Partnership for Competitive Region

Sustainable Business Environment

Regional 2023 Report

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CORE

Partnership for Competitive Region

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The Partnership for Competitive Region (CORE Partnership) is a regional initiative in South-East Europe (SEE) for improving competitiveness and the living standards of their inhabitants. CORE Partnership and the preparation of the Sustainable Business Environment Report and Index are supported by the German Development Cooperation implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, in cooperation with NALED and partner organizations from seven economies.

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Glossary

BCP – Border Crossing Point

BFC SEE – Business Friendly Certification South-East Europe

CEOP – Central Registry of Unified Procedures

CORE economies – Observed economies, consisting of Albania, Bosnia and Herzegovina, Croatia, Kosovo*[1] , Montenegro, North Macedonia, Serbia

CORE Partnership – The Partnership for a Competitive Region

COVID-19 – Coronavirus disease 2019

EBRD – European Bank for Reconstruction and Development

EIS – Electronic Invoicing System

EU27 or EU used interchangeably – European Union

FDI – Foreign direct investment

FITD – Fund for Innovation and Technological Development

GDP – Gross domestic product

HDI – Human development index

ICT – Information and Communication Technology

IMF – International monetary fund

KCGF – Kosovo* Credit Guarantee Fund

LAI – Local Autonomy Index

LLC – Limited liability company

LEDO – Local economic development office

NATO – North Atlantic Treaty Organization

NDC – Nationally determined contributions

NEET – Youth not in employment, education or training

NPL – Non performing loans

PISA – Programme for International Student Assessment

1 This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo declaration of independence

RPG – Register of Agricultural Holdings
SBE Index – Sustainable Business Environment Index
SMEs – Small and medium enterprises
OECD – Organisation for Economic Cooperation and Development
SEE – South-East Europe
UN – United Nations
VAT – Value Added Tax
WB6 – Western Balkan economies, consisting of all CORE economies except Croatia

Introductory Greeting

Violeta Jovanović
Executive Director
NALED

Dear reader,

As the region emerges back from the COVID-19 related crisis, the regional economies seem to have been catching up with more developed areas in Central and Western Europe. However, the pace of this catching up could also be more dynamic and sustainable – and the quest for unlocking the regional economies' development potential is in the heart of the CORE Partnership – a Partnership for a Competitive Region, an initiative of more than 20 regional institutions established in 2012. Although initially under a different name the BFC SEE Network, its goals remain the same – to improve competitiveness and living standards in the region enable, and foster exchange of good, practical solutions in improving local business environment, innovation, green and digital transformation, and bring closer the policies, best practices and instruments implemented by the EU to support the progress and competitiveness of WB6 economies. Such regional schemes have the potential to expedite the process of EU integration of the local economies.

This Report is an integral part of this process: it measures the progress of the economies in the area of sustainable and business-friendly environment and fosters exchange of best practices related to reform efforts at the local and central levels while influencing the region's overall development perspective. It also helps decision makers to navigate through complexity of the local business environment.

This Report was built with great effort in collaboration of a wide range of partners: 8 technical offices in all economies across the region; hundreds companies interviewed in the process and some of the best local economic and policy experts involved in the process. This collaborative effort facilitated an exchange of best practices and will hopefully motivate decision makers to speed up reforms.

Moreover, we hope that this Report will also help experts and wider audiences to observe the questions of development and business environment from one more holistic perspective. This said, we aim to contribute to a deeper understanding of importance of sustainability, equity & equality, green economy and transparency for growth and development. Hence, more sustainable growth means growth which benefits more citizens and businesses, growth which is more geographically equal, and growth whose effects may be more lasting and profound.

Introductory Greeting

Peter Wolf
Sector Fund Manager
Open Regional Fund for Southeast Europe/
Modernisation of Municipal Services

Dear reader,

It is my greatest pleasure to contribute the foreword for the first edition of the Sustainable Business Environment Report 2023, prepared and published by the - Partnership Network for Competitive Region (CORE).

My sincere compliments go to the team of experts who were involved in the preparation of this pathbreaking publication. The fact that numerous institutions, chambers, Civil Society Organizations, universities and BFC SEE technical secretariats across the entire Western Balkan region provided strong support and contributed their profound expertise symbolizes in an impressive manner the fundamental idea of the CORE Network - Partnership and Cooperation!

The present publication provides a well-arranged overview of economic trends in seven CORE countries (WB6 economies plus Croatia). The newly introduced SBE Index, which is integral part of this paper, deals with key aspects related to the business climate in each economy of the region, thus giving all interested parties, including local governments, policy makers, business community and potential investors, the possibility to compare the current situation in terms of economic fundamental prerequisites and business environment and to use it as useful tool for policy analysis and preparation of policy reforms.

Talking of reforms, I would like to use the opportunity to shed light on two parallel processes that started a decade ago and both significantly contributed to the benefit of the citizens in the region as well as to the impressive development of the CORE Partnership: The Berlin Process and the Certification programme of cities and municipalities with a favourable business environment in Southeast Europe (BFC SEE).

Within the EU commitment to bringing the WB6 to the European family, the Berlin Process has been initialized in 2014 to support this cause and to accelerate the entire region's closer alignment with the EU. One of the great successes of the Berlin Process is that it provides positive momentum for regional cooperation. Regional dialogue in improvement of local economic development is of outmost importance for creation of more favourable business environment; a dialogue that includes key actors: local and central level governments in the region as well as civil and private sector.

German Development Cooperation has been supporting that dialogue for over a decade now and especially with our support to Business-Friendly Environment Network and Business Friendly Certification Program as a Flagship Program of this Network. Based on the success achieved, the rebranded CORE Partnership Network, will provide a strong framework and a common platform that can serve both central and local governments in the region to share their experiences among themselves, learn best practices, benchmark, and improve according to the standards of good governance. In the past decade we have jointly achieved many success and numerous results in promotion of regional cooperation and harmonization of standards and conditions of performing business in SEE from over 100 municipalities improving their business environment with the BFC SEE standard to construction permitting reform, reform of registration of seasonal workers, development partnerships with private sector and many others.

All these achievements, including the latest SBE Report 2023, have clearly demonstrated that with better cooperation we can bring significant benefits and positive impact to the living conditions of people in our societies.

Finally, I am glad that the German Government and German Development Cooperation have recognized this potential and supported this unique program for improvement of business conditions in the region. We are continuing our support and commitment to work together with our partners for competitive region of Western Balkans and permit me to end with the quote of Bertrand Russel: The only thing that will redeem the mankind is cooperation.

Foreword

Petar Tabak
Associate Director,
Regional Lead Economist, EBRD

Dear reader,

The new Sustainable Business Environment Index is an important and welcome initiative. The research underlying the index is carried out carefully and rigorously, and it reveals new findings about the conditions businesses face in their day-to-day operations.

Do we need a new index on the business environment in the CORE economies? The answer is yes, for at least three reasons:

- _The business environment in the region still needs significant improvement in order to attract more investment, both foreign and domestic private, and the index can pinpoint areas where reforms are most urgent._
- _Regularly available indicators can help in making comparisons and creating healthy competition among the economies in the region._
- _Other similar indices, such as those produced by the World Bank and World Economic Forum, have been discontinued lately, creating a gap in the market._

This research shows that the CORE economies clearly need reforms to improve the business environment. The results complement those of the EBRD's Assessment of Transition Qualities (ATQ), which show a clear gap between the EU and Western Balkans economies in all six qualities (competitive, well-governed, green, inclusion, resilient and integrated). Reducing these gaps would help the region converge towards EU living standards, by attracting more foreign and domestic investment, making companies more productive, providing more business opportunities and, as a result, creating more and better paying jobs. Improved standards of governance, more trust in institutions and a greener environment with clean air all year round would lead to a better quality of life, which would allow more people to make a living in their home economies.

I am confident that this new index will contribute to a better informed professional and political debate on what reforms should be prioritized in order to accelerate convergence to EU income levels. The creators and sponsors of the index, however, can aim at even more: by giving a stronger regional and international visibility to the index, they could trigger a race to the top in economic and institutional reforms among peer economies.

Executive summary

Improving the business environment can unlock economic growth and sustainable development. The business climate and specifically governance present critical structural challenges in the CORE Partnership economies – Albania, Bosnia and Herzegovina, Croatia, Kosovo*[2], Montenegro, North Macedonia and Serbia. These economies constitute a sizeable market with a combined population of almost 20 million and a total GDP of almost EUR 200 bln. The region can move closer to EU living standards by addressing gaps in governance, the rule of law, macroeconomic stability, resilience of SMEs, trade integration, etc. Enhancements in governance standards, increased trust in institutions, and the promotion of a greener environment would contribute to an improved quality of life. Ultimately, these improvements would enable more individuals to sustain their livelihoods within their own economies.

The Report and the underlying Index can serve to provide a monitoring and a management tool for the CORE Economies to improve their sustainable business environment. This Report is one in the range of products of the CORE Partnership – a regional initiative established in 2012 to improve competitiveness in south-east Europe. By now, it includes more than 20 organizations in the seven economies and has so far inspired a number of regional initiatives and reforms. Against this backdrop, a wide and intense regional cooperation has allowed the collection of a massive amount of data which has been used to build a composite index that aims to capture the level of the business environment and identify key gaps.

Although growing below potential, the CORE Economies, in this report have recorded a relatively robust growth since the pandemics. However, a sizeable gap persists relative to the EU. Over the last three years, the region has grown by some 8-10%, significantly outpacing the approximately 3% average of the EU27. However, though the CORE economies' growth was greater, there still is a wide gap to overcome. The average GDP per capita against the EU27 average is slightly less than 50% in Croatia – the regional champion – and between 15% and 30% in the remaining economies.

The CORE economies' growth remains below potential due to persisting structural challenges – such as limited access to finance, red tape and skill mismatches in labour markets, besides recent macroeconomic challenges, such as spiking inflation or looming recession in key EU trade partners. Looking ahead, the region is expected to grow by some 2% in 2023, still outpacing the EU27's forecast growth of approx. 1%, according to IMF and European commission projections.

The Sustainable business environment Index is a composite index consisting of five pillars: Fundamental Prerequisites, Markets, Business-Friendly Regulations, Resilient, Vibrant and Innovative Businesses, and Sustainable and Equitable Development, with 34 underlying indicators used for calculation. The results show that Croatia is ranked first, indicating a relatively conducive business environment with high scores in areas such as macroeconomic stability and the rule of law – but with room for improvement especially in access to finance. Serbia follows in second place, demonstrating an overall solid performance, but lags in term of corruption perception and the state of development of the green economy. Montenegro ranks third with strengths in efficiency of taxation and non-tax revenues, but somewhat softer in terms of societal equality. Albania comes in fourth with a low inflation rate but with concerns about corruption, informality and gender equality. North Macedonia ranks fifth, performing decently in terms of quality of regulations, but facing challenges in inflation and budget balance. Kosovo*[3] ranks sixth, with a relatively solid business friendly regulations but

2 This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo declaration of independence

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Name	SBE Index	Fundamental Prerequisites	Markets	Business Friendly Regulations	Level Playing Field and Business Innovation	Sustainable and Equitable Development
	Index	p.01	p.02	p.03	p.04	p.05
Croatia	57,7	60,4	63,6	48,9	60,1	55,3
Serbia	51,5	50,9	52,7	43,9	56,1	53,9
Albania	50,7	49,9	49,0	59,2	42,8	52,4
Montenegro	50,7	45,2	55,4	56,3	47,4	49,2
North Macedonia	48,1	49,8	46,3	45,7	51,7	47,3
Kosovo*	46,9	48,8	38,9	54,9	48,8	43,1
Bosnia and Herzegovina	43,9	45,0	44,1	40,0	41,4	48,9
Republika Srpska	46,2	45,9	49,6	43,0	43,5	49,1
Federation of Bosnia and Herzegovina	44,8	46,1	43,2	43,3	42,4	49,1

Source: Authors' calculations

struggling with high unemployment rates and subpar educational outcomes. Bosnia and Herzegovina takes the seventh spot, with weaknesses in the rule of law but with a sustainable fiscal balance.

The Report also aims to identify best practices for improving business environments in the CORE economies. This involved analysis of reforms, evaluation of selected practices, and local advocacy to encourage their replication in other economies of the CORE Partnership Network. For example, our field contributors find that Albania has made notable progress in modernizing its administrative services through digitalization, transforming tax registration and administration with online services, and enhancing its business infrastructure. Bosnia and Herzegovina – Republika Srpska seems to excel in simplifying administrative procedures, facilitating businesses' navigation through red tape. While Bosnia and Herzegovina – Federation Bosnia and Herzegovina has also shown promising developments in administrative planning capacities, effectively contributing to better coordination within its multi-layer government. Montenegro has made significant improvements in the area of bankruptcy, which leaves room for a more sustainable business landscape. North Macedonia has introduced a one-stop shop for provision of licenses, and digitalized its system of construction permits – mirroring the reforms in neighbouring Serbia. Kosovo* has recently aimed at tackling its weak access to finance by establishing the Credit Guarantee Fund, which shows quite hefty volumes of disbursement and has recently recorded strong loan growth. Serbia has successfully implemented a system of reforms in the area of finance – as it has digitalized both the invoicing and fiscalization processes, aiming to reduce the scope of the shadow economy.

Much has been achieved, yet much remains to be done. These economies need to unlock their growth potential, and thus provide better livelihoods for their populations. European and regional integration may help – as Croatia is the only EU member, others being in the process of integration. A more coordinated approach to trade and integration between all these economies could be an essential ingredient for an accelerated EU integration process. Moreover, by addressing challenges related to competitiveness, governance, sustainability and trade integration, the region can unlock its true potential and move closer to EU living standards, ultimately improving the quality of life for its citizens.

Chapter 1:
About the CORE Partnership and the Regional 2023 Report

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The CORE Partnership (Partnership for a Competitive region) is a regional initiative established in 2012 (initially under the name of Regional Business Friendly Certification Network (BFC Network) in South-East Europe (SEE)) for improving competitiveness in south-east Europe and the living standards of its inhabitants. Its goal has been to create partnerships between economic development stakeholders in the region, enable and foster the exchange of good, practical solutions in improving the local business environment, innovation, green and digital transformation, and to bring closer the policies, best practices and instruments implemented by the EU to support the progress and competitiveness of the WB6 economies.

The CORE Partnership has been strengthened by the project Establishing a Business Friendly Environment Platform in Western Balkans 6 (the BFE Project). The BFE Project has been supported by the German Development Cooperation implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, NALED and partner organizations from six Western Balkan (WB6) economies since 2021. The most prominent programme implemented by the CORE Partnership is the Business-Friendly Certification Programme (the BFC programme), developed as the first joint standard and seal of quality for improving the local business environment in south-east Europe since 2012 (as detailed in Chapter 5).

The CORE Partnership`s members aim to work both with businesses and administrations to help drive economic reforms in the WB region, focusing on local economic development and the creation of a business environment that can boost growth and innovation in a manner increasingly aware of and responsible towards environmental and social issues.

The EBRD and GIZ have recognized the importance of bringing stakeholders together to deliver on business environment related reforms and, in 2019 and 2021, have provided support to the BFC SEE Network in order to analyse achievements, strengths and gaps and propose optimal model for maximizing its impact and ensuring long- term sustainability- resulting in its evolution into the CORE Partnership. It has inspired new regional initiatives and projects supported by GIZ, SDC, USAID, SIDA, RCC, EBRD, the World Bank and private partners, triggering essential reforms such as obtaining building permits in an efficient and transparent way (e-permitting), registration of seasonal workers (fighting the grey economy) and cadastral reform.

One of the CORE Partnership flagship products is the first Sustainable Business Environment Regional Report. The Report is an instrument to measure the progress of the economies in the business-friendly environment and to foster exchange of best practices related to reform efforts at the local and central levels while influencing the region`s overall development outlook.

In the report, we develop a novel index that serves as a quantitative tool for measuring progress in individual economies. Composite indicators like the SBE Index are recognized as valuable instruments for policy analysis and public communication. They are particularly useful for assessing complex and multifaceted concepts that are challenging to define and measure directly.

The SBE Index is defined as a measure of all external factors beyond the control of individual enterprises and their management, that affect their business activities. It encompasses a wide range of constraints and opportunities present in the business environment. The index aims to summarize and measure the conditions and overall atmosphere that contribute to the growth, development, and success of businesses, especially small enterprises in the western Balkan economies.

The SBE Index follows a methodological approach outlined in the OECD Handbook on Constructing Composite Indicators and uses the COIN Tool for its development and analysis. The index is based on five pillars that provide a comprehensive overview of the business environment: fundamental prerequisites, functional markets, efficient and transparent public administration and regulation, resilient and innovative businesses, and sustainable and equitable development. Each pillar consists of several sub-pillars, resulting in a total of 34 individual indicators.

Indicator selection for the SBE Index was based on relevance, analytical soundness, timeliness, and availability of data. Some indicators were discarded during the selection process as they did not meet the criteria. The index includes two categories of indicator: quantitative/objective/hard data (19 indicators) and composite indicators/index data (15 indicators). Survey / qualitative / subjective / soft data were deliberately avoided in the index (the exception is in 'Burden of government regulation', which is based on survey data).

To address missing or extreme values, data imputation techniques were applied, and outliers were treated according to usual technical standards. Normalization using z-scores was performed to ensure comparability among indicators. The intention behind the SBE Index is to assign proportional weights to the indicators rather than rewarding occasional exceptional scores. Aggregation of scores was done using the arithmetic mean at the pillar level.

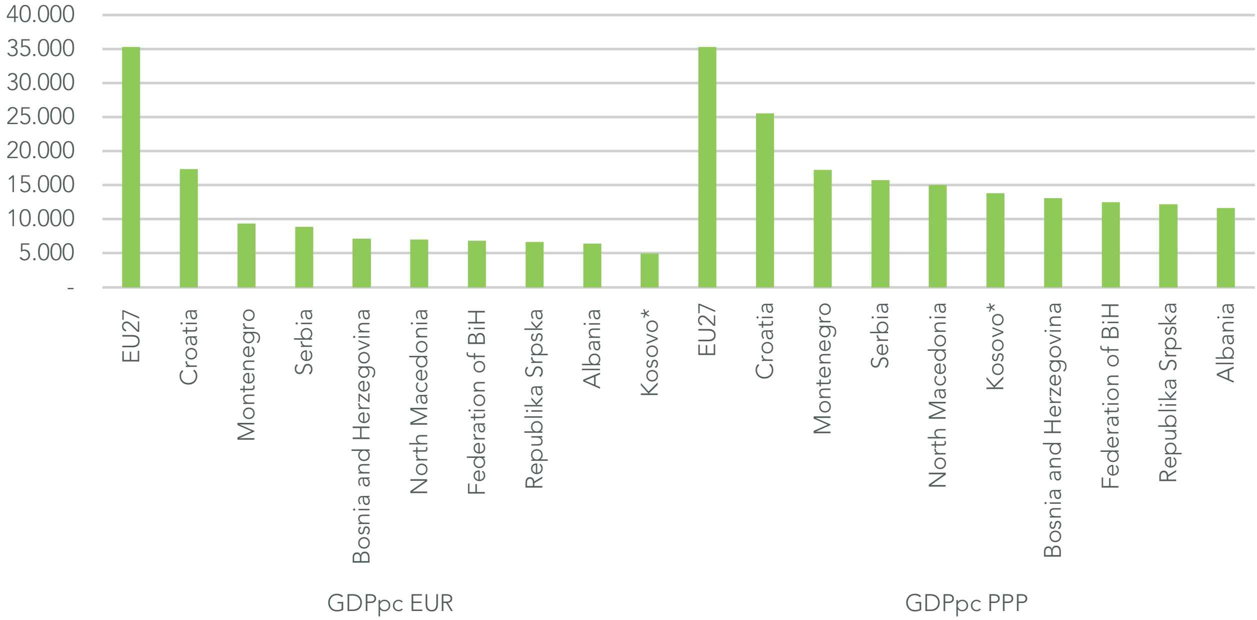
Chapter 2:
Regional Context

Chapter 2: Regional Context

2.1. Macroeconomic Overview

The CORE partnership economies belong to the upper-middle-income group of economies with GDP per capita typically standing at 20-25% of the EU average. The sole high-income economy in the CORE region is Croatia, clearly leading in terms of economic convergence with the EU, reaching a rate of 49%. Between 2015 and 2022 Albania has shown steady growth, increasing from 13% to 18%, while Bosnia and Herzegovina rose from 16% to 20%. Montenegro and Serbia have made noteworthy strides, advancing from 21% to 27% and 18% to 25% respectively. North Macedonia and the entities within Bosnia and Herzegovina — the Federation of BiH and Republika Srpska — have also registered modest gains reaching between 19 and 20% of the EU average. Kosovo* lags behind, currently standing at a 14%. After accounting for different price levels as a somewhat more precise measure of living standards, Croatian GDP per capita climbs to 72% of the EU's, Serbia and Montenegro's are closer to 50%, while the rest enjoy living standards associated with a GDP per capita somewhat above the third of the EU's (Graph below). Overall, the region exhibits an encouraging, albeit uneven, pattern of economic alignment with the EU.

Graph 1: Nominal GDPpc (in current EUR) and GDPpc adjusted for price differences in 2022.

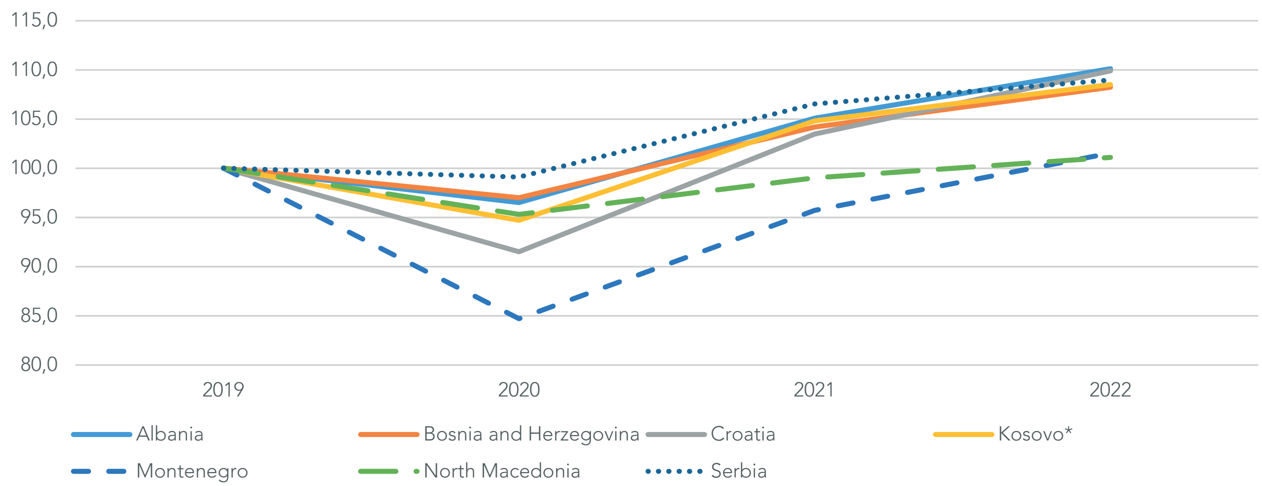


Source: Eurostat, National offices for statistics of RS and FBiH, Authors' calculations

Most CORE Partnership economies have swiftly recovered from the COVID-19 crisis, displaying relatively robust economic growth compared to 2019 levels. Albania leads the pack with a GDP growth of 10.1% from its 2019 levels (Figure below). Croatia trails closely with 9.9% growth. Serbia, Kosovo* and Bosnia have also grown relatively strongly with their economies expanding by 8.9%, 8.5% and 8.2% respectively. Montenegro's and North Macedonia's economies expanded at a much slower pace – 1.5% and 1.1% respectively, in line with mixed results in services, industry, tourism and construction sectors. Growth in all but the two latter economies is relatively robust: given that it outpaces that of EU27 of some 3% in the same period. However, looming uncertainties, high inflation, and declining export demand are expected to strongly impact GDP growth rates over the medium term, with projections indicating a growth rate below 2.5% annually, averaged over the group of economies in 2023 and 2024. However, even in years prior to the crisis, the growth rates were not as high as needed for a faster convergence towards an EU27 average standard of living. The main reasons lie in the structure of the economies and pressing structural challenges.

The CORE economies have evolved primarily into open, service-oriented economies, while the importance of agriculture is dwindling over time. While retail and wholesale trade is the largest service industry, the importance of ICT has grown considerably over time in all of the economies. Tourism also holds substantial weight, especially in Montenegro (a third of GDP), Croatia and (increasingly) Albania (around 21%)[4]. Manufacturing, mostly revitalized through FDI attraction (especially in

Graph 2: GDP growth since 2019 (Index, GDP 2019=100)



Source: Eurostat

4 To exclude the effect of COVID-19, we refer to 2019.

Serbia, Kosovo* and North Macedonia) plays the most important role in Serbia (15% of GDP) and somewhat less (around 10-12%) in the remaining CORE economies, except Montenegro and Albania where it plays only a marginal role (5%). A key issue in manufacturing is its duality – FDIs are subsidized and directly included in global value chains and operate independently from the rest of the economy, while domestic SMEs very rarely receive financial or technical help, and struggle to penetrate foreign markets and increase productivity. Finally, the share of agriculture in total GDP has decreased over the past decades, as in the CORE Partnership economies it has always been dominated by small farm holders with low and stagnant productivity, burdened by ageing equipment, obsolete farming techniques and lack of finance for improvements.

The business environment in a broader sense, and governance in particular present a key structural issue in the CORE Partnership economies. The macro environment, involving broader forces such as the economy, technology, legislation, and cultural values affects not only each company but the whole sphere of business. Various aspects of this will be analysed in great detail in this report. Concerning governance, all aspects, from corruption to predictability and the effectiveness of legislation in reducing transaction costs are subpar at best, even in Croatia, while businesses in the least developed economies suffer considerably more. Again, duality of the business environment exists between FDIs and domestic companies – while the former are welcomed with a red carpet, the latter face red tape.

