive power in 2016 was ranked last in the region with the score of 28%, while in the next 2 years it shows slight increase with 33%, in the year 2017, and 39% in year 2018 (Graph 3). The minor level of index in 2016 resulted from non-implementation of laws, policies and documents in this area as well as insignificant commitments undertaken with the Open Government Partnership Initiative since 2011.

In 2018 the openness of the Parliament with the 63% has not improved significantly compared to the year 2017 (58%) and 2016 (59%) (Graph 3). This indicates that the Parliament **hasn't implemented significant part of the recommendations** given in the Roadmap on good governance for the state institution in the Republic of Macedonia for year 2016 and 2017. **The adoption of Code of Ethics for MP's behavior in 2018 is the only indicator for active openness of the Parliament in the last three years.**[4]

The judiciary in 2016 and 2017 has been criticized by both the international and national expert public for lack of independence and political influence over the decision-making and appointment of judges and prosecutors. For these reasons, the judiciary in 2017 not only achieves a low percentage of openness, but also a significant decline compared to the previous year (Graph 3). This is confirmed by the fact that **out of the set of listed action steps in 2016, only one of them has been taken and implemented, namely the adoption of the Strategy for Reform of the Judicial Sector** (2017-2022). All others remain and are transmitted as recommendations for the coming year. It can also be pointed out that the launch of the Judicial Portal of the Republic of Macedonia (www.vsrm.mk) did not contribute to greater openness. This is because of the lack of responsible approach of the courts and regular data entry as well as complete transfer of content from the old to the new integrated website of the courts.

[4] Op. cit., Roadmap on good governance for the state institution in the Republic of North Macedonia… Skopje, July 2019. P: 15.

Graph 3.



Source: Regional Index of Openness. Action SEE, 2016, 2017, 2018. https://opennessindex.actionsee.org/

In 2018 the openness indicators of courts in the North Macedonia mark an improvement in a modest 43%.[5] At the same time it can be emphasized that this year for the first time the European Commission has made progress in implementing the justice system in line with the strategy for reforming the judicial sector. And civil society has given a positive assessment. This is due to a **number of the steps foreseen in 2017 have been taken** in the direction of:[6]

- Courts on their websites should publish information on organizational structure, planned operating budget, budget spending and public procurement.
- The official website of the Judicial Council of the Republic of Macedonia hosts the institution's budget, because currently there is a category titled "judicial budget" but it doesn't include any documents
- Courts should allow Internet access to court rulings, and they should especially work on providing search-ability and easy access.
- Courts websites should include information on the official person for access to public information as well as register of information they possess.

[5] https://opennessindex.actionsee.org/country/north-macedonia

[6] Metamorphosis Foundation for Internet and Society, ACTION SEE project, Roadmap on good governance for state institutions in the Republic of Macedonia: Based on the Regional Index of Openness of state institutions: Based on the measurement for 2016, Skopje, July 2017, P: 19-20

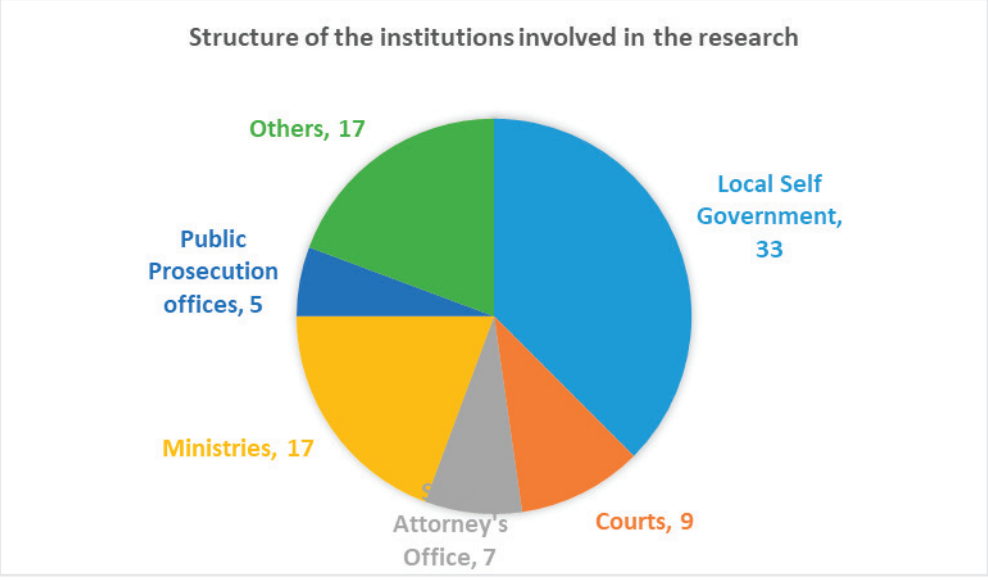
Courts in 2016 have an openness of 52%, in 2017 they have decreased to 39%, and in 2018 they have registered 43% which speaks of improvement in their openness.

The openness of the Public Prosecutor's Office is still low, primarily because its website is not rich in information, and certainly because the Basic and Higher Prosecutor's Offices still do not have their own websites.

In general, the local self-government units meet the following index of openness by year: 25% in 2018, 24% in 2017, and 34% in 2016 (Graph 3). These values are **well below the average of the region and show the low level of engagement and commitment by the local self-government units to meet the openness standard**. This is worrying given the fact that municipalities exist in the service of citizens.

Analysing Regional Openness Index in 2016 to 2018 for all levels of state institutions (Executive, Legislative/Parliament, Judiciary, Local self-government) in North Macedonia we can conclude that **ROI increases from 28% to 39% for Executive powers and from 59% to 63% in case of Parliament and it decreases in Judiciary from 44% to 31% and Local self-government from 34% to 25%** (Graph 3).

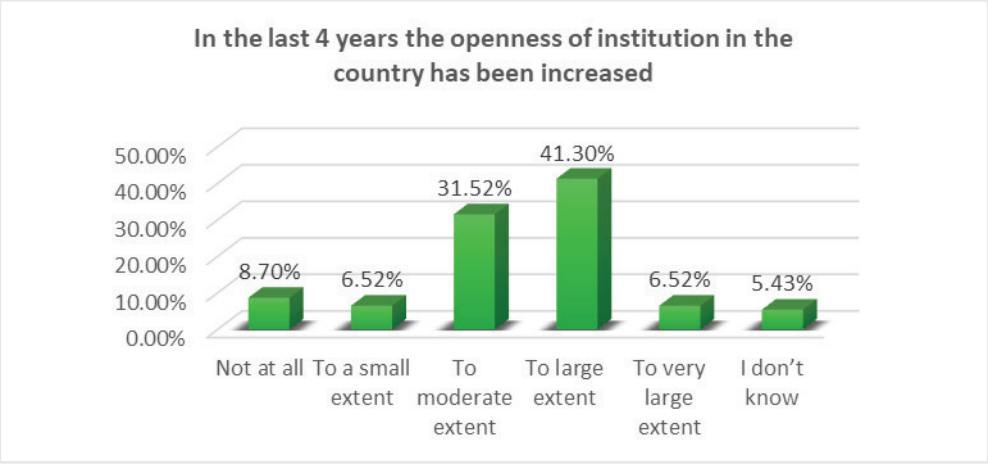
Graph 4.



Source: Based on the results on the Questionnaire for State institutions on good governance and rule of law

Relatively similar results are received from analysis of the state institutions openness in the country based on primary data. That data is collected from 94 institutions in the country. Furthermore, from the total number of 94 institutions which fulfilled the Questionnaires, 6 (6.4%) didn't enter the name of the state institution. Out of 88 responses, 33 are working in LSG units, 17 in the Ministries, 9 in the courts, 5 in the Public Prosecution offices, 7 in the State Attorney's office, and the 17 responses are employed at Executive powers, Statistical state office, IPA Auditing body, Ombudsman, Agency for protection of the right to free access to public information, State Archive, etc. (Graph 4)

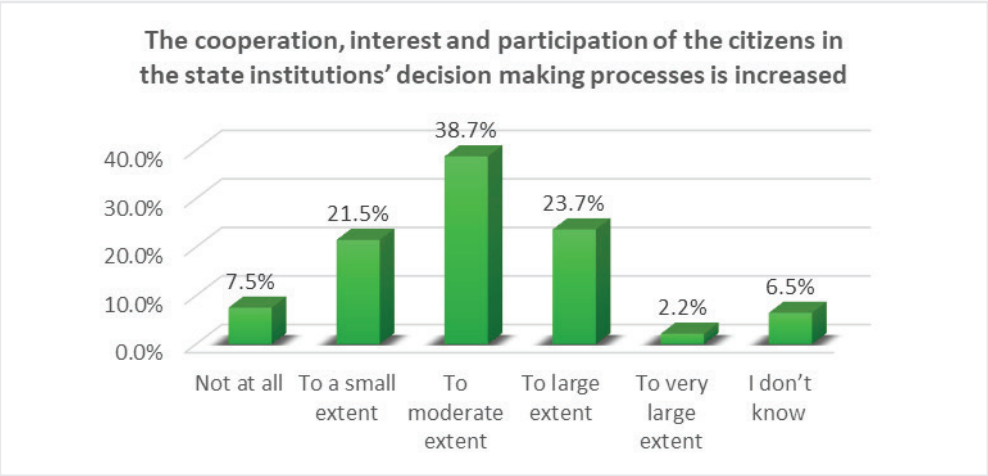
Graph 5.



Source: Based on the results on the Questionnaire for State institutions on good governance and rule of law

Utilizing the Questionnaires, we consider the level of increased openness at the institutions. Namely, the analysis indicates that 41% of the institutions in the country consider that the openness has been increased a lot in the last 4 years, 32% consider that the increase is moderate. The remaining responses are quite small, which leave the space to conclude that openness of the institution in the last 4 years demonstrate particular shift (Graph 5).

Graph 6.



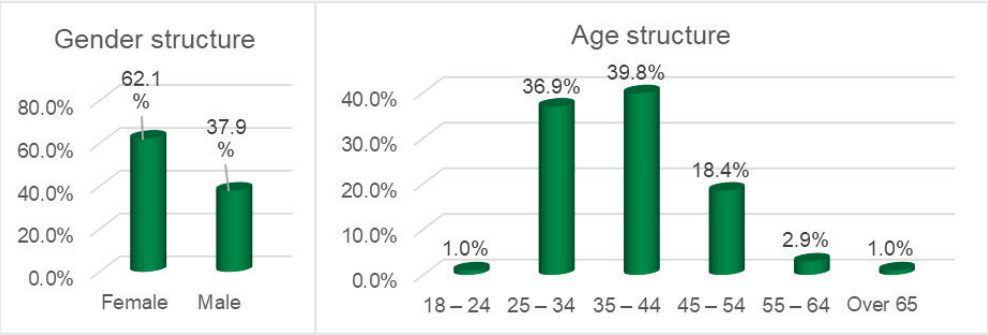
Source: Based on the results on the Questionnaire for State institutions on good governance and rule of law

The representatives of CSOs become a part of all working groups for new or revised laws, as well as working groups for regulations strategies, initiatives, declarations and etc. The Executive power also organize the day for citizen's initiatives, and legal acts are published at ENER where all citizens and representatives of CSOs can submit their comments and notes. The institutions in a way indicate that new laws are brought by participative involvement of the citizens and CSOs. The previous statement is confirmed by the question if the public institutions consider that cooperation, interest and participation of the citizens in the decision-making processes increased when most of the responses 39% indicate increase to moderate extent (Graph 6).

3. CITIZEN PARTICIPATION IN POLICIES SHAPING AND DECISIONS MAKING OF THE PUBLIC AUTHORITIES

The analysis of the citizen's participation in policy making processes in the paper is based on primary data collected by questionnaires responded by the 104 citizens. The demographic structure of the respondents has been provided on the following graph.

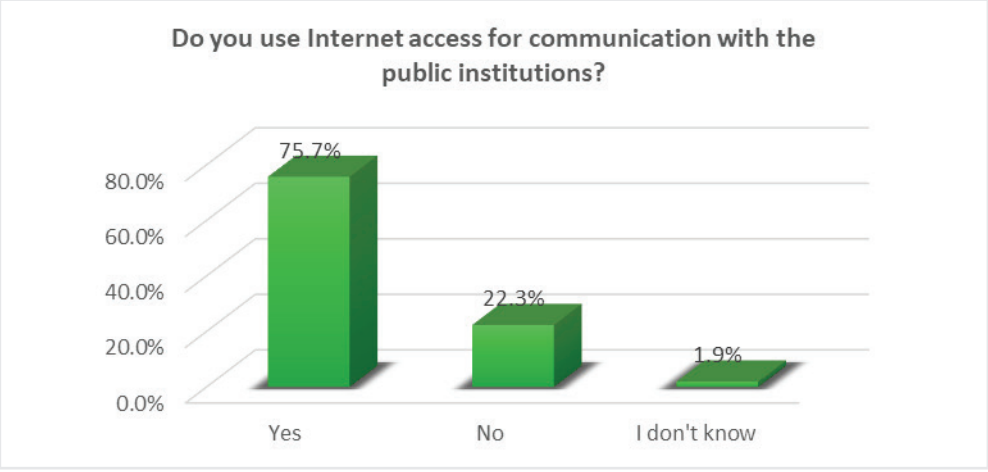
Graph 7. Demographic structure of the respondents



Source: Based on the results on the Questionnaire for Citizens on good governance and rule of law

Citizens' usage of the Internet access for communication with the public institutions is quite high, considering the dominant share of relatively young people 25 to 44 years covered in the survey (approximately 77%, Graph 7). That percent corresponds and is confirmed by the data in Graph 8. Namely, 76% of the citizens are using the Internet access for communication with the public institutions.

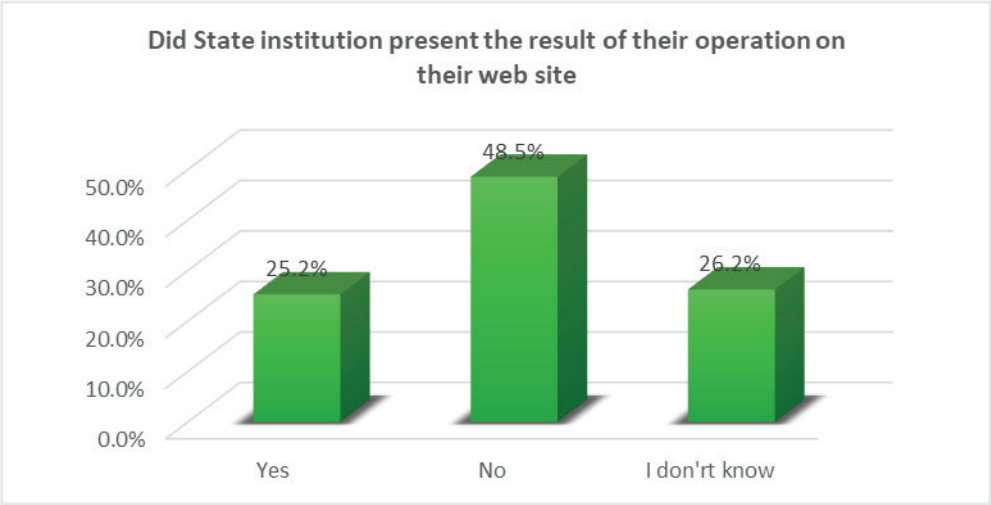
Graph 8.



Source: Based on the results on the Questionnaire for Citizens on good governance and rule of law

Although citizens use Internet access for communication with the public institutions, in the next question **only 25% of them responded that the state institutions present the results of their operation on their web site** (Graph 9).

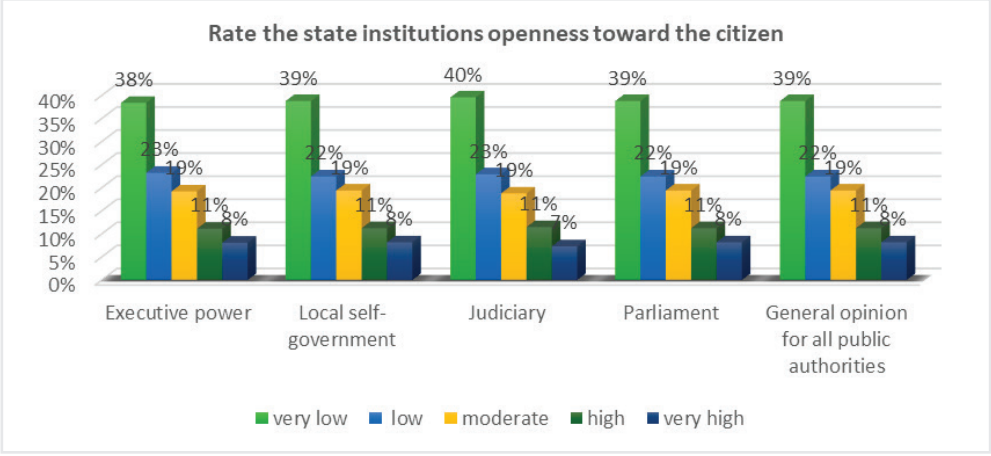
Graph 9.



Source: Based on the results on the Questionnaire for Citizens on good governance and rule of law

Previous finding is in alliance with the results from the next question. **State institutions openness toward the citizen is ranked at very low level by 39%** respondents for all institutions in general, as well as for openness of each separate institution, at different level **(Executive power, Local self-government, Judiciary and Parliament).**

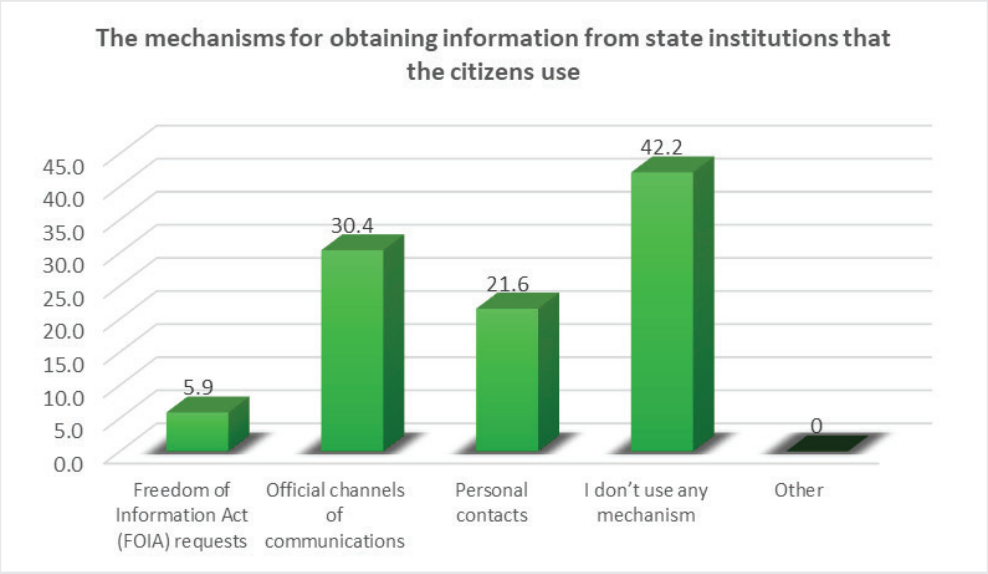
Graph 10.



Source: Based on the results on the Questionnaire for Citizens on good governance and rule of law

Very high openness was declared by 7-8% of the citizens regarding the openness of institutions (Executive power, Local self-government, Judiciary and Parliament) as well as all public authorities in general (Graph 10). Such low percent of citizens declared "very high" openness, indicate the urgent need for shifting to further activities toward increasing the openness of the institutions in the future.

Graph 11.

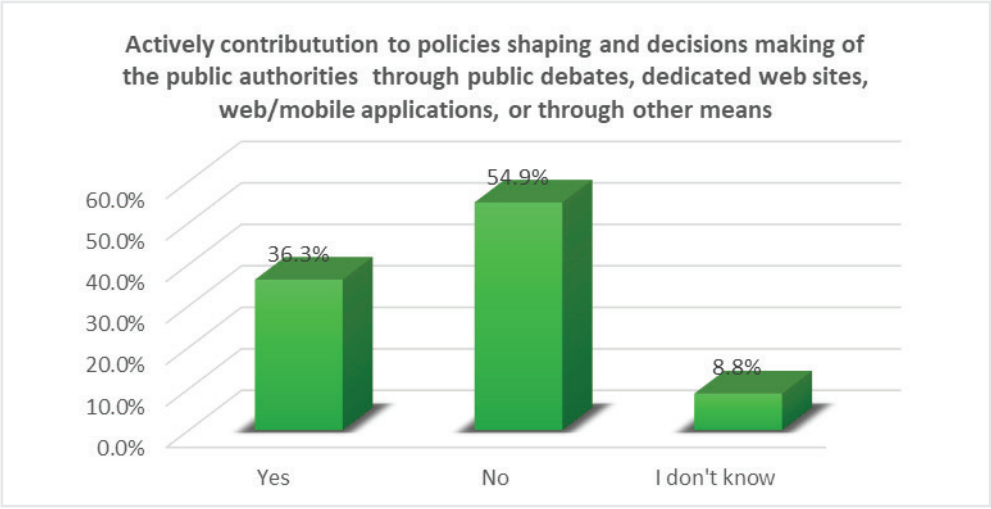


Source: Based on the results on the Questionnaire for Citizens on good governance and rule of law

According to the figures about **mechanisms for obtaining information from state institutions used by citizens,** 42.2% of citizens **don't use any mechanisms,** whereas **30.4% mostly use official channels of communication and 21.6% utilize personal contacts**. Minor part use the requests according to the Freedom of Information Act which indicate that citizens still need road ahead to change old habits (Graph 11).

Also, low percent **(36%) of the citizens indicate that have actively contribution to policies shaping and decisions making of the public authorities through public debates, dedicated web sites, web/mobile applications, or through other means.** 55% responded that they do not have an active contribution (Graph 12).

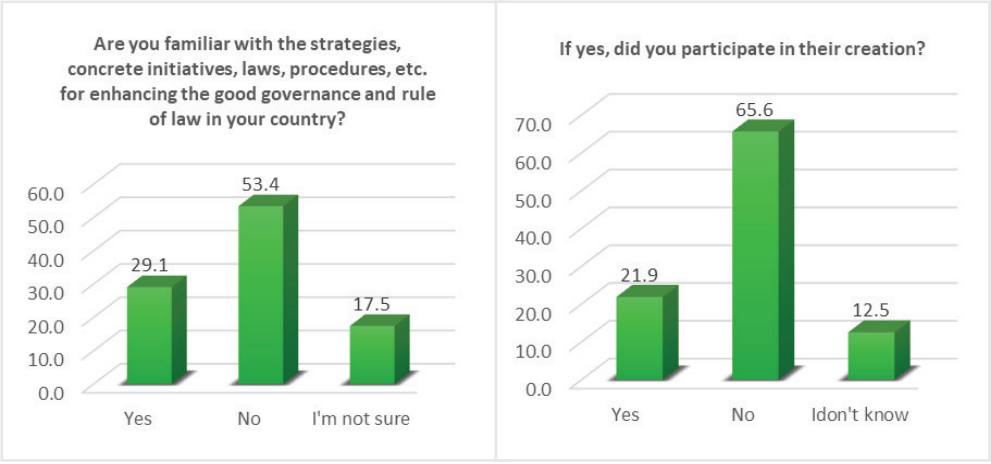
Graph 12.



Source: Based on the results on the Questionnaire for Citizens on good governance and rule of law

Some of the citizens that have experience participating, provided information that they participated in the Strategy for open data, Local youth strategy on city of Skopje, Law on personal data protection, Urban plans etc. Method of participation was based mostly on classical public debates, comments on the proposed law solution by ENER platform, as well as sending comments and suggestions to local authorities, complains to their decisions etc.

Graph 13.



