

DEVELOPMENT OF INCLUSIVE INSTITUTIONS: A COMPARATIVE ANALYSIS OF THE WESTERN BALKAN COUNTRIES AND THE EU-27

Danijela Despotović¹, Miroljub Nikolić², Andrea Andrejević Panić³, Slobodan Cvetanović⁴

¹University of Kragujevac, Faculty of Economics, Liceja Kneževine Srbije 3, Kragujevac, Serbia, danijela.despotovic@uni.kg.ac.rs

²Academy of Technical & Applied Studies Belgrade, Zdravka Čelara 14, Belgrade, Serbia, nbskonsalting@gmail.com

³Educons University, Vojvode Putnika 85–87, Sremska Kamenica, Serbia, andrea.andrejevic@educons.edu.rs

⁴Educons University, Vojvode Putnika 85–87, Sremska Kamenica, Serbia, prof.cvet@gmail.com

ABSTRACT

This paper develops a Composite Institutional Index (InstIndex) as a synthetic measure of the development of inclusive institutions, based on five Worldwide Governance Indicators dimensions: Control of Corruption, Government Effectiveness, Regulatory Quality and Rule of Law, Voice and Accountability. The index is calculated as a simple arithmetic mean of the five dimensions, min–max normalized to a 0–100 scale, for the 1998–2024 period. A comparative analysis is conducted for the five Western Balkan countries (WB5: Serbia, Montenegro, North Macedonia, Albania, and Bosnia and Herzegovina) and the EU27 average, with emphasis on three reference years: 2004, 2014, and 2024. Findings reveal a structural and persistent institutional gap: the WB5 average in 2024 is 47.92, compared with 71.39 for the EU27 – a relative gap of approximately 33%. Sigma-convergence indicates internal homogenization within WB5 (standard deviation declining from 7.37 to 4.78) with no convergence toward the EU27. Beta-convergence regression confirms absolute convergence across the full 32-country sample ($\beta = -0.0096$, $p < 0.01$), with an implied convergence rate of only 1.07% per annum and a half-life of about 65 years. A robustness check using Principal Component Analysis produces an index almost perfectly correlated with the baseline ($r \approx 1.00$), confirming that conclusions are not sensitive to the weighting scheme.

Keywords: inclusive institutions, Western Balkans, European Union, Worldwide Governance Indicators, composite index, beta convergence, PCA.