Some more tangible aspects of the macro-environment that present a huge obstacle in the CORE Partnership economies include labour markets and access to finance. Labour markets in these economies are characterized by a puzzling phenomenon at first glance – high unemployment rates and reported labour shortages. This can be explained by evident skill mismatches, as education systems neither adapt adequately to recent developments in the global economy, nor they have much success in developing basic competences – around 50% of students in the CORE economies (somewhat less in Croatia) fail to achieve the baseline level of proficiency (level 2) in each of the three subjects tested by PISA (mathematics, science and reading). Access to finance is limited by the bank-centric financial systems, as financial markets play an insignificant role, as they require long-term stability and trust, evidently lacking in this region. Finally, anticompetitive practices often include informal employment and a high tax wedge for low wage earners.[5]

Regarding current issues, inflation hit a 20-year peak in 2022 across most economies of the world, including the CORE economies, significantly impacting poverty and overall economic growth. Elevated mainly by surges in food and energy prices, the inflation rate surpassed the 10% mark in all these economies (except Albania, 6.7%) and has been particularly harsh on low-income households, who allocate a larger proportion of their income to these essential items. Although there are signs of easing as inflation for basic materials and energy has seen a decrease in 2023, core inflation data indicates that price pressures remain persistent. Although central banks have taken steps to tighten conditions, inflation has not yet been tamed by interest rate increases. Fiscal deficits have generally narrowed, helped by higher inflation boosting nominal revenues, although social spending pressures persist. Employment growth has also been tepid; by the end of 2022, compared to 2021, there were 72,000 fewer jobs in the region, despite an overall decline in the unemployment rate (World Bank 2023). However, the regional financial sector remains stable but faces increasing risks from rising interest rates and inflation, among other factors. As the regional economies navigate these challenges and in particular the severe impact of inflation on impoverished households, effective policy measures are critical.

5 Labour Taxation in the Western Balkan: Looking Back and Forward (IMF, 2022)

2.2. EU Prospects of CORE Partnership Economies

Albania, North Macedonia, Montenegro, Bosnia and Herzegovina, Kosovo* and Serbia are at various stages of EU accession, while Croatia is a member state. Albania and North Macedonia began official accession talks in July 2022 after resolving disputes that delayed their negotiations. Montenegro has come furthest in the process. Bosnia and Herzegovina achieved candidate status in December 2022, after addressing issues that had delayed its application since 2016. Kosovo*, still not recognized by five EU states, formally applied for membership in December 2022. Croatia, already an EU member since 2013, entered the Schengen Area and European Monetary Union in January 2023.

Albania submitted its application to join the European Union in April 2009 and was designated as an EU candidate in June 2014. The European Union Council agreed in March 2020 to initiate accession discussions with Albania. However, official negotiations did not commence since Albania's candidacy was connected to that of North Macedonia, which was hindered by a Bulgarian veto. The Bulgarian parliament gave its consent to lift this veto on June 24, 2022. Consequently, North Macedonia's Assembly also endorsed a modified French proposal on July 16, 2022, allowing the accession talks to officially start. The EU organized its inaugural intergovernmental conference with Albania on July 19, 2022. The screening process is currently ongoing, but no chapters have yet been formally opened.

Applying for EU membership in March 2004, **North Macedonia** was conferred EU candidate status in December 2005. The name "Macedonia" led to a disagreement with Greece from 1991 until 2019, resulting in a Greek veto on both EU and NATO accession discussions between 2008 and 2019. Following the resolution of this issue, the European Union formally approved the initiation of accession talks in March 2020. However, Bulgaria obstructed the official start in November 2020, citing issues like the slow implementation of a 2017 Friendship Treaty. On June 24, 2022, the Bulgarian parliament lifted this veto, and North Macedonia's Assembly gave its approval to a revised French proposal on July 16, 2022. The talks formally began on July 19, 2022.

Submitting its EU application in December 2008, **Montenegro** received EU candidate status in December 2010. Formal EU-Montenegro accession talks kicked off in June 2012. As of now, 33 out of a total of 35 negotiating chapters have been opened, with three of them provisionally concluded. In December 2022, the Council commended Montenegro's overall progress, emphasizing that fulfilling rule-of-law interim benchmarks is essential for future advancement. Montenegro was also urged to carry out significant and immediate reforms to the judiciary and to escalate its efforts against corruption and organized crime.

On February 15, 2016, **Bosnia and Herzegovina** applied for EU membership. Prior to this application, the economy was unable to apply due to unresolved issues surrounding the Office of the High Representative in Bosnia and Herzegovina. The Commission presented its viewpoint on the application in May 2019, outlining 14 key priorities for initiating accession talks, which ranged from democracy and state functionality to rule of law and public administration reform. In December 2022, the economy was awarded EU candidate status, under the condition that the nation follow the specific steps outlined in the Commission's October 2022 communication.

The Stabilisation and Association Agreement between the EU and **Kosovo*** was enacted on April 1, 2016, after being signed on February 26, 2016. In February 2018, the European Commission unveiled an enlargement blueprint aiming to include six Western Balkan economies, including Kosovo*. On December 15, 2022, Kosovo* formally applied for EU membership.

Serbia sought EU membership in December 2009 and received candidate status in March 2012. Accession talks were officially opened at a ministerial-level accession conference with Serbia on January 21, 2014. The Council approved the use of the revised enlargement methodology for Serbia and Montenegro's accession negotiations in May 2021. This grouped the 35 negotiating chapters into six clusters. Of these, 22 chapters have been opened, with two provisionally closed. The most recent chapters—14, Transport Policy; 15, Energy; 21, Trans-European Networks; and 27, Environment and Climate Change—were opened in December 2021.

Croatia became the EU's 28th member on July 1, 2013, following an application process that started in 2003 and negotiations that ran from 2005 until 2011. The most current developments in Croatia's EU status include its entry into the Schengen Area and its joining of the European Monetary Union, both of which occurred on January 1, 2023.

Chapter 3:

Results of the SBE Index

Chapter 3: Results of the SBE Index

The SBE Index is a comprehensive measurement tool that consists of 34 indicators distributed across five distinct pillars: Fundamental Prerequisites, Markets, Business Friendly Regulations, Resilient, Vibrant and Innovative Businesses, and Sustainable and Equitable Development. The first pillar underlines the importance of macroeconomic and financial stability, along with the rule of law, as crucial conditions for business. The second focuses on functional labour and capital markets, which are vital for company growth and competitiveness. The third pillar addresses regulatory quality, aiming for efficient, clear, and consistent regulations that encourage business. The fourth pillar emphasizes the role of other businesses in shaping the environment, advocating for equal compliance with rules and fostering innovation. The final pillar links to sustainability and equality, highlighting the need for businesses to adhere to responsible practices while encouraging social inclusion. For a more detailed technical overview, please refer to Appendix 2.

Croatia (1st) takes the top spot with an SBE Index score of 57.65. Leading in Fundamental Prerequisites with a score of 60.4, Croatia shines particularly in the rule of law and macroeconomic stability, which are bolstered by strong fiscal and current account balances. In the Markets pillar, it holds the first place with a score of 63.6, showing an advanced labour market and human capital sub-pillar, supported by better-than-average education indices and a low unemployment rate. However, its financial markets remain underdeveloped compared to EU standards. In Business-Friendly Regulations, Croatia offers a mixed performance, excelling in public-private dialogue but still facing some regulatory burdens. In Level Playing Field and Business Innovation, it leads, particularly in innovations, as evidenced by strong scores in the Competitive Industrial Performance Index and European Innovation Scoreboard. In Sustainable and Equitable Development, Croatia takes the top spot, showing impressive metrics, especially in Gender Equality and the EBRD Green Agenda.

Serbia (2nd) ranks second with an overall SBE Index score of 51.48. Scoring 50.9 in Fundamental Prerequisites, Serbia meets the average standards, although corruption perception could be improved. In the Markets pillar, it leans slightly better in the Labour Market and Human Capital sub-pillar with a score of 57.2, but its Financial and Capital Markets lag behind at 48.2. For Business-Friendly Regulations, Serbia has a mixed performance, doing well in government regulation but falling short in taxation. In Level Playing Field and Business Innovation, it closely follows Croatia, excelling in Business Digitalization. However, it falls behind in Green Economy metrics under the Sustainable and Equitable Development pillar, despite strong performances in Equality metrics.

Montenegro (3rd) has an SBE Index of 50.70. With a score of 45.2 in Fundamental Prerequisites, Montenegro falls behind in macroeconomic stability. Its Markets pillar is lifted by strong Financial and Capital Markets scores at 58.5. It performs well in Business-Friendly Regulations, particularly in taxation and non-tax revenues but needs improvement in public administration. In Level Playing Field and Business Innovation, it lacks any standout performances. For Sustainable and Equitable Development, it offers a mixed performance and has potential for growth in Gender Equality and Green Economy.

Albania (4th) comes as a close fourth with an SBE Index score of 50.66. With a score of 49.9 in Fundamental Prerequisites, Albania's strength lies in lower inflation, but corruption perception remains a concern. In Markets, the results are solid but there are challenges in financial and capital markets, primarily due to limited access to alternative financial sources. When it comes to Business-Friendly Regulations, Albania leads in public administration but lags in informality. In Level Playing Field and Business Innovation, it struggles mainly in Innovations and Informality. In Sustainable and Equitable Development, it earns its spot primarily through its

Renewable Energy Consumption score but needs improvement in Gender Equality.

North Macedonia (5th) has an SBE Index of 48.13. Scoring 49.8 in Fundamental Prerequisites, it faces challenges in inflation and budget balance. Its Markets pillar score of 46.3 highlights struggles particularly in Labour Market and Human Capital, which is dragged down by poor Human Development Index scores. It falls in the middle for Business-Friendly Regulations but has a significant drag due to its low score in public-private dialogue. In Level Playing Field and Business Innovation, it offers a balanced but unremarkable performance, scoring highest in Informality. In Sustainable and Equitable Development, it struggles in the Green Economy but does relatively well in Equality and Gender Equality.

Kosovo* (6th) is sixth with an SBE Index score of 46.90. At fifth place with 48.8 in Fundamental Prerequisites, Kosovo*'s high macroeconomic score is offset by significantly low scores in rule of law. It faces major challenges in the Markets pillar with a score of 38.9, especially in high unemployment rates and poor educational outcomes. In Business-Friendly Regulations, it ranks in the middle but excels in public procurement. It exhibits mixed results in Level Playing Field and Business Innovation due to lack of data. In Sustainable and Equitable Development, it faces the most challenges, especially in Equality and Gender Equality.

Bosnia and Herzegovina (7th) has an overall SBE Index of 43.89. Scoring 45.0 in Fundamental Prerequisites, it's particularly weak in Rule of Law but maintains a strong budget balance. In Markets, it is hampered by low performances in both Labour Market and Financial and Capital Markets. In Business-Friendly Regulations, it trails the list due to subpar performances in almost all aspects. It performs poorest in Level Playing Field and Business Innovation due to weak scores in Business Digitalization. For Sustainable and Equitable Development, it needs improvement, particularly in Gender Equality but scores well in Green Economy metrics.

Republika Srpska – shows a balanced yet underwhelming performance across most pillars. Presumably sharing a weak rule of law with Bosnia and Herzegovina, it scores well in budget balance and debt in Fundamental Prerequisites. In Markets, it shows strength in financial markets while also having lower-than-average unemployment rates. In Business-Friendly Regulations, it struggles mainly in public administration delivery but shows a better balance across other sub-pillars. No data is available for the last two pillars.

Federation of Bosnia and Herzegovina – The Federation of Bosnia and Herzegovina has an SBE Index of 44.8. Scoring 46.1 in Fundamental Prerequisites, it shares a weak rule of law but performs similarly to Republika Srpska in economic aspects. In Markets, it struggles with high unemployment rates and poor performance in Financial and Capital Markets. In Business-Friendly Regulations, it performs poorly in public administration but shows some resiliency in taxation and non-tax revenues. No data is available for the last two pillars.

Table 1: Heatmap of SBE Index results and its pillars

Name	SBE Index Index	Fundamental Prerequisites p.01	Markets p.02	Business Friendly Regulations p.03	Level Playing Field and Business Innovation p.04	Sustainable and Equitable Development p.05
Croatia	57,7	60,4	63,6	48,9	60,1	55,3
Serbia	51,5	50,9	52,7	43,9	56,1	53,9
Albania	50,7	49,9	49,0	59,2	42,8	52,4
Montenegro	50,7	45,2	55,4	56,3	47,4	49,2
North Macedonia	48,1	49,8	46,3	45,7	51,7	47,3
Kosovo*	46,9	48,8	38,9	54,9	48,8	43,1
Bosnia and Herzegovina	43,9	45,0	44,1	40,0	41,4	48,9
Republika Srpska	46,2	45,9	49,6	43,0	43,5	49,1
Federation of Bosnia and Herzegovina	44,8	46,1	43,2	43,3	42,4	49,1

Source: Authors' calculation

The SBE Index overcame a number of methodological challenges in the preparatory process, such as data availability and others, more details are available in Appendix 1.

3.1. Fundamental Prerequisites

The first pillar encompasses macroeconomic and financial stability and rule of law as fundamental prerequisites. Macroeconomic conditions are crucial for the business environment because they directly impact overall economic stability, growth prospects, and business operations in an economy or region. The other fundamental requirement is the rule of law. When contracts are enforceable through a fair and impartial legal system, this enables businesses to plan their operations, investments, and strategies with confidence, reducing the risk of legal disputes and uncertainty.

Fundamental Prerequisites have two sub-pillars (sp.01 and sp.02), Macroeconomic and Financial Stability (measuring inflation, budget balance, public debt, current account balance and NPLs) and Rule of Law (measuring judicial effectiveness, corruption perception, and judicial framework and independence. Score ranges between 0 and 100, where 50 represents SBE Index average value for a particular indicator.

3.1.1. Summary Results

While Croatia leads due to its robust Rule of Law and Macroeconomic metrics, others have varied strengths and weaknesses. Economies like Serbia and Albania maintain a balance but should focus on improving specific areas. Economies at the lower end, like Montenegro and Bosnia and Herzegovina, need a more comprehensive approach to enhance both economic stability and the rule of law.

Croatia (1st) - Croatia leads in Fundamental Prerequisites with the highest score of 60.4. It outperforms all its peers in Rule of Law and has the highest Macroeconomic and Financial Stability score, primarily owing to strong fiscal and current account balances.

Serbia (2nd) - With a score of 50.9, Serbia comes second. Its Macroeconomic and Financial Stability metrics are around average, and its Rule of Law components are generally in line with expectations, except for a lower corruption perception score.

Albania (3rd) - Ranking third with 49.9, Albania's standout issue is low inflation. Rule of Law scores are average, but it needs to improve its corruption perception.

North Macedonia (4th) - Ranked fourth with a score of 49.8, it faces challenges in inflation and budget balance, which pull down its Macroeconomic stability.

Kosovo* (5th) - At fifth place with 48.8, its high Macroeconomic score is notable but offset by significantly low scores in Rule of Law, particularly judicial effectiveness.

Montenegro (6th) - Ranked sixth at 45.2, with its Macroeconomic stability being particularly weak due to low scores in multiple areas.

Bosnia and Herzegovina (7th) - With a score of 45.0, it takes seventh place. Rule of Law is particularly concerning, as all three indicators are below average. However, it maintains a strong budget balance.

Republika Srpska - Slightly ahead of Bosnia and Herzegovina in the lower end with a score of 45.9, its low Rule of Law scores are a drawback, despite an average Macroeconomic score.

Federation of Bosnia and Herzegovina - Ranking relatively low at 46.1, its performance is virtually identical to the Republic of Srpska, indicating similar challenges and opportunities in both economic and legal aspects.

Table 2: Heatmap of Pillar 1. Fundamental Prerequisites

	Fundamental Prerequisites	Macroeconomic and Financial Stability	Inflation	Budget Balance	Public Debt	Current Account Balance	NPL Ratio	Rule of Law	Judicial Effectiveness	Corruption Perception Index	Judicial Framework and Independence
	p.01	sp.01	ind.01	ind.02	ind.03	ind.04	ind.05	sp.02	ind.06	ind.07	ind.08
Croatia	60,4	55,6	53,7	63,6	40,7	64,5	55,7	65,2	68,2	67,1	60,3
Serbia	50,9	50,0	49,4	47,3	49,2	50,3	53,9	51,7	52,5	42,5	60,3
Albania	49,9	50,9	69,8	44,5	44,2	52,7	43,1	48,9	52,0	42,5	52,3
North Macedonia	49,8	48,2	40,4	40,8	50,1	52,7	56,9	51,4	52,3	49,5	52,3
Kosovo*	48,8	56,2	50,6	59,4	66,6	41,7	62,9	41,5	36,8	51,3	36,3
Montenegro	45,2	38,0	45,1	37,5	39,6	33,2	34,7	52,4	46,5	58,3	52,3
Bosnia and Herzegovina	45,0	51,1	41,2	57,0	59,7	54,9	42,5	39,0	41,8	38,9	36,3
Republika Srpska	45,9	51,3	44,8	64,5	56,1	38,2	53,1	n/a	n/a	n/a	n/a
Federation of Bosnia and Herzegovina	46,1	51,7	37,1	57,7	60,5	61,0	42,1	n/a	n/a	n/a	n/a

Source: Authors' calculations

3.1.2. Results by Indicator

a) Macroeconomic and Financial Stability

Inflation reached its highest point in two decades across CORE economies in 2022 with evidence of slow-down in the first half of 2023. Most of the observed economies witnessed the apex of consumer price inflation in late 2022, and indications now suggest a gradual easing. The escalation in inflation throughout 2022 was mainly propelled by rises in energy and food prices, supply shocks caused by the Russo-Ukrainian war and incomplete post-COVID-19 value chain restructuring, as well as expansionary monetary policy throughout the last decade, and expansionary fiscal policy since the COVID-19 outbreak. These factors fuelled inflation in the economies' main trading partners, as the EU had 9.2% in 2022. All economies have seen price rises in double digits, except the top-ranked Albania (6.7% inflation rate, 69.8 index points) which was able to keep the prices steadier due to hydropower energy self-sufficiency, (which allowed) price controls of energy[6] and food, as well as deflationary pressures which contained eurozone inflation pass-through. Although these factors certainly helped Albania, the general scenario for all was the same. Response of the economies' central banks was swift, as they started increasing monetary policy rates along with the ECB and the FED. Although the nominal interest rate hike was sharp and brought overnight credit facilities[7] between 4% (Albania) and 7.75% (Serbia), real interest rates are still negative due to high inflation, but so far have a limited impact on credit activity. The first half of 2023, which came with a normalization of energy and metal prices only allowed for a slowing of inflation, as core inflation trends indicate that pricing pressures persist widely and show that the prices are in fact sticky. As central banks continue to fight inflation expectations, real interest rates continue to increase, and the external factors driving this surge continue subsiding due to a slowdown in global economic growth, so inflation in the region is expected to slow to 3-4% p.a. in 2024 and 2025, respectively. Two sets of policies should be particularly important for CORE economies – fiscal (cut down on expansionary spending) and social (as inflation particularly hits those at the lower end of income distribution hard).

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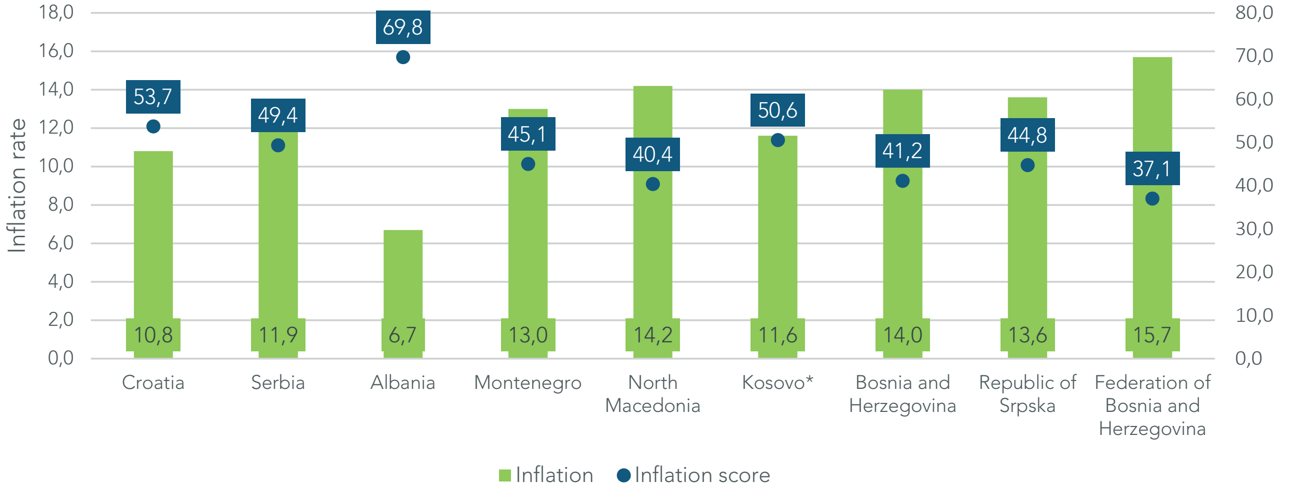
6 Energy sector collapse in Serbia at the end-2021 did not contribute energy price hikes, as the burden of increasing global prices was shifted to taxpayers.

7 As of end-August 2023

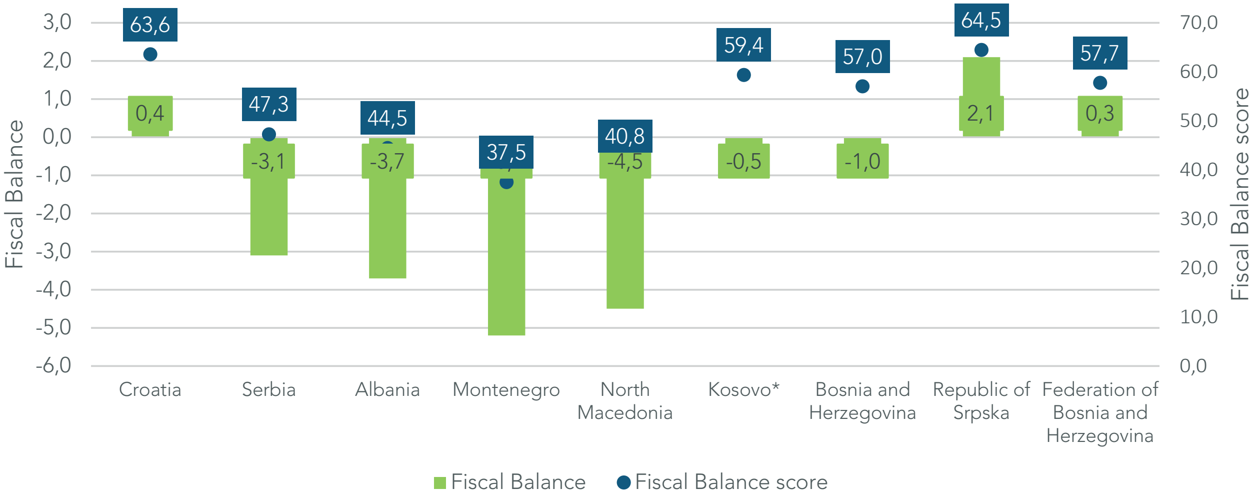
Graph 3: Inflation and inflation score 2022



Source: Authors' calculations

Fiscal deficits of CORE economies are gradually returning within the Maastricht criteria boundaries of 3%. Although the outcomes vary to a substantial degree, as Croatia recorded a 0.4% GDP surplus while Montenegro recorded a 5.2% GDP deficit (37.55 points), the underlying reasons and budget dynamics are relatively similar across all observed economies. First, public revenues increased substantially under the influence of *inflation* – especially VAT and with a couple months lag personal income tax (PIT). However, towards the end of the year the real value of public revenues began to decrease, as inflation caused contraction in real incomes and consumption. Second, on the expenditure side, budget execution was relatively stable, as public wage and pensions indexation, and social transfers were offset by under-execution of capital budgets. The only economy whose fiscal trajectory largely differs from the trajectory described so-far is the last-placed Montenegro, which implemented a reform eliminating healthcare contributions (resulting in SSC and PIT revenue decline) and had strong capital spending (similar to Serbia). Third, all economies were impacted by the energy price surge (especially high energy-import-dependent North Macedonia), either directly due to financial support to SOEs (like Serbia), or indirectly by decreasing excise taxes for fossil fuels (all CORE economies). Fourth, Montenegro, Albania and Bosnia and Herzegovina were in addition helped by a relatively high GDP growth rate – 6.1%, 4.8% and 4% respectively. CORE economies must remain particularly careful in fiscal planning over the medium term, as fiscal buffers have mostly been spent in the last 2-3 years, and the costs of financing are increasing. Along those lines, considering diminishing energy prices, it becomes necessary to replace non-targeted social support measures with targeted ones. It is advisable to persist with a growth-oriented fiscal consolidation strategy over the medium term aimed at rebuilding sufficient reserves and sustainable fiscal planning and implementing productivity-increasing policies.

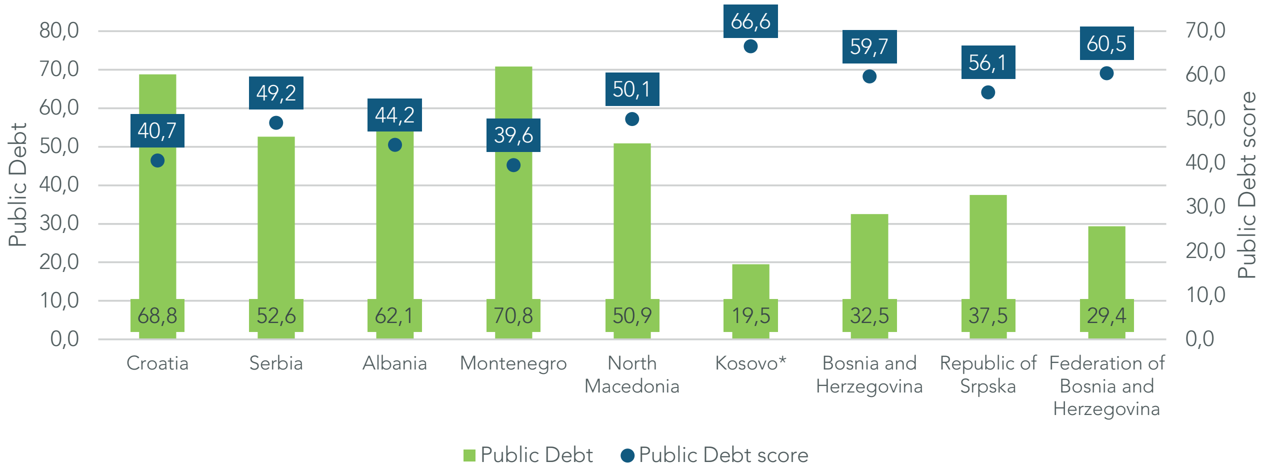
Graph 4: Fiscal balance 2022



Source: Authors' calculations

In the wake of the COVID-19 pandemic, the public debt landscape in the CORE Partnership economies has shown interesting dynamics, as in most economies debt as percentage of GDP continues to decrease. Intriguingly, all economies except Kosovo* and North Macedonia have seen their public debt levels relative to GDP drop below pre-COVID-19 pandemic marks, thanks largely to the denominator effect where high GDP deflators led to an unexpected surge in nominal GDP. This buoyed economies like Montenegro, which saw the sharpest drop in public debt-to-GDP from 86.8% in 2021 to 72.5% in 2022, while Albania and Bosnia and Herzegovina followed suit with strong declines. Yet the region faces impending challenges. With future projections indicating slower growth and lower inflation, there is a risk of faster debt accumulation, especially as debt servicing costs rise due to monetary policy tightening globally. In early 2023, only Serbia and North Macedonia approached international investors, each issuing Eurobonds at coupon rates significantly higher than in previous years, signalling challenging financing conditions. Economies with higher public debt and limited fiscal room are particularly vulnerable. Meanwhile, as fiscal transparency becomes more critical, Serbia stands as the sole economy with an independent fiscal council, though Montenegro and North Macedonia are taking steps toward establishing their own. Overall, the unique interplay between public debt, fiscal management, and external financing stress the urgency of a balanced policy approach. While Kosovo* and the Federation of Bosnia and Herzegovina remain the most attractive from a fiscal standpoint, the dynamic shifts in public debt profiles across the region highlight the necessity for nuanced fiscal prudence and governance reforms to sustain a business-friendly environment.