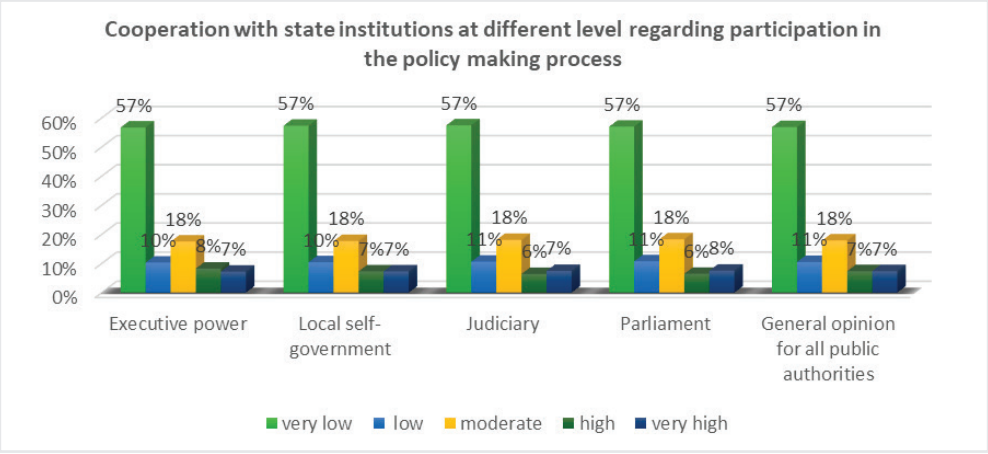
Source: Based on the results on the Questionnaire for Citizens on good governance and rule of law

Nearly 1/3 of the responses claim that their suggestions are accepted, 1/3 indicate that are rejected, whereas 1/3 have various experience when some proposals are accepted and some rejected.

The previous is also confirmed by responses gained on the **question whether citizens are familiar with the strategies, concrete initiatives, laws, procedures, etc. for enhancing the good governance and rule of law in the country. More than half percent (53.4%) respond that they are not**, and only 29.1% are familiar with that. From them near 66% didn't participate in their creation. (Graph 13)

The previous notion has been confirmed also when the **citizen's cooperation with state institutions at different level** regarding participation in the policy making process was explored. Namely **state institutions in general as well as by each level of institutions (Executive power, Local self-government, Judiciary and Parliament) had very low cooperation in 57% responses. The very high cooperation is noticed between citizens and Parliament in 8%** and in all other institutions (Executive power, Local self-government, Judiciary), very high level of cooperation is responded in 7% of total respondents (Graph 14).

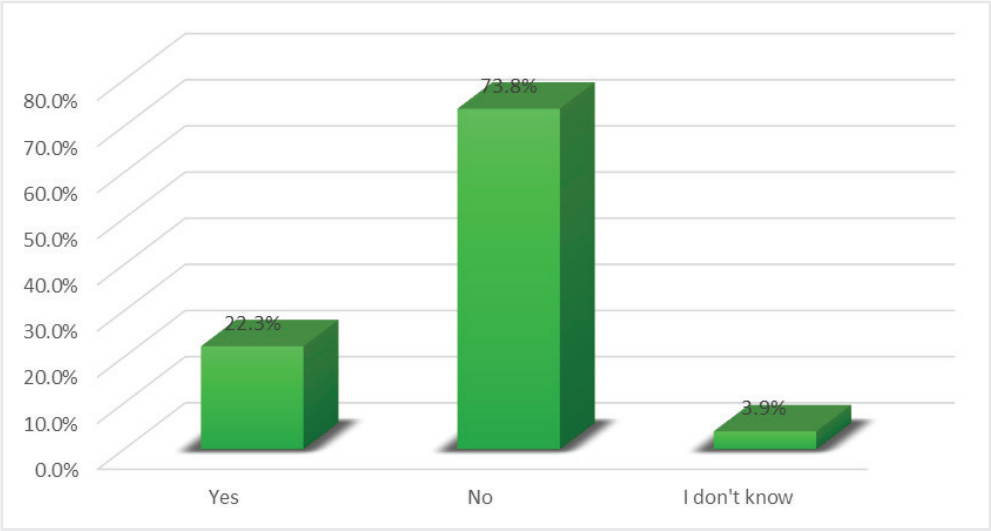
Graph 14.



Source: Based on the results on the Questionnaire for Citizens on good governance and rule of law

The cooperation between citizens and CSOs is also on quite low level, **hence only 22% of the citizens responded that they cooperate with CSOs for being involved in policy making process**, whereas 74% provided a negative response (Graph 15).

Graph 15. Do you cooperate with CSOs for you being involved in policy making process?



Source: Based on the results on the Questionnaire for Citizens on good governance and rule of law

The extended responses from the citizens who answered positive was added by the information that cooperation is done through the fact that they are also part of the CSO as well, as employee, or activist; participating in the forums, events and working groups organized by CSO for certain aim. The citizen that responded negatively about cooperation with CSO in policy making processes responded that are not interested in citizens activism, the other believe that with CSO they cannot have regular communication, other have not confidence in CSO, whereas some believe that the effect of such cooperation would be without effect.

Conclusion

The Regional Openness Index in Republic of North Macedonia is on relatively low level comparing with the other countries from Western Balkan Region. It usually takes the penultimate place in the region. The country registers decreasing in almost all principles such as Accessibility, Integrity and Awareness, excepting Transparency where it is recorded increase. The Regional Openness index show modest improvement in Executive powers and Parliament, but it decreases at the other two state institutions level in the country (Judiciary and Local self-government).

This is also confirmed by both surveys results such as survey for the state institutions and the survey for the citizens. The second one indicates

that citizens use the Internet access for communication with the public institutions, but no many institutions present the results of their operation on their web site.

State institutions openness toward the citizen has been recorded at very low level for all institutions in general and at different levels. Most of the citizens do not use any mechanism for obtaining information from state institutions, and those who use it are mostly official channels for communication and personal contacts. Very few of them use the requests according to the Freedom of Information Act.

The results from the state institutions survey indicate that their openness and cooperation, interest and participation of the citizens in the decision-making processes is increased at moderate level in the last 4 years, but the citizens' survey shows that the cooperation dominantly is still at very low level.

This condition indicates that the many state institutions haven't implemented significant part of the recommendations given in the Roadmaps on good governance for the state institutions in the Republic of North Macedonia prepared with the Action SEE Project.

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005.21:334.72]:366.1:616-036.21(497.7)
(Original scientific paper)

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CHANGES IN CONSUMER BEHAVIOR DURING COVID-19 PANDEMIC AS A STRATEGIC CHALLENGE FOR COMPANIES IN REPUBLIC OF NORTH MACEDONIA

Abstract

The new Covid-19 virus is spreading around the world, causing health and economic problems in almost all countries. People worldwide are trying to adapt themselves by changing the way they behave as citizens and consumers.

This crisis has influenced unprecedented shocks to supply and demand, raising important changes in people's behavior and spending. The demand is depended on consumer's behavior, which undoubtedly underwent changes when the Covid-19 pandemic started. While isolating themselves, in most countries heavily impacted by Covid-19, consumers are stockpiling food and other essential items.

Consumer behavior is a process of analyzing the reasons and the ways consumers act in the process of buying products and services. This paper analyses the changes in consumer behaviour in the period of the Covid-19 pandemic in the Republic of North Macedonia. By using survey method, relevant data are gathered and analyzed in correlation between the monthly income and the consumer's behavior.

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Problems arises in this period are additionally burdened with economic forecasts for the period after the pandemic. The aim of the paper is to investigate changes in consumer behaviour affected by the pandemic as to contribute in prediction of future consumer behavior, which is important for businesses directly affected by the pandemic. The changing consumer behavior could indicate some new strategic approaches and strategies for the companies in Republic of North Macedonia in order to remain positioned and even stronger in their business challenges in the future.

Keywords: consumer's behavior, demand, Covid-19pandemic, Republic of North Macedonia
JEL classification: D12, M39

Introduction

Consumer behaviour means activities of purchasing, consuming and getting rid of products and services. It is influenced by different factors that could cause some changes in the process of behaviour over a longer or shorter period of time.

The conditions and factors that determines buying decision process could be different (economic, social, cultural, personal etc.). Very often, the changes in consumer behaviour are conditioned by accidental factors that affect the balance between supply and demand on the market.

The consumer behavior could be rational and irrational, which mainly depends by the nature of the influencing factors. When consumers behave rationally, they usually use available income to purchase goods that brings satisfaction. The irrational consumer behaviour is characterized by incoherent behaviour, which consciously takes buying decisions that may not be in their best interest. The irrational consumer behaviour is mostly influenced by accidental factors that can cause rapid changes in consumer behaviour in the short or medium term.

From the outset, the Covid-19 pandemic affects economic implications in reducing companies' economic activity, increasing unemployment and reducing consumption. This new reality has a huge impact in different aspects of people's life and behaviour.

It is indisputable that the pandemic cause wide-range effect in changing consumer behavior on global and national level. As countries moves along the experience with Covid-19, traditional shopping behavior is significantly

disrupted and transformed. Uncertainty is high, many businesses are closed, and people are concerned about recession. With these concerns, customers are focusing on essential goods rather than other lifestyle and leisure products. At the same time, with lockdown measures in place around the world, there has been a surge in the use of online channels.[1]

From its beginning, in order to prevent the spread of pandemic, in almost all countries affected by Covid-19, a number of protective measures are taken for physical and social distance among population which influences changes in consumer behaviour. Most of the changes are psychological by their nature as anxiety, fear and uncertainty. For example, while isolating themselves, consumers are stockpiling food and other essential items which they usually not do under normal circumstances. This behaviour is a result of the situation when people (i.e. consumers) are in the risk of infections, and a feeling of fear, nervous and panic, loss of control and insufficient security.

To date, due to the short period of the Covid-19 pandemic, a limited number of studies are available that focus on the behaviour or responses of consumers to a new virus. The purpose of this paper is to analyse some changes in consumer behaviour in the Republic of North Macedonia during the Covid-19 pandemic period and to obtain information that could be used for current adjustment and forecasting of strategic business challenges or opportunities for companies. For that purpose, in the paper, relevant data are gathered by using a survey. They are analysed and also considered in correlation between monthly income and consumer behaviour.

1. CONSUMER BEHAVIOR IN THE PERIOD OF PANDEMIC WITH COVID-19 IN THE REPUBLIC OF NORTH MACEDONIA - A SURVEY ANALYSES

The survey of the consumer behavior is conducted by using a questionnaire, composed of 11 questions and divided in two groups. The first group of questions is about the demographic profile and employment status of the respondents, and the second group are questions which provides data about the consumer behavior. The questionnaire was distributed online through Google forms platform, thereby reaching 427 respondents (random sample).

The research was conducted in April 2020, soon after the announcement of the pandemic in the Republic of North Macedonia. Based on the gathered data and in order to deepen the analysis, the cross tabulation was also implemented.

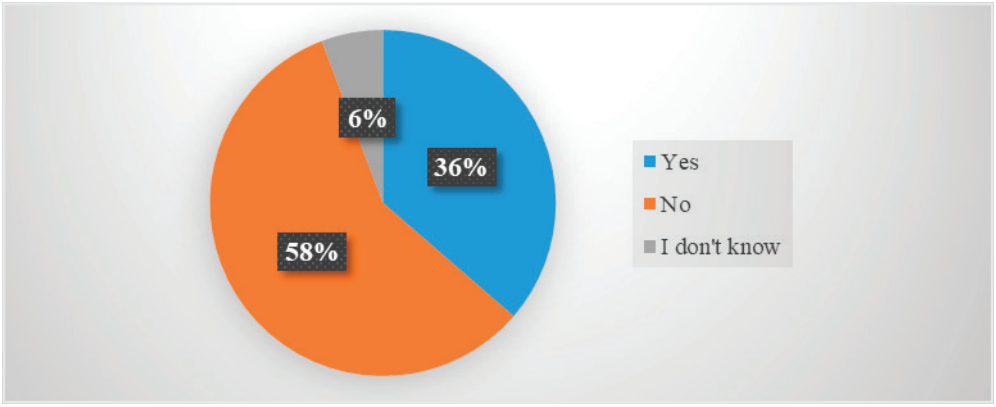
[1] The Consumer and the Covid-19: Global Consumer sentiment research in the consumer products in retail industry, Capgemini research institute, April 2020, p. 1

In analyzing the data gathered from the responses of the question 1 and question 2 from the first group, it is noted that half of the respondents in the sample are employed in the private and around 30% in the public sector. Only 8% of the respondents declared themselves as unemployed.

In addition, the data shows that most of the respondents lives in households with three members. A quarter of the respondents declared that they live in households of four members, and only 8% of the people responded that lives alone.

The second group of questions are about the consumer's attitudes, habits and behaviors in the period of pandemic. In analyzing the responses in question 3, Chart 1 presents that more than a half of the respondents declared that their income is not decreased in the period of pandemic, although, 36 % of them have some decline in their monthly income caused by the pandemic.

Chart 1. Responses ofquestion no.3: Since the start of the Covid-19 pandemic, has your monthly income declined?

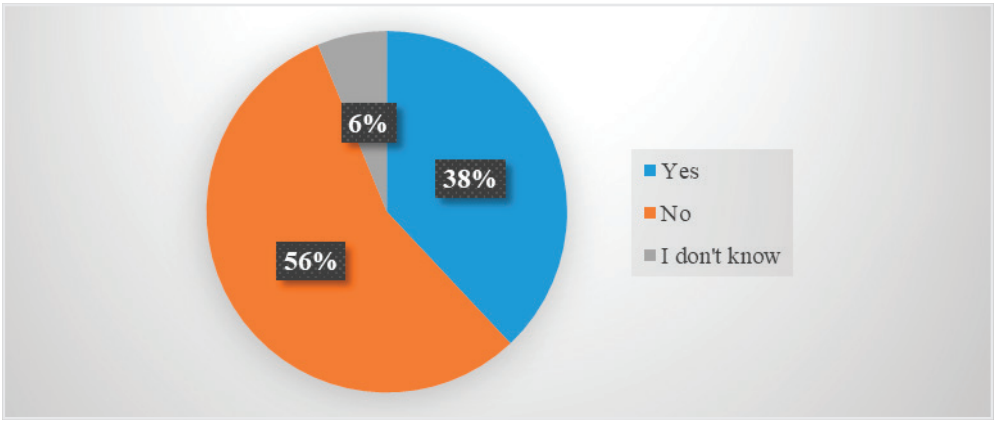


Source: Authors calculations

On the following Chart 2, the responses regarding monthly expenses in pandemic time are presented.

About the responses of the question number 4, the majority of the respondents (56 %) share the opinion that there are no significant changes of the expenses, while 38%of them have the opposite opinion (Chart 2). This could indicate that there is a correlation between the monthly income and respondents monthly expenses. Compared to the results of the responses of question number 4, presented in 2, it can be deduced that the results of the two questions intertwine. Namely, almost every respondent whose income has not decreased has the same monthly expenses in the pandemic period.

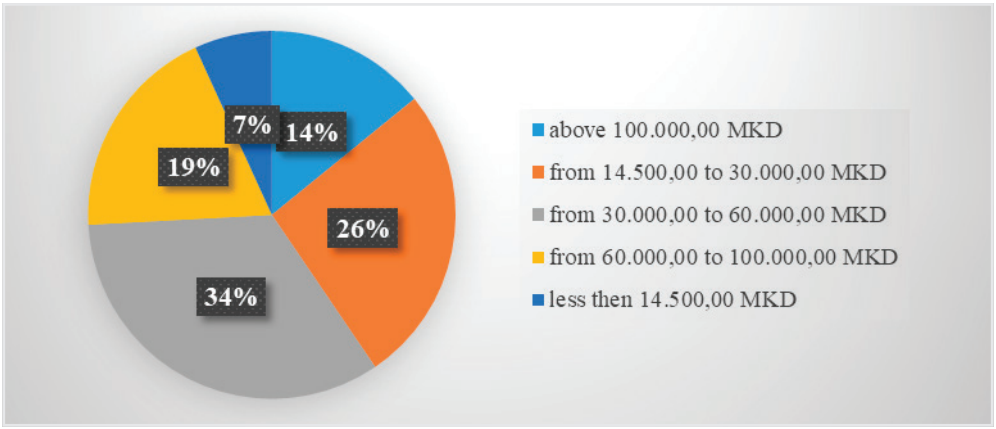
Chart 2. Responses of question no. 4: Since the start of the Covid-19 pandemic, has your monthly expenses declined?



Source: Author's calculations

The gathered data about respondent's household income are presented on Chart 3.

Chart 3. Responses of question no. 5: Since the beginning of the Covid-19 pandemic, what is the monthly income of your household?

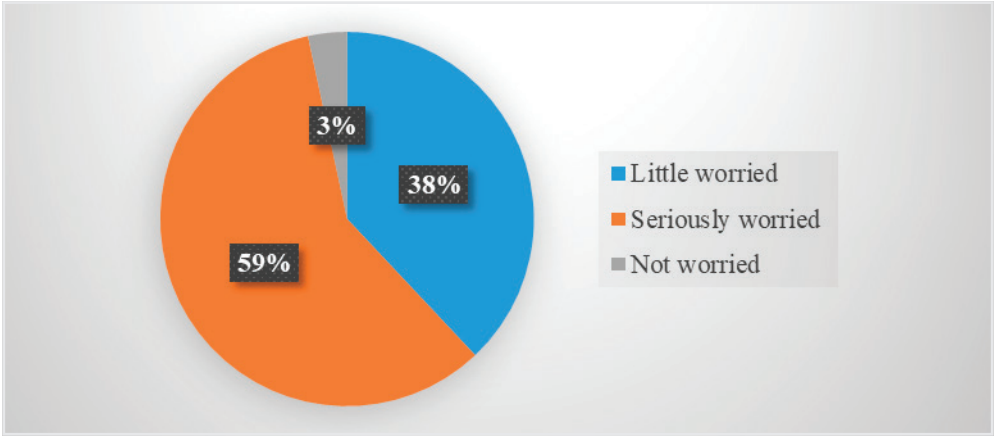


Source: Author's calculations

As it can be seen in Chart 3, in the group of respondents with monthly income between 30.000,00-60.000,00 MKD are 34% of the respondents. In the second group with monthly income between 14.500,00-30.000,00 MKD are 26%, 7% with the income less than 14.500,00 MKD and 14% above 100.000,00 MKD.

The analyses of the responses of question 6(Chart 4) shows that almost 60% of them are seriously worried about the effect of Covid-19 pandemic in the present and future. Only 3% responses are that they are not worried, and 38% of the respondents consider themselves as „little worried".

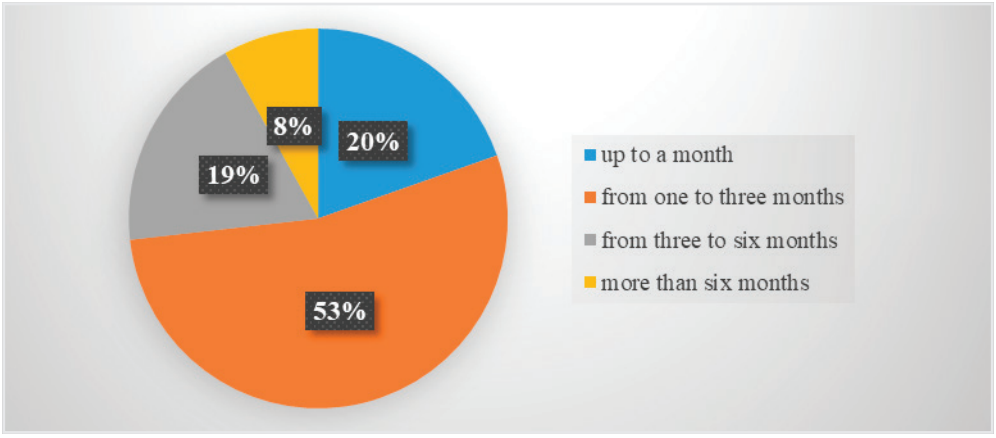
Chart 4. Responses of question no. 6: How would you express your concern about the Covid-19 pandemic?



Source: Author's calculations

The responses of question 6 could be correlated with the responses of question 7, which is about the predictions of the period of lasting Covid-19 pandemic. As it can be seen from the Chart 5, more than half of the respondents (53 %) presumed that the crisis will end within the next three months and 8 % predicts that the crises will not end within the next six months.

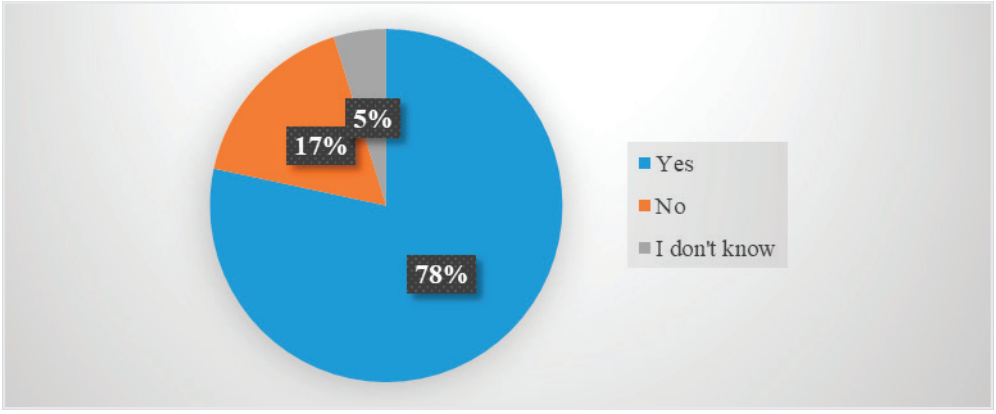
Chart 5. Responses of question no.7: In your opinion, when do you expect the Covid-19 crisis in the Republic of North Macedonia to end? (Starting from the moment you fill in this questionnaire)?



Source: Author's calculations

In regards of the influence of crises in their lives, 78% of the respondents are aware of the changing consumer behavior (Chart 6).

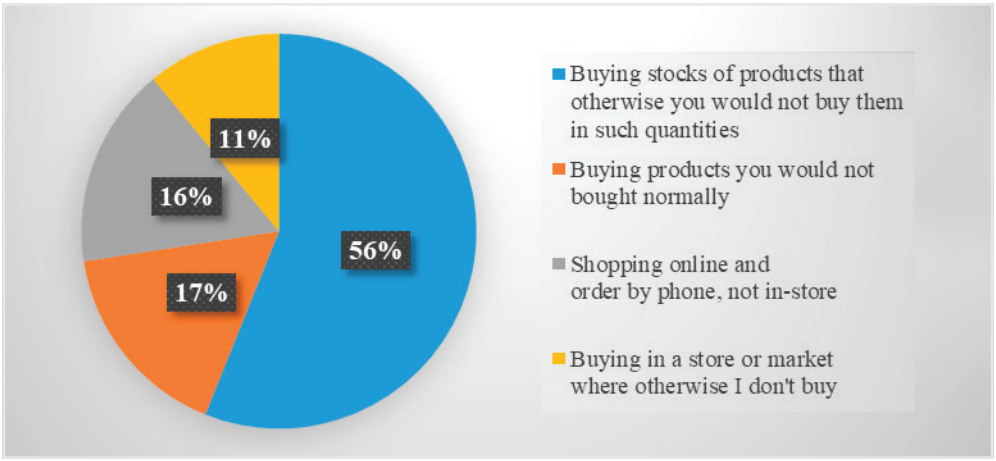
Chart 6. Responses of question no. 8: Do you have the impression that the crisis due to the Covid-19 pandemic is changing your consumer habits?



Source: Author's calculations

In connection to the responses in question 8, question 9 is about the influence of Covid-19 pandemic on the consumer habits. (Chart 7).

Chart 7. Responses of question no.9: How did the situation with the Covid-19 pandemic change your consumer habits?