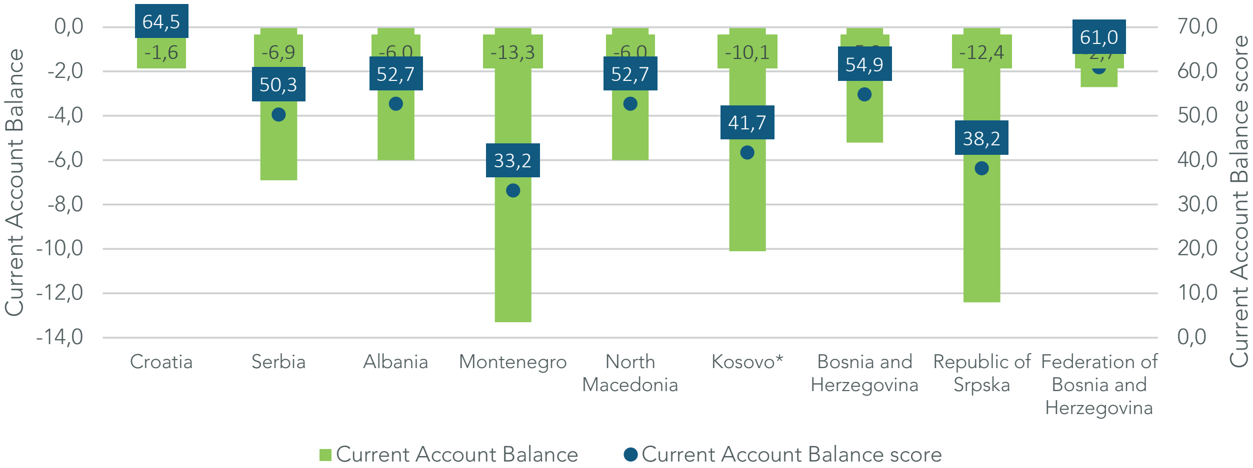
Graph 5: Public debt 2022



Source: Authors' calculations

Amid a complex global environment, the current account balances in the observed economies vary significantly, ranging from Republika Srpska's low of -12.5% to Croatia's high of 3% of GDP. This divergence underscores the region's varying economic resilience and vulnerabilities. Montenegro and Republika Srpska, with deficits nearing or exceeding 10% of GDP, face critical challenges fuelled by global commodity price shocks and supply chain disruptions. These factors are particularly evident in the trade deficits, which soared regionally to 6.9% of GDP in 2022 from 4.8% in the previous year. Conversely, Croatia, boasting a positive 3% balance, stands as a beacon of fiscal stability due to its diversified, export-oriented economy. Net service exports, especially from tourism, have somewhat offset the widening current account deficits in some nations. Remittances have remained stable due to the EU's tight labour market, but they have also contributed to an over-reliance on external inflows. Importantly, much of the regional imbalance is funded by foreign direct investment, which rose to 7.0% of GDP, covering over 80% of the external deficit. Policymakers should note that although FDI provides short-term relief, it also creates a dependency, especially worrisome given rising global interest rates. Therefore, a focus on economic diversification, prudent fiscal policy, and regional cooperation is essential for future sustainability.

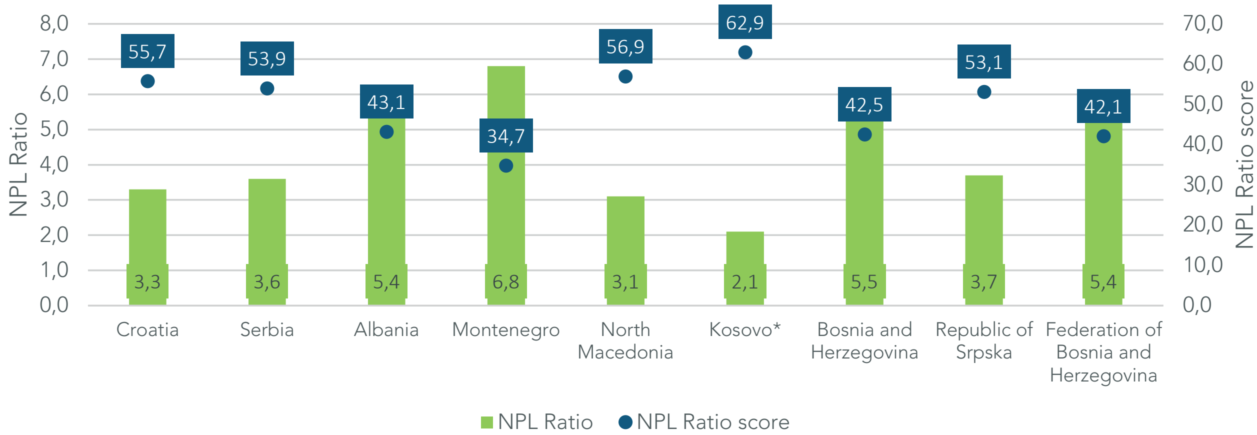
Graph 6: Current Account Balance 2022



Source: Authors' calculations

Amid a historically low regional average ratio of non-performing loans of 3.9% in December 2022, Montenegro and Albania emerge as areas of slight concern with higher-than-average NPLs, at 6.8% and 5.4% respectively. Kosovo* maintains its position as the region's most financially stable economy with a 2.1% NPL ratio, whereas Albania has witnessed the most dramatic post-COVID-19 improvement, dropping 3.2 percentage points since March 2020. While these numbers are encouraging on the surface, they come with caveats. Asset quality is improving, but sharply rising interest rates, aimed at controlling inflation, could exacerbate vulnerabilities for borrowers. The regional average for stage two loans, a good predictor for future NPLs, stood at a high 10.5% in December 2021, signalling lingering credit risks. Banks are also bracing for a potential uptick in NPLs due to an unfavourable economic outlook. Despite this, the region's capital buffers remain strong with an average bank capital adequacy of 18.3%, well above the regulatory minimum. Liquidity levels have somewhat recovered since June 2022, suggesting slowing loan growth. Given these mixed signals, policymakers should remain vigilant, focusing both on tightening supervisory frameworks for those with higher NPLs and maintaining stringent oversight in economies with lower ratios.

Graph 7: NPL Ratio 2022

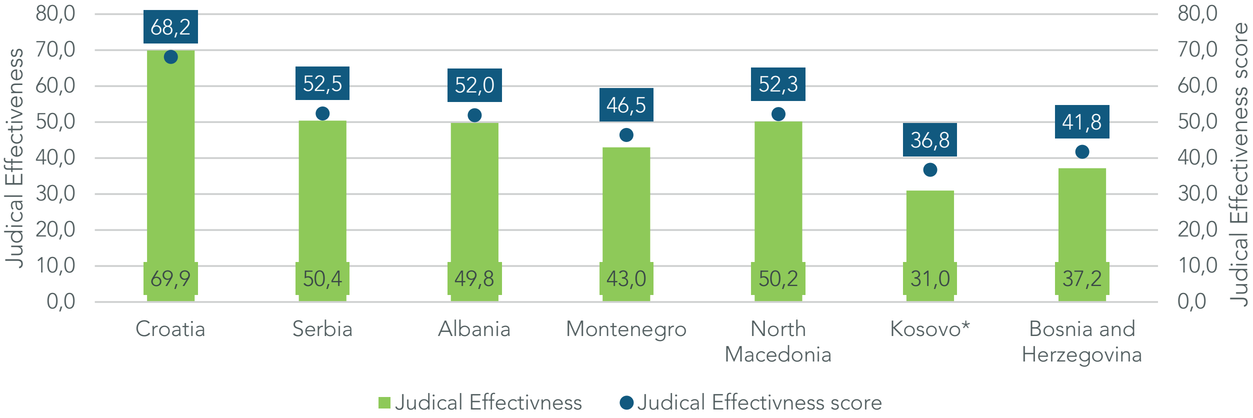


Source: Authors' calculations

b) Rule of Law

While Croatia nears EU standards (82.7) with a judicial effectiveness score of 69.9, most other CORE economies fall substantially short, with Kosovo* performing the worst with a score of 31. For context, the lowest-ranking EU economy is Poland, with a score of 57.7, still notably higher than most CORE economies. A well-functioning judicial system is essential for safeguarding citizens' rights and ensuring the rule of law. This is reflected in sub-factors like judicial independence, quality of judicial processes, and perceptions of public services (The Heritage Foundation 2022). Croatia, with its upward trend, is making commendable strides towards EU norms. In stark contrast, Kosovo* is on a negative trajectory, warranting immediate attention and reforms. Albania and Serbia have shown incremental gains, scoring 49.8 and 50.4 respectively, whereas Montenegro and North Macedonia are witnessing declines with scores of 43.0 and 50.2. Bosnia and Herzegovina remain relatively static with a score of 37.2. These variations highlight the urgent need for targeted reforms to improve judicial effectiveness in line with EU benchmarks.

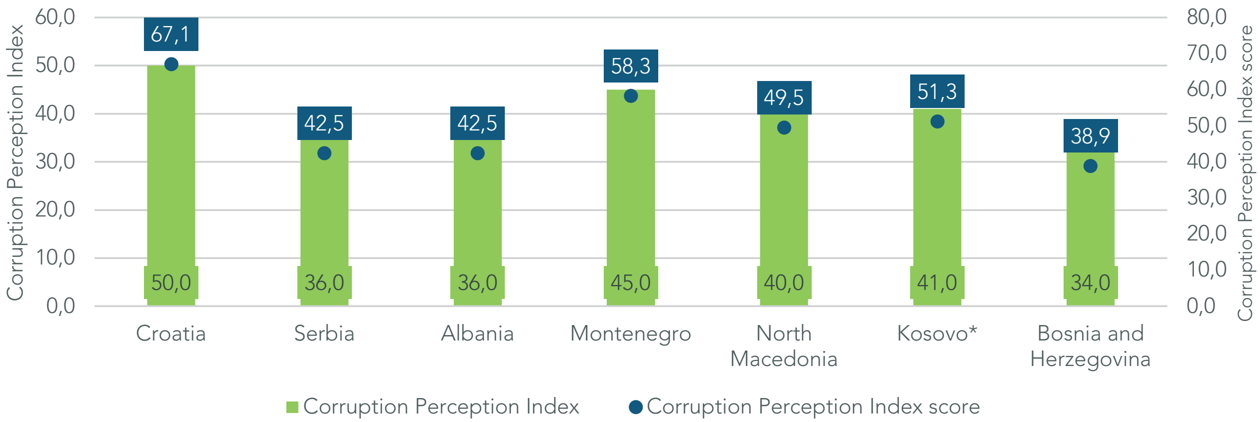
Graph 8: Judicial Effectiveness



Source: Authors' calculations

In comparison to the EU average Corruption Perception Index (CPI) score of 64, Croatia emerges as the best performer among CORE partnership economies with a score of 50, yet still significantly trails EU norms. This apparent paradox is further complicated by the fact that Croatia has the highest percentage of citizens in the EU who perceive corruption in government as a major issue (92% vs. 62%), percentage of people who think their government is doing badly in tackling corruption (72% vs 49%) and percentage of public service users who paid a bribe to get a service (14% vs 7%) (Transparency International 2021). Similarly, Bosnia and Herzegovina grapples with a low CPI score of 34, exacerbated by its multiple, fragmented legal jurisdictions, contributing to inconsistencies in the legal process and opening avenues for corruption. The region, as a whole, faces an uphill battle against corruption, hindered by both formal and informal patronage networks aiming for state capture, thereby posing obstacles to EU accession and economic competitiveness. Lacklustre anti-corruption efforts have been particularly detrimental to Serbia, which faces a decline in CPI owing to insufficient government support for its Anti-Corruption Agency. Meanwhile, Kosovo*, despite a slight CPI improvement, deals with an overly complex and overlapping institutional framework, leading to inefficiencies in combating corruption. The trends over the past decade indicate a worrisome, slow decline in CPI scores for economies like Serbia and Bosnia and Herzegovina, while Croatia's score has remained largely stagnant, with a marginal improvement. These findings underscore the need for robust, targeted anti-corruption strategies that consider each economy's unique institutional and societal complexities.

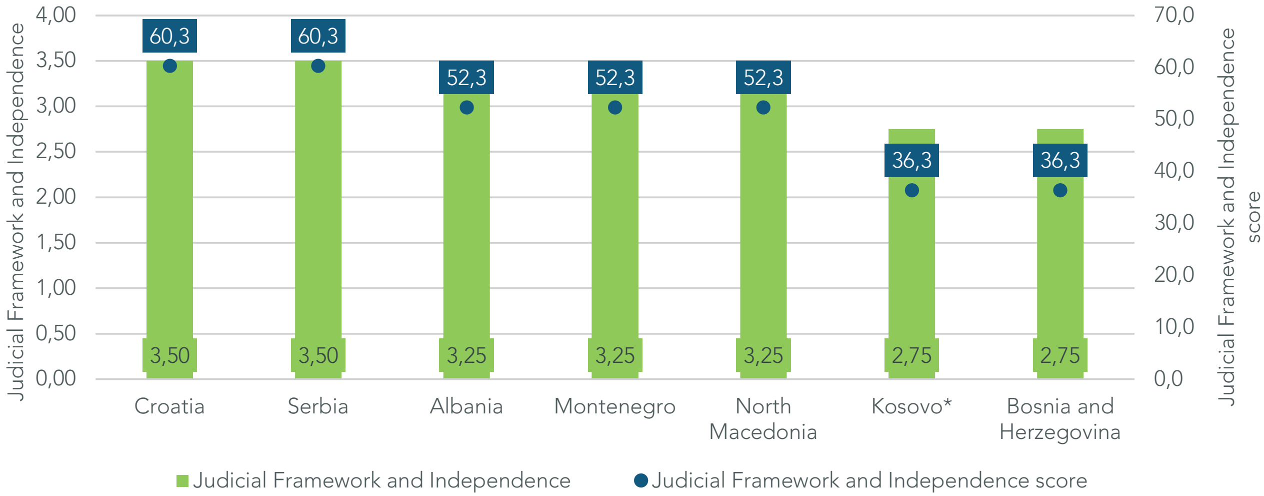
Graph 9: Corruption Perception Index



Source: Authors' calculations

In the CORE Partnership economies, the Judicial Framework and Independence scores reveal that economies are at best halfway through in implementing an independent and efficient judiciary, grappling with systemic issues such as lack of trust, poor coordination, and limited political will. Croatia and Serbia, despite leading with scores of 3.5, confront critical challenges. Croatia's judiciary has been marred by internal conflicts in its Supreme Court, particularly around financial transparency reforms. Similarly, while Serbia has undergone constitutional reforms to increase judicial independence, questions persist about political interference, particularly in high-profile corruption and organized crime cases. On the opposite end, Bosnia and Herzegovina and Kosovo* each scored 2.75, pointing to substantial hurdles. In Bosnia, the judiciary's efficacy is compromised by its convoluted, multi-tiered structure. Kosovo* faces an array of issues ranging from judicial corruption to inefficiency, leading to public protests and strikes demanding better conditions and wages. This issue remained relevant in 2022. Occupying the middle ground with scores of 3.25 are Albania, Montenegro, and North Macedonia. Albania's judicial vetting process lags due to a shortage of magistrates, affecting overall access to justice. Montenegro has seen its judiciary's functioning impeded by institutional vacancies, although some public optimism exists. In North Macedonia, public mistrust in the judiciary remains high, exacerbated by a lack of independence and state funding. While each economy has unique challenges, the trend across the region suggests a slow and difficult journey toward achieving a truly independent and efficient judicial system. Overall, despite some steps towards reform, the area faces persistent hurdles that inhibit the full realization of judicial framework and independence.

Graph 10: Judicial Framework and Independence



Source: Authors' calculations

3.2. Markets

The second pillar refers to functional labour, and capital markets. Available human capital is a cornerstone of a business-friendly environment because it enhances a company's productivity, innovation, competitiveness, and overall success. Similarly, well-functioning capital markets are essential for companies to access the capital they need to grow.

3.2.1. Summary Results

Croatia leads in the Markets pillar mainly due to its balanced strengths in labour markets and financial systems, although the score of 63.6 suggests there's still room for improvement. Montenegro performs well in Financial and Capital Markets but needs to address educational gaps. Serbia shows strength in its labour market but lags in financial market development. Albania and North Macedonia face clear weaknesses in education and access to alternative financial sources. These shortcomings significantly drag down their overall standings. Bosnia and Herzegovina and Kosovo* lag primarily due to poor educational outcomes and high unemployment, with their financial markets also leaving much to be desired. Republika Srpska and the Federation of Bosnia and Herzegovina exhibit similar patterns, struggling mainly in education and employment metrics.

Croatia (1st) – Croatia performs notably better than its peers in the Markets pillar with an overall score of 63.6 and the first place in both sub-pillars. Labour Market and Human Capital sub-pillar, scoring 63.9, shows that Croatia has better-than-average education indices (61.5 in HDI and 66.5 in PISA) and a considerably lower unemployment rate (63.8). Its Financial and Capital Market score of 63.3 is also above the average of its peers, supported by a solid banking sector (67.1) and reasonable access to alternative financial sources (67.9). However, even in the best-ranked Croatia, the financial markets and alternative sources of finance are underdeveloped relative to EU standards.

Montenegro (2nd) – With a score of 55.4, Montenegro's standing is lifted by its Financial and Capital Markets sub-pillar at 58.5. Although its Labour Market and Human Capital scores are moderate, its strong market capitalization to GDP ratio (67.8) boosts its overall Financial and Capital Markets standing. Unfortunately, high capitalization to GDP ratio does not translate into market liquidity, and the Montenegro stock exchange continues to have a low impact on the economy.

Serbia (3rd) – Serbia has a balanced profile but leans slightly better in the Labour Market and Human Capital sub-pillar with a score of 57.2. Good PISA scores (56.9) and a moderate, second-lowest unemployment rate (58.5) contribute to this. However, its Financial and Capital Markets are below average at 48.2, due mainly to low market capitalization to GDP (41.0).

Albania (4th) – Scoring 49.0 overall, Albania has a relatively solid result but still faces challenges. Its Labour Market and Human Capital score of 50.7 is near average but is hindered by lower educational outcomes and moderate unemployment. Its Financial and Capital Markets score is also below average at 47.3, mainly due to limited access to alternative financial sources (48.3).

North Macedonia (5th) – With an overall score of 46.3, North Macedonia struggles particularly in Labour Market and Human Capital, reflected by a low 37.0 in the HDI. While its Financial and Capital Markets sub-pillar is also below average at 48.1, poor access to alternative financial sources (40.5) is a concern (especially since this regards leasing and factoring, which are the least developed in North Macedonia among its peers).

Bosnia and Herzegovina (6th) – Scoring 44.1, Bosnia and Herzegovina is hampered by low performances in both Labour Market and Human Capital (42.7) and Financial and Capital Markets (45.4). Poor education and unemployment scores, along with low market capitalization and limited alternative financial sources, are areas that need attention.

Kosovo* (7th) – Trailing at the bottom with 38.9, Kosovo* faces major challenges in both sub-pillars. High unemployment rates (33.5) and poor PISA scores (34.3) are particularly alarming, signalling the need for comprehensive labour market and education reform. Although some reforms have been implemented in financial markets (guarantee fund established), Kosovo* does not have a functioning stock exchange.

Republika Srpska – This economy shows strength in financial markets (most notably the banking sector), while it also has lower-than-average unemployment rates. In this pillar it does not have any glaring weakness, except education whose scores it shares with Bosnia and Herzegovina.

Federation of Bosnia and Herzegovina –This economy struggles in both Labour Market and Human Capital and Financial and Capital Markets, putting it the lower end in overall market performance. The high unemployment rate is particularly worrying.

Table 3: Heatmap of Pillar 2. Markets

	Markets	Labour Market and Human Capital	Education Index (HDI)	PISA test results - Science	Unemployment rate	Financial and Capital Markets	Banking Sector Assets to GDP	Market Cap to GDP	Access to Alternative financial Sources (OECD)
	p.02	sp.03	ind.09	ind.10	ind.11	sp.04	ind.12	ind.13	ind.14
Croatia	63,6	63,9	61,5	66,5	63,8	63,3	67,1	55,0	67,9
Montenegro	55,4	52,4	61,1	49,4	46,7	58,5	57,4	67,8	50,3
Serbia	52,7	57,2	56,2	56,9	58,5	48,2	45,5	41,0	58,1
Albania	49,0	50,7	47,2	50,0	54,9	47,3	45,4	48,2	48,3
North Macedonia	46,3	44,4	37,0	48,8	47,4	48,1	51,4	52,5	40,5
Bosnia and Herzegovina	44,1	42,7	38,7	44,2	45,2	45,4	47,4	48,3	40,5
Kosovo*	38,9	38,7	48,2	34,3	33,5	39,1	35,8	37,1	44,4
Republika Srpska	49,6	46,5	n/a	n/a	54,5	52,6	64,5	51,8	n/a
Federation of Bosnia and Herzegovina	43,2	42,0	n/a	n/a	41,0	44,5	45,6	46,3	n/a

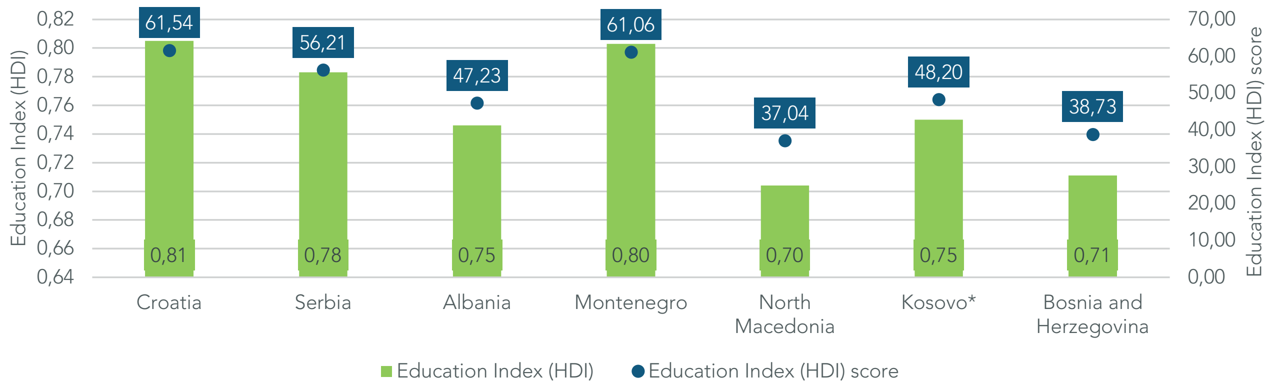
Source: Authors' calculations

3.2.2. Results by Indicator

a) Labour Market and Human Capital

Education Index (HDI) – When assessing educational attainment, the HDI Education Index reveals that CORE Partnership economies generally lag behind the EU average score of 0.87. This index serves as a critical indicator of the quality of the workforce and, by extension, economic prospects such as growth and unemployment rates. Among the CORE economies, Croatia leads the pack with a score of 0.81, closely followed by Montenegro at 0.80. Serbia trails these two with a score of 0.783, indicating that it has room for improvement to catch up with its leading regional peers and the EU average. However, it is particularly noteworthy that Bosnia and Herzegovina and North Macedonia have scores of 0.71 and 0.70 respectively. These low scores highlight pressing educational challenges that could have a long-term impact on these economies' global competitiveness and economic development. Albania and Kosovo* sit in a similar educational landscape with scores of 0.75, revealing a need for significant educational reforms. For context, the EU average for the total HDI stands at 0.895. Where an economy's HDI is higher than its Education Index, it suggests that the economy may be performing well in other HDI components like life expectancy and income but is lagging in education. This imbalance could jeopardize future economic growth as a well-educated workforce is crucial for sustaining development. Therefore, while some CORE economies come close to the EU average, comprehensive educational reform remains essential for closing the gap and improving their global competitiveness.

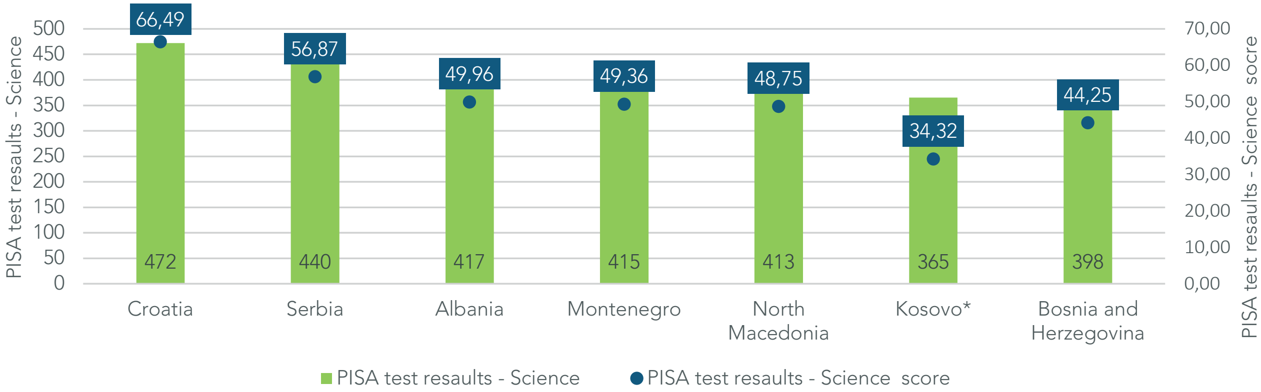
Graph 11: Education Index (HDI)



Source: Authors' calculations

PISA test results: Science – Ability of the CORE economies' students to employ scientific knowledge and skills to understand the world and make informed decisions about science-related issues lag behind the EU, in some cases considerably so. Croatia leads among the CORE Partnership economies with a score of 472, closely approaching the EU average of 483. Serbia follows with 440, and North Macedonia is not far behind with 413. Albania and Bosnia and Herzegovina report scores of 417 and 398, respectively, pinpointing significant challenges in their educational systems. Kosovo* rounds out the list with the lowest score among the CORE economies at 365, underscoring a critical area for improvement. While there has been a positive trajectory in educational improvement among CORE economies that participated in previous PISA cycles, systemic issues like inequitable learning outcomes and gender disparities remain pervasive, exceeding international norms. Educational spending is characteristically low and unequally distributed, exacerbating existing educational disparities. Demographic changes such as declining birth rates and increasing urbanization further complicate the educational landscape. However, a new round of PISA testing was completed in 2022, and the forthcoming results will offer invaluable insights for recalibrating educational strategies. These comprehensive data serve as vital metrics for CORE policymakers, emphasizing the urgency for targeted, nuanced reforms to bolster scientific literacy and enhance global competitiveness.

Graph 12: PISA test results - Science

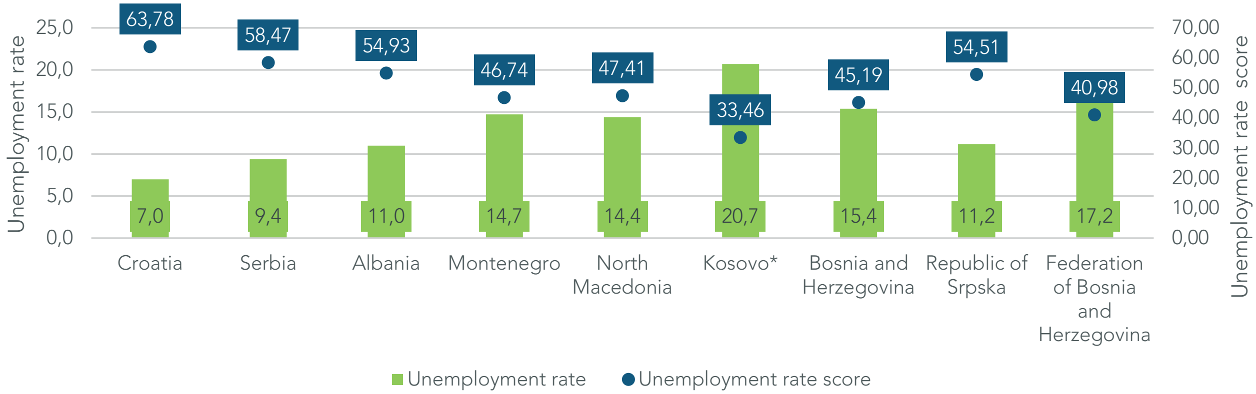


Source: Authors' calculations

Unemployment – While job creation experienced a slowdown in the latter half of 2022, unemployment is no longer the macroeconomic issue it once was in CORE Partnership economies, with labour shortages becoming increasingly prevalent, especially in Croatia and Serbia, where unemployment rates are the lowest at 7.0% and 9.4%, respectively. Nevertheless, the situation remains complex. Most of the remaining unemployed are long-term and hard-to-employ individuals, posing a considerable challenge for active labour market policies. Kosovo* has the region's highest unemployment rate at 20.7%, followed by Montenegro at 14.7% and North Macedonia at 14.4%. Bosnia and Herzegovina shows strong regional disparities with an overall rate of 15.4%, but the Federation of Bosnia and Herzegovina reports a very high 17.2% (some sources cite over 30% unemployment rate)[8], compared to Republika Srpska's 11.0%. Despite recording significant declines in unemployment numbers — Bosnia and Herzegovina, Kosovo*, and North Macedonia reduced their unemployed populations by 13%, 18%, and 21% over 2022 respectively — the drops largely resulted from a declining labour force and an increase in inactivity. Montenegro uniquely experienced a rise in both employment and unemployment, indicating regional differences. These particularly affect areas like northern Montenegro, the Federation of Bosnia and Herzegovina and north-eastern North Macedonia, where high structural unemployment rates exceeding 34% persist. The challenge ahead lies in effective policymaking that addresses both job creation and the specific needs of long-term, hard-to-employ individuals.

8 See Western Balkans Regular Economic Report Spring 2023 by the World Bank

Graph 13: Unemployment rate

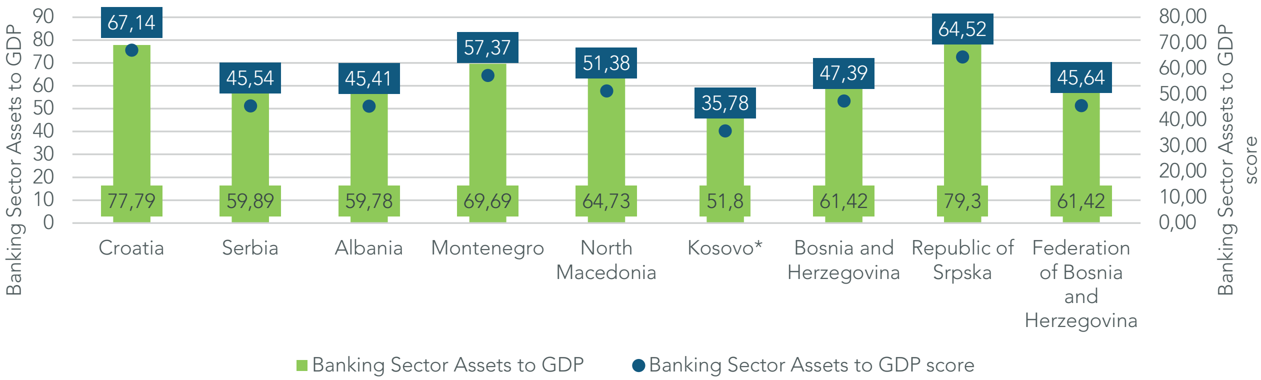


Source: Authors' calculations

b) Financial and Capital Market

In the CORE economies, Banking Sector Assets to GDP ratios highlight the nuanced interplay of resilience and vulnerability in these financial systems, particularly in the face of anticipated adjustments in inflation and real interest rates. Republika Srpska, with its Banking Sector Assets to GDP ratio at 79.30%, serves as an illustrative case of a predominantly bank-based financial architecture, warranting close scrutiny in the context of prospective macroeconomic shifts. On the opposite end of the spectrum, Kosovo*, with a 51.80% ratio, faces significant challenges in SME financing, exacerbated by steep collateral requirements. At present the banking sectors across these economies demonstrate a relatively stable risk profile, as evidenced by low Non-Performing Loans (NPLs). Croatia, with its ratio at 77.79%, reflects a conscientious effort towards financial sector diversification, thereby potentially mitigating vulnerabilities to forthcoming economic volatilities. Serbia and Albania, despite Banking Sector Assets to GDP ratios below 60%, manifest a subdued level of financial intermediation, particularly in the private sector. Montenegro, registering a 69.69% ratio, offers a unique landscape characterized by an elevated number of operational banks relative to market size. Considering impending monetary policy realignments and economic fluctuations, the pronounced reliance on bank financing across these economies underlines an urgent imperative for diversification strategies. It should be noted that most of these economies have implemented credit guarantee funds to enhance lending practices (this was particularly helpful in Kosovo*), with the exception of Montenegro. Therefore, strategic focus and policy adjustments in these financial sectors will be pivotal in determining their resilience and adaptability in an evolving macroeconomic landscape.

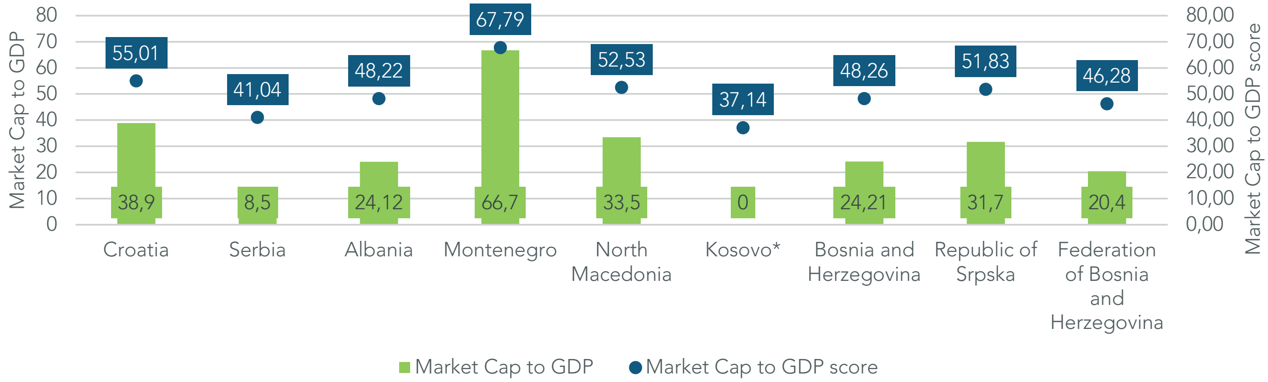
Graph 14: Banking Sector Assets to GDP



Source: Authors' calculations

Market Cap to GDP – In all CORE economies, capital market development remains subdued or non-existent, a stark contrast to the EU average Market Cap to GDP ratio of 85.5%. Montenegro registers the highest Market Cap to GDP ratio at 66.7%, a figure that belies the illiquidity of its market, dominated by state-affiliated entities like Elektroprivreda Crne Gore AD. Kosovo* is at the other extreme with a complete lack of a stock exchange, reflected in a zero Market Cap to GDP ratio. Serbia's ratio of 8.5% underscores the underutilization of its capital market, while Croatia, despite ongoing reforms, has a ratio of 38.9%, still falling short of EU norms. North Macedonia and Bosnia and Herzegovina exhibit modest ratios of 33.5% and 24.21%, respectively, suggesting their limited role in financing economic activity. Albania, with its privately-owned securities exchange, stands at 24.12%, but is limited to government debt trading. Republika Srpska and the Federation of Bosnia and Herzegovina, both within Bosnia and Herzegovina, display differing Market Cap to GDP ratios of 31.7% and 20.4%, illustrating intra-national disparities. These figures collectively highlight the considerable gap between CORE nations and developed European markets, emphasizing the pressing need for targeted reforms to realize the latent potential of capital markets as vehicles for economic expansion and investment.

Graph 15: Market Cap to GDP



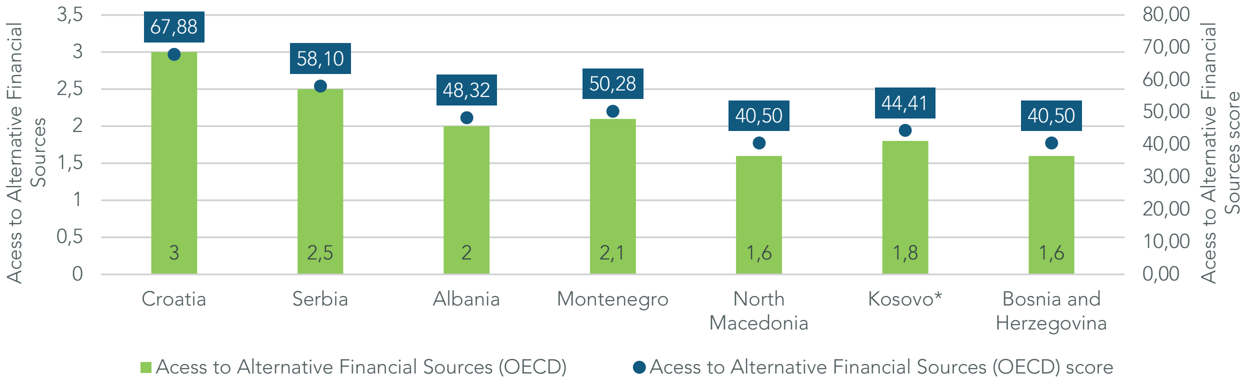
Source: Authors' calculations

Access to Alternative financial Sources (OECD) – Access to alternative financial sources[9], a pivotal factor for sustainable economic growth, especially for SMEs struggling to meet traditional banking requirements, has yet to gain a substantial foothold in the CORE markets. While all CORE economies have shown some improvement in this aspect (mostly in factoring[10] and leasing), with scores ranging from 1.6 to 3.0 out of a maximum of 5, the level of development varies. Croatia leads the pack with a score of 3.0, probably benefiting from an increase in venture capital during the past few years (in addition to factoring and leasing), although it is still below the EU average. Serbia follows with a score of 2.5, underpinned by a clear regulatory framework for private equity and venture capital established in 2020. Montenegro and Kosovo* have both made notable strides in regulating factoring, reflected in their scores of 2.1 and 1.8 respectively. The widespread availability of factoring and leasing as regulated financing options offers immediate liquidity for SMEs, helping them manage cash flow volatility. Despite this, the penetration of such services is still low. Even where a regulatory framework is in place, private equity, and venture capital present untapped potential, especially for technology-focused SMEs, but are still in their infancy in most CORE economies. Business angel networks exist but contribute minimally to the CORE economies. It is critical for these nations to bolster alternative financial sources. Policy recommendations include awareness-heightening programmes, fostering a diverse financing environment, and leveraging tax incentives to capture the interest of business angels. Such measures could significantly improve the financial resilience of the SME sector, thereby driving economic growth and stability in the CORE region.

9 Alternative financial sources include factoring, leasing, private equity and venture capital, business angels, crowdfunding and blockchain.

10 All observed economies possess legal frameworks to regulate factoring options except North Macedonia, which has no dedicated law on factoring (OECD).

Graph 16: Access to Alternative Financial Sources



Source: Authors' calculations

3.3. Business Friendly Regulation

The third pillar refers to efficient and transparent public administration and a business-conducive regulatory framework. Regulatory quality ensures that regulations are clear, consistent, and stable over time. Regulations that are well-designed and efficiently enforced can streamline administrative processes, reduce red tape, and simplify compliance requirements. This, in turn, lowers the barriers to running a business.

The Business Friendly Regulation pillar consists of three sub-pillars (sp.05, sp.06, sp.07): Public Administration Delivery (quantifying the burden of government regulation (1 worst, 7 best), predictability, regulatory quality and quality of public-private dialogue), Taxation and Non-Tax Revenues (quantifying the tax wedge and the share of non-tax revenues in tax inflows) and Informality (measuring the proportion of informal employment in total employment and in public procurement the average number of bids). All scores are between 0 and 100, while 50 is the average.

3.3.1. Summary Results

In terms of business-friendly regulations, performance of the CORE economies relative to EU averages is lacklustre – across all sub-pillars. Among the CORE economies Albania leads in public administration, while Montenegro stands out for taxation, due to recent reforms and non-tax revenues. Kosovo* boasts the smallest tax wedge and shows promise in public procurement. Croatia and Serbia display balanced but middling performances. North Macedonia is held back by weak public-private dialogue, and Bosnia and Herzegovina lags due to poor business friendly regulations across all aspects.

Albania (1st): surprisingly leads the pack in terms of business-friendly regulations, largely owing to a strong public administration delivery. Its predictability and quality of public-private dialogue are especially strong, though it lags significantly in the informality sub-pillar.

Montenegro (2nd): also performs well, particularly in taxation and non-tax revenues. Its main area for improvement in the public administration delivery sub-pillar is predictability.

Kosovo* (3rd): ranks notably in the middle but stands out in public procurement, reflected by the highest number of average bids. However, the quality of its regulatory framework could be improved.

Croatia (4th): despite being lower than expected, Croatia shows a balanced performance across the board.

It is notably better in the quality of public-private dialogue but could improve in dealing with the burden of government regulation.

North Macedonia (5th): falls in the middle of the rankings with commendable regulatory quality but a significant drag due to its low score in the quality of public-private dialogue.

Serbia (6th): also middle-of-the-road, with its main strength lying in the burden of government regulation. However, it performs poorly in taxation and non-tax revenues.

Bosnia and Herzegovina (7th): trails the list, mainly due to subpar scores in almost all aspects, especially in public administration delivery where it lags considerably.

Republika Srpska: similar to Bosnia and Herzegovina overall, it struggles mainly in public administration delivery but shows a better balance across other sub-pillars.

Federation of Bosnia and Herzegovina: like its counterpart, it performs poorly in public administration but shows some resilience in taxation and non-tax revenues compared to the overall score for Bosnia and Herzegovina.

Table 4: Heatmap of Pillar 3. Business Friendly Regulation

	Business Friendly Regulations	Public Administration Delivery	Burden of government regulation (1 worst-7 best)	Predictability	Regulatory Quality	Quality of Public Private Dialogue	Taxation and non-tax revenues	Tax wedge	Share of non-tax revenues in tax inflows
	p.03	sp.05	ind.15	ind.16	ind.17	ind.18	sp.06	ind.19	ind.20
Albania KS	59,2	61,0	68,4	64,5	51,7	59,4	57,4	53,7	61,1
Montenegro	56,3	51,0	52,3	39,0	58,6	54,1	61,6	59,4	63,9
Kosovo*	54,9	51,4	52,3	61,9	36,1	55,3	58,3	65,0	51,6
Croatia	48,9	51,8	37,8	53,1	60,9	55,3	46,0	50,1	41,8
North Macedonia	45,7	46,0	48,3	44,7	58,2	32,9	45,3	38,6	52,0
Serbia	43,9	46,0	50,9	44,5	45,7	43,1	41,8	42,7	40,9
Bosnia and Herzegovina	40,0	40,4	40,0	42,3	38,8	n/a	39,6	40,6	38,7
Republika Srpska	43,0	43,6	n/a	n/a	40,3	51,1	42,4	43,4	41,3
Federation of Bosnia and Herzegovina	43,3	41,9	n/a	n/a	40,3	n/a	44,7	39,9	49,4

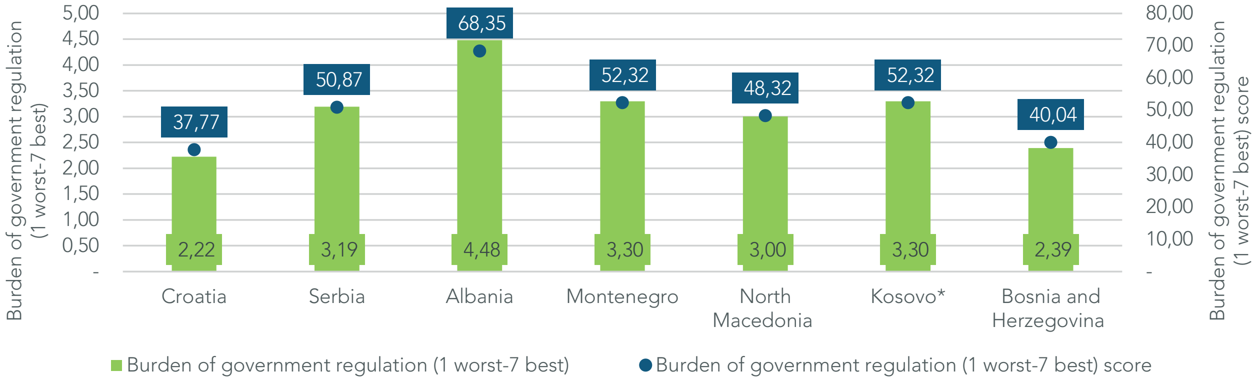
Source: Authors' calculations

3.3.2. Results by Indicator

a) Public Administration Delivery

Burden of government regulation (1 worst, 7 best) – Companies in most of the CORE economies have a negative attitude towards public administration requirements, as reflected in their Burden of Government Regulation scores in the Global Competitiveness Index.[11] Croatia and Bosnia and Herzegovina find themselves deep in the negative zone, with scores of 2.22 and 2.39, respectively. This suggests that businesses in these economies face significant challenges with regulatory burdens. North Macedonia, Serbia, and Kosovo* fare slightly better but remain in negative territory, with scores ranging from 3.00 to 3.30, indicating room for improvement in regulatory efficiency. Albania stands as a positive exception among the CORE economies. With a score of 4.48, it surpasses the neutral mark of 4 and places itself among the top 20 economies in the world for this indicator. This suggests that Albania has been successful in implementing a business-friendly policy framework, setting it apart from its regional peers. These scores offer valuable insights for policymakers in the CORE economies. They point to the importance of regulatory reforms to improve the business climate, which could potentially lead to economic growth and enhanced global competitiveness.

Graph 17: Burden of government regulation



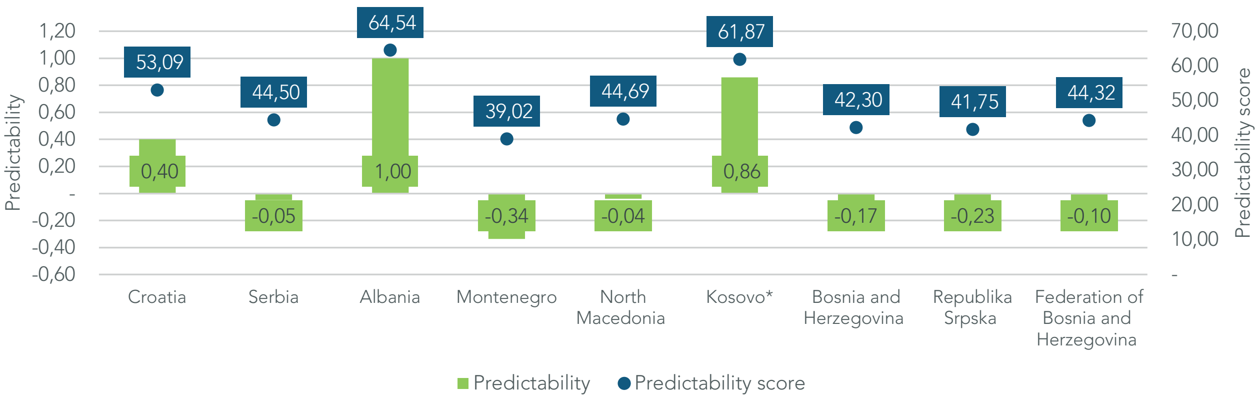
Source: Authors' calculations

11 The indicator is obtained as an answer to the question "how burdensome is it for companies to comply with the public administration's requirements, on a scale from 1 to 7".

Regulatory Predictability – Kosovo* and Croatia seem to have a rather predictable regulatory environment, while in the rest of CORE economies unannounced adopting/amending of laws is more common than announced. Regulatory predictability refers to the consistency and stability of a business environment's rules and regulations. When regulations are predictable, businesses can more easily plan, make investments, and comply with laws. We define regulatory predictability as a situation where the laws and amended laws scheduled for adoption (A) are eventually adopted (amended) (B), and where ad-hoc legislation is not a common occurrence (C).[12] Summary results are provided below:

- Albania planned to adopt/amend 71 laws (A), adopted/amended 71 (B), while it did not adopt/amend any unannounced laws (C), which yields a theoretically maximum score of 1.
- Kosovo* planned to adopt/amend 130 laws (A), adopted/amended 111 (B), while it did not adopt/amend any unannounced laws (C), which yields a score of 0.86.
- Croatia planned to adopt/amend 195 laws (A), adopted/amended 123 (B), while it adopted/amended 45 unannounced laws (C), which yields a score of 0,4.
- North Macedonia planned to adopt/amend 141 laws (A), adopted/amended 27 (B), while it adopted/amended 33 unannounced laws (C), which yields a score of -0,04.
- Serbia planned to adopt/amend 394 laws (A), adopted/amended 86 (B), while it adopted/amended 105 unannounced laws (C), which yields a score of -0.05.
- Federation of Bosnia and Herzegovina planned to adopt/amend 121 laws (A), adopted/amended 13 (B), while it adopted/amended 25 unannounced laws (C), which yields a score of -0,1.
- Republika Srpska has a score of -0.23.
- Montenegro planned to adopt/amend 101 laws (A), adopted/amended 17 (B), while it adopted/amended 51 unannounced laws (C), which yields a score of -0,34.

Graph 18: Regulatory Predictability

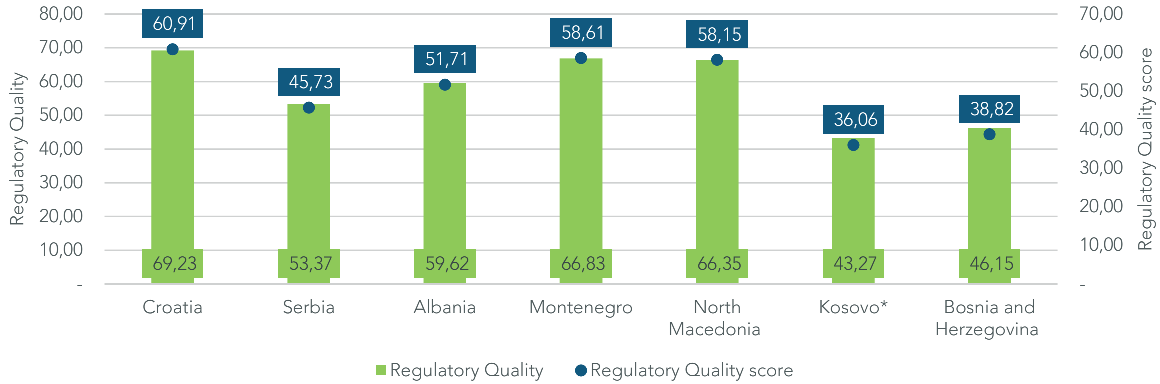


Source: Authors' calculations

12 The score is obtained as B/A-C/A. The theoretical maximum is 1, obtained when all planed laws/amended are adopted, while negative values indicate that more unannounced laws (amendments) were made than the announced.

The Regulatory Quality scores from the World Governance Indicators reveal that most of the CORE economies struggle to implement a business-friendly policy framework, with Croatia being an exception, leading the group with a score of 69.2. This figure not only surpasses its regional neighbours but also shows remarkable resilience by almost fully rebounding to its pre-COVID-19 pandemic level by 2021. Montenegro and North Macedonia trail closely behind Croatia, scoring 66.8 and 66.3 respectively, suggesting relative stability in their regulatory environments. Alarmingly, Serbia's score has been on a downward trend, reaching 53.4 in 2021, which indicates that the economy faces deeper, systemic challenges extending beyond the instability caused by the COVID-19 pandemic. Albania has remained stagnant with a score of 59.6, and Bosnia and Herzegovina showed only a modest recovery to 46.2 after the COVID-19-induced dip. Kosovo* lags significantly behind with a score of 43.3 but has recently shown a slight uptick. In contrast, the EU average stands robustly at 77.3, emphasizing the significant regulatory gap that CORE economies need to bridge. These scores serve as critical metrics for policymakers in the region, highlighting the urgent need for focused interventions to improve governance and regulatory quality.