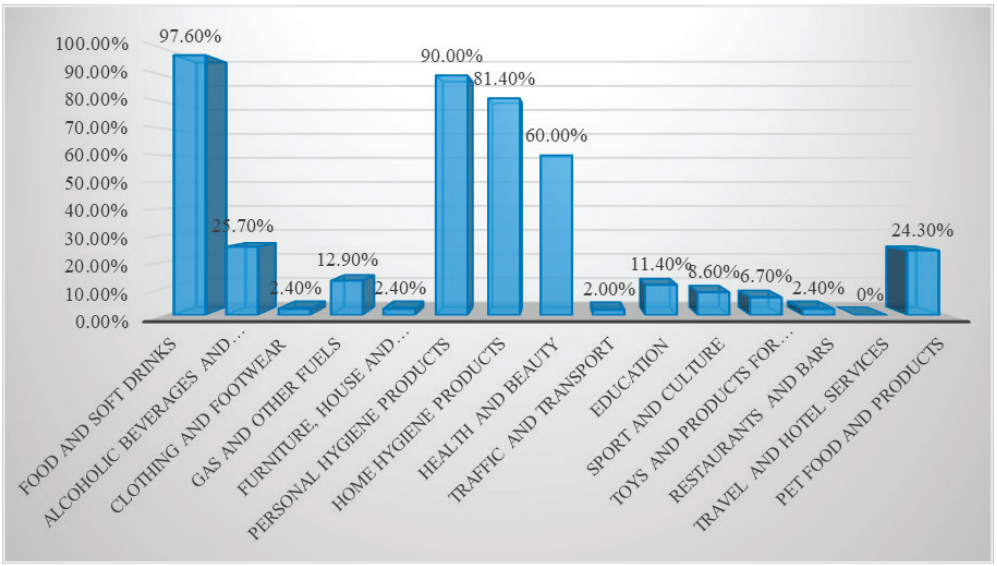
Source: Author's calculations

It can be seen that 56% of the respondent's opinion are that the pandemic influenced the consumer behavior in manner that they are buying stocks of products that otherwise they would have not buy in such quantities. Other three options are almost equally divided amongst the respondents (17%, 16% and 11%).

The Chart 8 shows that main four categories of products and services usually purchased in the pandemic period are: food and soft drinks, personal hygiene products, home hygiene products and health and beauty products. Alcoholic beverages, tobacco and pet products are close on the fifth and sixth place of buying preferences. The most chosen products are food and soft drinks (97.60%).

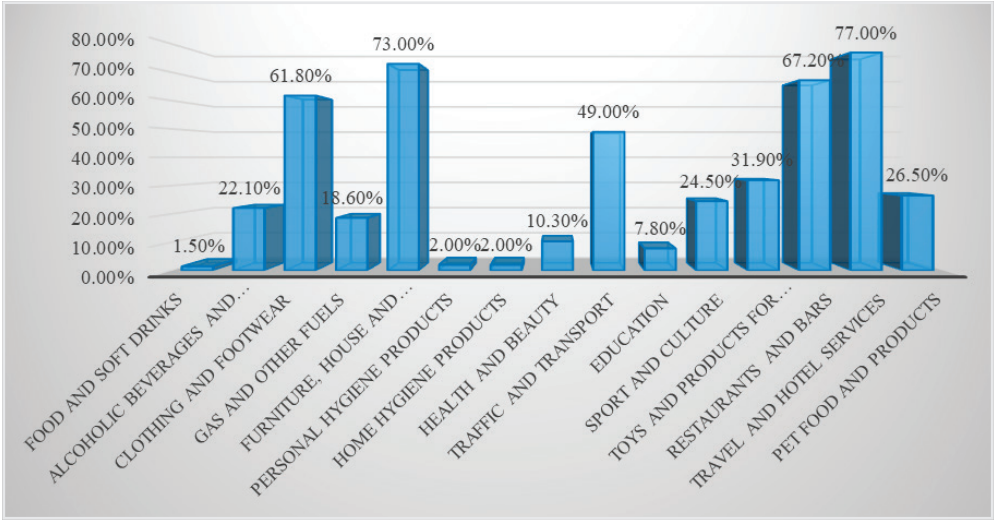
Due to precautionary measures and health protection, as well as the quarantine and closing the restaurants have increased the amount of purchase of food and soft beverages for households. Restaurants and bars, travel and hotel services and transport are the least chosen options for purchasing among the respondents. This can also be seen in Chart 9, where the same categories were chosen as rarely purchased products and services in the period when the survey was conducted.

Chart 8. Responses of question no. 10: Choose up to 5 (five) categories of products and services that you usually buy during the crisis with the Covid -19 pandemic?



Source: Author's calculations

Chart 9. Responses of question no. 11: Choose up to 5 (five) categories of products and services that you won't consider buying during the crisis with the Covid -19 pandemic?



Source: Author's calculations

2. CROSS TABULATION ANALYSES OF CONSUMER BEHAVIOR DURING COVID-19 PANDEMIC

For comprehensive and cross-sectoral analysis of the obtained data, an analysis of cross summing between different questions was also implemented. The first cross-sectional summation (Table 1) is between questions number 1 and question number 6. It represents a different level of perception of the concern about Covid-19 pandemic in correlation with the status of the respondents in terms of employment.

Table 1. Cross tabulation analysis of questions no.1: Employee status / question no.6: How would you express your concern about the Covid-19 pandemic?

	Little worried	Seriously worried	Not worried
Employee in the public sector	31.25%	68.75%	0.00%
Employee in the private sector	41.77%	51.90%	6.33%
Craftsmen	50.00%	50.00%	0.00%
Unemployed	35.71%	64.29%	0.00%
Retired	60.00%	40.00%	0.00%
Owner of a business entity	33.33%	66.67%	0.00%
Grand Total	**39.01%**	**57.45%**	**3.55%**

Source: Author's calculations

The cross tabulation shows that the respondents employed in the private sector and the respondents employed in public sector are most worried about the consequences caused by the Covid-19 pandemic. Other group of the respondents (managers and entrepreneurs) are more worried about keeping their business running against all odds in a time of pandemic crisis. The possible explanation of the higher degree of concern of respondents employed in the public sector could have more psychological than economic context. Considering that the majority of respondents employed in public sector are currently at home, or most of them works from home, they might be more susceptible to worry about the Covid-19 pandemic.

The next cross tabulation (Table 2) shows the change in consumer's behavior concerning the employee status during Covid-19 pandemic; hence, it includes questions number 1 and number 9. From the analysis, it could be summed up that the respondents who declared themselves unemployed tend to stock up on products more than the others. This could be explained with the assumptions that they developed a habit to stock up their supplies because of their uncertainty and fear from future events regarding health and economic issues.

Table 2. Cross tabulation analysis of questions no.1: Employee status/ question no.9: How did the situation with the Covid-19 pandemic change your consumer habits?

	Buying stocks of products that otherwise you would not buy them in such quantities	Buying products you would not bought normally	Shopping online and order by phone, not in-store	Buying in a store or market where otherwise I don't buy
Employee in the public sector	3.57%	53.57%	21.43%	21.43%
Employee in the private sector	12.07%	63.79%	17.24%	6.90%
Craftsmen	0.00%	100.00%	0.00%	0.00%
Unemployed	57.27%	18.18%	16.36%	18.18%
Retired	0.00%	100.00%	0.00%	0.00%
Owner of a business entity	12.50%	50.00%	12.50%	25.00%

Source: Author's calculations

Table 3 presents that respondents with the higher income are less worried for the pandemic crisis. The respondents with income above 100.000,00 MKD are in the group of less worried compared other groups with lower level of monthly income. In proportion, two of each three categories of the respondents that generates less than 14.500,00 MKD declared they are seriously worried.

Table 3. Cross tabulation analysis of questions no. 5: Since the beginning of the Covid-19 pandemic, what is the monthly income of your household / and question no. 6: How would you express your concern about the Covid-19 pandemic?

	Little worried	Seriously worried	Not worried
above 100.000,00 MKD	60.00%	40.00%	0.00%
from 14.500,00 to 30.000,00 MKD	36.84%	57.89%	5.26%
from 30.000,00 to 60.000,00 MKD	34.88%	60.47%	4.65%
from 60.000,00 to 100.000,00 MKD	36.00%	60.00%	4.00%
less than 14.500,00 MKD	33.33%	66.67%	0.00%
Grand Total	**39.13%**	**57.25%**	**3.62%**

Source: Author's calculations

The cross tabulation presented in Table 4 presents the correlation between the monthly income of the respondents' household (question 5) and change in their consumer habits (question 9).

Table 4. Cross tabulation analysis of questions no. 5: Since the beginning of the Covid -19 pandemic, what is the monthly income of your household /and question no.9: How did the situation with the Covid-19 pandemic change your consumer habits?

	Buying stocks of products that otherwise you would not buy them in such quantities	Buying products you would not bought normally	Shopping online and order by phone, not in-store	Buying in a store or market where otherwise I don't buy
above 100.000,00 MKD	0.00%	56.25%	25.00%	18.75%
from 14.500,00 to 30.000,00 MKD	13.79%	48.28%	17.24%	20.69%
from 30.000,00 to 60.000,00 MKD	3.13%	65.63%	21.88%	9.38%
from 60.000,00 to 100.000,00 MKD	16.67%	66.67%	11.11%	5.56%
less than 14.500,00 MKD	53.33%	13.33%	25.00%	8.33%

Source: Author's calculations

The respondents with lower amount of income are more prone to buy stocks of products that otherwise would not have been buying them in such quantities. This behavior could be explained with psychological factors i.e. the people that have lower income in the observational period stock as much products as they can because they are afraid of the uncertainty of their income in the future.

Conclusion

The Covid-19 pandemic cause significant turbulences in almost all countries affected by the health, social and economic problems. All three aspects are being felt at the moment, with some predictions that consequences reflected on slowing economic activity, rising unemployment and decreasing consumption.

The Covid-19 pandemic is the first global crisis of its kind and does not provide a basis for possible comparisons with similar situations from the past.

Identifying the effects of Covid-19 pandemic on individuals and economies is a challenging task. Despite a very short period of time, research is needed to predict and mitigate the economic consequences in the future.

This pandemic has influenced unprecedented shocks to supply and demand, raising important questions about the consumer behaviour and spending.[2] Globally, there are changes in consumption and purchasing behaviour, which are mostly psychological by its nature.

The changes in consumer behaviour in the Covid-19 pandemic are mainly caused by fear of the unknown disease and measures which are taken to protect the public health in the Republic of North Macedonia. Consumers are responding to the crisis in a variety of ways; some feel anxious and worried, buying in panic of staples, hygiene, necessary or basic products. At the other extreme, some consumers remain indifferent to the pandemic, despite the recommendations from the government and health professionals. According to the research, most of the respondents as consumers are mostly oriented towards meeting basic needs, which means that products for personal consumption are mostly purchased.

Anticipating trends in consumer behavior can give companies a key strategic advantage.[3] The drastic shift in consumer behavior has created a ripple effect on businesses from all industries.[4] By analysing the factors that causes changes in consumer behaviour, business could tailor their offerings or introducing some new business opportunities, products and services to meet the market needs and requirements.

From the business aspect, in addition to consumption and consumer behavior, changes have also occurred in the greater application of e-commerce and communication services. In this direction, the results and findings presented in the paper could be useful for business and companies affected by the Covid-19 pandemic to understand how their own consumers are reacting, and to develop customized strategic approach in the business. Companies that evolve and innovate to respond to changing consumer behavior in Covid-19 pandemic period will remain competitive in the marketplace. Even if this crisis continues to evolve, businesses should prepare for the strategic changes by taking action to respond, reset and renew of the business strategies to remain positioned and even stronger in their business challenges in the future.

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657.6-051-057.3:35]:303.62(497.7)"2020"
(Original scientific paper)

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KLIMENTINA POPOSKA**

THE IMPACT OF THE COVID-19 IN THE INTERNAL AUDIT IN THE PUBLIC SECTOR IN THE NORTH MACEDONIA

Abstract

In the conditions of the COVID-19 pandemic the internal auditors, in the public sector in North Macedonia, had faced new challenges in performing the internal audit.

Internal auditors in the public sector had to adapt to the new situation and operate in different manners, including remote work. However, many internal auditors have encountered certain problems and challenges such as lack of laptop computers, online training related to performing an internal audit in conditions of COVID-19 pandemic, hard copy documentation, use of different IT tools for meetings and communication (Zoom, Microsoft Teams, Skype etc.). Moreover, it was necessary to consider the new risks that have arisen and to implement or change the Annual Plan. The pandemic with COVID-19 is far from over, yet and the auditors need to adapt to the "new normal" and to be proactive.

This paper identify the problems and challenges the internal auditors are faced in the public sector in North Macedonia and point out adequate directions and opportunities for overcoming them.

Keywords: public sector, internal audit, COVID-19
JEL classification: M4, M40, M41, M42, M48, I1, I10, I15, I18

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Introduction

With the first information at the end of December 2019 about COVID-19, no one could predict the forthcoming world challenges. The situation with COVID-19 completely changed the way of life and, a need to create new norms of (distance) social interaction. The guidelines for staying at home changed the work in all public sector organizations with a greater focus on working remotely. Hence, the internal auditors adjust to the new situation and the new working conditions in the public sector. They should be proactive and consider appropriate options for smooth operations. Internal Audit Unit should help the institution to achieve its goals in dealing with the pandemic, yet the most urgent is to identify the problems faced with its operation. Based on the perceived and identified situation and the challenges faced by the internal auditors in the public sector, it is very important to perceive and analyze the impact of the COVID-19 pandemic in performing the internal audit in the public sector in North Macedonia.

The paper is structured in three parts, the first part is focused on the identification of the stance of the internal audit in the COVID-19 situation. The second part is dealing with annual plans and phases in internal audit activities in the pandemic, whereas the third part is dedicated to the audit performing in the COVID-19 pandemic. The methodological approach to the analysis is based on the use of several methods of scientific research work, such as induction, deduction, logical, statistical method and comparative analysis. The paper collects primary data through the use of a questionnaire. From 199 questionnaires sent to public sector internal auditors, 60 responses were received. The collection of the data spread from 20-27 September 2020. The analysis covers issues related to the phases of internal audit and audits performed in conditions of the COVID-19 pandemic, and the responses of internal auditors in the public sector at the central and local level in North Macedonia.

1. IDENTOFYNG THE INTERNAL AUDIT IN THE PUBLIC SECTOR IN CONDITIONS OF THE COVID-19 PANDEMIC

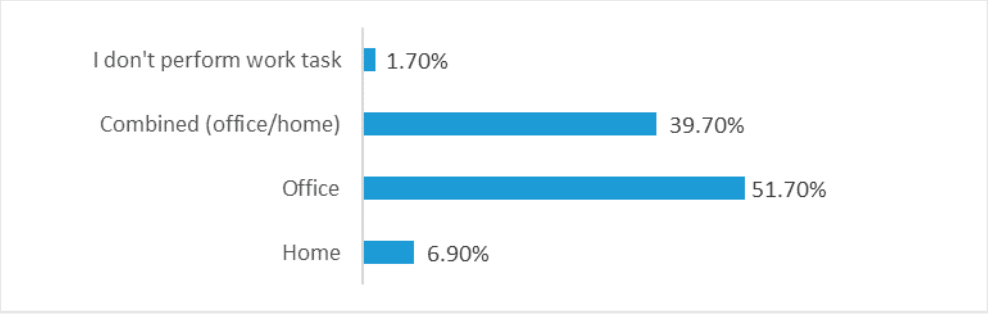
Internal auditors are reviewing what had previously been robust audit processes to determine their suitability under present circumstances. Hence, the need for brainstorming new approaches are more than necessary. As in the other areas, the process of learning represents the ongoing process. In the new situation, the approach of performing activities remotely is debated. The knowledge gleaned from these activities can be put to good use benefitting

the organization and expanding the value of internal audit's role within it.[1] Yet, working closer to the frontline doesn't mean sacrificing internal audit principles. Maintaining independence in terms of accountability and reporting, maintaining an objective mindset these essential attributes can be preserved while still adding maximum value.

The pandemic has forced internal auditors to work in different ways (working remotely and with more reliance on technology). This may result in opportunities to change the way internal audit works in the future, with solutions that are smarter and better for people and also for the environment.[2]

The internal auditors in the public sector of North Macedonia, have adapted to the new situation and perform their tasks in different ways (Graph 1).

Graph 1: Manner of performing the work tasks of the internal auditors in the public sector, in conditions of COVID-19 pandemic



Source: Own research based on a conducted survey questionnaire (2020)

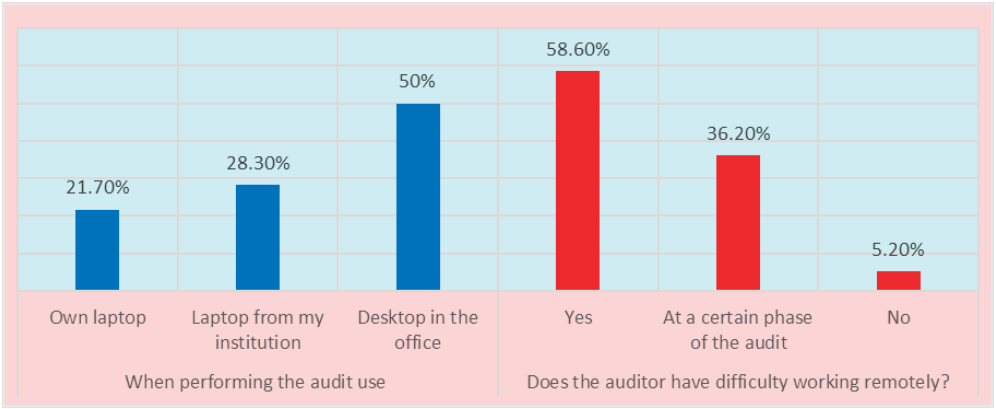
The analysis of the results indicate that half of the internal auditors performed their activities in the office and the other half combined (office and at home) or only from home. Nevertheless, we can note that a minor percentage of auditors did not perform their activities (1.7%). Such result arise from the decision of the Government of North Macedonia decideding to release certain categories of employees from work activities (chronically ill, pregnant women, parents with children up to ten years, etc.).

If we analyse deeper at Graph 2, results shows why most of the internal auditors in the conditions of the COVID-19 pandemic had to perform their work activities from an office.

[1] Internal Audit in the COVID-19 Era, A global glance at responses to the pandemic, The institute of Internal Auditors Global, Florida, USA, May 2020, p.2

[2] The Impact of COVID-19 on the role and activities of internal audit, Internal Audit Community of Practice (IACOP), April 2020, p.6

Graph 2: Use of IT equipment of internal auditors in conditions of COVID-19 pandemic



Source: Own research based on a conducted survey questionnaire (2020)

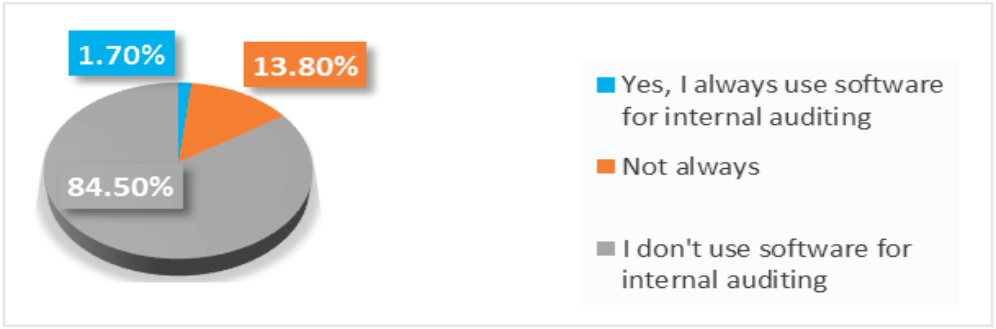
Graph 2 clearly indicate that half of the internal auditors use a desktop computer in the office and more than a quarter uses their laptop. Less than a quarter of auditors use a business laptop (from the institution). This situation results in difficulties to performing internal audit remotely.

The difficulty of performing the internal audit remotely can be caused by other factors, including the documentation that is only in hard copy with the audited entity. The results of the analysis based on this issue will be perceived below in the paper.

In North Macedonia, there is no unified software for performing internal audit that would be used by all internal auditors in the public sector.

Graph 3 shows whether public sector internal auditors use auditing software.

Graph 3: Use of auditing software to perform an internal audit in the public sector



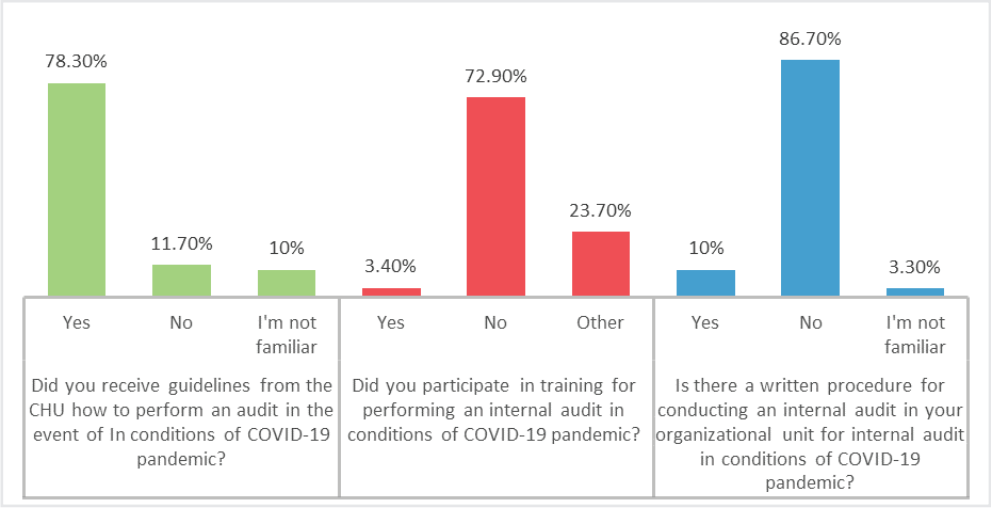
Source: Own research based on a conducted survey questionnaire (2020)

The results of the analysis clearly show that a high percentage of internal auditors do not use unified internal audit software. According to the standard 1220.A2, In exercising due to professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.[3]

Hence, the construction and development of internal audit software as a tool would greatly assist in the performance of the audit and it will facilitate certain operations in the performance of the internal audit.

In conditions of COVID-19 pandemic, The Central Harmonization Unit (CHU) has a critical role to play in providing advice and support to internal audit units.[4]

Graph 4: The impact of CHU on the performing internal audits in the conditions of the COVID-19 pandemic



Source: Own research based on a conducted survey questionnaire (2020)

The analysis of the results shows that lots of internal auditors are familiar with the guidelines given by the CHU. However, in this period the internal auditors need to attend training related to how to perform the internal audit in conditions of COVID-19 pandemic. We can perceive that a very high percentage of internal auditors have not attended audit

[3] International Standards for the Professional Practice of Internal Auditing (Standards), The institute of Internal Auditors Global, Florida, USA, Revised: October 2016, Effective: January 2017, p.7

[4] The Impact of COVID-19 on the role and activities of internal audit, Internal Audit Community of Practice (IACOP), April 2020, p.24

training in the conditions of the COVID-19 pandemic. The CHU in charge of coordinating internal audit training should help auditors participate in multiple pieces of training. Such a requirement is based in the standard 1230, Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.[5] Furthermore, the analysis shows that many of the internal audit units have not prepared a written procedure for performing an internal audit in conditions of COVID-19 pandemic.

2. ANNUAL PLAN AND PHASES IN PERFORMING THE INTERNAL AUDIT IN CONDITIONS OF COVID-19 PANDEMIC

In the period when public sector systems and activities are under stress, the value and relevance of internal audit should be demonstrated by the ongoing activities of internal auditors. The chief audit executive should carefully identify the crucial actions of assisting the institutions to achieve its goals.

In order to develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes.