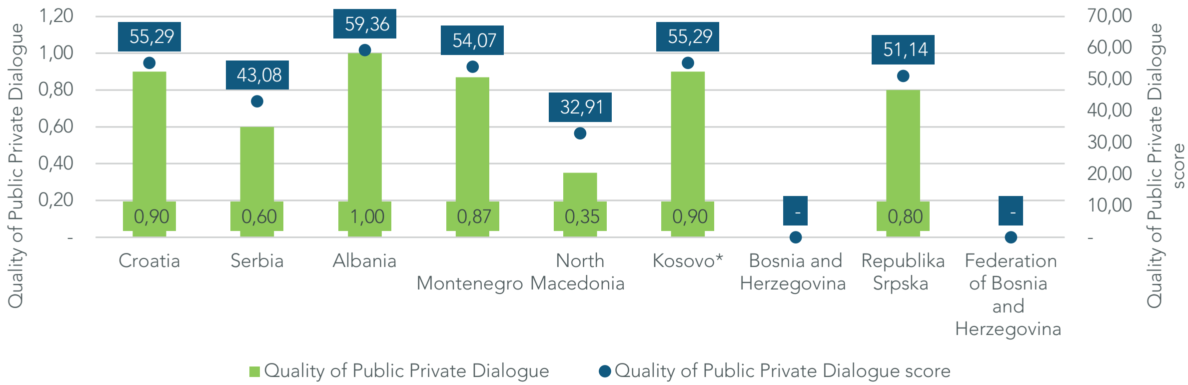
Graph 19: Regulatory Quality



Source: Authors' calculations

The Quality of Public-Private Dialogue in adopting laws shows that most of the CORE economies have acceptable levels of stakeholder engagement. The Quality of Public Private Dialogue in the SBE Index is assessed through a multifaceted approach that evaluates both the existence and efficacy of mechanisms for communication between governmental agencies and stakeholders. The assessment is based on five key questions. First, we consider whether there is a formal requirement for a minimum period for public consultations on primary laws. Second, we evaluate the extent to which the government uses interactive websites as a platform for stakeholder consultations. Third, we check whether regulators are obliged to publish responses to consultation comments, thereby adding transparency and accountability to the dialogue. Fourth, we assess the accessibility of information by examining whether ongoing consultations on primary laws are listed on a centralized government website. Fifth, we scrutinize whether decisions not to conduct public consultations on primary laws are publicly disclosed. Additionally, we examine the percentage of laws that are accompanied by a Public Private Dialogue Report, providing an overarching view of the consultative process. This methodology offers a comprehensive measure of how public and private sectors interact and consult with each other, influencing the overall governance and regulatory landscape. Regarding the scores, Albania, Kosovo*, Croatia and Montenegro to an extent have near perfect scores. On the other hand, there is a considerable room for improvement in North Macedonia and Serbia. Scores for the Federation of Bosnia and Herzegovina are not available.

Graph 20: Quality of Public Private Dialogue in law adoption

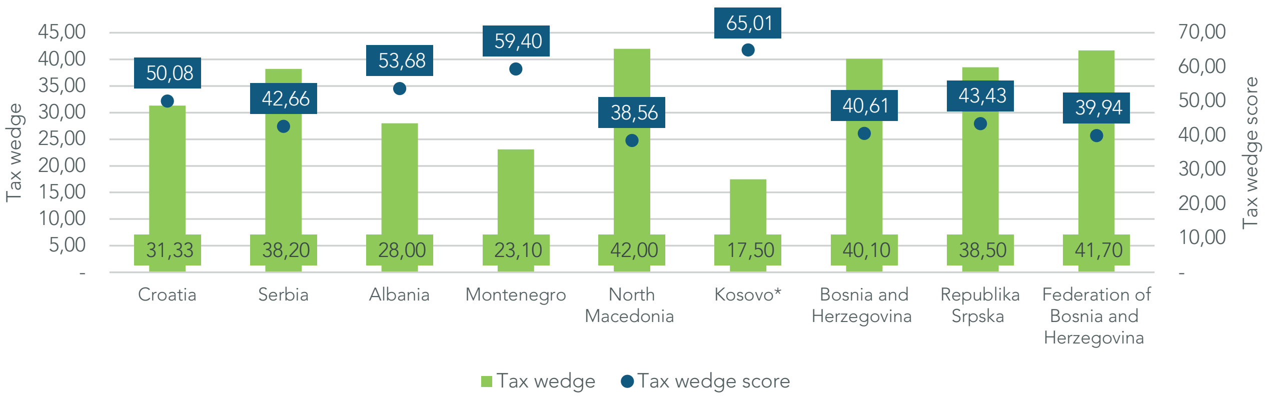


Source: Authors' calculations

b) Regulatory Quality

Tax wedge – In general, labour taxation in the CORE economies is characterized by high tax wedges, especially for low-wage earners, while inexistent progressivity hampers equality considerations. Leading in tax-wedge size are North Macedonia at 42.0%, Bosnia and Herzegovina's BH-FBIH at 41.7%, and BH-RS at 38.5%, closely followed by Serbia at 38.2%. In Bosnia and Herzegovina's Federation entity, the labour taxation regime has remained practically unchanged for years, contributing to low rates of labour participation. On the other hand, Republika Srpska has seen multiple changes but still maintains a high tax wedge. Serbia, although it has attempted various compensatory measures, still suffers from a high tax burden on labour. Croatia, with a 31.3% tax wedge, is slated to introduce higher progressivity by 2024, aiming to alleviate the tax burden on lower incomes. Montenegro, with a 23.1% tax wedge, abandoned its flat tax system in 2022 in favour of progressive taxation and other significant reforms, such as introducing a personal allowance of EUR 700 and abolishing health insurance. Kosovo*, leveraging its youthful demographic that places less pressure on pension funds, maintains a notably low tax wedge of 17.5%. High tax wedges in Serbia, BH-RS, and BH-FBIH are significant barriers to employment formalization and inclusivity, particularly for low-income earners. In contrast, the reforms in Montenegro and the demographic advantage in Kosovo* offer pathways for improving labour market conditions, which could serve as models for other CORE economies, provided they are complemented by appropriate tax and spending reforms.

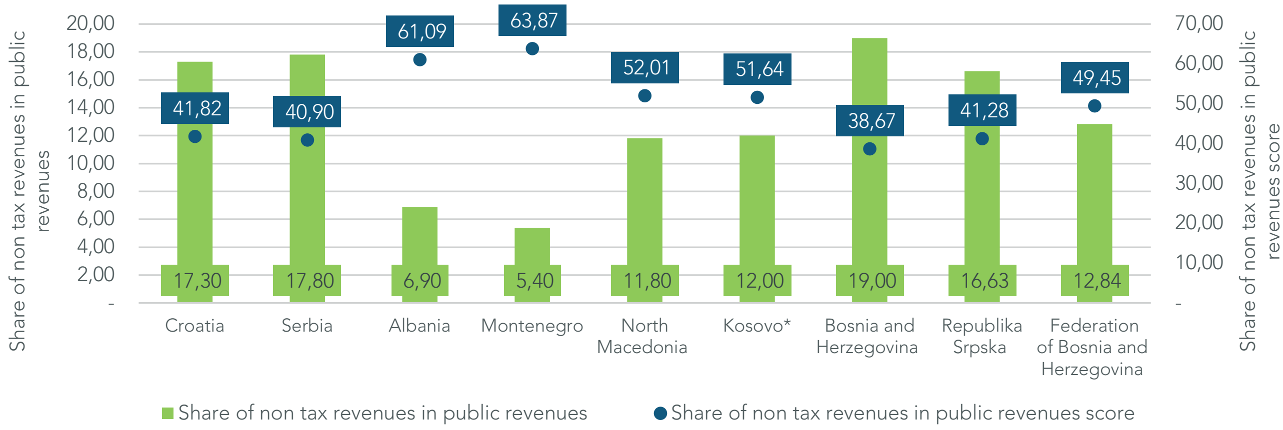
Graph 21: Tax wedge



Source: Authors' calculations

Share of non-tax revenues in tax inflows – In comparison to the EU average of 12%, where member states typically report between 10% and 15% (EC 2017) of non-tax revenues[13], the share of non-tax revenues in public revenues is relatively high in Croatia, Serbia, and both entities of Bosnia and Herzegovina. Elevated levels of non-tax revenue can introduce long-term sustainability concerns and volatility into an economy's fiscal framework. For example, Bosnia and Herzegovina's relatively high share of 19.0% suggests a possible over-reliance on less stable and less predictable sources of revenue. This contrasts sharply with Montenegro, which has a modest 5.4% share, signalling a more sustainable and tax-oriented revenue structure. Economies like Croatia, Serbia, and Bosnia and Herzegovina could benefit from diversifying their revenue streams to align more closely with European norms, thereby enhancing fiscal stability. This variation in non-tax revenue shares across the region suggests the need for a nuanced policy approach to fiscal management.

Graph 22: Share of non-tax revenues in tax inflows



Source: Authors' calculations

13 Non-tax revenues include (a) total sales of goods and services, (b) other current revenue and (c) other capital revenue, while tax revenues include (d) total taxes and (e) total social contributions. Total government revenue consists of a sum of all these components, in accordance with the European System of Accounts (ESA)-based presentation of government finance statistics (GFS).

3.4. Resilient, Vibrant and Innovative Businesses

The fourth pillar considers the impact of other companies in an economy and their business practices on the business-friendly environment. Ensuring a level playing field in the formal economy means that businesses must comply with the same rules and regulations. This reduces the ability of some businesses to gain a competitive advantage by operating in the informal sector where they might evade taxes, labour regulations, or other legal obligations. Business digitalization and innovative practices can create a more favourable business environment by reducing costs, improving overall supply chain efficiency, expanding market reach and access to emerging technologies, and foster a culture of innovation. As a result, economies where businesses embrace these practices are often better positioned to thrive in a competitive and rapidly evolving global economy.

3.4.1. Summary Results

Croatia leads in creating a business-friendly environment, excelling notably in Innovation and Business Digitalization. Serbia follows closely but could improve in public procurement. North Macedonia performs moderately but doesn't excel in any sub-pillar. Montenegro also shows balanced but unimpressive performance. Albania and Kosovo* struggle due to poor Informality and Innovation scores, while Bosnia and Herzegovina lags primarily in Business Digitalization. However, it is noteworthy that the CORE economies lag behind considerably as a group vis-à-vis the EU 27 average.

Croatia (1st): Clearly outperforms the others in the Resilient, Vibrant, and Innovative Businesses pillar. It excels especially in Innovation, as evidenced by its strong scores in the Competitive Industrial Performance Index and European Innovation Scoreboard. Croatia also performs notably better in Informality and Business Digitalization compared to its regional peers.

Serbia (2nd): Comes close to Croatia, particularly excelling in Business Digitalization. Its Fixed Broadband Mbps and eCommerce Index scores are better than most of its peers. However, it could improve in the area of public procurement.

North Macedonia (3rd): Offers a balanced but unremarkable performance, achieving its highest score in Informality, particularly in the proportion of informal employment in total employment.

Kosovo* (4th): Exhibits mixed results, with its standout performance being in public procurement average number of bids. Lack of data in some key metrics makes a full assessment challenging.

Montenegro (5th): Trails with moderate performance across all sub-pillars but lacks any exceptional highlights.

Albania (6th): Struggles mainly due to weaknesses in Informality and Innovation, which significantly pull down its overall pillar score. It performs relatively better in Business Digitalization.

Bosnia and Herzegovina (7th): Performs the poorest, primarily due to its exceptionally weak scores in Business Digitalization.

As for the entities within Bosnia and Herzegovina, both the **Republika Srpska** and the **Federation of Bosnia and Herzegovina** perform below average in this pillar. However, data is missing for a more detailed comparative analysis.

Table 5: Heatmap of Pillar 4. Resilient, Vibrant and Innovative Businesses

	Resilient, Vibrant and Innovative businesses	Informality	Proportion of informal employment in total employment	Public procurement average number of bids	Innovations	Competitive Industrial Performance Index	European Innovation Scoreboard	Business Digitalization	Internet speed Fixed Broadband Mbps	eCommerce Index	Digitalisation of Bussines Procedures
	p.04	sp.07	ind.21	ind.22	sp.08	ind.23	ind.24	sp.09	ind.25	ind.26	ind.27
Croatia	60,1	59,8	64,3	55,3	64,3	64,8	63,9	56,1	45,8	63,8	58,7
Serbia	56,1	49,5	57,0	42,0	60,3	60,5	60,0	58,5	64,9	57,4	53,2
North Macedonia	51,7	54,0	57,0	51,0	49,1	51,6	46,6	52,0	43,0	54,3	58,7
Kosovo*	48,8	56,5	45,4	67,6	39,8	39,8	n/a	50,0	57,8	n/a	42,1
Montenegro	47,4	48,9	44,6	53,1	44,1	40,0	48,2	49,3	53,1	41,6	53,2
Albania	42,8	38,3	34,6	42,0	42,8	42,1	43,4	47,4	50,9	38,3	53,2
Bosnia and Herzegovina	41,4	43,0	47,1	39,0	44,6	51,3	37,8	36,7	34,5	44,6	31,1
Republika Srpska	43,5	n/a	n/a	n/a	n/a	n/a	n/a	41,0	n/a	n/a	40,6
Federation of Bosnia and Herzegovina	42,4	n/a	n/a	n/a	n/a	n/a	n/a	37,9	n/a	n/a	31,3

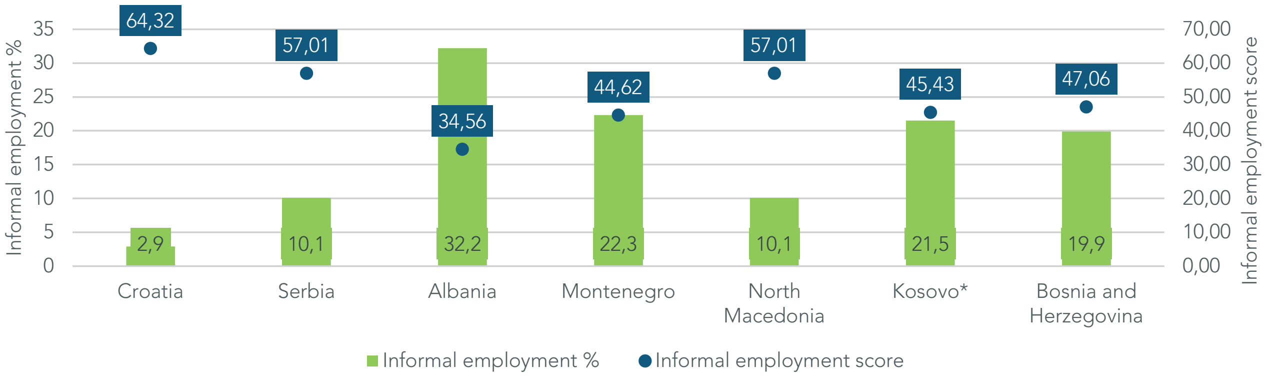
Source: Authors' calculations

3.4.2. Results by Indicator

a) Informality

The proportion of informal employment in total employment – Informal employment presents a considerable challenge across the majority of the SBE Index economies, significantly affecting both the competitive landscape and the sustainability of pension systems. The issue gains added significance when juxtaposed with the European Union average of 4.5% for informal employment. Croatia emerges as a leader in this regard, recording a rate of just 2.9%, thereby fostering a more equitable competitive environment and contributing to the stability of its pension system. This achievement is particularly noteworthy given Croatia's significant involvement in sectors like HORECA, where informal employment is often more common. Conversely, Albania demonstrates a high rate of 32.2%, which not only leads to an unbalanced competitive landscape but also poses significant challenges to its already strained pension system. While agriculture serves as a common sector for informal labour across both top and bottom performers, variations are also apparent in other sectors such as HORECA and construction. The data, although not longitudinal, underscores the urgency for targeted structural reforms aimed at labour market formalization. By addressing these issues, the CORE partnership economies can work toward a more transparent and equitable business environment while also securing the stability of their respective pension systems, thereby positioning themselves for higher rankings in future SBE Index evaluations. One such measure could be introduced in the form of an In-Work Tax Credit (IWTC). An IWTC would help to alleviate the excessive effective tax rates faced by low-wage earners entering formal employment, as documented in Serbia and Montenegro, and the net fiscal cost of an IWTC can be made manageable as a function of its key characteristics (maximum credit, range of eligible income, etc.) (IMF 2023).

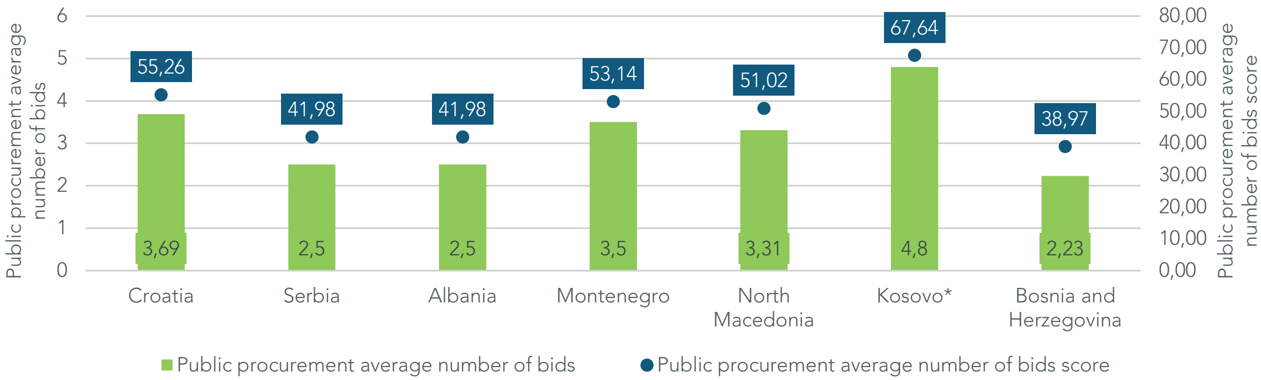
Graph 23: Proportion of informal employment in total employment



Source: Authors' calculations

Public procurement average number of bids – In the SBE Index, the average number of bids in public procurement processes indicates that Kosovo* leads the region with a robust competitive environment, while Bosnia and Herzegovina trails, reflecting the varying degrees of competitiveness and the potential for corruption across the economies. Kosovo*, where the average number of bids stands at 4.8, appears to benefit from a procurement environment that encourages multiple bidders. This is a strong indicator of a competitive market and reduced risk of corruption, although the full integration of renewable energy and energy efficiency projects into public procurement remains to be seen. The situation in Kosovo* contrasts sharply with that in Bosnia and Herzegovina, where the average number of bids is only 2.23. This low level of competition raises concerns about the procurement ecosystem, possibly hinting at corruption, bid rigging, or both. Specifically, Serbia's public procurement framework demonstrates that despite efforts to align with EU directives, an average of 2.5 bids per tender suggests room for improvement. These lower numbers could imply that current policies do not adequately discourage corruption or encourage competition. Croatia, an EU member state with an average of 3.69 bids, shows evidence of significant improvement in recent years, including steps toward introducing a new e-procurement system. Nevertheless, both economies fall short of the EU average of 5.4 bids, signalling a gap in achieving best practices in public procurement. The CORE partnership economies have implemented various measures to align with EU policies, yet disparities in public procurement practices persist. As economies like Albania and Montenegro move towards harmonizing their regulations with EU directives, and as Serbia and North Macedonia continue to update their legal frameworks, the focus must now turn to effective implementation to foster more competitive and transparent bidding processes.

Graph 24: Public procurement average number of bids

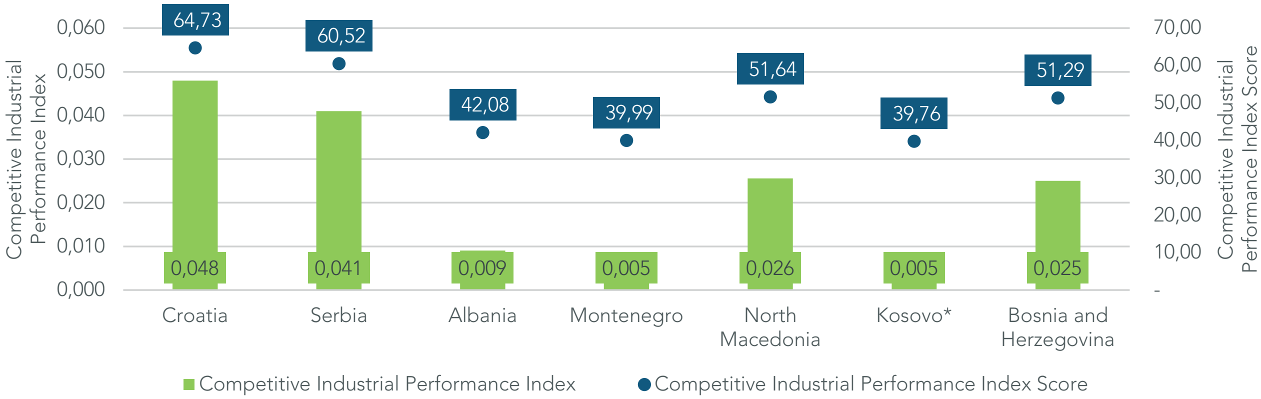


Source: Authors' calculations

b) Innovation

The Competitive Industrial Performance (CIP) Index for Balkan (CORE) and Eastern European economies reflects a downward trend in industrial competitiveness for most of these economies, with Croatia and Serbia maintaining a significant lead over economies like Kosovo*, Montenegro, and Albania. Exceptionally, North Macedonia shows a slight uptick, while Bosnia and Herzegovina remains stagnant. All CORE partnership economies have below-average CIP scores globally, an outcome primarily driven by their weak 'relation to the world' dimension due to their small market sizes. Croatia and Serbia excel in 'manufacturing capabilities' and 'industrialization intensity,' which helps maintain their lead, but they are encumbered by weaker performance in external economic relations. In stark contrast, the economies at the lower end of the scale, notably Kosovo*, Montenegro, and Albania, face acute deficiencies in all three dimensions, particularly in 'industrialization intensity' and global economic relations. The close scores of Croatia (0.048) and Serbia (0.041) indicate a competitive dynamic, although the slightly declining trend for both should raise some concern. The vast performance gap between these leaders and the economies with scores as low as 0.005 (Kosovo* and Montenegro) underscores the urgent need for policy focus on enhancing capabilities and global economic relations for the trailing nations. The data not only spotlights the performances of individual economies but also elucidates the structural challenges hindering the region's industrial competitiveness, thereby highlighting the areas that require concentrated policy intervention.

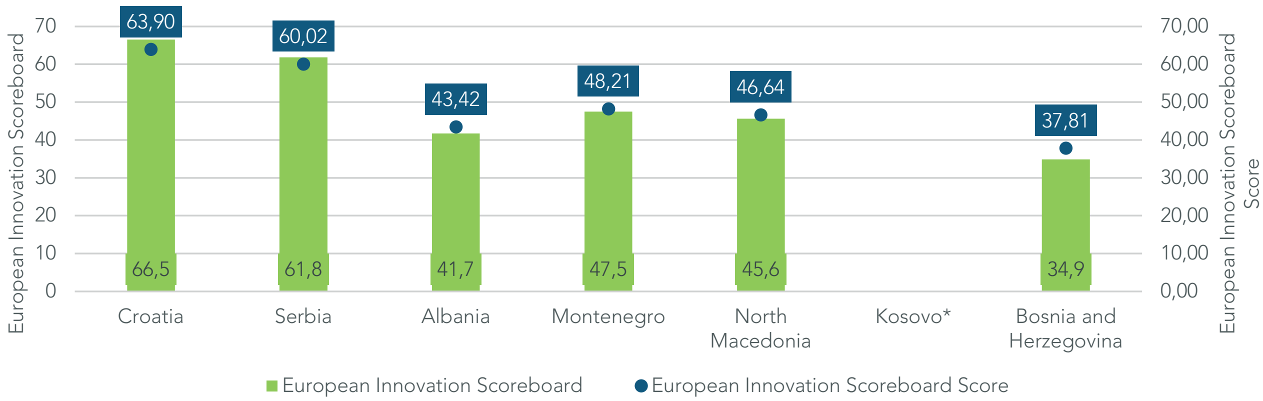
Graph 25: The Competitive Industrial Performance (CIP) Index



Source: Authors' calculations

European Innovation Scoreboard – In the landscape of innovation, all CORE Partnership economies are categorized as Emerging Innovators, indicating that their performance is notably below the EU average, yet displaying varying levels of strengths and weaknesses. Croatia leads this cohort with a European Innovation Scoreboard figure of 66.5, buoyed by relative strengths in public-private co-publications and venture capital expenditures. Serbia follows closely, registering a score of 61.8, and is particularly strong in areas such as employment in innovative enterprises. These two nations are ahead by a significant margin compared to Bosnia and Herzegovina, which scores just 34.9, only 36.2% of the EU average. The disparity between the innovation performances of leaders like Croatia and Serbia and those lagging, notably Bosnia and Herzegovina, is considerable. Bosnia and Herzegovina's lower performance is mainly hampered by lacklustre government support for business R&D and inadequate innovation expenditure, which further exacerbates its distance from EU standards. Meanwhile, economies like Albania, Montenegro, and North Macedonia occupy the middle ground, each with distinct attributes and challenges. Notably, North Macedonia's performance has been on an upward trajectory that surpasses the EU's average rate of increase in select dimensions. Overall, limited R&D investment and government support across the board are key factors contributing to the CORE Partnership economies' status as Emerging Innovators, underlining the need for nuanced policy interventions to elevate their innovation capabilities.