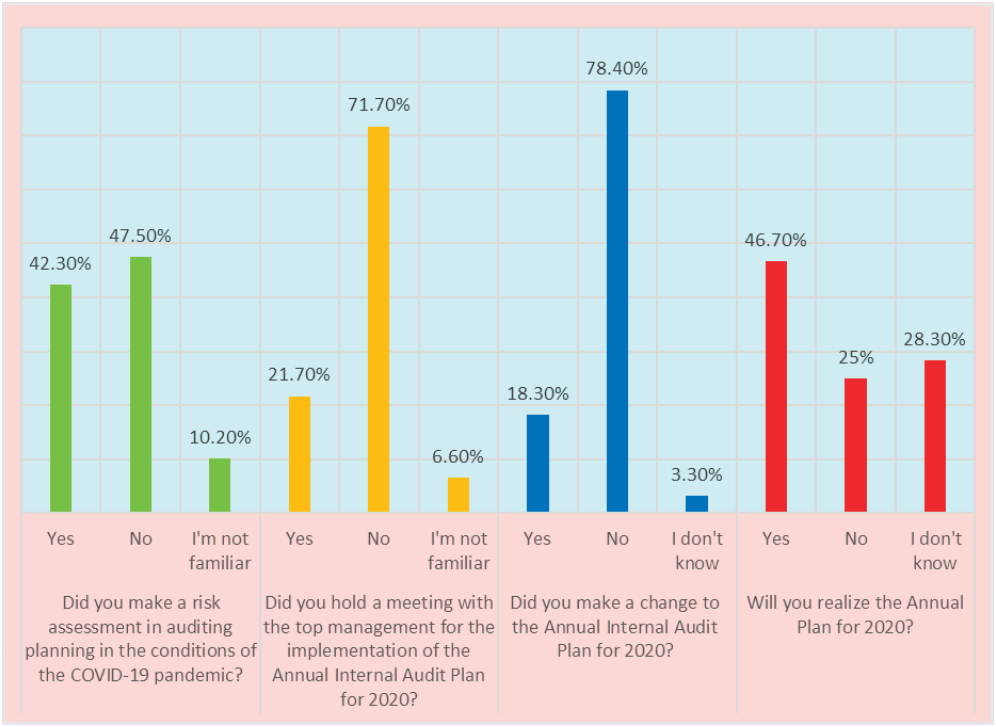
When a specific situation (like the pandemic) does not allow the internal audit to achieve its audit plan as intended, heads of internal audit are supposed to reassess the risks related to their audit universe. This is respectable practice and completely in line with international standards. According to the standard 2010, The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.[6]

Graph 5 shows the results of the internal audit planning in the conditions of the COVID-19 pandemic.

[5] International Standards for the Professional Practice of Internal Auditing (Standards), The institute of Internal Auditors Global, Florida, USA, Revised: October 2016, Effective: January 2017, p.7

[6] International Standards for the Professional Practice of Internal Auditing (Standards), The institute of Internal Auditors Global, Florida, USA, Revised: October 2016, Effective: January 2017, p.10

Graph 5: Internal audit planning in the conditions of the COVID-19 pandemic



Source: Own research based on a conducted survey questionnaire (2020)

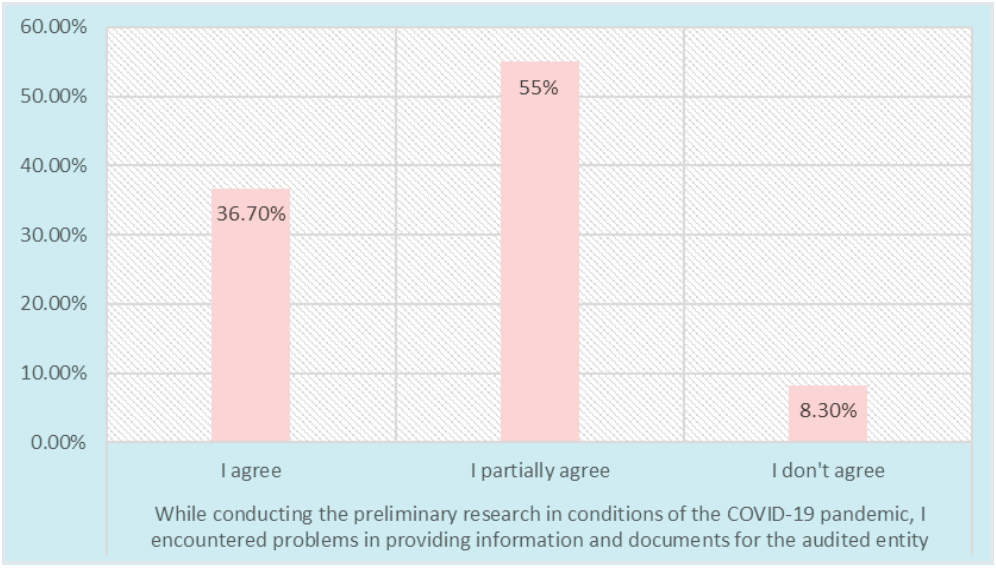
The analysis of the results shows that more than half of the auditors do not have or do not know whether the risk assessment has been performed. The high percentage of auditors have not held a meeting with the senior management for the implementation of the Annual Plan. The vas high percentage of auditors stated that their organizational units did not amend the Annual Audit Plan, and half of them will not implement it or do not know if they will implement the Annual Plan. Audit plan achievement is usually a key indicator of the performance of an internal audit unit.[7]

Internal auditors prior to the planned audit shall make preliminary research to collect information to gain a general understanding of the audit area.

Graph 6 shows the current stance of the faced problems in providing information and documents in the preliminary research in conditions of the COVID-19 pandemic.

[7] The Impact of COVID-19 on the role and activities of internal audit, Internal Audit Community of Practice (IACOP), April 2020, p.14

Graph 6: Problems in providing information and documents in the preliminary research



Source: Own research based on a conducted survey questionnaire (2020)

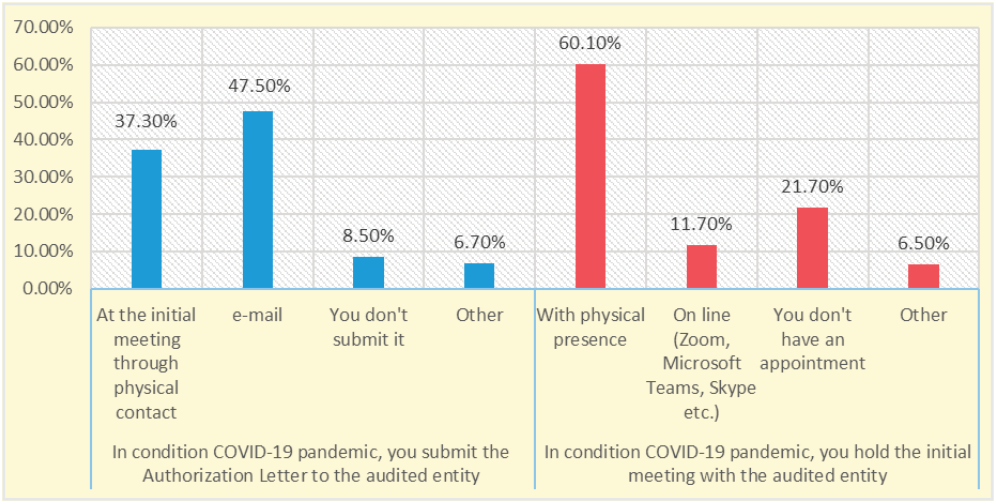
Many of the internal auditors encountered the problems in providing information and documents for the audited entity or have partially faced with such problems. A manor part of internal auditors had no problems in providing information and evidence in the preliminary research in conditions of the COVID-19 pandemic.

For the execution of each audit, the internal auditors must have a letter of authorization signed by the head of the internal audit unit. The audit begins with an initial meeting that should be held between the management of the audited organizational unit and the head of the internal audit unit, accompanied by the head of the audit team and internal auditors who will perform the audit.

Graph 7 shows the way that internal auditors in the public sector, in condition COVID-19 pandemic, submit the letter of authorization to the audited entity and how the initial meeting is detained.

Most of the internal auditors submit the letter of authorization by e-mail, whereas the other submit it to the initial meeting through physical presence. Only a small number of internal auditors do not submit the letter of authorization. A small number of internal auditors use IT tools for online meetings (Zoom, Microsoft Teams, Skype, etc.). If we go consider the results of the Graph 2 indicating that 50% of internal auditors use a Desktop computer

Graph 7: Submission of Letter of Authorization and manner of maintenance of Initial meeting



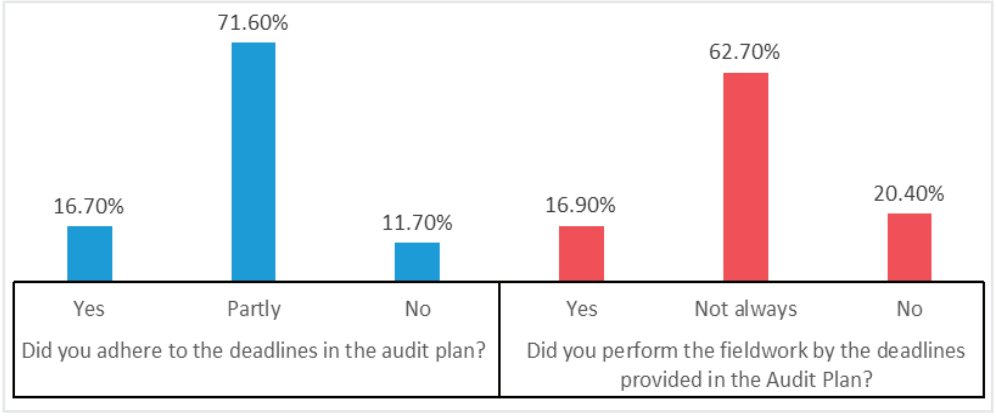
Source: Own research based on a conducted survey questionnaire (2020)

in the office assuming there is no camera and 22% utilize their laptop which is not always available to them, one can identify the reason for such low percentage of use of online meeting. However, the audited entity must have the appropriate equipment and knowledge for the online meeting.

Planning dates for ends of preliminary research, fieldwork, preparation of an interim report, submission of a draft report and submission a final report are part of the individual audit plan.

Graph 8 shows the deviation in the deadlines in the audit planning.

Graph 8: Deviation in deadlines when planning an audit



Source: Own research based on a conducted survey questionnaire (2020)

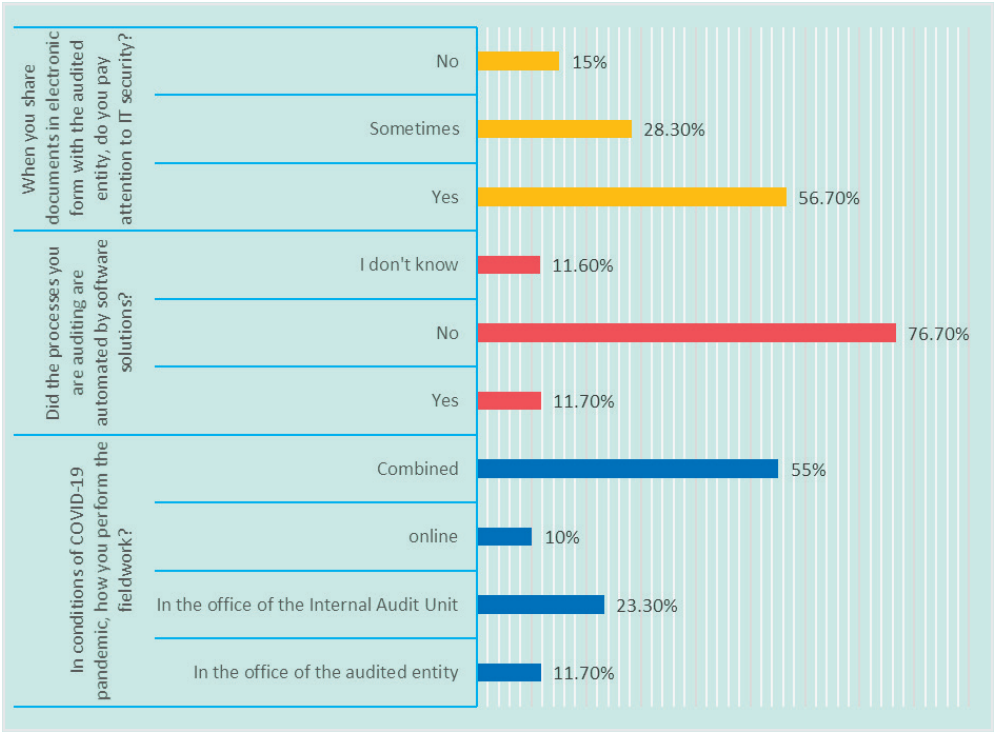
Most auditors do not always adhere to the deadlines for fieldwork, this results in partial compliance with the deadlines in the individual Audit Plan.

The fieldwork is a systematic process of objective collecting of evidence to confirm the expert's opinion of the systems/processes that are subject to an audit. The assessment represents a totality of findings for the positive sides and weaknesses of the systems/processes in respect of identified risks and goals.

The purpose of the fieldwork is to carry out all audit activities stated in the audit plan for individual audit to achieve the audit objective.[8]

The following Graph 9 provides answers to many questions related to fieldwork.

Graph 9: Fieldwork



Source: Own research based on a conducted survey questionnaire (2020)

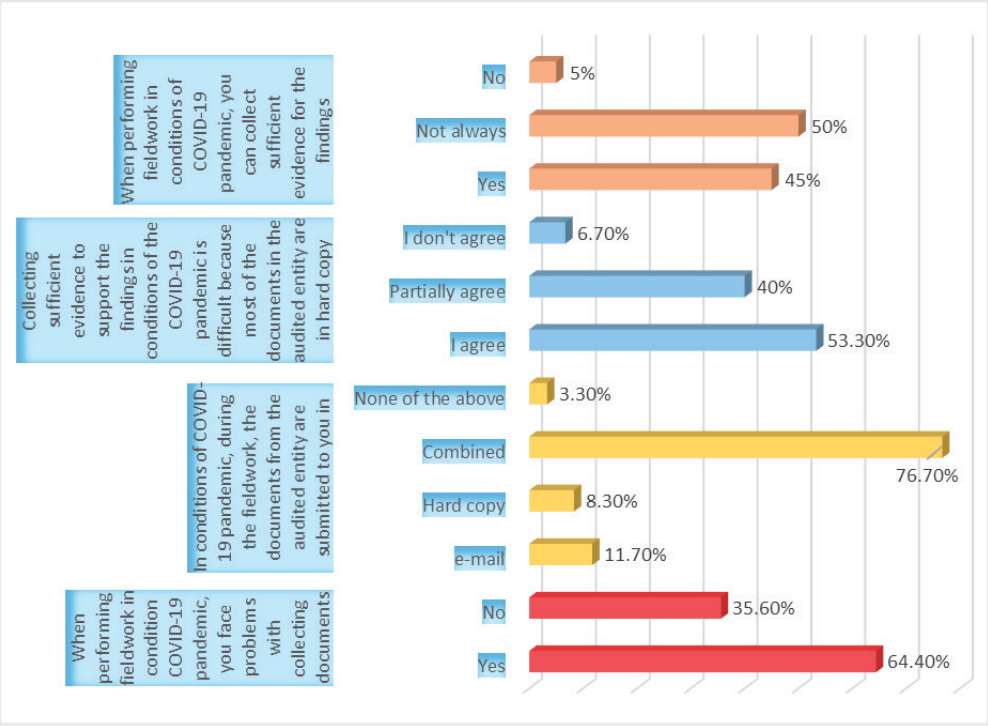
Half of the internal auditors perform the fieldwork in combination (in the auditor's office, the auditee's offices and online). A minor percentage of auditors perform fieldwork online by submitting documents in electronic form

[8] Published in the "Official Gazette of the Republic of North Macedonia", no. 136/10, p.4

because processes are not automated through software solutions. However, for online work, internal auditors must be familiar with IT security. Based on IT security, half of the auditors pay attention to IT security when submitting documents in electronic form (eg encrypted message, folder password, etc.), and the other half sometimes pay attention or not at all.

Graph 10 shows some of the problems that internal auditors face when conducting fieldwork.

Graph 10: Problems performing fieldwork in internal audit



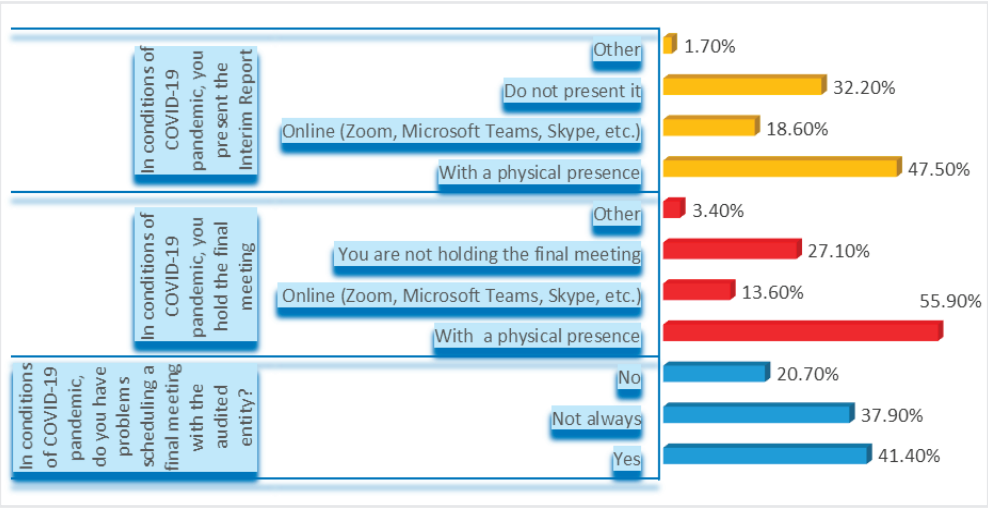
Source: Own research based on a conducted survey questionnaire (2020)

Many of the internal auditors had problems when performing fieldwork in conditions of COVID-19 pandemic. During the fieldwork, most of the auditors received the documents combined from the audited entity (hard copy and electronic). Many of the public sector employees worked in rotating teams or from home and the auditors had difficulty to obtain hard copy documents. Such condition results with difficulties to collect sufficient evidence to support the findings. The half of the auditors conducting fieldwork in condition COVID-19 not always being able to provide sufficient evidence of the findings

to make recommendations. According to the standard 2330, Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.[9]

Interim Report is the first draft of the Internal Audit Report which is presented to the audited unit at the final meeting to achieve agreement on the content of the report and acceptance of the auditors' recommendations.

Graph 11: Final meeting and presentation of the Draft Report



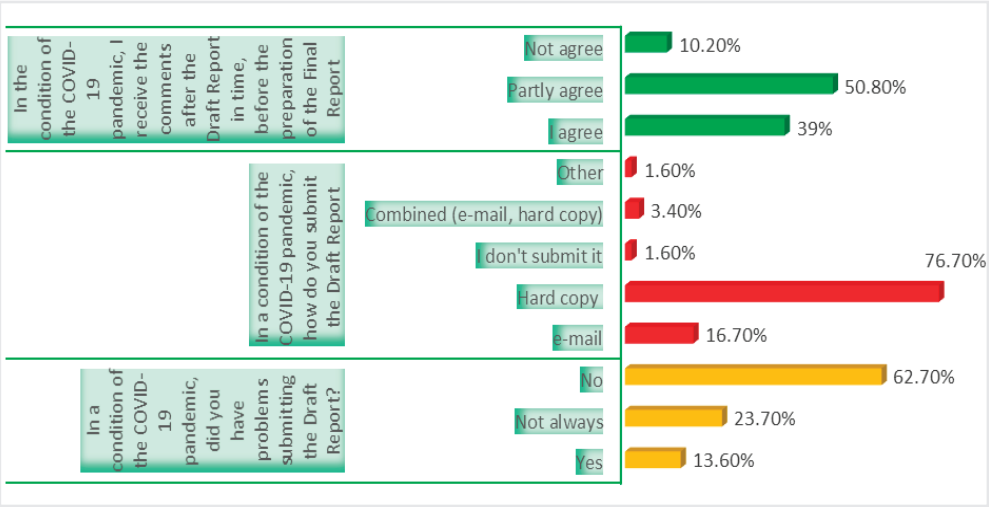
Source: Own research based on a conducted survey questionnaire (2020)

Regarding the final meeting, many of the internal auditors had (always or in certain situations) a problem scheduling a final meeting. Only an insignificant part of internal auditors don't have this problem. The appearance of the problem when scheduling a final meeting can be located in the fact that many of the internal auditors, in conditions of social distance, held the final meeting with a physical presence. Scheduling a final meeting with a physical presence in a COVID-19 pandemic can cause anxiety for the audited entity, and thus the internal auditor may have trouble scheduling it. We can notice that only a small part of the internal auditors held the final meeting through an online platform (Zoom, Microsoft Teams, Skype etc.).

Graph 12 demonstrate the problems when submitting the Draft report.

[9] International Standards for the Professional Practice of Internal Auditing (Standards), The institute of Internal Auditors Global, Florida, USA, Revised: October 2016, Effective: January 2017, p.17

Graph 12: Draft Report and its submission

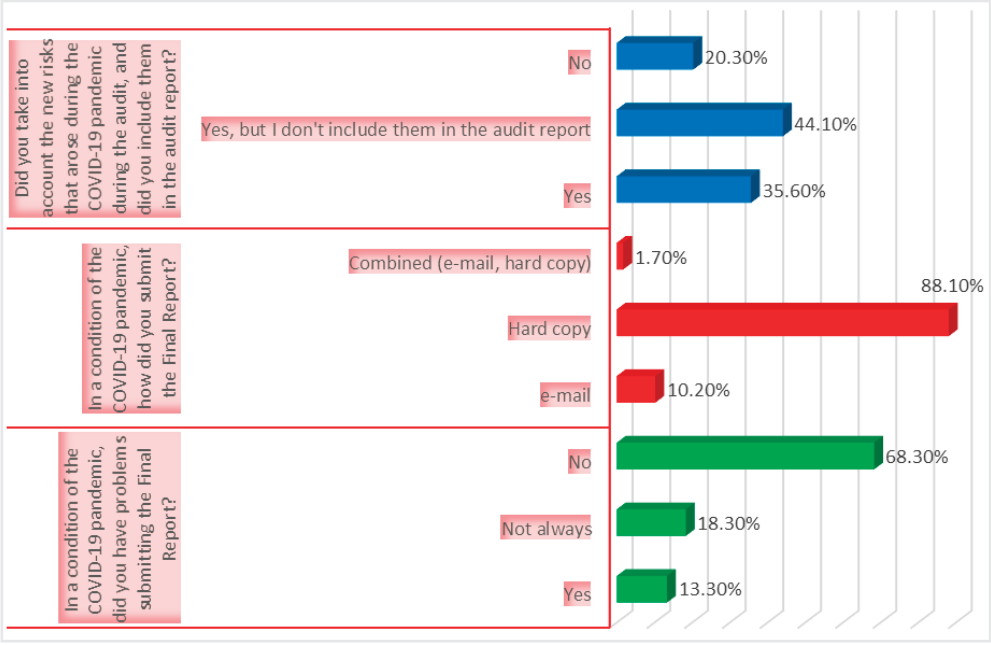


Source: Own research based on a conducted survey questionnaire (2020)

Many of the internal auditors had no problem submitting the Draft Report to the audited entity. The draft report is submitted in hard copy through an archive. Most auditors in the condition of the COVID-19 pandemic had or partially had problems receiving the comments on the contents of the report promptly. A minor part of internal auditors submitted the combined (e-mail, hard copy) draft report to the audited entity. When processes are slowed, and work is on remote, the communication between the auditor and the audited entity is identical important. If there is no communication, it may happen that the audited entity does not have access to the Draft Report in hard copy for a certain period if it works remotely.

Graph 13 shows the submission of the Final Report in the conditions of the COVID-19 pandemic and whether the new risks are included.