Graph 26: European Innovation Scoreboard

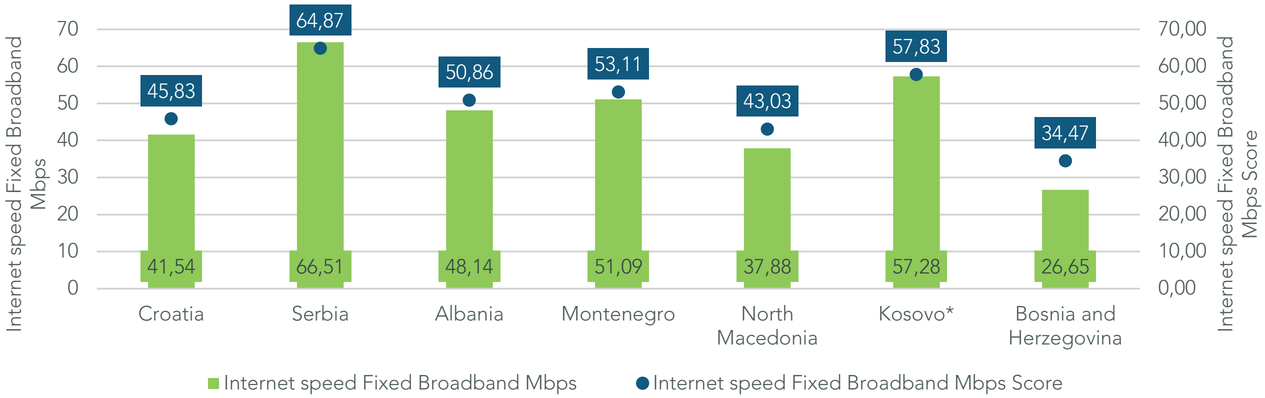


Source: Authors' calculations

c) Business Digitalization

Fixed broadband Internet speeds (in Mbps) in the CORE Partnership region vary significantly, with Serbia leading at 66.51 Mbps and Bosnia and Herzegovina trailing at 26.65 Mbps, both well below the EU average of 98.43 Mbps and median of 91.58 Mbps. Such disparities have far-reaching implications for the business environment, affecting everything from e-commerce to data analytics. Serbia, with its relatively high broadband speed, offers a more conducive environment for digital businesses and is better positioned to attract foreign investment in tech sectors. In contrast, Bosnia and Herzegovina's low broadband speed indicates a pressing need for infrastructure investment, as poor connectivity can inhibit business growth and deter foreign investment. For context, even Croatia, an EU member state, lags in broadband speed, indicating that regional economic integration does not guarantee superior digital infrastructure. Slow Internet can adversely affect businesses, especially small and medium-sized enterprises (SMEs), by reducing productivity and competitiveness and make the transition to industry 4.0 and the digital economy somewhat more difficult.

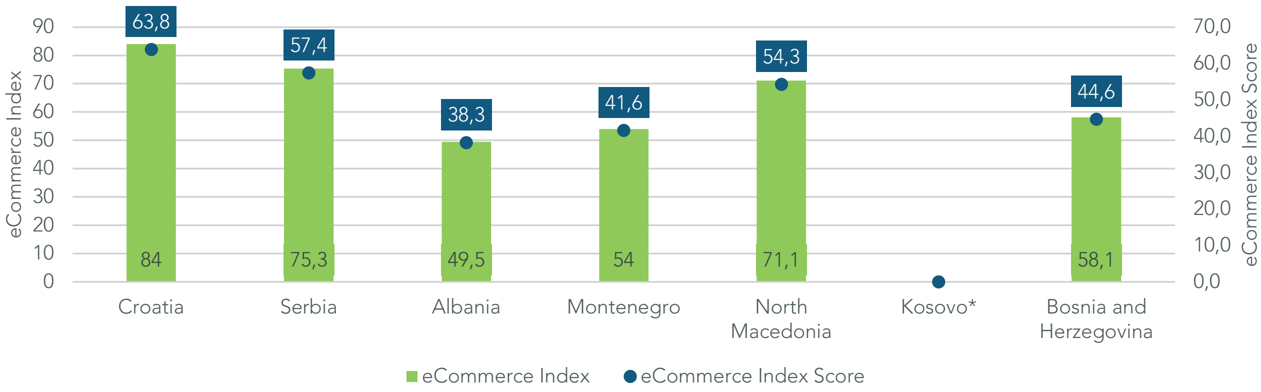
Graph 27: Fixed broadband Internet speeds



Source: Authors' calculations

eCommerce Index – CORE Partnership economies generally trail the EU in e-commerce capabilities, as highlighted by the 2020 UNCTAD E-Commerce Index. Croatia stands out as the top-performing CORE nation, aligning closely with the EU's average e-commerce index score of 86.63 and notably surpassing the EU's UPU postal reliability average of 84.3 with a score of 90. This suggests that Croatia is well-positioned to benefit from cross-border e-commerce. Serbia, despite outperforming Romania and Bulgaria, would rank near the bottom among EU economies, particularly due to its weaker secure Internet servers score of 73, below the EU average of 83.1. Albania presents stark challenges in financial inclusion, with only 40% of its population having a financial account, far below the EU average of 92.1%, indicating a pressing need for financial literacy and accessibility initiatives. Bosnia and Herzegovina faces unique issues, especially evidenced by its low UPU postal reliability score of 40, which is significantly below the EU average of 84.3. This suggests that improvements in postal and logistics services could provide a significant boost to its e-commerce capabilities. These data-driven insights offer a nuanced understanding of the e-commerce landscape in the CORE Partnership economies, emphasizing the necessity for targeted policies to bridge the e-commerce divide within these economies and in relation to the EU.

Graph 28: eCommerce Index

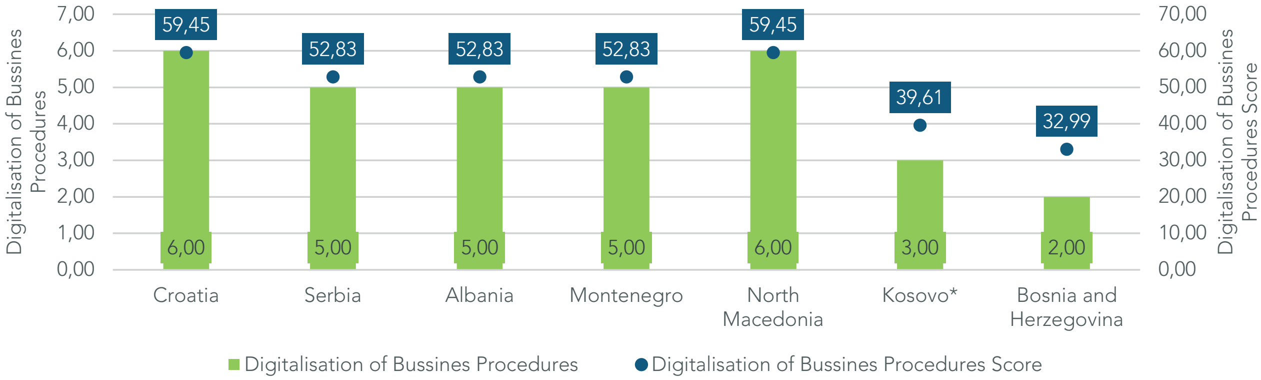


Source: Authors' calculations

Digitalization of Business Procedures - In the CORE economies, the digitalization of Business Procedures has reached at least the initial stages of development in all economies except the Federation of Bosnia and Herzegovina, where it is still not being implemented. Croatia has achieved full marks by successfully implementing all six essential elements that constitute this indicator[14], from an online registration portal to a qualified electronic signature requirement. This all-encompassing digital system has effectively streamlined business procedures, making it easier for SMEs to register and operate. North Macedonia closely mirrors Croatia's performance, with a strong emphasis on electronic services and functionalities for companies to access seamlessly. In contrast, the Federation of Bosnia and Herzegovina has shown minimal progress in digitalizing its business procedures, which has led to its low score. This particular administrative region lacks even the most basic infrastructure for online business registration. Republika Srpska, the other administrative region in Bosnia and Herzegovina, fares slightly better with a score of 2, as it has attempted to establish an online portal, though it remains incomplete due to pending e-signature mechanisms. Kosovo* also lags behind with a score of 3, primarily because its existing online services still require companies to submit hard copies of signed documents, defeating the purpose of a fully digital system. Recent trends indicate concerted efforts across the region to improve digital functionalities, but they also highlight challenges, such as the cost and technological barriers related to acquiring qualified electronic signatures. These challenges contribute to a preference for traditional, in-person registration methods and warrant further attention for the region to realize the full benefits of digitalization.

14 The six dimensions include: Electronic storage of registration records, Online registration portal available, Electronic payment available, E-signature mechanism in place, Qualified electronic signature required, Registration available to all types of company

Graph 29: Digitalization of Business Procedures



Source: Authors' calculations

3.5. Sustainable and Equitable Development

Finally, the fifth pillar is linked to sustainable and equitable development. A business-friendly environment can help reduce income inequality and promote gender equality and social inclusion. An equitable business-friendly environment fosters a culture of fairness and equal opportunity. Such an environment is essential for addressing social disparities and promoting inclusive economic development, ultimately leading to a more just and prosperous society. Similarly, a sustainable business-friendly environment refers to a setting in which businesses can operate and thrive while adhering to sustainable and environmentally responsible practices. It combines elements of a business-friendly environment that encourages economic growth and entrepreneurship with a commitment to sustainability principles. A green economy creates new opportunities for businesses involved in renewable energy, energy efficiency, sustainable agriculture, green technologies, and eco-friendly products.

3.5.1. Summary Results

Croatia leads in Sustainable and Equitable Development due to strong performances in gender equality and the EBRD Green Agenda. Serbia, Albania, and Montenegro follow but show varying strengths and weaknesses across sub-pillars like Equality and Green Economy. North Macedonia and Bosnia and Herzegovina need improvement in several areas, while Kosovo* struggles the most, particularly in equality and Gender Equality

Croatia (1st): Takes the top spot in Sustainable and Equitable Development due to impressive metrics across the board, especially in Gender Equality and the EBRD Green Agenda. A well-rounded performance in all sub-pillars confirms its leading position in this category.

Serbia (2nd): Follows Croatia closely, with particular strengths in the Equality sub-pillar as seen in the Local Autonomy Index and NEET rate. Falls short mainly in Green Economy metrics, pulling down its overall rank.

Albania (3rd): Earns its spot mainly through its Renewable Energy Consumption score, although there's room for improvement in Gender Equality. Shows an average performance in the Equality sub-pillar with no specific strengths or weaknesses.

Montenegro (4th): Offers a balanced, yet unexceptional, performance across all sub-pillars. Has a potential for growth, especially in Gender Equality and Green Economy metrics.

North Macedonia (5th): Struggles in the Green Economy sub-pillar but offers relatively solid performances in Equality and Gender Equality. Provides consistent, if unremarkable, results across the majority of the indicators.

Bosnia and Herzegovina (6th): Needs improvement, particularly in the Gender Equality sub-pillar but scores well in Green Economy metrics. Maintains a balanced, albeit below-average, performance across various indicators.

Kosovo* (7th): Faces the most challenges, especially in Equality and Gender Equality, pulling it to the bottom of the rankings. Despite the overall low scores, it shows promise in Renewable Energy Consumption.

Table 6: Heatmap of Pillar 5. Sustainable and Equitable Development

	Sustainable and Equitable Development	Equality	Local Autonomy Index	NEET	Gender equity	Gender Gap Report	Gini Coeficient	Green economy	Carbon Intensity of power (grams CO2e / kwh)	Renewable Energy Consumption	EBRD Green Agenda
	p.05	sp.10	ind.28	ind.29	sp.11	ind.30	ind.31	sp.12	ind.32	ind.33	ind.34
Croatia	55,3	52,1	43,5	60,8	55,4	48,6	62,2	58,3	57,8	51,5	65,6
Serbia	53,9	62,6	68,1	57,0	53,1	61,9	44,4	45,9	44,5	40,5	52,6
Albania	52,4	46,8	49,1	44,4	52,8	64,6	40,9	57,6	67,1	60,9	44,9
Montenegro	49,2	53,7	56,5	50,9	42,1	45,9	38,2	51,7	51,5	59,3	44,3
Bosnia and Herzegovina	48,9	48,9	46,3	51,4	44,8	38,4	51,1	53,1	46,7	57,4	55,3
North Macedonia	47,3	52,3	49,7	54,8	44,8	40,4	49,1	44,7	46,2	34,9	53,2
Kosovo*	43,1	33,7	36,8	30,6	57,1	50,2	64,0	38,6	36,2	45,5	34,1
Republika Srpska	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Federation of Bosnia and Herzegovina	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

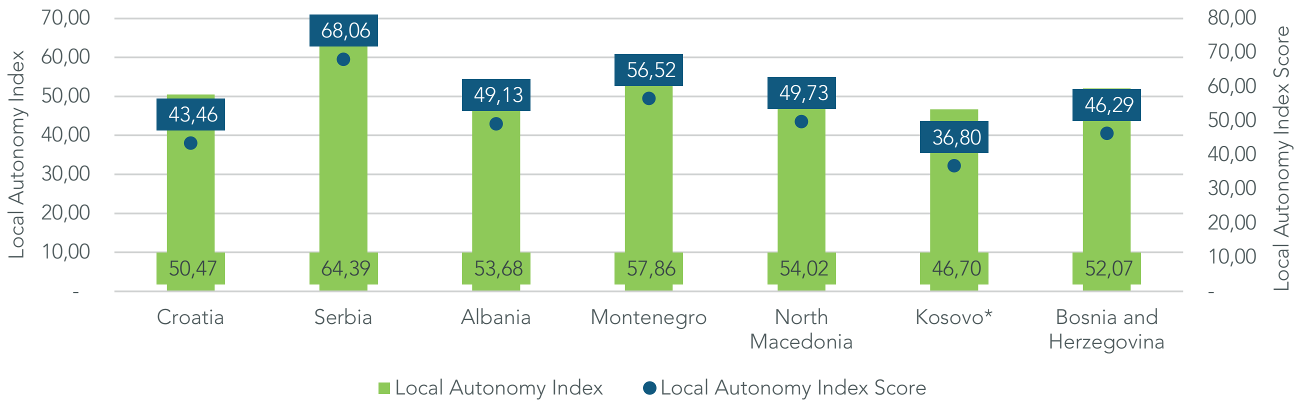
Source: Authors' calculations

3.5.2. Results by Indicator

a) Equality

Local Autonomy Index – Serbia leads the region in local government autonomy, according to the Local Autonomy Index (LAI), a key indicator for evaluating municipal-level effectiveness. In assessing the state of local governance across the region, the LAI serves as a quantifiable measure of municipal-level autonomy and administrative effectiveness. Serbia registers the highest LAI score at 64.39, underpinned particularly by its strong performance in legal and organizational autonomy. The data also indicates that Serbia has effectively limited the degree of interference from higher levels of government, thereby enhancing its local governance capacity. Compared to Serbia, other economies in the region, such as Croatia with an LAI score of 50.47 and North Macedonia at 54.02, maintain moderate levels of local autonomy. Kosovo*, with an LAI score of 46.7, faces challenges primarily in the realm of financial autonomy. Albania and Bosnia and Herzegovina register LAI scores of 53.68 and 52.07, respectively. It is noteworthy that while the region exhibits a diverse range of LAI scores, the elements of legal autonomy and organizational autonomy appear to be significant factors influencing these scores. The LAI metrics offer an evidence-based foundation for evaluating the effectiveness of local governance systems, essential for the region given its varying economic and social contexts.

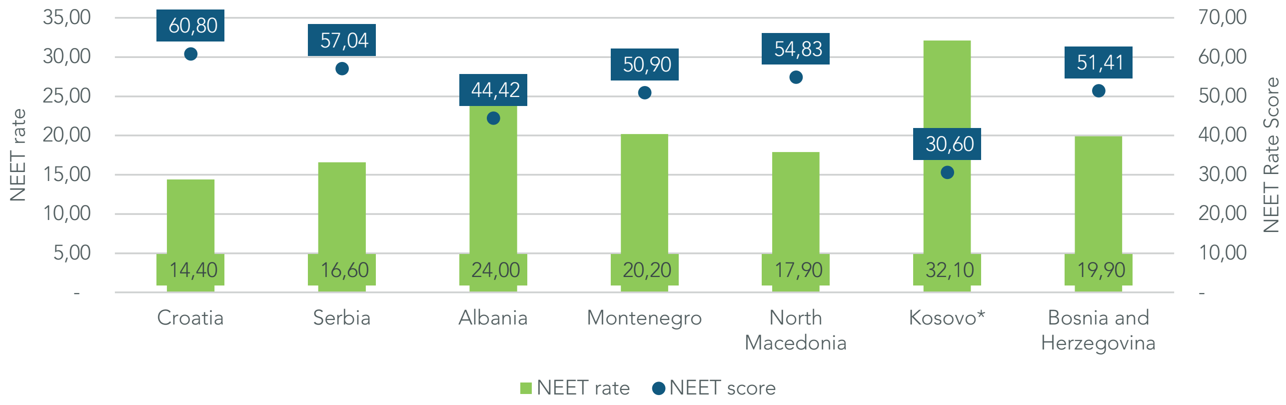
Graph 30: Local Autonomy Index



Source: Authors' calculations

The NEET rate in the economies of the SBE Index varies considerably, with Serbia and Croatia showing better labour market outcomes for youth, while Kosovo* faces stark challenges. In Serbia, the relatively lower NEET rate is an indicator of a more adaptable and resilient youth labour market. This may be attributed to better-performing Active Labour Market Policies and more efficient Public Employment Services. On the opposite end, Kosovo*'s high NEET rate demands closer scrutiny. It can be viewed as a reflection of systemic inefficiencies, likely exacerbated by prevalent short-term employment contracts among youth, which compromise long-term job security and skill development. Gender disparities further complicate the labour landscape. In economies like Bosnia and Herzegovina, Kosovo*, North Macedonia, and Serbia, female youth are disproportionately affected by unemployment. This suggests the necessity for gender-inclusive labour policies, potentially including enhanced access to child-care facilities. Educational attainment also plays a pivotal role in determining youth labour market participation. The need to combat early school leaving is evident, and the introduction of comprehensive training and retraining programmes could be instrumental. The low employment rates for less-educated youth across the region point to a critical skills gap that needs addressing. Overall, the CORE economies face complex challenges in integrating their youth into stable and productive labour roles. Policy responses will need to be multi-faceted and tailored to each economy's specific conditions, suggesting the need for closely co-ordinated actions among national stakeholders.

Graph 31: NEET rate

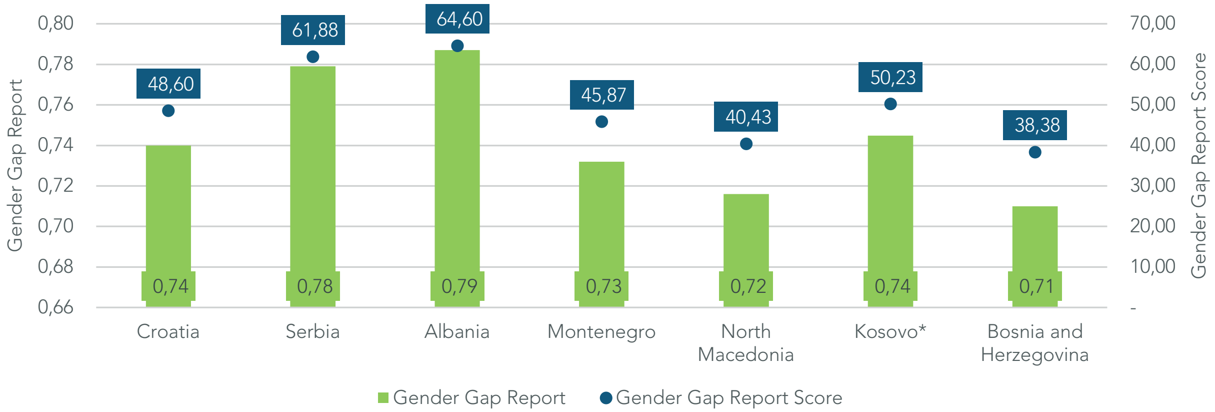


Source: Authors' calculations

b) Gender Equality

Gender Gap Report – The Gender Equality Index elucidates discernible disparities among the CORE Partnership economies, accentuating Albania's relative strength and Bosnia and Herzegovina's areas for improvement in fostering gender parity. Despite a modest numerical difference between these economies , the variance in their global rankings is indicative of broader contextual factors that influence gender equality. Albania's higher standing may be attributable to successful interventions in economic participation and educational attainment for women, as evidenced by subindex data. Bosnia and Herzegovina's lower ranking, in contrast, suggests that even incremental disparities in scores can have amplified effects on global positioning, thereby necessitating in-depth policy evaluation. Albania's performance is probably an outcome of concerted efforts in policy-making and societal orientation towards equitable opportunity distribution across genders. In contrast, Bosnia and Herzegovina's lower ranking suggests a need for a comprehensive policy review, especially in the facets of economic participation and political empowerment. It is essential to note that the absence of positive trending data for Bosnia and Herzegovina adds a layer of urgency to these considerations. The observed variances within the Gender Equality Index among the CORE Partnership economies point to an imperative for policy recalibration and strategic dialogue. This focus is especially pertinent for Bosnia and Herzegovina, given the economy's challenges, despite the close clustering of scores. These data offer a critical starting point for discussions aimed at fostering gender equality, meriting attention from policymakers and international bodies alike.

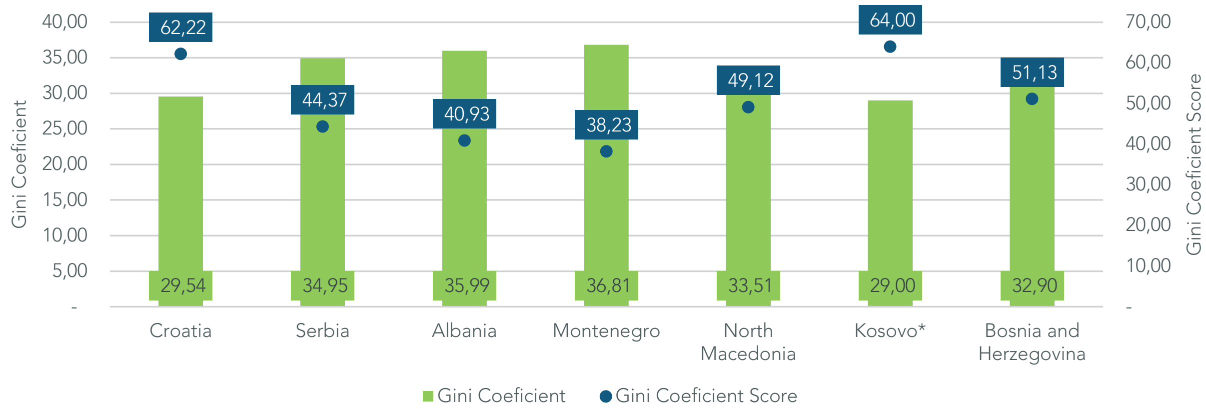
Graph 32: Gender Gap Report



Source: Authors' calculations

Gini Coefficient – In the CORE Partnership economies, income inequality represented by Gini coefficients plays a pivotal role in shaping the sustainability and viability of business environments, particularly when comparing Croatia's Gini of 29.54 and Montenegro's at 36.81. While these figures might appear relatively close numerically, they are indicative of distinct socio-economic dynamics that differentially influence the business milieu in each economy. Croatia's comparatively lower Gini coefficient suggests a more evenly distributed income, which could be attributed to equitable access to quality education and a potentially more progressive tax system. This serves as a foundational element for a more stable and predictable business environment. In contrast, Montenegro's higher Gini coefficient signals an economic terrain fraught with inequality, a condition that could be symptomatic of inadequate educational opportunities for marginalized communities and a less progressive tax system. This creates a business environment that could be perceived as risky or unstable for long-term investment. The Gini coefficients serve as a quantitative lens to examine qualitative issues such as education, taxation, and emigration, which are integral to understanding the income inequality across the CORE economies. Given that income inequality is fuelled by various systemic issues, including education and taxation policies, a comprehensive and multi-pronged strategy is crucial for establishing an equitable and competitive business environment. Policymakers must factor these elements into their economic planning to ensure a sustainable path forward for both society and businesses.

Graph 33: Gini Coefficient

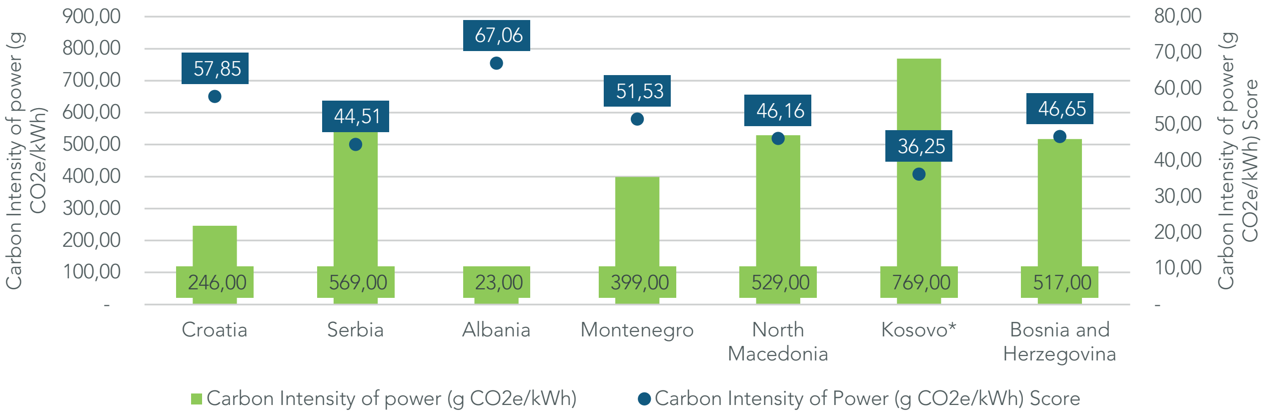


Source: Authors' calculations

c) Green Economy

The Carbon Intensity of power (grams CO_2e / kwh) generation in the CORE economies presents a mixed landscape, offering both instructive examples and cautionary tales. Albania's low carbon intensity of 23 grams CO_2e/kWh stands out as the best practice, enabled by its near-total dependence on hydropower. While commendable for its environmental impact, this focus on a single energy source poses inherent risks related to energy security. On the opposite end of the spectrum, Kosovo*'s extremely high carbon intensity of 769 grams CO_2e/kWh illustrates the environmental drawbacks of relying heavily on lignite coal, despite some policy attempts to improve energy efficiency. Montenegro and Croatia, with carbon intensities of 399 grams CO_2e/kWh and 246 grams CO_2e/kWh, respectively, show comparatively better profiles, thanks in part to a more balanced energy mix that includes wind and hydropower. Serbia, North Macedonia, and Bosnia and Herzegovina exhibit high carbon intensities—569, 529-, and 517-grams CO_2e/kWh, respectively—reflecting their strong dependence on coal and a general lack of energy efficiency. Such disparities among the CORE economies underscore the urgent need for a comprehensive, multifaceted approach that involves significant improvements in energy efficiency, diversification of energy sources, and modernization of antiquated infrastructure to effect meaningful reductions in carbon intensity.