Graph 13: Final Report and the new risks which appeared in the conditions of the COVID-19 pandemic



Source: Own research based on a conducted survey questionnaire (2020)

The research indicates that many of the auditors had no problem submitting the Final Report. Similar to the Draft Audit Report, the Final Audit Report is submitted through the archive. However, we can note that a large proportion of internal auditors 64.30% omit the new risks that arose conditions of the COVID-19 pandemic in the audit report. According to standard 2120, the internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.[10]

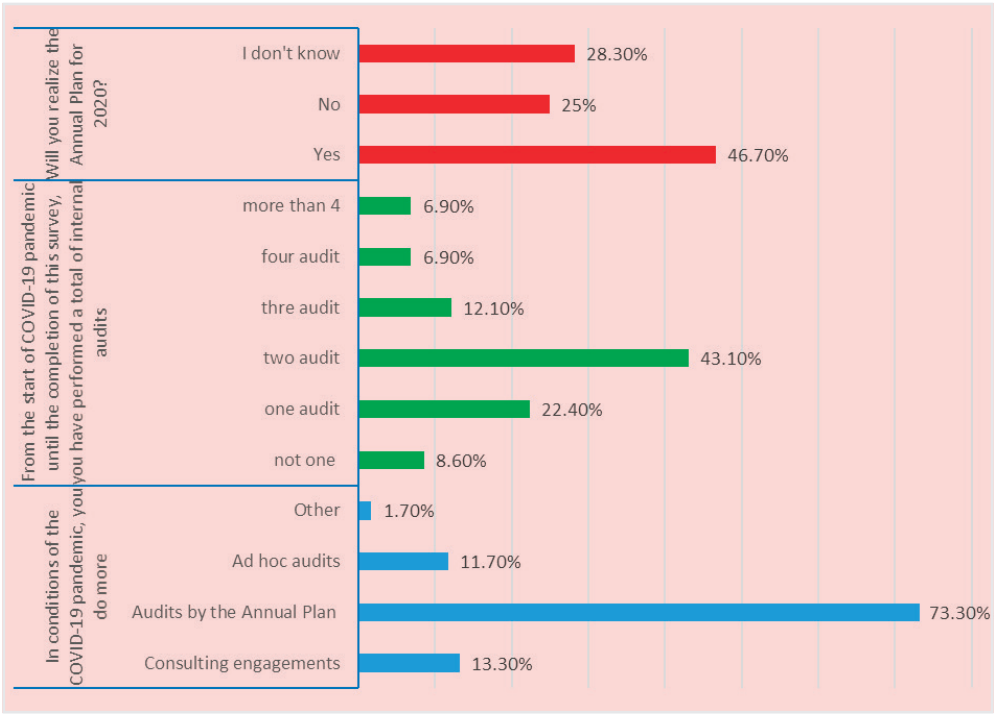
3. AUDITS PERFORMED IN CONDITIONS OF THE COVID-19 PANDEMIC

The value and relevance of internal audit should be demonstrated by the ongoing activities of the internal auditors. Internal audit through its activities in conditions of the COVID-19 pandemic should certanly add value to the organization.

Graph 14 displays the engagement of internal auditors in conditions of the COVID-19 pandemic as well as the realization.

[10] ibid, p.13

Graph 14: Engagements and realization in conditions of the COVID-19 pandemic



Source: Own research based on a conducted survey questionnaire (2020)

Many of the internal auditors performed audits by the Annual Plan. Merely an insignificant percentage performed ad hoc audits and consulting engagements.

From the beginning of the pandemic until the closing of the questionnaire, most of the internal auditors have performed two audits. Then follows, the auditors who have performed one audit, and some auditors have not performed any audit. Some of them are covered by government measures.

Half of the internal auditors will not implement or do not know if they will implement the Annual Plan. This confirms the fact that the auditors in conditions of the COVID-19 pandemic should have considered changing the Annual Plan. Quick decisions are needed to reduce audits that are no longer a high priority. Arguably, internal audit units who continue to deliver on their plans may not be doing the right things in these new circumstances.

Conclusion and recommendations

The performed analysis clearly indicated that the internal auditors in conditions of the COVID-19 pandemic had faced with certain problems and challenges in performing the internal audit in the public sector.

Due to the lack of business laptops, many auditors had to work at the office, to combine the performing of the fieldwork (in the auditor's office, the auditee's offices and on-line).To overcome this situation, internal auditors need to initiate a request in their institutions, assisted by CHU to provide laptops for remote and fieldwork. In North Macedonia, there is no unified software for performing an internal audit. CHU should take activities to develop a unified internal audit software that will be used by all internal auditors. If it is possible, CHU through certain projects should enable the provision of laptops and the development of unified software.

In terms of training, the analysis demonstrates that a major part of internal auditors is lacking the training for performing an internal audit in conditions of the COVID-19 pandemic. Internal auditors need to be proactive in attending online training, and CHU to coordinate webinars, online Smart Interactive Talk with internal auditors for exchange of experiences from the country and abroad. A small percentage of internal auditors use IT tools (Zoom, Microsoft Teams, Skype etc.). To facilitate certain activities such as to conduct an initial meeting, final meeting and easier communication during the audit, internal auditors should apply these tools. Documentation, which is mostly in hard copy in the institutions, makes it difficult to provide sufficient evidence to support the findings.

Many internal auditors did not include new risks arising from the COVID-19 pandemic in their audit reports. Risk assessment and mitigation efforts need to be developed as the risks evolve, so internal auditors need to assess the risks and include them in the reports. Fulfilment of the audit plan is usually a key indicator of the work of the internal audit unit, and we can conclude that half of the internal auditors will not implement or do not know if they will implement the Annual Audit Plan. There needs to be an agile and flexible approach to audit planning, and if the Annual Plan cannot be met, it needs to be amended. In general, we can conclude that audit work needs to be adjusted to the "new normal", and internal auditors assisted by the CHU to be proactive to function more efficiently.

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MAJA GEORGIOSKA*

TRADE DEVELOPMENT IN MACEDONIA IN THE XIXth CENTURY

Abstract

The Republic of Macedonia in its evolutionary path to independence was mostly under the Ottoman Empire, so it is of great historical and economic meaning to analyze the importance it gained in that period, primarily due to the geographical position in which it is located, occupying the central part on the Balkan Peninsula, a section which important regional and national roads pass through and the possibility of foreign trade with other countries.

The research design on this paper is based on collecting relevant data that reflect the purpose for which the paper was written, i.e. through careful analysis and using the historical method, the collecting data method and statistical methodologies and procedures, to show the exchange of goods and services that took place on the territory of Macedonia in the XIX century.

Keywords: trade development, macedonian trader, city markets and fair, Ottoman Empire, XIXth century
JEL Classification: B15, B17, F14, F63

Introduction

Trade dates back to the earliest beginnings of human existence when tribes in the earliest community exchanged the fruits of nature, the animals they hunted, and the tools they used to cultivate the land and make their lives easier. Later, when gold, silver and money appeared, trade development accelerated, especially foreign trade, which today is a struggle between the theoretical idealism of universal free trade-liberalism, advocated by the countries-

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member states of the European Union and the pressure of individual countries for foreign trade protection of their economies from external competition. Between these two warring parties, the trade development takes place through several theoretical conceptions depending on the degree of development of the productive forces and political boundaries that are the fruit of significant historical and ethnic development.

The nineteenth century is of great importance, primarily due to the large number of data records on foreign trade and the importance of that century for Macedonia, and the first signs of liberation from five centuries under Turkish slavery were finally felt. In the first years of the XIXth century, major socio-political and trade events began to take place on the Balkans, as a result of the growing ambitions and long-term efforts of the Ottoman Empire to create a single economic, political, trade and cultural border through the introduction of new laws and reforms that shall improve the social life of the population of that territory, including Republic of North Macedonia. In its evolutionary path to independence Macedonia was mostly under the Ottoman Empire, so it is of great historical and economic meaning to analyze the importance it gained in that period, primarily due to the geographical position in which it is located, occupying the central part on the Balkan Peninsula, a section which important regional and national roads pass through and the possibility of foreign trade with other countries.

Exactly this position enabled Macedonia to be the central place in the Ottoman Empire and even in the early years under that rule there were noticeable positive changes, and those changes were especially noticeable in the XIXth century, a century in which most of the goods, labour and capital exchange took place.

1. SOCIAL - POLITICAL AND TRADE CONDITIONS IN THE OTTOMAN EMPIRE AND MACEDONIA

After conquering Asia Minor, the Ottoman Empire approached Constantinople and thus endangered the security of the Byzantine provinces on the Balkans, and especially the security of Macedonia. After the historic battle on the river Maritsa on 26.IX.1371[1] where in the fight between the unequal opponents, the Ottoman army won and Macedonia completely fell under the Ottoman rule. In the early years of the conquest, the socio-economic and trade

[1] Kacarov G. Sources for old history and geography of Thrace and Macedonia, Sofia, 1949:197

structure in Macedonia was mostly agrarian and divided among the feudal lords, and the ruler's property, as the largest owner of land, forests, pastures and labour, served for generating income, but also for organizing the first forms of exchange.

The subjects of exchange in this period were agricultural products, mostly wheat and barley, as well as grapevine. Being rich in ore, minerals and forests contributed to ore, wood (as a means of heating) and wood processing to be one of the most exchanged products in the mutual exchange of population. During the frequent political changes, the monastery property,[2] where most of the exchange took place, was looted by the feudal lords, but according to the old rule, the church always managed to maintain its property rights and land relations. Although the function of the church was to spread Christianity, it still managed to maintain and strengthen trade relations through fairs, first between the population and later between the cities.

2. THE TRADE DEVELOPMENT IN MACEDONIA IN THE XIXth CENTURY

In the first years of the XIXth century, major socio-political and trade events began to take place on the Balkans, as a result of the growing ambitions and long-term efforts of the Ottoman Empire to create a single economic, political, trade and cultural border through the introduction of new laws and reforms that shall improve the social life of the population of that territory, including Macedonia, as an indispensable part of European Turkey.[3] During this period, the empire completely abolished the timar-sipahi system and enabled the creation of state economies and private farms. In this period, the rise of crafts and trade began, which led to the appearance of the Macedonian bourgeoisie[4] which managed to stand out as an independent factor in the socio-political and commercial life of the empire itself.

In the mountain villages, where animal husbandry was the basic branch of the rural economy, there was a stratification between the population, as well as internal trade relations began to appear, i.e. one part was engaged in cattle breeding and trading, and the other enabled the exchange process.

The reforms undertaken by Sultan Abdul Aziz with the introduction of the new Hatihumayun Act[5] of 18.02.1856, promised reorganization of the

[2] Ivanov I. Bogomil books and legends, Sofia, 1925:317
[3] Kinross L. The Ottoman Centuries: The Rise and Fall of the Turkish Empire, Germany, 1987:365
[4] Dimevski S. Our past through documents, Skopje, 1967:53
[5] promising regional and national equality act for all nationalities in the Ottoman Empire

state administration, introduction of a regular budget of state revenues and expenditures, reconstruction of roads which would enable faster development of trade, but due to the inability of the Empire to function according to the European legislative system, it fell into a great economic crisis.[6] The Empire solved the way out of the crisis by taking loans from highly developed countries, which turned it into a semi-colonial country of European capital. The only condition for taking the loans, in addition to its high-interest repayment, was the wide opening of the doors to industrial goods and semi-finished products by European creditors and economic and trade policy makers: England, Austria and France, which competed in the takeover bid in the markets and in a very short time they flooded the markets with their goods. Nearby ports soon became warehouses[7] for English goods, French imports and exports grew, and the Austrian franc[8] became the only currency to replace the domestic currency-the lira.

In addition to European countries, the United States also engaged in foreign trade with the Empire, so the markets began to fill very quickly with cheap industrial goods and agricultural products. In order to meet the demands of foreign capitalist countries, Turkey invested huge financial resources, especially in European Turkey and Macedonia, in the construction of modern roads, telephone lines, railways, enabling the development of domestic production and foreign trade.

2.1. Trade development in Macedonia in the first half of the XIXth century

At the beginning of the XIXth century, Macedonia was still an integral part of the vast Rumelia eyalet with its center in Sofia, but economic, political and trade reasons enable Bitola[9] to become the center of the eyalet and one of the largest administrative-military centers. Surplus production of agricultural and livestock character was the main reason for the internal exchange, which in the first half of the XIX century increased its volume not only according to the number of goods, but also increased the number of traders, and new craft products appeared. Macedonians in this period were engaged in crafts, and trade in Macedonia was in the hands of Macedonian merchants of Vlach (Aromanian), Aegean and Greek origin. As the population of Macedonian

[6] Kinross L. The Ottoman Centuries: The Rise and Fall of... op.cit., 389
[7] Sokolov Lj. Bibliography of the economic history of Macedonia, Skopje, 1953:198
[8] the lira, groschen and other currencies were replaced by the Austrian francs
[9] Vasilevich J.H. City of Bitola, Beograd, 1911:66

cities increased, they became important trading centers, not only for their surroundings and neighbors, but also for more remote areas. In the larger cities, several meat markets were opened for certain types of agricultural, livestock and handicraft products.

In 1836 in Bitola, besides the main market known as the BEZISTEN,[10] which had 86 shops, there were two separate ones:

- A market for sale of manufactured goods
- A market for sale of grain and poultry

The existence of the eight markets, and especially of Mustafa Pasha Bezisten, was the main reason for Skopje to become an attractive trading center for Bosnian traders who bought processed skins, tobacco, silk, rice, ready-made shoes and wild animals' skins.

With the increase of crafts and trade, the number and importance of the fairs increased, at which the exchange of domestic goods took place, which the craftsmen prepared and exchanged for the goods of the foreign merchants that they brought to those fairs throughout the year. The exchange would have taken place immediately or for a period of three to nine months. Through these fairs, the internal domestic Macedonian market was created and expanded, which had a transit role, connecting all domestic producers in the world.

Many Macedonian merchants traded outside Macedonia, first with neighboring countries and beyond the borders of the Ottoman Empire, establishing permanent trade relations with the population of these countries. The most famous Macedonian merchant[11] who had connections with the outside world, was Georgi Drandar from Veles, who received a special royal berat (passport) from Sultan Mahmud II in 1836 for an unobstructed journey. The Robevci brothers[12] had a great influence in the Ohrid-Struga region, having their own warehouses in Bitola, branches in Vienna and Leibniz, representative offices in Belgrade and Trieste, as well as trade relations with Germany, France and most importantly with the southernmost parts of Russia, where they traded processed skins and wild animals' skins. With this, the brothers managed to stand out as traders who crossed the borders of the Ottoman Empire.

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[10] bezistens are very solid buildings, with rectangular or square base, covered with domes, on stone walls were placed partition walls, forming a whole row that served as shops for traders and craftsmen

[11] Zografski D. The economic life of Veles in the XIX and the beginning of the XX century, Annual Proceedings Faculty of Economics, Skopje, 1958

[12] The State Archives of the Republic of North Macedonia, department Ohrid, archive materials

Our traders also had good relations with Bosnia, but especially with Serbia, where several prominent traders from Macedonia, permanently settled on the territory of Vojvodina and using their knowledge and authority, managed to be a significant trade link between Macedonia and the then, just liberated Serbia. The most prominent among all merchants outside the territory of Macedonia were the brothers Petar and Naum Ichko from the village of Katrinica,[13] Jovan and Petre Chardaklija from Leunovo and Panta Hadzistoilov from Dojran.

The exchange of goods between Macedonian and Western European traders took place by sea and by land. By sea, the nearest ports in Thessaloniki, Kaval and Durres were mostly used, and by land along the valley of the rivers Vardar and Morava to Belgrade, and from there by ships along the Danube to Austria and Germany. In the summer months when the weather was nice, the cattle were carried on camels. Historical data show that during this period 533 large and 105 smaller camels loaded with tobacco left for Belgrade, which were brought up in the Vardar valley meant for sale in Central Europe.[14]

The transportation of goods in larger quantities led to the creation of a new profession-tenancy, which encouraged the villagers who had horses and carts to leave agriculture. Tenancy dominated both in domestic and foreign trade, until the advent of railways, but if goods were to be transported through impassable and inaccessible roads, tenants were sought.[15]

Despite the continental blockade of the ports set by the French Tsar Napoleon I, many foreign traders came to Macedonia by land, all in order to place their products and the products of their colonies. The developed domestic market, the large number of developed fairs and the expanded production of agricultural and handicraft products attracted the attention and interest of European countries, so imports and exports increased more and more from year to year.

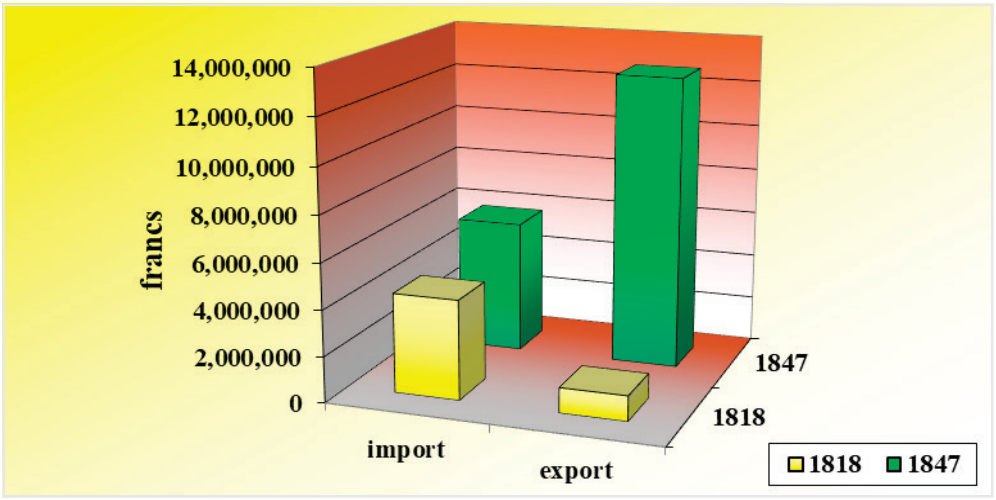
From the graph 1 and the obtained data it can be seen that the export for a period of thirty years increased by almost eleven times, and the import, i.e. the import of goods from European countries for this period increased only by 1,465,702 francs, which speaks for the quality of Macedonian products and their demand abroad, not only from the borders of Macedonia in the Empire, but also in Western European countries.

[13] village Katrinica-part of the territory of today's cities Berovo and Pehchevo

[14] Dzambazovski P., Starova A. Turkish documents for Macedonian history, Skopje, volume I-V, 1951-1958:106

[15] the most characteristic example is with Prilep tenants who went in caravans with 40-50 horses, for trading their products for iron products

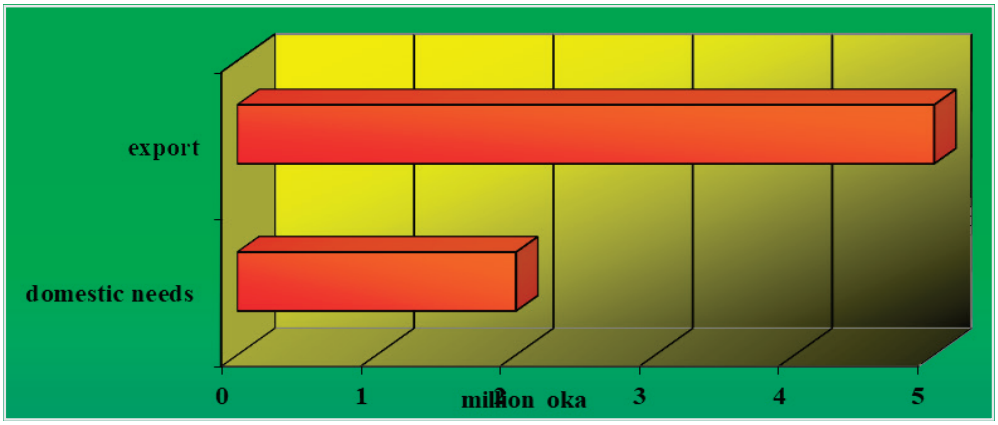
Graph 1: Import and export of goods in Macedonia in the first half of the XIX century, through the port of Thessaloniki



Source: personal research based on data from The State Archives of the Republic of North Macedonia, archive materials

Thanks to the fertile fields in Bitola[16] and the understanding of Bey Ismail, the production and sale of Bitola cotton was incredibly developed and a large part of the produced quantities were exported. This field was also suitable for growing tobacco, which met the needs of the population and traders.

Graph 2: Export of Bitola cotton in first decades of the XIX century



Source: personal research based on data from The State Archives of the Republic of North Macedonia, archive materials

[16] Vasilevich J.H. City of Bitola... op.cit., 89

If you analyze the Graph 2, you can see that Bitola cotton was in great demand in the markets in Western European countries, which speaks of its quality. Exports in the first half of the 19th century amounted to five million oka, and domestic needs were met by two million oka. In the further period, the export registered a significant increase. Among the products in this period, Bitola cotton, grain, wood and tobacco were mostly exported, while iron rods, glass, textiles, colonial goods, spices, sugar were imported. A particularly important place in the trade was the production of hats in Ohrid, which was the center of Macedonia for the export of hats mostly with Albania. (Graph 3)

Graph 3: Export of hats from Ohrid to Albania in period 1841-1845

Source: personal research based on data from The State Archives of the Republic of North Macedonia, archive materials

The first half of the XIX century was especially important for the development of trade in Macedonia. Exports were constantly increasing in all cities and the specification of each city was beginning to be felt, which made the products recognizable in all countries importing products from Macedonia. Unlike exports, imports of products recorded an upward trend, primarily due to increasing population, but not on a scale like imports.

2.2. Trade development in Macedonia in the second half of XIXth century

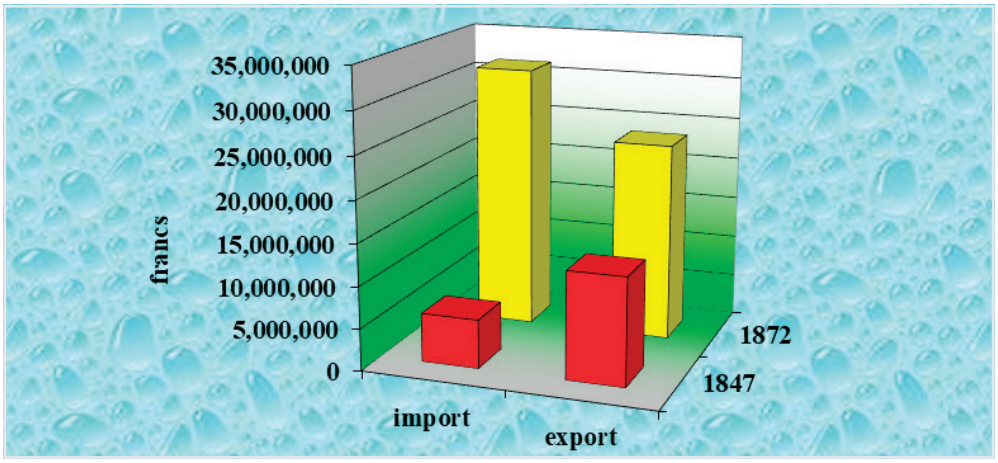
The effort to find and make the necessary food and other necessities for the Turkish and European soldiers available as soon as possible, encouraged the entrepreneurial spirit of the Macedonian traders.[17] The spirit was

[17] Georgiev Pop D. The property of the farms and farmer-agrarian-first relations in Macedonia, Skopje, 1956:146

stimulated by the high prices of grain for the army, which was demanded everywhere, which enabled a large number of traders in Macedonia to trade in grain. During this period, Vardar was able to transport large quantities of grain on rafts from Skopje to Thessaloniki, and alternative routes were found that reduced costs and time for transporting goods. The US Civil War caused a reduction in exports, and even at times a complete cessation of cotton trade for European countries, prompting the Ottoman Empire to give the land to part of its population and those peasants who would produce better quality cotton were enabled to buy cotton processing machines on very favorable terms, and taxes were reduced to a minimum.[18]

At the same time, the post-telegraph lines were developing, the railway traffic was gaining its true meaning and the train was becoming the most massive means of transport. The construction of the most important traffic artery through the central part of Macedonia in 1837 contributed to faster economic and trade development, the cities and villages became closer and enabled easier penetration of European capital in Macedonia. The world's most famous shipping companies[19] Loyd-Austria, Mesazeri Maritim-France, Fresin e komp and Trinaeria strengthened their agencies in the sea ports and in just a few years the tonnage of ships travelling to Thessaloniki with goods intended for Macedonia increased up to five times. (Graph 4)

Graph 4: Import and export of French goods through the port of Thessaloniki for Macedonia



Source: personal research based on data from Dimevski S. Our past through documents, Skopje, 1967:75-78

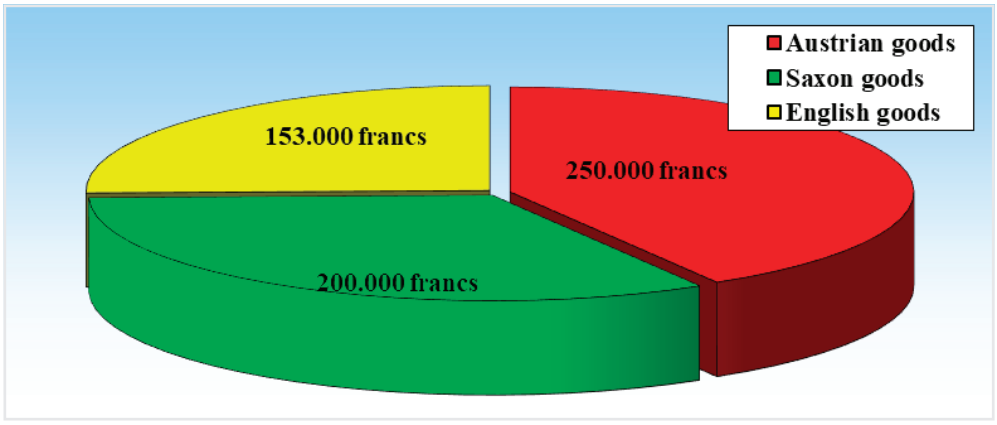
[18] Dimevski S. Our past through documents... op.cit., 75
[19] Kinross L. The Ottoman Centuries: The Rise and Fall of... op.cit., 401

If we make a comparison between the first and the second half of the XIXth century, we can see a significant decline in exports, which in 25 years doubled, and at the same time imports of goods from Western European countries and the United States grew significantly.