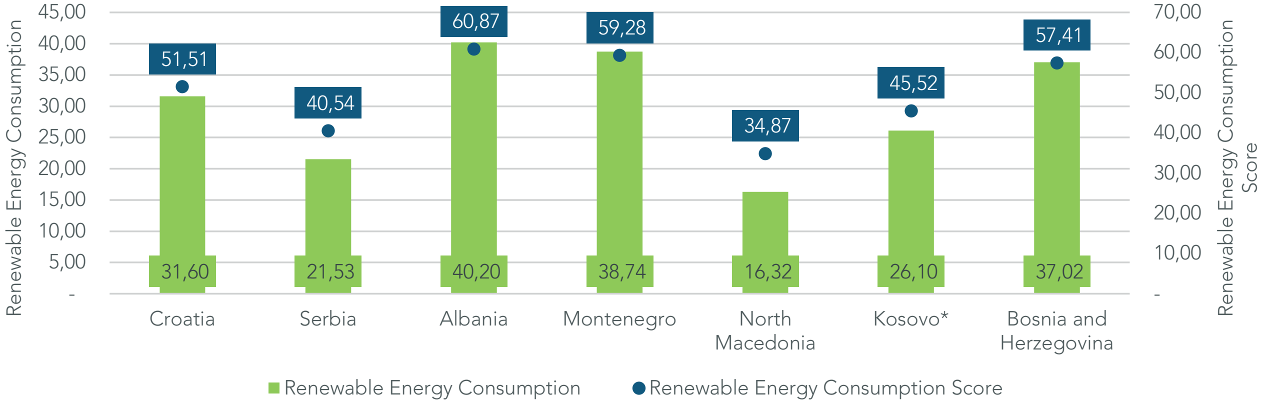
Graph 34: The Carbon Intensity of power (grammes CO_2e / kwh)



Source: Authors' calculations

Renewable Energy Consumption in the CORE economies showcases both progressive models and areas for significant improvement, underpinned by various policy measures and infrastructural realities. Albania leads the pack with a 40.2% share in renewable energy consumption, predominantly attributed to its heavy reliance on hydropower. However, Albania's renewable energy model faces constraints such as seasonal hydrological conditions and poses environmental challenges, limiting its scalability. Moreover, Albania's energy mix includes a considerable share of petroleum and oil products, primarily due to high consumption in the transport sector. While Albania has potential for wind and solar energy, much remains to be developed, making it critical for the economy to explore these avenues for diversification. On the other hand, North Macedonia lags with a 16.32% share in renewable energy consumption, well below the regional average. Despite commitments to reducing greenhouse gas emissions, the economy's electricity generation is still overwhelmingly coal-reliant. Serbia presents a mixed case; although its share of 21.53% is closer to the regional average, it falls short of its own ambitious target of 27% by 2020. Importantly, aside from hydropower, other forms of renewable energy remain marginal in Serbia's energy profile. Across the CORE economies , the development of non-hydro renewables and energy efficiency measures are in nascent stages, often hindered by outdated subsidy schemes and limited technical capacities. There is therefore an urgent need for these economies to modernize and diversify their renewable energy portfolios while aligning them with broader environmental and sustainability goals.

Graph 35: Renewable Energy Consumption



Source: Authors' calculations

The EBRD Green Agenda for the CORE economies reveals divergent performances in their commitments to sustainable market economies, with Croatia leading and Kosovo* lagging behind. With a score of 6.76, Croatia has displayed robust initiatives, notably in enhancing the energy efficiency of public buildings and in waste and wastewater management. These actions come as part of a comprehensive strategy to decarbonize the energy sector and align with the broader positive trend observed in the SEE region, where an increase in nationally determined contributions (NDCs) under the Paris Agreement has been prominent. Conversely, Kosovo*'s score of 3.72 signals challenges in environmental governance. Not only has Kosovo*'s green score declined, but this has been partly due to reductions in the size of conservation areas, marking a deviation from the overall upward trend in EBRD regions in renewable energy uptake and improved building heating. While several economies like Albania and Montenegro are focusing on reducing fossil-fuel dependence through national energy plans, Bosnia and Herzegovina appears to be straddling two boats. Despite a moderate score of 5.77, it has paradoxically extended the lifespan of large coal-fired thermal power plants, even as it aims to bolster legislative frameworks for renewable energy. This duality demonstrates that while strides are being made across CORE economies to adhere to sustainable market economy standards, persistent gaps in policy alignment and implementation remain.

Chapter 4:
Detailed Findings by Economy

Chapter 4: Detailed Findings by Economy

In order to identify the best practices that can contribute to the enhancement of business environments in the CORE economies, a meticulous three-phase methodology has been deployed alongside the index. Each of the economies has been presented in the report with the main index findings and at least three of the best practices that have been identified through the methodology. The entire process was led through a coordination between technical secretariats and local experts.

Phase one of the methodology for identification of reforms involves rigorous findings on 10-20 reforms per economy, conducted in tandem with local data collection efforts. This initial stage employs document analysis, scrutinizing economies and international competitiveness reports, regulatory impact assessments, and other pertinent documents. A total of six criteria was considered, the scope of the reform, effect of the reform, time efficacy, resource intensity, contribution to competitiveness and contribution to EU processes. Internal collaboration with technical secretariats of the CORE Partnership Network further bolsters local insights, vital for pinpointing reforms with the most substantial positive impact on business environments and competitiveness.

Phase two entails an in-depth multi-criteria analysis of the best practice reforms identified in the previous phase. Local experts for each of the economies (selected by the technical secretariats) conducted this part of the analysis. This process rigorously examines factors that include scope, impact, resource intensity, time efficiency, rise in competitiveness, and EU contribution. By applying evidence-based methods and a Likert scale, each reform is meticulously assessed. Further document analysis and participatory measures are employed, should the need arise, in order to derive a detailed overview of the selected reforms. The ultimate aim is to filter the reforms with the greatest potential for replication in other economies, presenting them in an easily comprehensible format that highlights their comparative advantages.

In the conclusive phase, in order to contribute to the enhancement of business environments, local advocacy of the selected reforms will be conducted in the WB6 network. This advocacy will serve as a catalyst for the selection and implementation of 1-3 reforms per economy, facilitating their replication within the CORE Partnership Network. Roundtables with interested stakeholders organised by each technical secretariat will fine-tune the selection criteria and ensure the clear presentation of final findings. The subsequent phase of local advocacy, facilitated by technical secretariats with support from policy experts, endeavours to garner the endorsement of policy-making representatives in each respective economy.

This multifaceted methodology forms a robust framework for identifying, evaluating, and advocating reforms poised to bolster business environments across the Western Balkans.

Albania	Value	Score	Rank
Overall score		50,7	4
Fundamental Prerequisites		49,9	3
Macroeconomic and Financial Stability		50,9	4
Rule of Law		48,9	5
Inflation	6,7	69,8	1
Fiscal Balance	-3,7	44,5	5
Public Debt	62,1	44,2	5
Current Account Balance	-6,0	52,7	3
NPL Ratio	5,4	43,1	5
Judical Effectivness	49,8	52,0	4
Corruption Perception Index	36,0	42,5	5
Judicial Framework and Independence	3,3	52,3	3
Markets		49,0	4
Labour Market and Human Capital		50,7	4
Financial and Capital Market		47,3	5
Education Index (HDI)	0,7	47,2	5
PISA test resaults - Science	417,0	50,0	3
Unemployment rate	11,0	54,9	3
Banking Sector Assets to GDP	59,8	45,4	6
Market Cap to GDP	24,1	48,2	5
Acess to Alternative Financial Sources (OECD)	2,0	48,3	4
Business Friendly Regulations		59,2	1
Public Administration Delivery		61,0	1
Taxation and non-tax revenues		57,4	3
Informality		38,3	7
Burden of government regulation (1 worst-7 best)	4,5	68,4	1
Predictability	1,0	64,5	1
Regulatory Quality	59,6	51,7	4
Quality of Public Private Dialogue	1,0	59,4	1
Tax wedge	28,0	53,7	3
Share of non tax revenues in public revenues	6,9	61,1	2
Proportion of informal employment in total employment	32,2	34,6	7
Public procurement average number of bids	2,5	42,0	5
Level Playing Field and Business Innovation		42,8	6
Innovations		42,8	6
Business Digitalization		47,4	6
Informal employment %	32,2	34,6	7
Public procurement average number of bids	2,5	42,0	5
Competitive Industrial Performance Index	0,0	42,1	5
European Innovation Scoreboard	41,7	43,4	5
Internet speed Fixed Broadband Mbps	48,1	50,9	4
eCommerce Index	49,5	38,3	6
Digitalisation of Business Procedures	5,0	52,8	3
Sustainable and Equitable Development		52,4	3
Equality		46,8	6
Gender equality		52,8	4
Green economy		57,6	2
Local Autonomy Index	53,7	49,1	4
NEET rate	24,0	44,4	6
Gender Gap Report	0,8	64,6	1
Gini Coeficient	36,0	40,9	6
Carbon Intensity of power (g CO_2e/kWh)	23,0	67,1	1
Renewable Energy Consumption	40,2	60,9	1
EBRD Green Agenda	4,8	44,9	5

4.1. Albania

Albania (4th) comes as a close fourth with an SBE Index score of 50.66. With a relatively strong score of 49.9 in Fundamental Prerequisites, Albania's strength lies in lower inflation, but corruption remains a concern. In Markets, the results are solid but there are challenges in financial and capital markets, primarily due to limited access to alternative financial sources. When it comes to Business-Friendly Regulations, Albania leads in public administration delivery but lags in informality. In Level Playing Field and Business Innovation, it struggles both with Innovation and Business Digitalization. In Sustainable and Equitable Development, it earns its spot primarily through its Renewable Energy Consumption score but needs improvement in Gender Equality.

a) Digitalization of Administrative Services for Businesses

Albania is accelerating the digitalization of its public services to its citizens and businesses. Changes in legislation are preparing the basis for further digitalization and employment of the e-Albania platform. Currently, applications for 95 percent of all central government services are online, operating through a single contact point which allows connection among 53 public institutions through an interoperability platform with high corresponding levels of automation. The portal currently provides access for around 2.8 million registered users (individuals and businesses) to 1,227 digital services. E-services are delivered allowing for paperless procedures, and with digital signature documents. Businesses and citizens have access to 474 online applications, including building permitting, client services, and payment of taxes. The expanded use of electronic services in Albanian public institutions is believed to have resulted in notable time and cost savings. The digital transformation in Albania is also estimated to have had a significant effect on reducing the consumption of paper and electricity, reducing the strain on the environment. The large-scale increase in e-services provided has significantly reduced bureaucracy and laid the groundwork for changing the culture of communication between service providers on the one hand and citizens and businesses on the other.

b) Tax Registration and Administration Services

The physical submission of tax forms and requests to the tax information office used to result in lengthy processes and excessive loss of time for businesses. There were reports of bribery and corruption which needed to be addressed through reform. Since 2015, the tax administration has gone through a transformation of its IT structure, starting with the application of the new C@TS system that revolutionized taxpayer registration. The system allows taxpayers to check, modify, and correct tax declarations, submit tax-related documents electronically and file online all tax returns, including annual financial statements.

From 2019 to 2022 the number of tax services offered online has increased from 2 to 31, and from May 2022 tax services have been offered online through the e-Albania portal. Some of these allow taxpayers to pay all types of tax online. The number of administrative services offered in person has been reduced by 93% in the period from 2017 to 2021. The stock of refunds for approved and unliquidated claims has also been affected in a positive way. Automating the process for refund requests (an online platform) has reduced the time to receive a refund by 40% , thus minimizing corrupt practices. These measures have contributed to an increase of trust in the Tax Administration and in creating a basis for a competitive market.

A new invoicing system became operational at the end of 2019, following the adoption of primary and secondary laws and the establishment of the required supporting infrastructure. The first implementing phase of the reform kicked off on 1 January 2021 and centred on ensuring cash-free transactions between the taxpayers (businesses) and Public Entities (B2G) by issuing electronic invoices.
Albania has carried out some initiatives in the field of digital taxation. With regards to VAT, Albania introduced international VAT/GST guidelines in 2014.

c) Infrastructure Improvements for Business Services

Albania has streamlined procedures for connecting businesses to the electricity grid. Following an amendment of the Power Sector Law, which improved compliance with the EU acquis on energy and allowed for the effective separation of the electricity distribution system operator from the production operator, Albania has made notable strides in the energy transition. An instrumental development was the initiation of the Albanian power exchange in early 2022, creating a pivotal milestone in the establishment of an integrated and organized electricity market in alignment with the energy community.

The majority of Albania's electricity is presently generated through hydropower, signalling the need for a concerted push towards diversifying energy sources. To this end, the government is actively engaging private investors, as exemplified by the recent agreements for two new photovoltaic parks in 2022. The energy sector's alignment with EU standards has seen marked progress, particularly in the seamless transposition of the Third Energy Package. Albania is now poised to establish and operate a competitive energy market, supported by a robust independent regulator. Furthermore, efforts are underway to finalize the operational deployment of a power exchange and to unbundle the distribution system operator for electricity, affirming Albania's steadfast commitment to advancing its energy infrastructure.

Bosnia and Herzegovina	Value	Score	Rank
Overall score		43,9	7
Fundamental Prerequisites		45,0	7
Macroeconomic and Financial Stability		51,1	3
Rule of Law		39,0	7
Inflation	14,0	41,2	6
Fiscal Balance	-1,0	57,0	3
Public Debt	32,5	59,7	2
Current Account Balance	-5,2	54,9	2
NPL Ratio	5,5	42,5	6
Judicial Effectivness	37,2	41,8	6
Corruption Perception Index	34,0	38,9	7
Judicial Framework and Independence	2,8	36,3	6
Markets		44,1	6
Labour Market and Human Capital		42,7	6
Financial and Capital Market		45,4	6
Education Index (HDI)	0,7	38,7	6
PISA test reasults - Science	398,0	44,2	6
Unemployment rate	15,4	45,2	6
Banking Sector Assets to GDP	61,4	47,4	4
Market Cap to GDP	24,2	48,3	4
Acess to Alternative Financial Sources (OECD)	1,6	40,5	6
Business Friendly Regulations		40,0	7
Public Administration Delivery		40,4	7
Taxation and non-tax revenues		39,6	7
Informality		43,0	6
Burden of government regulation (1 worst-7 best)	2,4	40,0	6
Predictability	-0,2	42,3	6
Regulatory Quality	46,2	38,8	6
Quality of Public Private Dialogue	0,0	n/a	N/a
Tax wedge	40,1	40,6	6
Share of non tax revenues in public revenues	19,0	38,7	7
Proportion of informal employment in total employment	19,9	47,1	4
Public procurement average number of bids	2,2	39,0	7
Level Playing Field and Business Innovation		41,4	7
Innovations		44,6	4
Business Digitalization		36,7	7
Informal employment %	19,9	47,1	4
Public procurement average number of bids	2,2	39,0	7
Competitive Industrial Performance Index	0,0	51,3	4
European Innovation Scoreboard	34,9	37,8	6
Internet speed Fixed Broadband Mbps	26,7	34,5	7
eCommerce Index	58,1	44,6	4
Digitalisation of Business Procedures	2,0	33,0	7
Sustainable and Equitable Development		48,9	5
Equality		48,9	5
Gender equality		44,8	6
Green economy		53,1	3
Local Autonomy Index	52,1	46,3	N/a
NEET rate	19,9	51,4	4
Gender Gap Report	0,7	38,4	7
Gini Coeficient	32,9	51,1	3
Carbon Intensity of power (g CO_2e/kWh)	517,0	46,7	4
Renewable Energy Consumption	37,0	57,4	3
EBRD Green Agenda	5,8	55,3	2

4.2. Bosnia and Herzegovina

Bosnia and Herzegovina (7th) has an overall SBE Index of 43.89. Scoring 45.0 in Fundamental Prerequisites, it is particularly weak in the rule of law but maintains a strong budget balance. In Markets, it is hampered by low performance in both Labour Market and Financial and Capital Markets. In Business-Friendly Regulations, it trails the list due to subpar performance in almost all aspects. It performs poorest in Level Playing Field and Business Innovation due to weak scores in Business Digitalization. For Sustainable and Equitable Development, it needs improvement, particularly in Gender Equality but scores well in Green Economy metrics.

Republika Srpska (Bosnia and Herzegovina)	Value	Score
Overall score		46,2
Fundamental Prerequisites		45,9
Macroeconomic and Financial Stability		51,3
Rule of Law		40,5
Inflation	13,6	44,8
Fiscal Balance	2,1	64,5
Public Debt	37,5	56,1
Current Account Balance	-12,4	38,2
NPL Ratio	3,7	53,1
Judical Effectivness	N/a	N/a
Corruption Perception Index	N/a	N/a
Judicial Framework and Independence	N/a	N/a
Markets		49,6
Labour Market and Human Capital		46,5
Financial and Capital Market		52,6
Education Index (HDI)	N/a	N/a
PISA test resaults - Science	N/a	N/a
Unemployment rate	11,2	54,5
Banking Sector Assets to GDP	79,3	64,5
Market Cap to GDP	31,7	51,8
Acess to Alternative Financial Sources (OECD)	N/a	N/a
Business Friendly Regulations		43,0
Public Administration Delivery		43,6
Taxation and non-tax revenues		42,4
Informality		43,8
Burden of government regulation (1 worst-7 best)	N/a	N/a
Predictability	-0,2	41,8
Regulatory Quality	N/a	N/a
Quality of Public Private Dialogue	0,8	51,1
Tax wedge	38,5	43,4
Share of non tax revenues in public revenues	16,6	41,3
Proportion of informal employment in total employment	N/a	N/a
Public procurement average number of bids	N/a	N/a
Level Playing Field and Business Innovation		43,5
Innovations		45,5
Business Digitalization		41,0
Informal employment %	N/a	N/a
Public procurement average number of bids	N/a	N/a
Competitive Industrial Performance Index	N/a	N/a
European Innovation Scoreboard	N/a	N/a
Internet speed Fixed Broadband Mbps	N/a	N/a
eCommerce Index	N/a	N/a
Digitalisation of Business Procedures	N/a	N/a
Sustainable and Equitable Development		49,1
Equality		48,9
Gender equality		45,5
Green economy		52,8
Local Autonomy Index	N/a	N/a
NEET rate	N/a	N/a
Gender Gap Report	N/a	N/a
Gini Coeficient	N/a	N/a
Carbon Intensity of power (g CO_2e/kWh)	N/a	N/a
Renewable Energy Consumption	N/a	N/a
EBRD Green Agenda	N/a	N/a

4.2.1. Republika Srpska

Republika Srpska – shows a balanced yet underwhelming performance across most pillars. Presumably sharing a weak rule of law with the level in all of Bosnia and Herzegovina, it scores well in budget balance and debt in Fundamental Prerequisites. In Markets, it shows strength in financial markets while also having lower-than-average unemployment rates. In Business-Friendly Regulations, it struggles mainly in public administration delivery but shows a better balance across other sub-pillars. No data is available for the last two pillars, Level Playing Field and Business Innovation, and Sustainable and Equitable Development.

a) Increasing the Liquidity of the Economy

Following the economic crisis of 2008 and 2009 and the second wave of the same crisis in 2012, the financial sector increased the cost of capital due to reduced access to financing sources. Due to a decrease in the volume of production and difficult conditions for obtaining additional capital along with its higher price, there was a decrease in the liquidity of the real sector, which was particularly emphasized by the Republika Srpska Chamber of Commerce. In this regard, in 2014 the Law on the Unified System for Multilateral Compensation and Cessions was adopted, which established the Unified System for Multilateral Compensation and Cessions, which is run by the Banja Luka Stock Exchange and was additionally improved through amendments to the law in 2016. From October 2015, when the first multilateral compensation was implemented, to June 2023, when the last multilateral compensation was implemented, a total of 39 multilateral compensations were implemented and a total of EUR 589 m liabilities were compensated. The total debt of the Republika Srpska economy was reduced from EUR 519 m, the amount at the first multilateral compensation, to EUR 258 m, the amount reported at the last.

b) Establishment of a Unified and Up-to-Date Register of all Administrative Activities Related to Economic Activity

The business community is often faced with insufficiently clear information about the procedures necessary for starting, and later for carrying out economic activities. For this reason, the institutions of Republika Srpska made a list of all administrative procedures and procedures at the level of the Republika in terms of pre-registration, registration and post-registration formalities (permits, confirmations, decisions). The data is regularly updated and can be searched on various bases (activity classification, regulation, institution, etc.). They are available on the "single point of contact for business portal" (pscsrpska.vladars.net). Through this portal, the business community can also ask questions related to business operations (in terms of unclear procedures, overlapping regulations or proposals for business improvement) at one contact point in Republika Srpska. The functioning of this Register is defined by the regulation on records, analysis, examination and assessment of procedures and formalities for business in the Republika Srpska. So far, over 1,000 questions from the business community have been answered and the register includes data on 932 formalities (permits, certificates, decisions) issued by republic institutions.

c) Establishing a System of Transparency and Protection of Taxpayers

The tax system of Republika Srpska was characterised by a set of 610 tax and non-tax charges, which were paid at the local and/or Republic level. The rate of the consolidated burden on businesses and individuals in 2017 was 39%. In order to ensure an optimal tax burden and to protect taxpayers, the Law on the Tax System of the Republika Srpska was adopted in June 2017. This provided a legal basis to establish the Register of tax and non-tax charges. The provisions of that Law prescribe the obligation of all processors and proponents of all general regulations. The Law stipulated that on introducing, changing or abolishing individual tax or non-tax charges, an analysis is to be prepared of the justification for introducing or changing those charges, on the basis of which the Ministry of Finance issues an opinion. It is prescribed that charges that are not contained in the Register, do not create an obligation to pay, and the processor or proposer of the act in which such a payment is found must initiate the procedure of removing that payment from the legal system. Tax and non-tax charges that were passed against the principles of the Law on the Tax System of the Republika Srpska cannot be in the Register. With the aim of protecting taxpayers and strengthening legal certainty, and for compliance with the principles of legality, proportionality and rationality, an analysis of the burden on businesses and the population from tax and non-tax charges in the Register was carried out. Furthermore, as well as the evaluation of the justification of each individual tax and non-tax charge, a plan was drafted for reduction or cancellation of individual non-tax charges. In the period from 2019 to 2023, through changes of several Laws, a special tax at the level of the Republika Srpska was abolished (with a loss of income for the Republic budget of KM 9.8 m annually), certain communal taxes were abolished (loss of income for the budget of EUR 5 m per year), administrative fees (of the Republic, cities and municipalities) were abolished (loss of income for the Republic budget about EUR 0.55 m per year), and amendments to the Law on Agricultural Land that stipulated the abolition of the fee for changing the use of agricultural land when building production facilities in the processing industry. The register currently contains 591 charges, of which 15 are taxes, 5 contributions and 571 non-tax charges, and it is publicly available.

Federation of BiH (Bosnia and Herzegovina)	Value	Score
Overall score		44,8
Fundamental Prerequisites		46,1
Macroeconomic and Financial Stability		51,7
Rule of Law		40,5
Inflation	15,7	37,1
Fiscal Balance	0,3	57,7
Public Debt	29,4	60,5
Current Account Balance	-2,7	61,0
NPL Ratio	5,4	42,1
Judical Effectivness	N/a	N/a
Corruption Perception Index	N/a	N/a
Judicial Framework and Independence	N/a	N/a
Markets		43,2
Labour Market and Human Capital		42,0
Financial and Capital Market		44,5
Education Index (HDI)	N/a	N/a
PISA test resaults - Science	N/a	N/a
Unemployment rate	17,2	41,0
Banking Sector Assets to GDP	61,4	45,6
Market Cap to GDP	20,4	46,3
Acess to Alternative Financial Sources (OECD)	N/a	N/a
Business Friendly Regulations		43,3
Public Administration Delivery		41,9
Taxation and non-tax revenues		44,7
Informality		43,8
Burden of government regulation (1 worst-7 best)	N/a	N/a
Predictability	-0,1	44,3
Regulatory Quality	N/a	N/a
Quality of Public Private Dialogue	N/a	N/a
Tax wedge	41,7	39,9
Share of non tax revenues in public revenues	12,8	49,4
Proportion of informal employment in total employment	N/a	N/a
Public procurement average number of bids	N/a	N/a
Level Playing Field and Business Innovation		42,4
Innovations		45,5
Business Digitalization		37,9
Informal employment %	N/a	N/a
Public procurement average number of bids	N/a	N/a
Competitive Industrial Performance Index	N/a	N/a
European Innovation Scoreboard	N/a	N/a
Internet speed Fixed Broadband Mbps	N/a	N/a
eCommerce Index	N/a	N/a
Digitalisation of Business Procedures	N/a	N/a
Sustainable and Equitable Development		49,1
Equality		48,9
Gender equality		45,5
Green economy		52,8
Local Autonomy Index	N/a	N/a
NEET rate	N/a	N/a
Gender Gap Report	N/a	N/a
Gini Coeficient	N/a	N/a
Carbon Intensity of power (g CO_2e/kWh)	N/a	N/a
Renewable Energy Consumption	N/a	N/a
EBRD Green Agenda	N/a	N/a

4.2.2. Federation of Bosnia and Herzegovina

Federation of Bosnia and Herzegovina – The Federation of Bosnia and Herzegovina has an SBE Index of 44.8. Scoring 46.1 in Fundamental Prerequisites, it shares a weak rule of law but performs similarly to Republika Srpska in economic aspects. In Markets, it struggles with high unemployment rates and poor performance in Financial and Capital Markets. In Business-Friendly Regulations, it performs poorly in public administration but shows some resilience in taxation and non-tax revenues. No data is available for the last two pillars.

a) Reform for Better Access to Finance

In order to mitigate the negative economic consequences for the economy of the Federation of Bosnia and Herzegovina, the Law on Mitigating the Negative Economic Consequences of COVID-19 entered into force in May 2020. This Law introduced a new model of financing businesses with the support of the guarantee fund, which is the core measure of the reform. The Government of the Federation of Bosnia and Herzegovina has provided EUR 50 m to this Guarantee Fund. These funds serve as a source of guarantees that the Development Bank of the Federation of Bosnia and Herzegovina issues to entrepreneurs, users of loans approved by commercial banks. The guarantee potential is five times higher, amounting to EUR 250 m.