The first place in the import in Macedonia was held by England, then France and Austria. The arrival of goods from abroad was strongly felt in other cities on the present territory of the Republic of North Macedonia, especially in Bitola[20] as the most developed area where in 1865 imports grew to 21,000,000 piastres[21] and exports to 34,634,000 piastres.

The fairs in this period were in full blossom, especially those in Prilep, Bitola, Dojran where the value of products of domestic origin was five times less than the value of goods from abroad. Prilep traders used to visit the highly developed markets in Germany and France every three years and to import goods from there to our markets. At the end of the 50s of the XIXth century in Prilep[22] were imported for 250,000 forints Austrian goods, 200,000 forints Saxon and for 153,000 forints English goods. (Graph 5) A large value of goods was imported through the markets in Bitola and Strumica. If the goods intended and then sold to a foreign buyer, then the goods were brought to the markets in Macedonia and in that way the domestic trade was realized.

Graph 5: Import of European goods in Prilep in 50's of the XIX century



Source: personal research based on data from Zografski D. For the Prilep Fair, Annual Proceedings Faculty of Law, Skopje, 1955:[24]

[20] Bitoski K. Contribution to the study of Bitola guilds and their social role in XIX century, Skopje 1966:97

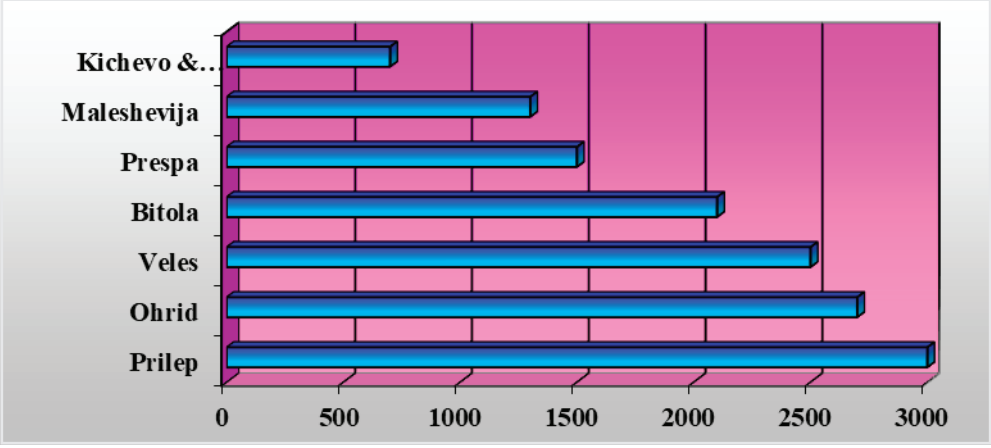
[21] in 1862 seven pisastres were equal to one franc

[22] Zografski D. For the Prilep Fair, Annual Proceedings Faculty of Law, Skopje, 1955:24

Due to its natural geographical position, the convenient time of the event, the large presence of traders and goods, as well as some other circumstances, the fairs in the second half of the XIX century took the central place where the exchange of goods took place.

A particularly important place for exchange was the Prilep fair, which managed to surpass all fairs at that time and buy English and German goods attracting traders from all over, and this is evidenced by the data from 1861 when the total trade turnover amounted to 18,000,000 groschen. Traders from Prilep managed to import industrial goods worth several million forints.23 Migration in this period was a mass phenomenon and one of the strongest evidences of the unbearable situation of the population in the Macedonian villages. The population began to leave Macedonia en masse, and with that there was an outflow of labour. If the data are carefully analyzed, it can be concluded that the labour force is also a subject of foreign trade, although in that period the population could not understand it as an exchange, but saw labour as a source of income and opportunity for survival.

Graph 6: Departure of labour in 1890



Source: personal research based on data from Dzambazovski P., Starova A. Turkish documents for Macedonian history... op.cit..:193

The graph 6 shows a significant decline in the population of Macedonia, especially a decrease in the number of large cities, which led to a significant decline in the developed trade network, primarily due to the departure of labour. Despite all the progress of trade and the transition from handicrafts to

[23] ibid 63

manufacturing, the strong consequences of the wars of the nineteenth century were felt, which led to a decline in trade and a reduction in trade exchanges.

Conclusion

The internal and external exchange in Macedonia in the XIX century were strongly influenced by the events that took place on the territory of the Ottoman Empire and the transition from feudalism to capitalism influenced on this exchange too. The exchange of goods and services that took place on Macedonian territory was statistically part of the Empire, but there is a large number of data records from which the commodity-money exchanges can be distinguished with careful analysis on the territory of today's Macedonia.

The nineteenth century is of great importance, primarily due to the large number of data records on foreign trade and the importance of that century for Macedonia, and the first signs of liberation from five centuries under Turkish slavery were finally felt. In the first half of the 19th century, despite the size of imported and exported goods, it was very limited in volume and value due to the great backwardness of the means of production, due to the rudeness and despotism of the Turkish administrative apparatus, and mostly due to bad robberies, which only temporarily subsided, but never completely stopped. Despite all the difficulties the population was facing, the 7,000,000 oki of cotton exported to Central Europe were significant enough.

All presented figures testify to the huge arrival of European goods in Macedonia, where for a period of twenty years the import of goods increased by more than five times, and exports stagnated by only doubling. All this had a favorable effect on the trade development, on the population growth in the Macedonian cities, especially Stip which stood out as a city with the most developed trade network. The rich yield of cotton contributed to the development not only of the domestic production of cotton and its dyeing, but also specialized dyeing workshops to be opened with foreign capital in larger cities, which marked the beginning of the inflow of foreign capital in Macedonia.

In the competitive struggle of industrial products and semi-finished products from Europe and the USA, which by their appearance, quality and low prices, managed to overcome the simpler products and products that did not have a specific purpose of our domestic, craft production, our products were suppressed and a major blow was dealt to the nascent beginnings of capitalist production. At the end of the 60s of the XIXth century, the American canvas

(American) started to be imported in Macedonia, with which the weavers stopped working, oil was imported, which soon became the only means of lighting and innovations were introduced in the wearing of the European clothing, which the population at that time could not accept, so they organized various forms of resistance that did not give any significant result, primarily due to the lack of opportunity for the Ottoman Empire to defend itself from the influx of goods, services and labour of foreign origin, thus beginning to lose its power of inviolable rule of five hundred years.

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(Original scientific paper)

FILIP PEOVSKI*

UNCONVENTIONAL MONETARY MEASURES – THE CASE OF THE EUROZONE AND THE ECB

Abstract

Up until the 90s, the central banks weren't familiar with the so-called "unconventional measures". The standard monetary framework has been fundamentally changed by the BOJ (Bank of Japan) at the beginning of the 21st Century and shortly after that – The Federal Reserve System.

The main objective of the theoretical approach of this paper is to uncover the unconventional monetary framework used by the European Central Bank during the Great Recession and briefly sharing light on the measures used during the COVID-19 pandemic. The research was conducted by analyzing the key moments of ECB's monetary shift according to their assessed and forecasted economic development. This paper focuses on the effectiveness of the unconventional measures, especially about stabilizing financial markets and restoring the functional transmission mechanism by the SMP (Securities Markets Programme) and APP (Asset Purchase Programme) as well as stimulating economic growth and fulfilling ECB's main objective – price stability.

This research notes that the usage of unconventional policies has given the right results especially in lowering the divergence of long-term government securities yields as well as escaping the deflationary trap.

Keywords: Unconventional monetary measures, long term yields, policy interest rates, price stability, the Great Recession, quantitative easing
JEL Classification: E43, E52

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Introduction

After the Great Depression in the 30s, the world never again witnessed such a potent and massive recession until the Great Recession and possibly during the COVID-19 pandemic in 2020, as the real effects are yet to be estimated. The financial crisis which developed into economic and sovereign debt crises in the Eurozone left a permanent mark on designing and implementing monetary policy. One of the key elements was the lack of strong prudent regulative and effective supervisory institutions, problems that were mainly targeted by implementing the Basel III framework in 2010. Carlin and Soskice (2015) note that the main reasons behind the crisis were the search for higher yield by both retail and investment banks, the largely popularized usage of securitization, and the housing bubble – all emerging from the US. Low interest rates during 1999-2005 encouraged indebting by both households and banks in the US. The usage of sub-prime mortgages as a referent portfolio in creating the famous MBS (Mortgage Backed Securities) was potentially dangerous as the rise in residential property values started looking like a bubble, which it was. As FED took restrictive measures following the rise in oil prices the monetary authorities unwillingly burst the housing bubble.

Developing a set of new and unconventional measures by the central bank was critical to overcoming the massive recession during the 2008-2010 period. Policy interest rates were quickly slashed down to nearly zero as a first reaction. Especially vulnerable were developed market economies with both deep and complex financial sector and markets. The ECB used the SMP which targeted the malfunctioning transmission mechanism, as stated by Kozicki et al. (2011).

1. FINANCIAL AND SOVEREIGN DEBT CRISES IN THE EUROZONE

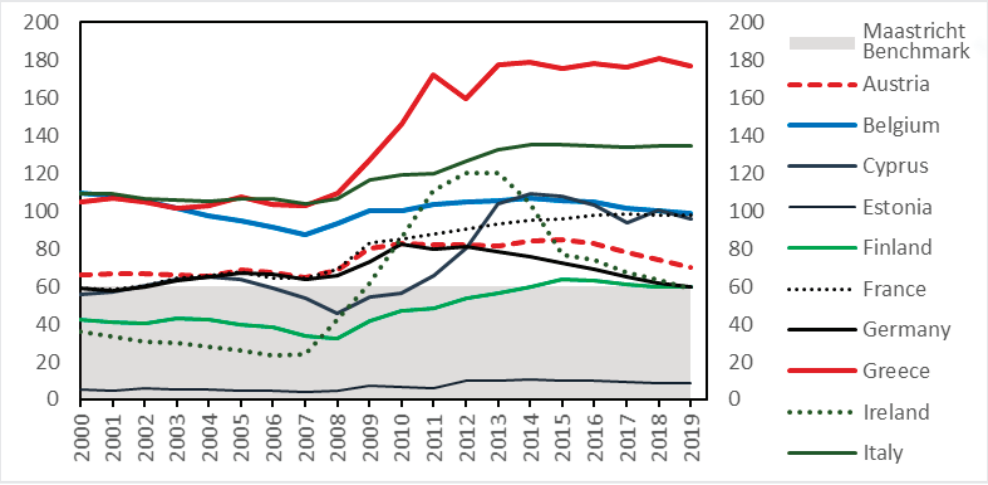
There is a significant difference between the "first" and the "second" crisis in the Eurozone. The key difference is that the prior is a result of increased global financial insecurities and it's somehow imported into the Eurozone system. The latter is a product of numerous domestic factors, such as the housing bubble in Spain and Ireland and irresponsible fiscal policy in Greece, Portugal and Italy, as stated by Neri and Siviero (2019). Since the Eurozone is a monetary union it restricts its members from using autonomous

monetary policy. Baldwin and Wyplosz (2012) note that using the national exchange rate and the monetary policy to target shocks are now nonexistent and members rely solely on autonomous fiscal policy.

1.1. The rising indebtedness of Euro Area members

Ben Bernanke (2007) defines financial crises as extreme disruptions to the normal functioning of financial markets[1]. After Lehman Brothers went bankrupt in September 2008, which can be noted as the official beginning of the crisis, some central banks (including the ECB) decided to cut their policy rates. Their lowering was meant to initiate economic growth but soon after, central banks found themselves at the ZLB unable to additionally stimulate the economy. Besides that, some of them like the BOE (Bank of England) and the FED started using quantitative easing early on, while the ECB started at a later point. As noted by Carlin and Soskice (2015), quantitative easing is aimed at longer-maturity yields by pushing them down since short term yield is already lowered by conventional instruments.

Graph 1: General government gross debt as % of GDP, selected EA members, 2000-2019

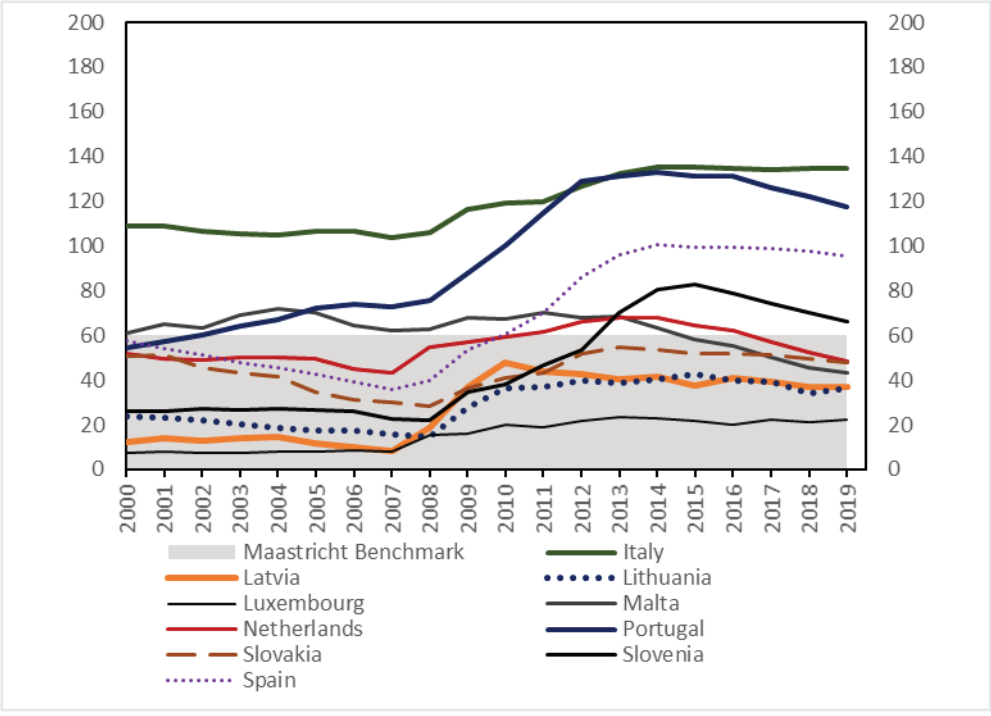


Source: Eurostat – General government gross debt, sdg_17_40; author's depiction (access date 28/07/2020)

[1] See Ben Bernanke's speech on June 15th 2007, entitled The Financial Accelerator and the Credit Channel, as stated by Carlin, W. and Soskice, W. D.: Macroeconomics: Institutions, instability and the financial system, Oxford University Press Inc., New York, 2015, p. 80-115.

While most of the countries experienced a low to moderate increase in government gross debt, the countries that were most vulnerable during the 2008-2013 period were Greece, Ireland, Italy, Portugal and Spain. Each of them faced a dramatic increase in government debt during that period, which soon became critical. As depicted in Graph 1 and Graph 2, between 2008 and 2013, Greece, Ireland, Italy, Spain and Portugal increased their Debt/GDP ratios for +68 p.p., +77.5 p.p., +26.3 p.p., +56.1 p.p. and +55.8 p.p., respectively. In the time frame of 2013-2019, they managed to lower their indebtedness by -0.8 p.p., -61.1 p.p., +2.3 p.p. (Italy faced additional increasing), -0.3 p.p. and -13.7 p.p., respectively. Almost all of the EA and EU members imposed fiscal tightening to stabilize the government's indebtedness. These five selected countries were the once targeted by the first unconventional monetary measure – the SMP, through their galloping government bond yields which significantly disrupted the transmission mechanism.

Graph 2: General government gross debt as % of GDP, selected EA members, 2000-2019



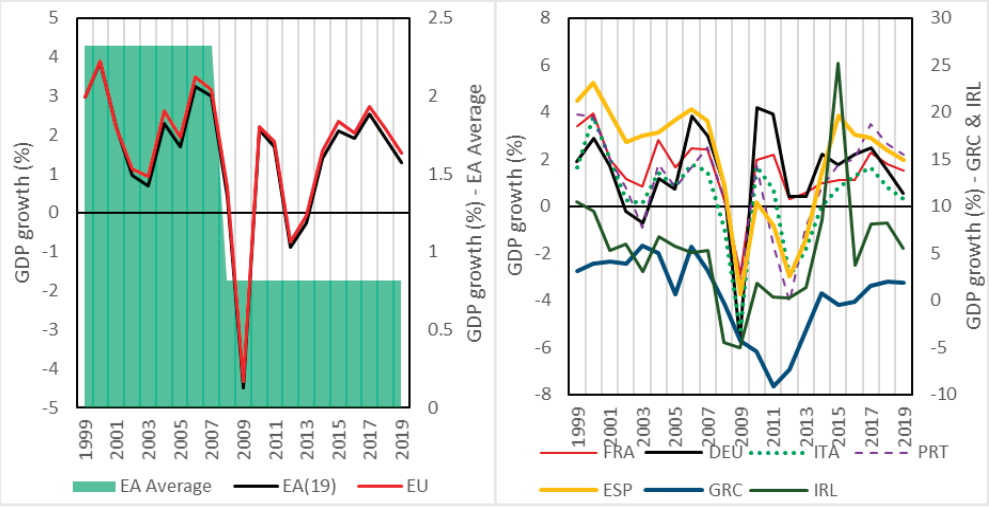
Source: Eurostat – General government gross debt, sdg_17_40; author's depiction (access date 28/07/2020)

1.2. The economic slump

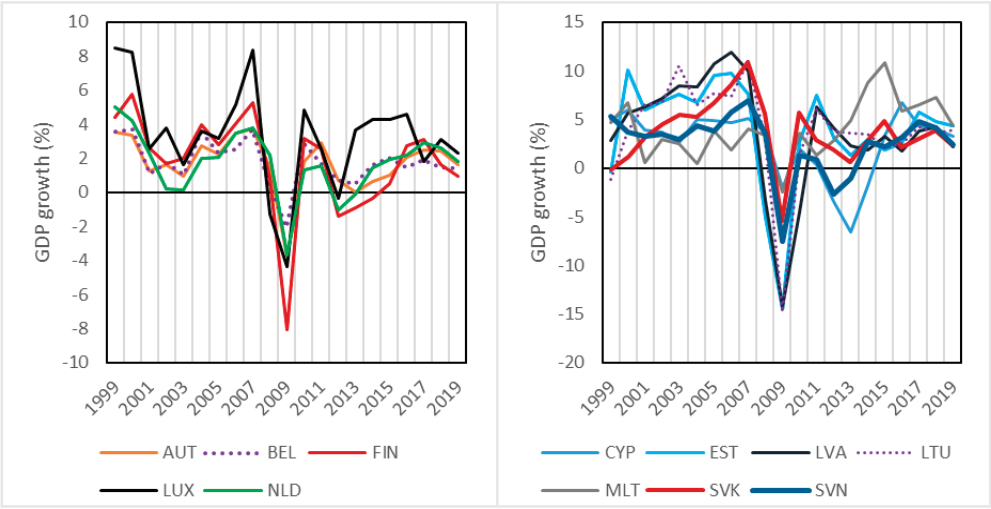
Besides growing risks from the rising indebtedness, the Eurozone faced another problem – weak economic growth. As the crisis developed, both member states and the ECB decided to use expansionary policies. As shown in Graph 3, the Eurozone before the crisis had 2.3% annual GDP growth on average for the period of 1999-2007. On the other hand, the massive impact that the Great Recession has made, lowered the average growth to just 0.8% from 2008 through 2019. This is one of the main reasons why the ECB decided to take action to initiate higher levels of investment and consumption – components that are key for stirring up aggregate demand.

While the European economy finally started picking up, the COVID-19 pandemic took its toll. Countries that are largely dependent on industrial production and tourism were the ones that suffered the largest plummeting of GDP. In Q1 of 2020, France, Spain and Italy registered -5%, -4.1% and -5.4% GDP growth, respectively. Germany registered -2.3%, Belgium -2.5%, the Netherlands -0.4% and Austria -2.6%. The Eurozone as a whole registered -3.1%, which is the largest fall since the 2009/2010 period[2]. Such economic developments show that both unconventional measures and rising government debt are here to stay, at least until the end of the pandemic.

Graph 3, Graph 4, Graph 5 and Graph 6: Annual GDP growth rates in %, selected countries, 1999-2019



[2] Quarterly data for GDP growth in 2020Q1 are registered by the Eurostat – Gross domestic product volumes, percentage change, teina011 (access date 28/07/2020).



Source: The World Bank, GDP growth (annual %), last updated date 01/07/2020; authors depiction (access date 28/07/2020)

2. STANDARD MONETARY FRAMEWORK OF THE EUROPEAN CENTRAL BANK

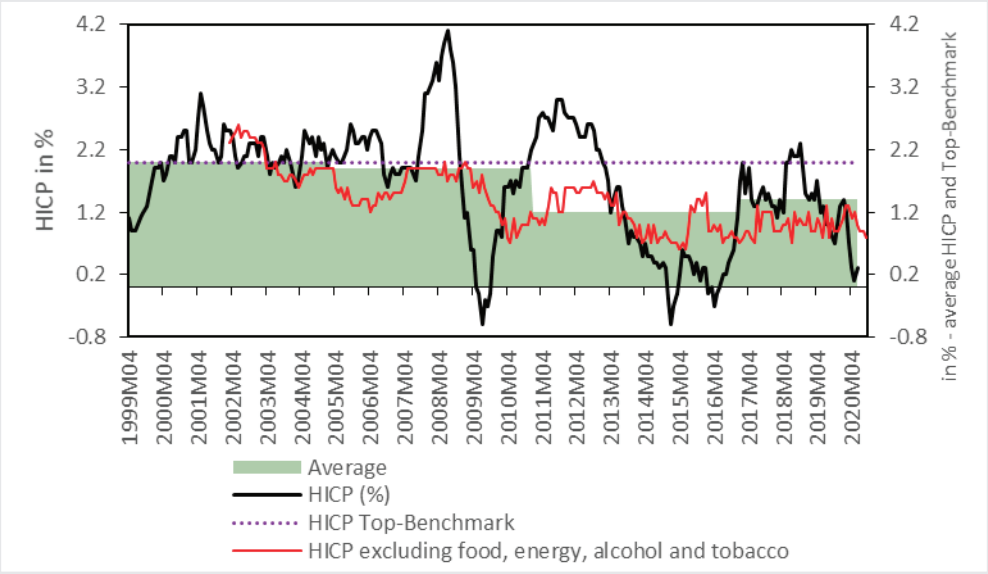
The European Central Bank, through its monetary instruments, influences both interest rates and liquidity in the economy. Its main objective is to ensure price stability and achieves it in coordination with the national central banks of its members. Under price stability, it's assumed low and stable inflation, sufficient enough to ease future planning of the economic agents, and to create such an environment that supports economic growth. Even though price stability is imposed as a primary objective in modern times, high employment, economic growth, stable financial and foreign exchange markets, as well as stable interest rates, should be part of the broad monetary objectives.

Even though some central banks have more than one objective in its mandate, the ECB has only one – price stability. It is defined as the *annual growth of the HICP (Harmonized Index of Consumer Prices) in the Eurozone below, but close to 2% over the medium term*. This notes that the ECB has quantitatively defined price stability like the BOE and the BOJ. Graph 7 depicts ECBs effectiveness in maintaining price stability. The average levels are divided into 5-year intervals (except for the last one) in order to grasp the medium term. Until 2011, the ECB successfully maintains price stability, as it's defined, with average levels of 2.0% and 1.9%. But after the Great Recession, the ECB enters

a long period of battling lower inflation with average levels of 1.2% and 1.4%.

After excluding food, energy, alcohol and tobacco the graph shows that the major shifts in HICP are mainly due to these categories, especially around 2008 and 2020 (with the drastic fall in oil prices and the COVID-19 pandemic). Entering the deflationary zone in 2009M06, 2015M03, 2016M05 and almost reaching deflation in 2020M05 were clear signals that the ECB needed to quickly raise inflation expectations and escape the deflationary trap which further increases the negative financial accelerator process, as stated by Carlin and Soskice (2015). This was one of the main reasons why the ECB decided to sharply cut down interest rates in the first place and then start using unconventional policies to boost aggregate demand and inflation expectations.

Graph 7: HICP (%) in the Eurozone, monthly data, 1999-2020



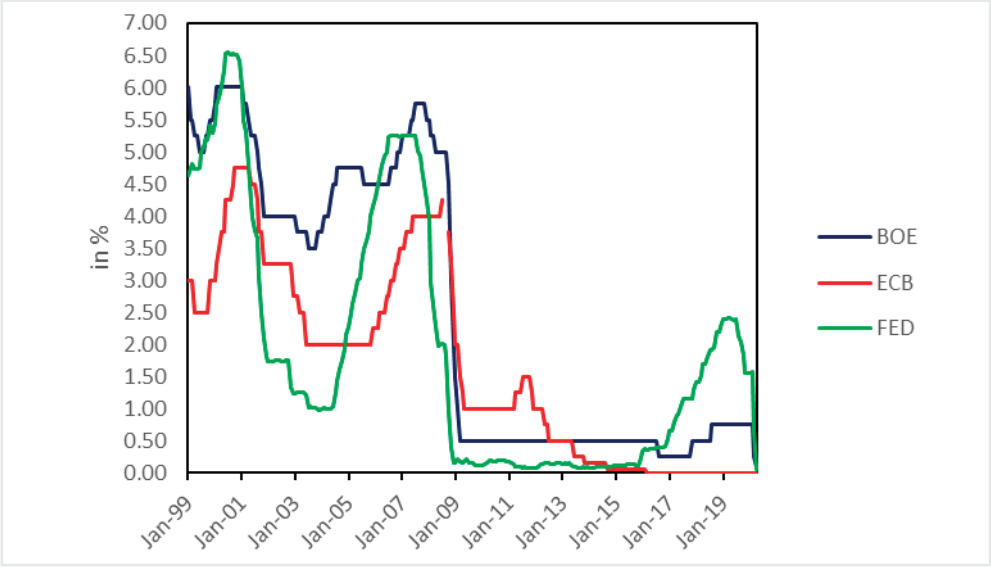
Source: Eurostat, HICP monthly data (annual rate of change), last update 17/07/2020; authors depiction (access date 29/07/2020)

As illustrated in Graph 8, all three central banks took drastic measures as an answer to the Great Recession. Since they all reached or came close to the ZLB (zero lower bound), the standard toolkit became ineffective in further stimulating their economies. The ECB lowered its rate from 4.25% to 1.00% in just 10 months. On the 19th of March in 2016, the Governing Council decided to implement a zero interest rate policy and kept it at that point since then. Unlike the BOE and the FED which had a brief history of restrictive monetary

policy in the 2016-2020 period, the ECB has kept its stance as expansive as it can be, since the Eurozone hasn't made a full recovery to pre-crisis levels.

Another fact that is worth mentioning is the progression from variable to fixed-rate tenders in November 2008. At normal times when the market determines the interest rate, it always reflects the real economic situation. On the other hand, like the period of the Great Recession, the structural need for liquidity would impose a higher interest rate than the economy needs. For example, when the expansive policy is necessary, the market would push up the interest rates as a consequence of the auctioning with higher rates by the banks that need liquidity the most. That's why the ECB imposes fixed-rate at abnormal times, as illustrated by Graph 9.

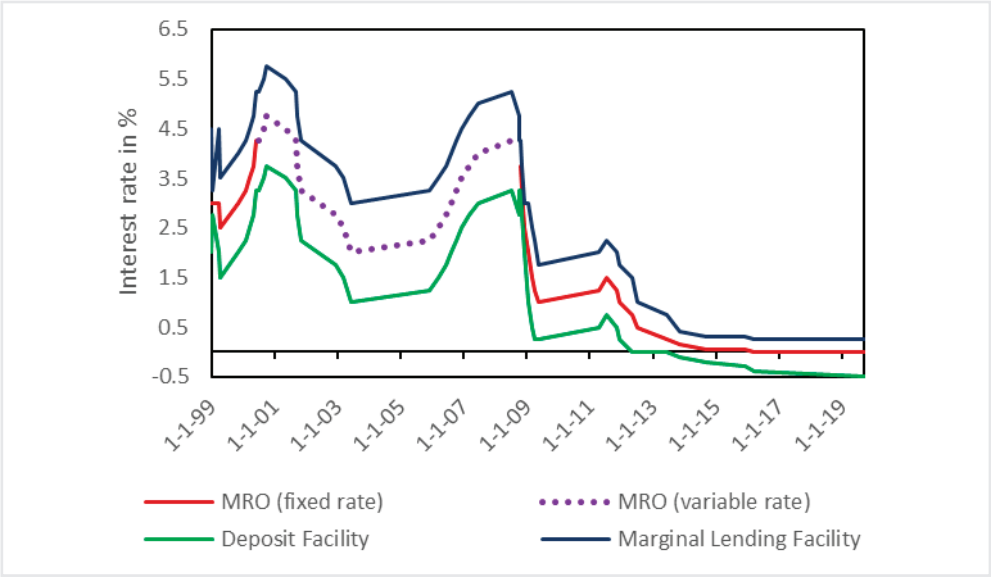
Graph 8: Key policy interest rates, BOE, FED and ECB, monthly data, 1999-2020



Source: Federal Reserve Bank of St. Louis, Effective Federal Funds Rate, Available at https://fred.stlouisfed.org/series/FEDFUNDS (access date 29/07/2020); Bank of England, Interest rates and Bank Rate, Available at https://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate (access date 29/07/2020); ECB, Key ECB interest rates, Available at https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html (access date 29/07/2020); authors depiction

The Marginal Lending and Deposit Facility determine the upper and lower boundary of the money market rate. On 29th of July 2020, the MRO (Main Refinancing Operations) rate is fixed at 0%, the Marginal Lending Facility is 0.25% and the Deposit Facility stands at -0.50%.

Graph 9: ECB's key interest rates, by date of implementation, 1999-2020



Source: ECB, Key ECB interest rates, Available at https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html (access date 29/07/2020); authors depiction

3. UNCONVENTIONAL MONETARY MEASURES

There is a vast number of interpretations in the literature that specifically include unconventional monetary measures. The main goal is to maintain monetary power in conditions when the fiscal policy is powerless or with little room for maneuver. Even though the ECB had sufficient space to implement conventional policies, the crisis distorted the transmission mechanism to the point where only unconventional policies could restore its functionality, as noted by Neri and Siviero (2019) and Cecioni, Ferrero and Secchi (2010).

This type of instruments can be usually summarized into:

i. Extension of maturity on liquidity providing operations,
ii. Asset purchases (usually large -scaled),
iii. Low or even negative policy interest rates, and
iv. Forward guidance.

The ECB has used all of the previously classified measured. In the context of the traditional belief that interest rates have the so-called ZLB, i.e. that their nominal value can't be located in the negative zone, the Great

Recession proved the opposite. The popular belief was that negative interest rates were virtually impossible, as in such a situation the economy would fall into a liquidity trap, with economic agents simply keeping cash. However, several central banks have implemented negative interest rates that have put an end to the theory of the existence of ZLB and replaced it with ELB (effective lower bound). The idea is that even after a certain point of negative rates, people do decide to simply hoard cash.

Forward guidance was aimed at economic agents and their expectation of future monetary stance. The central bank uses clear signals aimed at the public and they can be connected to a certain time point or simply until a certain level of growth, inflation, or employment is ensured, as explained by Dell'Ariccia, Rabanal and Sandri (2018). Forward guidance is intertwined with central banks' transparency and responsibility – categories in which the ECB is one of the best.

The unconventional measures that were implemented by the ECB can be classified into four separate periods:

a) After the bankruptcy of Lehman Brothers, September 2008,
b) The beginning of the sovereign debt crises, May 2010,
c) Re-amplification of the debt crises that culminated in 2012, and
d) Low economic growth and deflationary risks, December 2014.

3.1. Measures before the debt crisis – enhanced credit support

Besides the cut down in interest rates, before the debt crises, the ECB implemented a so-called enhanced credit support program. The main point of this measure was to extend the maturity of liquidity providing operations and to enhance the credit flow through banks which couldn't be done with the standard framework, as stated by Trichet (2009). One of the key points in this support was the rising importance of LTROs (Long Term Refinancing Operations), in order to supply the banking system with liquidity for a prolonged period. While LTROs increased, MROs accounted for a smaller portion of the created liquidity in the following period. LTROs maturity was steadily increased from 3 months to 6 and 12 months in July 2009. In the upswing of the debt crises, LTROs maturity was increased to 3 years.

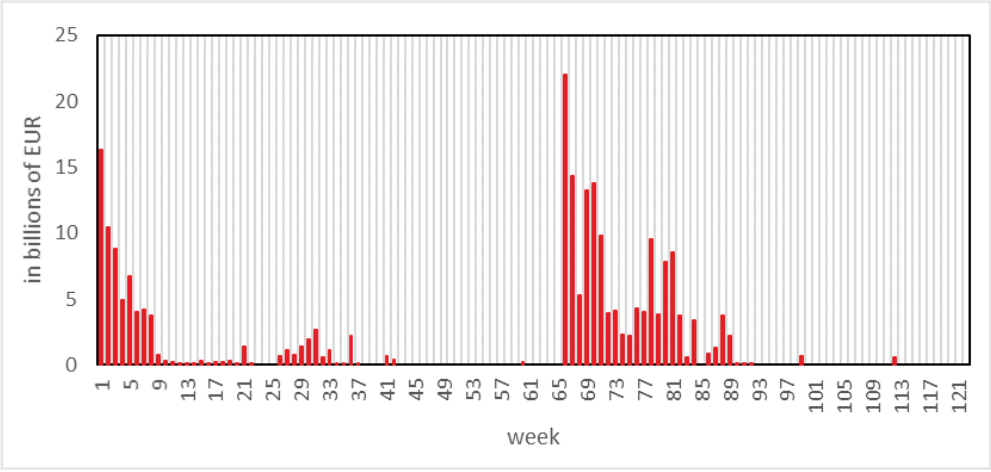
Enlarging the list of assets accepted as collateral and providing swap liquidity in foreign currencies were also one of the newly imposed measures. One of the most significant was the CBPP (Covered Bonds Purchase

Programme), which was aimed at purchasing covered bonds by the ECB to provide further liquidity to banks. The first program conducted between June 2009 and June 2010 amounted to 60 billion € (2.5% of the total market), and was followed by CBPP2 and CBPP3.

3.2. Unconventional measures in the sovereign debt crises

As the debt crises began, investors perceived higher risk due to impaired public finance. Consequently, long term government bond yields of the impacted members rose significantly. This led to destabilized financial markets and the transmission mechanism. The situation asked for immediate measures taken by both ECB and the national governments to protect the Eurozone. On the 10th of May 2010, the ECB announced the famous SMP (Securities Markets Programme). Its main goal is maintaining the functionality of the transmission mechanism as well as lowering liquidity risk and yields of certain government bonds. At the end of 2012, the Eurosystem's holdings of government securities amounted to 208.7 billion € with Irish, Greek, Spanish, Italian and Portuguese bonds each being 6.52%, 14.76%, 20.94%, 47.44% and 10.35% of the total amount[3], respectively.

Graph 10: SMP purchase plan, 2010-2012

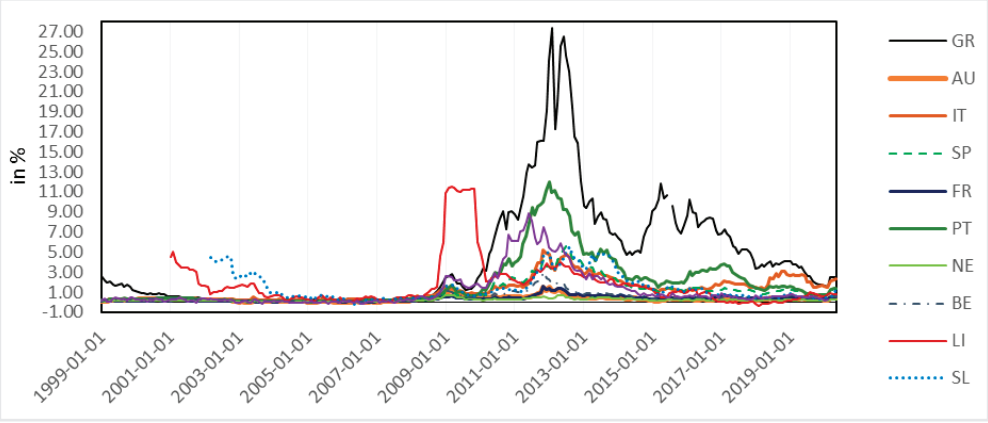


Source: ECB weekly financial statements, 10th of May 2010 – 7th of September 2012 (access date 26/07/2020); authors depiction

[3] ECB - Details on securities holdings acquired under the SMP, Available at https://www.ecb.europa.eu/press/pr/date/2013/html/pr130221_1.en.html (access date 29/07/2020)

The SMP targeted government bonds with a 2-10-year maturity range in order to stabilize yields. The program lasted for 122 weeks and was conducted in two tranches before finally stopping on 6th of September 2012, when the Governing Council announced the OMT (Outright Monetary Transactions) – an instrument which intended to further lower long term yields through series of asset purchases and strict savings measures taken by the targeted members. Even though it was never used in practice, it might have had some sort of impact on lowering yields (in terms of lowering risk premiums).

Graph 11: 10-year government bond yield spread to DE bond, selected members, 1999-2020



Source: Federal Reserve Bank of St. Louis, Long-Term Government Bond Yields: 10-year, last update 10/07/2020 (access date 25/07/2020); authors depiction

Conducting the SMP was key to stabilizing yields. As some empirical researches note, such as Eser and Schwaab (2013), out of 1 billion € purchase of 5-year bonds through the SMP the effects were -1 to -2 b.p. (Italy), -3 b.p. (Ireland), -4 to -6 b.p. (Spain), -6 to -9 b.p. (Portugal) and -17 to -21 b.p. (Greece).

3.3. The period of quantitative easing (QE)

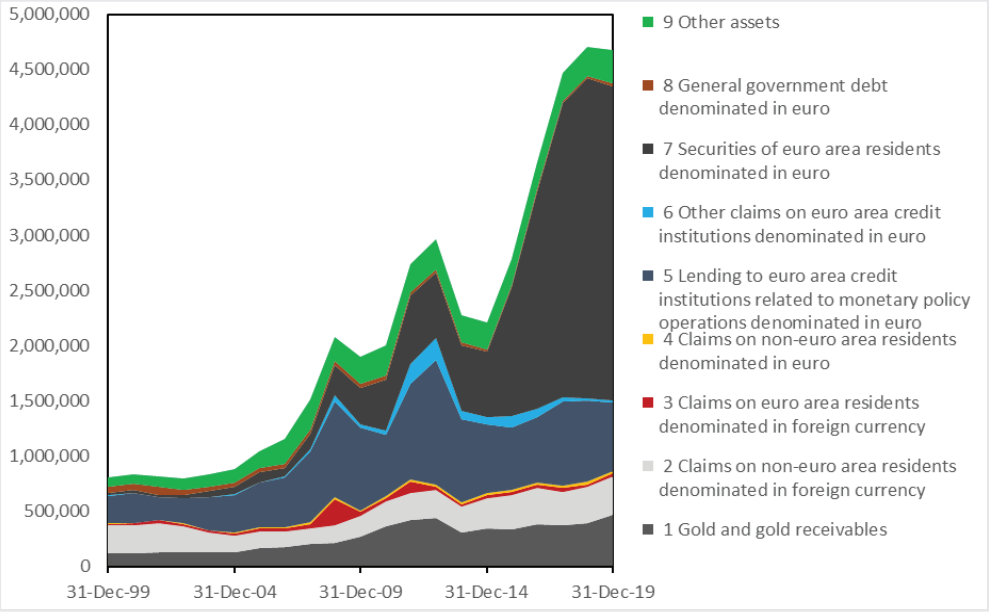
The ECB announced its newest unconventional measure on the 4th of September 2014 as a large-scale asset purchase program or commonly known as QE. This program is meant to have a large impact on the ECB's balance sheet which was focused on guiding key interest rates in the economy. The measure itself meant further yield lowering, boosting consumption and investment and improving the transmission mechanism. Furthermore, in conditions of 0% interest rates, it provides the necessary economic stimulus to fulfill the main objective

(Dell'Ariccia, Rabanal and Sandri, 2018). Carlin and Soskice (2015) note that this measure raises the prices of securities, making financing, investment and consumption increase. The APP targets four different market segments:

a) Corporate sector purchase programme (CSPP),
b) Public sector purchase programme (PSPP),
c) Asset-backed securities purchase programme (ABSPP), and
d) Third covered bond purchased programme (CBPP3).

The APP was stopped in January 2019 but was later in November restarted due to the growing global uncertaintie. The monthly pace was set at 20 billion with additional 120 billion until the end of 2020 as a temporary envelope. Due to the COVID-19 pandemic, the ECB decided to provide further stimulus through PEPP (Pandemic Emergency Purchase Programme) amounting to 1.35 trillion € conducted at least until June 2021. The APP is focused mainly on public sector securities – amounting to roughly 80% of the total program, which is key to lowering government bond yields and stimulating growth since 2015. Graph 12 illustrates the size of the QE, as it's evident that securities of EA residents denominated in EUR amounts to 61% of total assets at the end of 2019, contrary to just 17% at the end of 2009.

Graph 12: Consolidated balance sheet of the Eurosystem (in mil. €), assets, 1999-2019



Source: ECB - Annual consolidated balance sheet of the Eurosystem, Available at https://www.ecb.europa.eu/pub/annual/balance/html/index.en.html (access date 30/07/2020); authors depiction

The usage of unconventional measures to stimulate growth and push down interest rates implies that they are vital once the conventional framework is inefficient. Their re-introducing during the pandemic in 2020 by the largest central banks in the world suggests that what once was deemed as an experiment, turned out to be a powerful tool.

Friedman (2014) suggests that forward guidance might have failed in its expected impact due to the lack of empirical proof, while the asset purchases showed up to be largely accommodating to the general economy. Furthermore, he also notes that while the quantitative easing is understood as an unconventional measure it can coexist on a parallel base with the interest rate policy – slowly becoming part of the standard monetary toolkit of the central banks in the future, targeted mainly at the dysfunctional parts of the market (such as the longer-term government bond market in Europe and the mortgage lending in the US).

Conclusion

Despite the popular opinion that conventional policies are enough, the past crisis showed that they are insufficient after a certain point. The usage of unconventional measures by the ECB was critical to re-stabilizing longer-term yields and regaining control over the transmission mechanism. Large-scale asset purchases played a key role along with the prior SMP in doing so, as the ECB escaped the deflationary trap and stimulated consumption and investment. Even though the unconventional measures made a significant impact, the Eurozone still hasn't returned to the pre-crisis levels – mainly due to the sovereign debt crises and the complexity and the adequacy of the monetary union (which is far less optimal than the US due to certain criteria).

The COVID-19 pandemic surely makes a massive impact on economic growth, employment and the stability of the public finances of the Eurozone's members. Restarting the QE while introducing additional PEPP is critical in maintaining longer-term yields not too divergent from the German bond as well as supplying both financial institutions and the non-financial sector with the necessary liquidity. Even though the European economies started slowly picking up after the lockdown, the forecasted -5% to -12% GDP growth in 2020 comes along with the potential fear of the second wave of the coronavirus. While the global race for efficient vaccine speeds up, countries fall into indebtedness even further – signaling that the unconventional measures are here to stay.

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4. Cecioni, M., Ferrero, G. and Secchi, A.: Unconventional monetary policy in theory and in practice, Banca d'Italia Occasional Paper No. 102, 2010.
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RECRUITMENT AND SELECTION METHODS IN SMEs IN REPUBLIC OF NORTH MACEDONIA

Abstract

Recruitment has become one of the most important human resource practices for firm's performance. Leading firms in the world continuously develop proactive recruitment strategies that encompass various mechanisms and techniques to attract bigger applicant pool. Tight labor markets and fierce market competition impose greater challenges to SMEs. Hence, small and medium enterprises face additional challenges in recruiting adequate skills. A primary research was conducted among SMEs in the Republic of North Macedonia to examine their most practiced recruitment and selection methods. The findings reveal that SMEs apply a variety of traditional recruitment and selection methods, yet they need to develop more comprehensive recruitment strategy and seek additional alternative recruitment channels.

Keywords: recruitment, selection, SMEs, Republic of North Macedonia
JEL Classification: M51

Introduction

Recruitment has become one of the most important HR practices in firms during the past decade. Extensive research in this area has shed light

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on the impact of recruitment and selection process on both organizational and market performance of firms. The quest for talent and skills on one hand and the fierce market competition on the other has additionally emphasized the importance of recruitment and selection methods. Firms have started developing proactive, complex recruitment policies and rigorous selection methods to attract talents and build their human capital pool. Such trends have imposed new challenges to SMEs. Limited financial capacities and weak labor market power of SMEs have forced these firms to seek alternative recruitment methods so as to attract the right applicants to meet their needs.

The last two decades have witnessed mass digitalization and continuous improvements of technology, rapid growth of the service sector and increased customer sophistication, among others. These, in turn, have imposed changes in business processes and working methods. Firms have started heavily investing in cutting-edge technology and redesigning their business processes. In the midst of these changes are firm's human resources, which have become essential asset to achieving increased organizational and market performance.

Recruitment, among other HR practices, has gained due attention by managers and business owners, as a vital practice to building firm's human capital. Successful firms have developed proactive recruitment strategies to be able to find and employ applicants that possess skills and expertise that would meet their immediate and future needs. The continuous search for the best candidates has created fierce competition in the labor market. In this context, large, successful and/or financially sound firms have an advantage over SMEs as they can offer competitive, above-market compensation. Moreover, demographic and labor market changes have made talents a scarce resource, directly affecting the recruitment process of firms. Such trends additionally hinder SMEs' efforts to find the most suitable candidates.

In the Republic of North Macedonia, recruitment and selection processes are still underdeveloped in many firms. Despite the rather high rate of unemployment, firms face difficulties in attracting and recruiting appropriate candidates and often their recruitment process ends in failure and generates additional costs to firms as a result of employing inadequate applicants. In this regard, the main goal of this research is to identify the most practiced recruitment and selection methods in small and medium enterprises and present recommendations for their improvement.

1. RECRUITMENT AND SELECTION METHODS IN CONTEMPORARY BUSINESS CONTEXT

Recruitment is a process by which firms find, attract, choose and retain employees that suit their current and future needs. Recruitment includes set of activities designed to identify and attract a desirable group of applicants for a specific job, whereas the selection process includes specific instruments used by firms to choose the most successful candidate from the pool of applicants.[1] This process is closely related to human resource planning and includes a variety of methods as detailed job analysis, identifying potential recruitment sources (internal and/or external), determining recruitment channels and creating appealing job advertisement.

Firms are continuously seeking new ways to attract as much high quality applicants as possible and develop comprehensive recruitment strategies. This is much needed especially in presence of tight labor markets. Research in this area indicates that firms increasingly face recruitment difficulties, in terms of lack of experience and skills of applicants.[2] Indeed, recent research conducted among SMEs in the Republic of North Macedonia found that only 15% of surveyed firms were completely satisfied with the quantity of applicants, while more than half of surveyed firms stated that the biggest impediments in the recruitment process refer to small quantity of applicants and lack of adequate skills among applicants.[3]

Several factors influence the quantity and quality of applicants. In this context, research confirms that corporate advertising and firm reputation[4], above-market compensation levels[5] and job advertisements[6] have direct impact on the applicant's pool. Nonetheless, the success of the recruitment process is highly dependent on the choice of recruitment channel as well. Nowadays, firms that exercise successful recruitment strategies use a variety of predefined

[1] Bratton, J. & Gold, J., "Human Resource Management: Theory and Practice", 4th Ed., Palgrave Macmillan, 2007, p.239

[2] Chartered Institute of Personnel and Development, "Recruitment, retention and turnover", CIPD, London, 2005

[3] Пиперкова, И. & Лозаноска, А., "Вештини на вработените за конкурентност на мали и средни претпријатија", Економски институт-Скопје, 2020, стр.101

[4] Turban, D.B. & Greening, D.W., "Corporate social performance and organizational attractiveness to prospective employees", Academy of Management Journal, 40 (3), pp. 658-672

[5] Williams, M.L. & Dreher, G.F., "Compensation system attributes and applicant pool characteristics", Academy of Management Journal, 35, 1992, pp.571-595

[6] Breaugh, J.A. & Starke, M. "Research on employee recruitment: so many studies so many remaining questions", Journal of Management 26(3), 2000, pp.405-434

recruitment channels in order to reach wider segmented audience. Online recruitment as online job boards, company websites, newspapers, recruitment agencies, job fairs, university career fairs, social media, employee referrals, candidate rediscovery are some of the most frequently used recruitment channels. Indeed, online job advertising is seen by many employers as complementary to, rather than replacing, the traditional recruitment channels.[7] Although the use of Internet as a recruitment channel offers a variety of advantages, the most important of which being a cost-effective way to reach wider audience, it also has several drawbacks. One of the most important drawbacks is considered to be a huge amount of applications that do not match the requirements, which would additionally burden the recruitment process both in time and final outcome.[8]

Selection is a process that enables firms to identify the most suitable candidate for the position available, taking into consideration individual's characteristics, skills, knowledge, and alike.[9] In fact, this process includes predefined techniques and instruments that are applied by firms so as to choose applicants that best meet job requirements.[10] Selection is a process that aims to predict and maximize employee performance, that is, minimize potential errors in the employment decision. In fact, errors in the selection process have both monetary, as additional costs due to unsuccessful recruitment process, and non-monetary impact on firms, as low employee satisfaction, higher turnover, lack of motivation and alike.[11]

The most frequently used selection methods include screening applications (CVs), checking references, conducting aptitude and/or achievement tests, assessment centers, interviews, and alike. The choice of the selection method is closely related to the firm's capacity to implement these techniques, the type of the job and its requirements. Research confirms that SMEs use unstructured interviews as predominant selection tool[12], although

[7] Torrington, D., Hall, L. & Taylor, S., "Human resource management", Sixth Ed., Pearson Education Ltd., 2005, p.130

[8] Ibid., p. 131

[9] Swabnepoel, B., Erasmus, B., Van Wylk, M. & Schenk, H., "South African human resource management: Theory and practice", Cape Town: Juta, 2003, p.206

[10] Bahtijarević-Šiber, F., "Menadžment ljudskih potencijala", Golden Marketing, Zagreb, 1999, p. 331

[11] Kulić, Ž.,"Upravljanje ljudskim potencijalima", Radnička štampa, Beograd, 2005, pp. 166-169

[12] Bartram, D., Lindley, P.A., Marshall L. & Foster, J., "The recruitment and selection of young people by small businesses", Journal of Occupational and Organisational Psychology 68, 1995, pp. 339–358

this instrument has proven to have a rather low level of validity[13]. Taking into consideration the labor market competition and lack of easily available skills, underdeveloped selection methods will create additional impediments to SMEs.

2. METHODOLOGY

The objective of this research was to assess recruitment and selection methods and mechanisms that are most frequently used by small and medium enterprises in the Republic of North Macedonia. The research was conducted using a survey questionnaire which was distributed to business owners or senior managers of private firms in different sectors in North Macedonia. The questionnaire included aspects related to the recruitment and selection process including the level of management that conducts the recruitment process, type of recruitment sources, most frequently used recruitment channels, selection methods and techniques used by SMEs and alike. Lack of sufficient or adequate applicant pool can often be a result of inappropriate recruitment practices, as lack of firm's ability to identify or attract the appropriate candidate, lack of diverse recruitment channels or inadequate selection techniques. Thus, such an analysis will produce more comprehensive knowledge on the recruitment and selection methods used by SMEs in North Macedonia and highlight their potential for improvements.

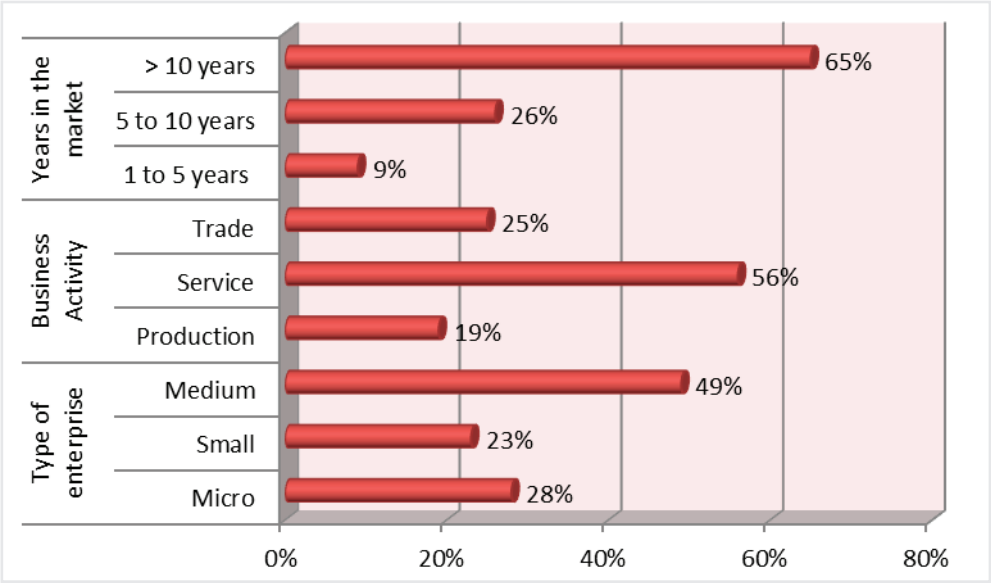
The survey questionnaire was distributed to 50 small and medium enterprises in the Republic of North Macedonia. The rate of respond (86%) was rather high and 43 fully completed questionnaires were further analyzed.

3. RESULTS

The analyzed sample included 43 firms of different size, out of which 28% micro, 23% small and 49% medium enterprises. Based on the business activities of the firms included in the sample, 56% of the firms offer services, 19% are in production, while 25% in trade. In addition, the majority of the firms (65%) operate more than 10 years, whereas 26% are active in the market from 5 to 10 years (see Figure 1).

[13] Schmidt, F.L. & Hunter, J.E., "The validity and utility of selection methods in personnel psychology: Practical and theoretical implications of 85 years of research findings", Psychological Bulletin 124, 1998, pp. 262–274

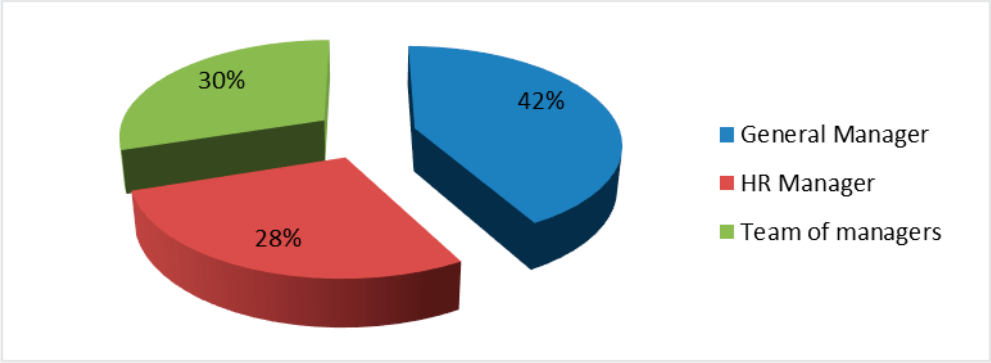
Figure 1. Sample characteristics



Source: Author's findings

The recruitment and selection process is predominantly conducted either by general managers (in 42% of firms) or a team of managers (in 30% of firms). About 28% of firms, most of them being medium enterprises, reported that the HR managers conduct this process (see Figure 2). These results do not differ from other analyses in this field. Namely, as a result of their size and financial challenges, SMEs do not have developed HR practices or departments and, in most of the cases, human resource issues are mainly directed by general managers.

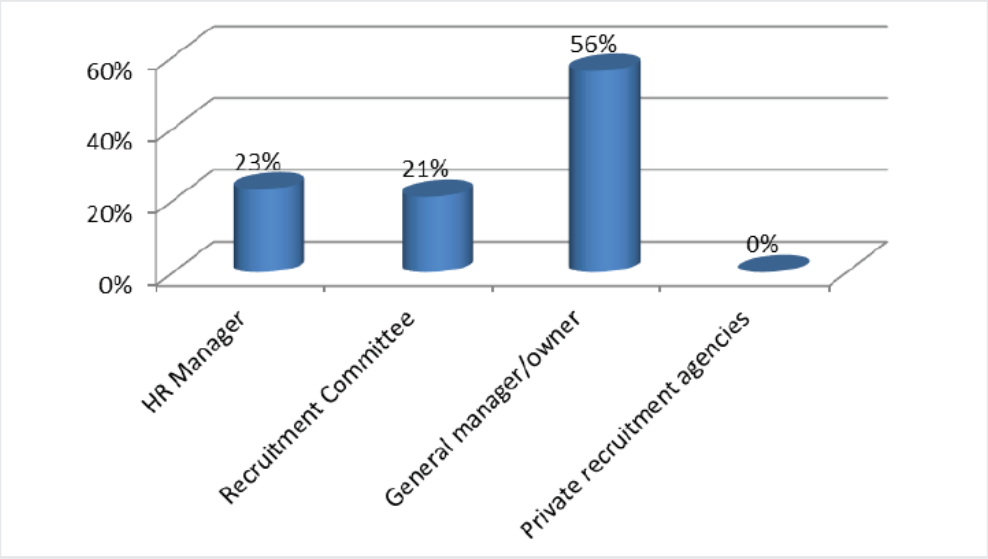
Figure 2. Level of management involved in the recruitment and selection process



Source: Author's findings

The findings above mentioned clearly indicate that the decisions pertaining to the selection process are predominantly made by the general managers. In this regard, in the majority of the firms (56%) these decisions are made by the general manager, while in 23% and 21% of the firms these decisions are made by the HR manager and the recruitment committee, respectively (Figure 3).

Figure 3. Decisions pertaining to the selection process

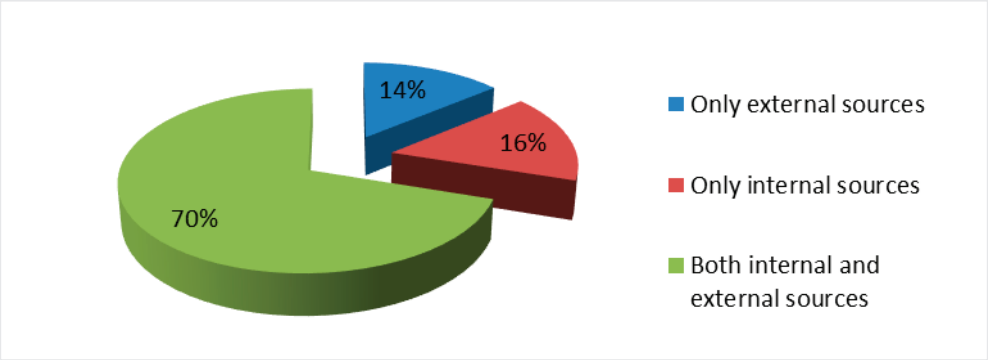


Source: Author's findings

The use of external and internal sources of recruitment as a means of building firm's human capital has been one of the focal points in the recruitment process. Firms extensively use external sources of recruitment through vacancy advertisements in newspapers, firms' websites, online vacancy advertisements, recruitment agencies, private contacts, referrals from existing employees and partners, and alike. In addition, many firms heavily rely on internal sources of recruitment, i.e. candidates qualified for the position within the company. Internal recruitment is considered to be an opportunity for employee career advancement. Nonetheless, scholars agree that firm's size has huge impact on the possibility for internal recruitment. In this regard, large firms can make better use of internal sources as opposed to SMEs, which, due to their size, are more inclined to use external sources of recruitment.

The findings reveal that most of the analyzed SMEs (70%) use both external and internal sources of recruitment, while 16% use only external sources to fill their vacancies (Figure 4).

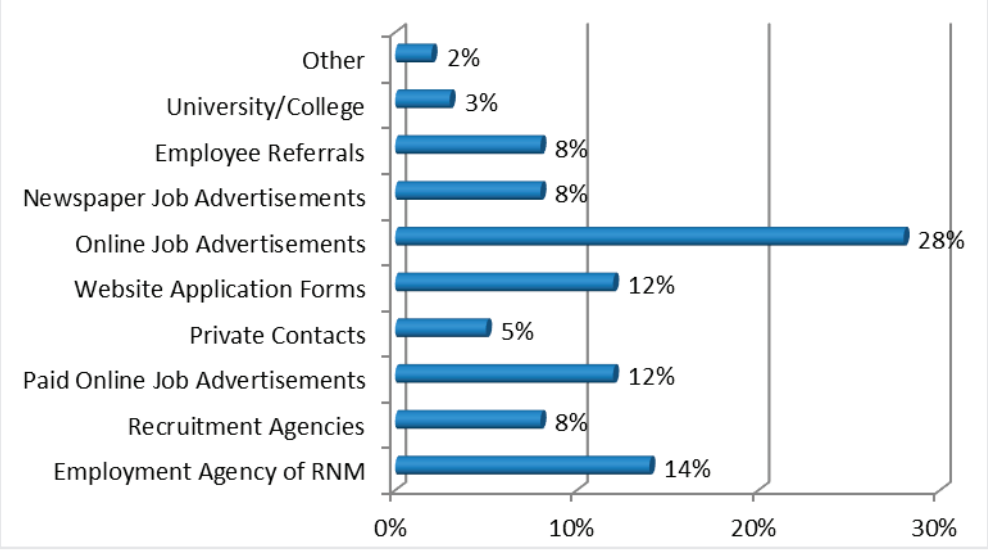
Figure 4. Recruitment sources used by SMEs



Source: Author's findings

Online job advertisement has proven to be the most frequently used recruitment channel for attracting potential applicants by SMEs (Figure 5). About 28% of SMEs included in the analysis announce their vacancy on the Internet. Some of the firms also use the Employment Agency of RNM (14% of firms),

Figure 5. Most commonly used external recruitment channels

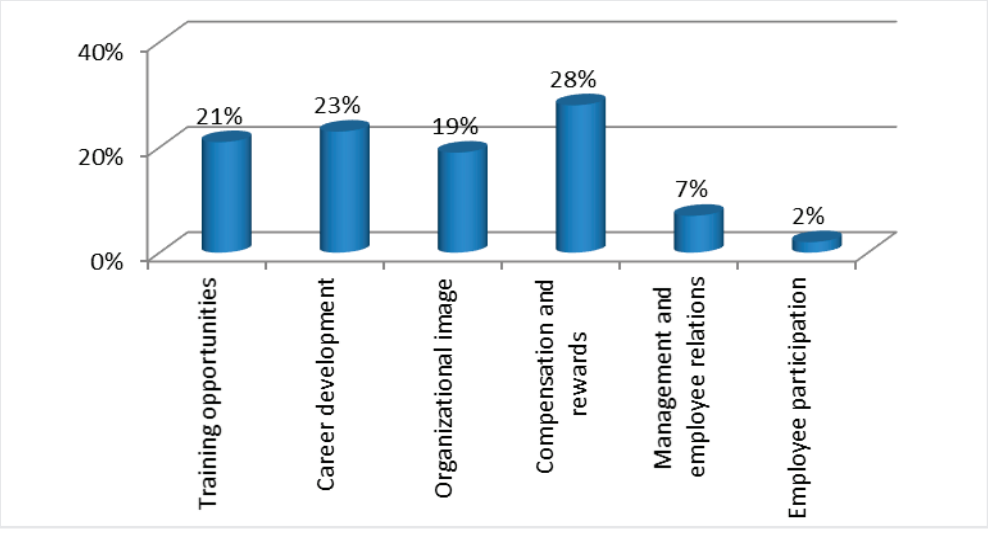


Source: Author's findings

paid online vacancy advertisements (12%) and website application forms (12%). Least used recruitment channels have shown to be recruitment agencies, newspaper vacancy advertisements and employee referrals, used only by 8% of SMEs. Recruitment from college or university is also rarely used channel by SMEs, used only by 3% of surveyed firms. These findings are in line with other research, which indicates that large firms are far more inclined to rely on university recruiting than small firms.[14]

About 28% of firms believe that the most important aspects that applicants consider in their decision to apply for a job refer to compensation levels and reward policies. Other aspects that appeal to applicants include opportunities for career development (23% of firms), training and development (21% of firms) and firm's image in the market (19% of firms). Management-employee relations and employee participation are considered to be less appealing to applicants, according to SMEs (see Figure 6).

Figure 6. Most important organizational aspects for applicants



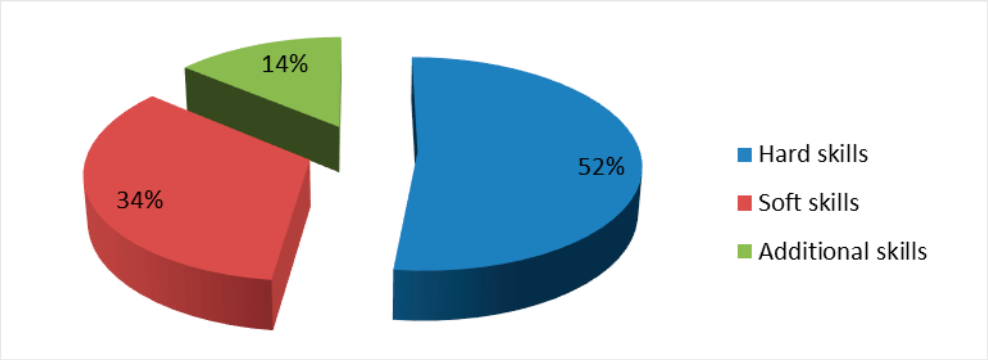
Source: Author's findings

One of the most important selection criteria is applicant's knowledge and expertise for about 52% of the firms in the research sample. Soft skills, as communication skill, leadership, teamwork, interpersonal skills, and alike

[14] Barber, A.E., Wesson, M.J., Roberson, Q.M. & Taylor, M.S., "A tale of two job markets: Organizational size and its effects on hiring practices and job search behavior", Personnel Psychology, 52, pp.841-867

are important criteria to one quarter of analyzed firms. Additional skills, pertaining to foreign languages and computer skills, are least important to firms, assuming that short-listed candidates possess such skills (Figure 7).

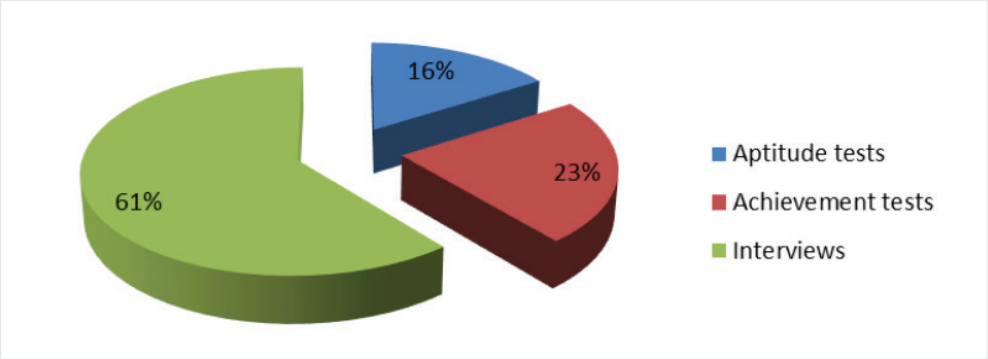
Figure 7. Key selection criteria of SMEs



Source: Author's findings

In the selection process, SMEs mostly use interviews and aptitude and achievement tests. Aptitude tests refer to candidate's capacity and potential to learn, develop and acquire new skills to improve the performance. In addition to aptitude tests, achievement tests are also widely used by SMEs as a selection technique. These tests reveal candidate's level of knowledge and skills in a specific area of work. Job interview, as a selection technique, is widely used by SMEs. Indeed, about 61% of the firms use job interviews to closely assess short-listed candidates. Achievement and aptitude tests are less applied selection techniques, used only by 23% and 16% of firms, respectively (see Figure 8).

Figure 8. Selection techniques used by SMEs



Source: Author's findings

The research findings clearly demonstrate that SMEs heavily rely on a number of recruitment and selection methods and do not completely exploit all the possibilities in the recruitment process. Failure to use different recruitment channels, for example, can hinder SMEs' recruitment efforts. The use of limited recruitment channels will not allow firms to reach bigger number of applicants and could undermine their efforts to find applicants with required skills. In addition, insignificant percent of SMEs included in this research believe that employee participation in the decision making process and the management-employee relations are important to their applicants. Yet, research[15,16] has confirmed the importance of these aspects to employees. These organizational aspects should in fact be underlying strengths in the recruitment process of SMEs. Overall, the findings confirm that SMEs should develop more comprehensive recruitment strategy and seek additional alternative recruitment channels.

Conclusion

The success of the recruitment and selection process greatly affects future firm performance. Adequate recruitment process enables firms to build their skills base so as to meet their current and future needs and improve their human capital. Firms have become increasingly aware of the importance of these processes and continuously seek to improve their recruitment and selection methods. The quantity and quality of applicants directly affects the success of the recruitment process and enables a firm to choose from the best candidates. Thus, firms reinforce their efforts, implementing more innovative recruitment methods and channels to increase their applicant pool and improve their organizational image on the labor market.

Carefully designed job advertisements, detailed job requirements and goals, a variety of recruitment channels and rigorous selection techniques are some of the most important aspects that firms develop in their recruitment strategies. Yet, our research reveals that SMEs in Republic of North Macedonia do not use the full potential available in their recruitment strategies. Firms mostly use several recruitment channels as online job advertisements, the National

[15] Levine, D.I. & Tyson, L.D'A., "Participation, productivity, and the firm's environment"in Blinder, A. (Ed.), "Paying for productivity", Brookings Institution, 1990, pp.183-243

[16] Harter, J.K., Schmidt, E.L. & Hayes, T.L., "Business-unit-level relationship between employee satisfaction, employee engagement, and business outcomes: a meta-analysis", Journal of Applied Psychology 87(2), 2002, pp.268-279

Employment Agency and alike. As for the selection process, job interviews remain dominantly used selection technique by SMEs. Taking into consideration the above, SMEs should focus their future recruitment efforts in developing alternative recruitment channels and more diverse selection techniques.

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