This reform made a major contribution to ensuring better access to financial resources for SMEs in all economic sectors, that have problems accessing credit due to higher risk caused by liquidity disturbances and/or the lack of adequate collateral. By March 2023, a total of 616 guarantees were approved for SMEs for a total value of EUR 106.5 m of guaranteed funds, with the total value of approved loans amounting to EUR 213 m.

The most common users of these guarantees are manufacturing and exporting companies. Over 3% of all small and medium-sized companies (616 SMEs) in the Federation of Bosnia and Herzegovina benefited from the Fund's guarantees.

b) Development Planning Reform

The development planning system in the Federation of Bosnia and Herzegovina before the reform was fragmented between different layers of government: Federation, cantons and local levels. There was no consistency between planning methodologies nor alignment between planning documents and budgets. Only local communities (municipalities and cities) had adopted similar methodologies for development planning, while the federation had no methodology in place to guide the development process. To that end, there was a need to introduce a single, comprehensive methodology to be exercised at all levels of government and thus to enable more efficient and coordinated strategic planning. The Law on Development Planning and Development Management of the Federation of Bosnia and Herzegovina was adopted on the basis of a wider consultation process. Alongside planning methodology, it also introduced an obligation and methodological framework for operationalization of strategic documents through three-year action plans, while also making it obligatory to introduce development measures into the work plans. This enables better coordination throughout the whole Federation and made the planning and the budgeting process more transparent, efficient and needs based. The process envisages the involvement of a range of stakeholders including the private sector, which provides a foundation for the measures in the planning system to be based on the actual needs of businesses. This new system has had a positive impact on most cantonal economies and on the federal level, in the sense that most financial instruments targeting the private sector are guided by the strategic objectives and priorities set in these strategies. It thus contributes to the overall competitiveness of the entire economy. Currently all levels of government in the Federation of BiH (1 federal, 10 cantonal governments and 79 local communities) have their own strategic documents elaborated on the same methodology.

c) Reform of Crafts and Related Activities

The Law on Crafts and Related Activities in the Federation of Bosnia and Herzegovina entered into force in October 2021, as a prerequisite for the growth and development of crafts, i.e. small businesses in the Federation. Among other things, this law enabled foreign trade for craftsmen, shortened and simplified the craft registration procedure and abolished the division of crafts into related and special crafts. For the first time it was possible to carry out certain types of craft without professional education, which had previously largely prevented people, especially young people, from registering a desired craft, and to do so without unnecessary administrative obstacles such as obtaining documentation etc. Also, natural persons and pensioners are now able to carry out crafts in the form of additional and supplementary trade occupations.

According to data from municipalities, before this reform about 35% of applications to register a craft were not finalized, precisely because of the lack of professional education of the person who intended to register the craft. This reform therefore made a major contribution to suppressing the shadow economy. The new law enables all interested entrepreneurs to be part of the Bosnia and Herzegovina economy in a much simpler way. In 2022, a 15% increase in registered crafts was recorded due to the positive changes brought about by this reform.

Montenegro	Value	Score	Rank
Overall score		50,7	3
Fundamental Prerequisites		45,2	6
Macroeconomic and Financial Stability		38,0	7
Rule of Law		52,4	2
Inflation	13,0	45,1	5
Fiscal Balance	-5,2	37,5	7
Public Debt	70,8	39,6	7
Current Account Balance	-13,3	33,2	7
NPL Ratio	6,8	34,7	7
Judical Effectivness	43,0	46,5	5
Corruption Perception Index	45,0	58,3	2
Judicial Framework and Independence	3,3	52,3	3
Markets		55,4	2
Labour Market and Human Capital		52,4	3
Financial and Capital Market		58,5	2
Education Index (HDI)	0,8	48,2	4
PISA test resaults - Science	365,0	34,3	7
Unemployment rate	20,7	33,5	7
Banking Sector Assets to GDP	51,8	35,8	7
Market Cap to GDP	0,0	37,1	7
Acess to Alternative Financial Sources (OECD)	1,8	44,4	5
Business Friendly Regulations		56,3	2
Public Administration Delivery		51,0	4
Taxation and non-tax revenues		61,6	1
Informality		48,9	5
Burden of government regulation (1 worst-7 best)	3,3	52,3	2
Predictability	-0,3	39,0	7
Regulatory Quality	66,8	58,6	2
Quality of Public Private Dialogue	0,9	54,1	4
Tax wedge	23,1	59,4	2
Share of non tax revenues in public revenues	5,4	63,9	1
Proportion of informal employment in total employment	22,3	44,6	6
Public procurement average number of bids	3,5	53,1	3
Level Playing Field and Business Innovation		47,4	5
Innovations		44,1	5
Business Digitalization		49,3	5
Informal employment %	22,3	44,6	6
Public procurement average number of bids	3,5	53,1	3
Competitive Industrial Performance Index	0,0	40,0	6
European Innovation Scoreboard	47,5	48,2	3
Internet speed Fixed Broadband Mbps	51,1	53,1	3
eCommerce Index	54,0	41,6	5
Digitalisation of Business Procedures	5,0	52,8	3
Sustainable and Equitable Development		49,2	4
Equality		53,7	2
Gender equality		42,1	7
Green economy		51,7	4
Local Autonomy Index	22,3	44,6	6
NEET rate	3,5	53,1	3
Gender Gap Report	0,0	40,0	6
Gini Coeficient	47,5	48,2	3
Carbon Intensity of power (g CO_2e/kWh)	51,1	53,1	3
Renewable Energy Consumption	54,0	41,6	5
EBRD Green Agenda	5,0	52,8	3

4.3. Montenegro

Montenegro (3rd) has an SBE Index of 50.70. With a score of 45.2 in Fundamental Prerequisites, Montenegro falls behind in macroeconomic stability. Its Markets pillar is lifted by a strong Financial and Capital Markets score of 58.5. It performs well in Business-Friendly Regulations, particularly in taxation and non-tax revenues but needs improvement in public administration. In Level Playing Field and Business Innovation, it lacks any outstanding performances. For Sustainable and Equitable Development, it offers a balanced performance but has potential for growth in Gender Equality and Green Economy.

a) Establishment of New Companies Using Digital Services

The main challenge was the lengthy physical registration process lacking an online registration option, which caused inefficiencies in both time and cost. To address this issue, a reform measure was implemented through the establishment of the eFirma portal, enabling the electronic establishment of new companies. This was accompanied by the adoption of the Law on Electronic Registration, aligned with EU regulations, specifically Directive 2019/1151 pertaining to the online establishment of business entities, registration of branches, and submission of documents and information via the internet. The effects of this reform were significant, resulting in shortened registration time, reduced procedures and documentation, simplified digital applications, and lower costs. Moreover, the availability of online registration services around the clock removed barriers for entrepreneurs. It facilitated easier submission of applications for registering limited liability companies (LLCs) and allowed for changes in predominant activities and addresses for sole-trader LLCs. The cost savings achieved through online registration were substantial for businesses. For instance, as the registration of a business entity involves approximately 11 steps requiring the submission of extensive documentation such as Articles of Incorporation, Founding Agreement, Articles of Association, and official resolutions, transitioning to online registration has yielded substantial savings. It is estimated that the impact of the legislation on electronic documentation has created savings in time and a reduction in expenditures.

b) Improvement in the Area of Bankruptcy

In recent years, poor practice in enforcing court verdicts and debt collection, and the working practices of bankruptcy trustees have been identified as major challenges in Montenegro. This has had a negative impact on the overall business environment. To address these issues, a reform was implemented in 2021 with the adoption of amendments to the Bankruptcy Law. Three key systemic changes focused on licensing of bankruptcy trustees, appointment of trustees in bankruptcy proceedings, and the bankruptcy estate register. The new law introduced mandatory licensing for all bankruptcy trustees, requiring individuals who meet the criteria to pass a professional exam conducted by a Ministry of Justice Commission to be registered as a bankruptcy trustee. Additionally, the law amended the process of appointing bankruptcy trustees by introducing a random selection method, ensuring equal representation of all licensed trustees. These legislative changes and their practical application overcome the challenges faced under the previous law, improving the position of creditors while protecting their interests, and preserving the status of companies in bankruptcy with the goal of using bankruptcy as a means for a business entity to overcome operational difficulties. The list of bankruptcy trustees has been modified on the basis of the criteria specified in the law, thus ensuring legal certainty. Certain deadlines have been shortened and new provisions have been defined to enhance the efficiency, rationality, and cost-effectiveness of the bankruptcy process. These solutions improve the position of creditors, protect the interests of companies in bankruptcy, and aim to use bankruptcy as a way for businesses to overcome operational challenges. The implementation of this legislation positively impacts the operations of companies, advancing and developing the business and investment environment.

c) Establishment of an Innovation Fund

One problem for businesses was the lack of coordination and encouragement for technology transfer and commercialization of innovations. Consequently, SMEs had a notably low level of product innovation and market competitiveness due to the underutilization of specialized services from research institutions.

To address this issue, the Innovation Fund was established in 2021 as an institution tasked with coordinating, executing, and financing state innovation policies aimed at micro, small, and medium-sized enterprises, as well as technology transfer from research institutions. The goal of the Montenegro Innovation Fund is to bolster innovative entrepreneurship in the economy, contribute to the more efficient implementation of the Smart Specialization Strategy, and enhance absorption capacities for attracting EU funds and preparing for European Structural and Investment Funds.

The establishment of this fund ensures a more effective implementation of innovation policies by providing resources to stimulate innovative activities. An "Innovation Vouchers" scheme was initiated as a simple, fast, and efficient financial incentive for micro, small, and medium-sized enterprises (MSMEs) with the aim of financially encouraging private companies to collaborate with research institutions on commercially applicable research efforts, making their operations and products more competitive in the market. In 2022, the first support lines for the innovation community in Montenegro were launched. Out of the EUR 1 m allocated to the fund from the state budget, EUR 770,000 was earmarked for the implementation of two programme lines (innovation vouchers and collaborative grants). Out of a total of 17 applications for innovation vouchers, 10 were approved and 7 were rejected. The utilization of the available budget was 71%. As for collaborative grants, the call was intended for MSMEs looking to implement innovative projects in collaboration with research institutions and/or other MSMEs with the aim of creating new products, services, and technologies with sustainable impact and market potential. There were 36 project applications registered, indicating significant interest from the business sector. The funds requested by the Innovation Fund (EUR

3,074,131) greatly exceeded those available. After a two-step evaluation process, 13 projects were positively evaluated, attesting to the quality of the applications and confirming that this is an appropriate form of support for the innovation community. Following the successful evaluation process and in line with available resources, the Fund approved 7 collaborative grants for innovative projects, totalling EUR 628,760.

Additionally, the Vouchers for Invention Protection and Development programme was launched in 2023, aimed at Montenegrin inventors or innovators, to protect their inventions with a patent in order to proceed with further testing and development, ultimately leading to potential commercialization and exploitation of the patent in domestic or international markets, thereby enhancing the competitiveness and innovation of MSMEs. There are also other financing programmes aimed at connecting businesses, the research community, and the creation and valorisation of innovations, such as the "Promotion of Innovation Culture" programme, "Implementation of Educational Programmes in the Smart Specialization Field", "Startup Pre-Acceleration", "Innovative Concept Verification", and "Programme for Strengthening the Innovation of Newly Established or Existing MSMEs".

North Macedonia	Value	Score	Rank
Overall score		48,1	5
Fundamental Prerequisites		49,8	4
Macroeconomic and Financial Stability		48,2	6
Rule of Law		51,4	4
Inflation	14,2	40,4	7
Fiscal Balance	-4,5	40,8	6
Public Debt	50,9	50,1	3
Current Account Balance	-6,0	52,7	3
NPL Ratio	3,1	56,9	2
Judical Effectivness	50,2	52,3	3
Corruption Perception Index	40,0	49,5	4
Judicial Framework and Independence	3,3	52,3	3
Markets		46,3	5
Labour Market and Human Capital		44,4	5
Financial and Capital Market		48,1	4
Education Index (HDI)	0,8	61,1	2
PISA test resaults - Science	415,0	49,4	4
Unemployment rate	14,7	46,7	5
Banking Sector Assets to GDP	69,7	57,4	2
Market Cap to GDP	66,7	67,8	1
Acess to Alternative Financial Sources (OECD)	2,1	50,3	3
Business Friendly Regulations		45,7	5
Public Administration Delivery		46,0	6
Taxation and non-tax revenues		45,3	5
Informality		54,0	3
Burden of government regulation (1 worst-7 best)	3,0	48,3	5
Predictability	0,0	44,7	4
Regulatory Quality	66,4	58,2	3
Quality of Public Private Dialogue	0,4	32,9	7
Tax wedge	42,0	38,6	7
Share of non tax revenues in public revenues	11,8	52,0	3
Proportion of informal employment in total employment	10,1	57,0	2
Public procurement average number of bids	3,3	51,0	4
Level Playing Field and Business Innovation		51,7	3
Innovations		49,1	3
Business Digitalization		52,0	3
Informal employment %	10,1	57,0	2
Public procurement average number of bids	3,3	51,0	4
Competitive Industrial Performance Index	0,0	51,6	3
European Innovation Scoreboard	45,6	46,6	4
Internet speed Fixed Broadband Mbps	37,9	43,0	6
eCommerce Index	71,1	54,3	3
Digitalisation of Business Procedures	6,0	59,4	1
Sustainable and Equitable Development		47,3	6
Equality		52,3	3
Gender equality		44,8	5
Green economy		44,7	6
Local Autonomy Index	54,0	49,7	3
NEET rate	17,9	54,8	3
Gender Gap Report	0,7	40,4	6
Gini Coeficient	33,5	49,1	4
Carbon Intensity of power (g CO_2e/kWh)	529,0	46,2	5
Renewable Energy Consumption	16,3	34,9	7
EBRD Green Agenda	5,6	53,2	3

4.4. North Macedonia

North Macedonia (5th) has an SBE Index of 48.13. Scoring 49.8 in Fundamental Prerequisites, it faces challenges in inflation and budget balance. Its Markets pillar score of 46.3 highlights struggles particularly in Labour Market and Human Capital, which is dragged down by poor Human Development Index scores. It falls in the middle for Business-Friendly Regulations but has a significant drag due to its low score in public-private dialogue. In Level Playing Field and Business Innovation, it offers a balanced but unremarkable performance, scoring highest in Informality. In Sustainable and Equitable Development, it struggles in the Green Economy but does relatively well in Equality and Gender Equality.

a) One-Stop Shop for Provision of Licenses and Permits and e-Construction Land

Complex administrative procedures and insufficient coordination among public institutions are among the key challenges in setting up an appropriate business environment. Committed toward further simplification of the business environment, the government introduced digitalization of business-oriented services through setting up information systems for construction permits and for construction land, and for public bidding in the sale of movable assets and real estate. These information systems enable companies to obtain all necessary information through integrated provision of all services, instead of using web sites of each line ministry or other public institution. The first two have been used by both central and local governments, while e-assets is provided on a local level.

These platforms are a first step toward increasing the efficiency of the licensing process, with standardisation and harmonisation enabling more comprehensive data exchange and interoperability. This is a positive development, since according to Balkan Barometer 2021: Business Opinion, Regional Cooperation Council, around one-third of businesses in North Macedonia consider the lack of availability and accessibility of relevant information to be a big or very big obstacle to obtaining a business licence.

The procedure of issuing construction permits electronically is aimed at simplifying and clarifying the whole process. The system contributes to shortening the time needed for issuing construction permits. The Law on Construction Sites transfers authority for managing unoccupied construction sites from central to local level, allocating to the municipalities 80% of the profit gained when selling and renting construction land. ZELS (the association of municipalities) has prepared a software solution at the central level for issuing building permits and selling construction land and for e-auctions for managing construction sites, that is available to all municipalities via the ZELS server free of charge, helping them save funds by not introducing their own support systems and individual procurement of software. As a result, investment procedures have been streamlined, encouraging potential investors, and contributing to overall local economic development.

According to an assessment of these e-services, the average costs of supervision in the construction phase after obtaining a construction permit, expressed as a percentage of the construction value according to the approved project, varies between 0.1%-2%, which demonstrates that the electronic system has improved the procedure for issuing building permits.

b) Research, Development, and Innovation

Businesses in North Macedonia have limited access to finance for innovative projects. For that purpose, one of the main landmark government reform measures in recent years was to provide financial support to innovative projects and companies. This effort was supported by the establishment of the Fund for Innovation and Technological Development (FITD) in 2013, as a focal institution in the national innovation ecosystem. Its main objectives are: 1) improved access to financial support for innovation and technological development; and 2) promoting and encouraging innovation activities in North Macedonia.

According to the data on projects co-funded by FITD in the period 2015 – 2021, the total project value is EUR 88.25 m. Of this, EUR 49.32 m (55%) was co-funded by FITD, while EUR 38.93 m (45%) were funds allocated by the participating companies. In this period, financial support was provided for 669 projects. The average project value was EUR 132,236, of which EUR 73,893 were provided by FITD while the other EUR 58,343 was provided by the companies. Financial support was used by 600 companies, of which 533 used it for 1 project, 65 companies for 2 projects and 2 companies for 3 projects (669 projects in all). Since its establishment, FITD has co-financed 839 projects to a value of EUR 101 million. It has also supported 106 school projects with the involvement of 700 students and mentors.

Besides working directly with companies, FITD has also enabled three leading accelerators in the economy — Seavus accelerator, X factor, and UKIM — to provide the necessary knowledge, support, and funding to companies through their programmes.

c) Trade Facilitation

Customs procedures at border crossing points are usually seen by businesses as complex, slow, and overly bureaucratic. Slow scanning procedures, time-consuming sample testing and the clearance waiting time for trucks are some of the issues that needed to be addressed with the economic integration reforms. Some of the measures introduced for improving trade facilitation are reducing waiting times by expanding business hours, reducing trade costs and facilitating the release and clearance of goods. A tariff list now categorizes commodities based on their risk level – only those that present the highest risk receive phytosanitary inspections, testing, sampling, etc. North Macedonia is the first economy in the Western Balkans to develop a rigorous, methodological risk management approach for the import of plants.

The recent improvements spearheaded by North Macedonia's State Agriculture Inspectorate (SAI) – the authority for phytosanitary measures – have helped tackle clearance issues for perishable goods at the border. With support from the World Bank Group via the IFC, the agency developed a more risk-based approach for the import of plants and plant products. The new and modernized process has led to smarter and more effective ways of working within SAI.

The benefit of trade facilitation for the business community is the reduced time spent on import, export and transit procedures, which reduces the overall costs of trade. Companies trading goods across borders can be more competitive in regional and international markets. The measures implemented have resulted in faster, easier, and cheaper clearance procedures for traders. Technical trade barriers have been lowered, decreasing SMEs' costs and administrative burdens when exporting. For example, as part of a new and improved process, low-risk fruits and vegetables such as bananas, which make up 30% of the economies import of fruits, receive expedited entry, unlike previously when all products required identity and physical checks. A tariff list now categorizes commodities based on their risk level – only those that present the highest risk receive phytosanitary inspections, testing, sampling, etc.

Kosovo*	Value	Score	Rank
Overall score		46,9	6
Fundamental Prerequisites		48,8	5
Macroeconomic and Financial Stability		56,2	1
Rule of Law		41,5	6
Inflation	11,6	50,6	3
Fiscal Balance	-0,5	59,4	2
Public Debt	19,5	66,6	1
Current Account Balance	-10,1	41,7	6
NPL Ratio	2,1	62,9	1
Judicial Effectivness	31,0	36,8	7
Corruption Perception Index	41,0	51,3	3
Judicial Framework and Independence	2,8	36,3	6
Markets		38,9	7
Labour Market and Human Capital		38,7	7
Financial and Capital Market		39,1	7
Education Index (HDI)	0,7	37,0	7
PISA test resaults - Science	413,0	48,8	5
Unemployment rate	14,4	47,4	4
Banking Sector Assets to GDP	64,7	51,4	3
Market Cap to GDP	33,5	52,5	3
Acess to Alternative Financial Sources (OECD)	1,6	40,5	6
Business Friendly Regulations		54,9	3
Public Administration Delivery		51,4	3
Taxation and non-tax revenues		58,3	2
Informality		56,5	2
Burden of government regulation (1 worst-7 best)	3,3	52,3	2
Predictability	0,9	61,9	2
Regulatory Quality	43,3	36,1	7
Quality of Public Private Dialogue	0,9	55,3	2
Tax wedge	17,5	65,0	1
Share of non tax revenues in public revenues	12,0	51,6	4
Proportion of informal employment in total employment	21,5	45,4	5
Public procurement average number of bids	4,8	67,6	1
Level Playing Field and Business Innovation		48,8	4
Innovations		39,8	7
Business Digitalization		50,0	4
Informal employment %	21,5	45,4	5
Public procurement average number of bids	4,8	67,6	1
Competitive Industrial Performance Index	0,0	39,8	7
European Innovation Scoreboard	0,0	0,0	N/a
Internet speed Fixed Broadband Mbps	57,3	57,8	2
eCommerce Index	n/a	n/a	N/a
Digitalisation of Business Procedures	3,0	39,6	6
Sustainable and Equitable Development		43,1	7
Equality		33,7	7
Gender equality		57,1	1
Green economy		38,6	7
Local Autonomy Index	46,7	36,8	7
NEET rate	32,1	30,6	7
Gender Gap Report	0,7	50,2	3
Gini Coeficient	29,0	64,0	1
Carbon Intensity of power (g CO_2e/kWh)	769,0	36,2	7
Renewable Energy Consumption	26,1	45,5	5
EBRD Green Agenda	3,7	34,1	7

4.5. Kosovo*

Kosovo* (6th) is sixth with an SBE Index score of 46.90. At fifth place with 48.8 in Fundamental Prerequisites, Kosovo*'s high macroeconomic score is offset by especially low scores in rule of law. It faces major challenges in the Markets pillar with a score of 38.9, especially in high unemployment rates and poor educational outcomes. In Business-Friendly Regulations, it ranks in the middle but it excels in public procurement. It exhibits mixed results in Level Playing Field and Business Innovation due to lack of data. In Sustainable and Equitable Development, it faces the most challenges, especially in Equality and Gender Equality.

a) Reforms on Improving Access to Finance Through Financial Intermediation

Kosovo* has established the Kosovo* Credit Guarantee Fund (KCGF) as a financial intermediation mechanism for SMEs, with the aim of improving access to finance. KCGF was established in 2016 based on the Law on Establishment of the KCGF which had been prepared by the ministry and supported by international donors. The aim of KCGF is to increase the number of jobs, local production, and value-added services, encourage exports, broaden the tax base, strengthen the social safety net and reduce poverty. This fund also aims to target various vulnerable groups in society such as women, minorities, farmers, and entrepreneurs, and sectors with growth potential. A total of 12,798 loans have been guaranteed, with a value of more than EUR 545,3 m, while approved guaranties total EUR 288,9 m. Financial intermediation continues to expand. Credit growth accelerated from 7.1% in 2020 to 15.5% in 2021 and further to over 17% year-on-year in the first half of 2022. Loan growth was facilitated by low interest rates, a continued increase in deposits, improved contract enforcement and increased guarantees extended by KCGF for lending to micro, small and medium-size enterprises to cushion the impact of the crisis.

b) Exempting Manufacturing/Production Firms from Taxes to Boost Competitiveness

The business environment in Kosovo* faced a major obstacle in promoting competitiveness among manufacturing firms. Recognizing this challenge, the Kosovo* government took an important step forward by introducing a fiscal policy reform in 2016. The reform aimed to incentivize manufacturing firms by granting them exemptions from customs and exercise taxes on essential components such as raw materials, semi-products, product lines, IT equipment, auxiliary products involved in the production process and spare parts for production lines. This fiscal incentive proved to be quite substantial, amounting to a total of EUR 355.2 m between 2018 and 2021. These tax exemptions played a crucial role in reducing the financial burden on businesses operating in the manufacturing sector, allowing them to focus on enhancing their competitiveness and export growth.

c) Reducing Administrative and Clearance Burdens to Increase Exports

Administrative burdens and the cost and time to export were among barriers faced by exporters. The government has made reforms aiming to increase exports by simplifying customs procedures, reducing time and costs, and document preparation procedures by improving automated data management system clearance procedures. The Customs and Excise Code of Kosovo* (Code number 03/L109) includes provisions for simplified procedures in Articles 80 to 87, with further enhancements introduced by the 2011 amendment (Law No. 04/L-099) involving Authorized Economic Operators and summary declarations. Additionally, the Kosovo* Customs Service has Administrative Instruction N_o 23/2016, which outlines 18 articles detailing the type of criteria, type of goods, and the process for admission to simplified procedures, all aimed at simplifying the release of imported or exported goods through a Single Goods Declaration. This was conducted via improving the automated data management system ASYCUDA and simplifying clearance procedures, facilitating exports by making them more convenient and efficient. For example, the average time from when an agent lodges a SAD (Single Administrative Document) with Customs to when the truck passes the border crossing point (BCP) has decreased from 3 hours and 17 minutes in 2016 to 2 hours and 44 minutes in 2021. A procedure that in 2016 took 1 hour and 10 minutes, in 2021 took just five minutes, a 92.9% reduction in the time needed to prepare documentation to be presented at the BCP, while the truck was sealed and ASYCUDA updated.

Likewise, a lack of appropriate procedures for the transit corridor between Kosovo* and Albania was a barrier for export businesses in Kosovo*. Both economies reduced the customs clearance process and implemented the Albania-Kosovo* Transit Corridor, reducing the number of obligatory examinations at the crossing. This was conducted through the digitalization of customs services, while increasing the number of authorized economic operators and introducing a one-stop shop. This has enabled export businesses in Kosovo* to access international markets directly through Durrës Port via direct customs clearance. In addition, the transit of goods destined for Kosovo* at this port has increased by 40% since the establishment of a customs checkpoint.

Serbia	Value	Score	Rank
Overall score		51,5	2
Fundamental Prerequisites		50,9	2
Macroeconomic and Financial Stability		50,0	5
Rule of Law		51,7	3
Inflation	11,9	49,4	4
Fiscal Balance	-3,1	47,3	4
Public Debt	52,6	49,2	4
Current Account Balance	-6,9	50,3	5
NPL Ratio	3,6	53,9	4
Judical Effectivness	50,4	52,5	2
Corruption Perception Index	36,0	42,5	5
Judicial Framework and Independence	3,5	60,3	1
Markets		52,7	3
Labour Market and Human Capital		57,2	2
Financial and Capital Market		48,2	3
Education Index (HDI)	0,8	56,2	3
PISA test resaults - Science	440,0	56,9	2
Unemployment rate	9,4	58,5	2
Banking Sector Assets to GDP	59,9	45,5	5
Market Cap to GDP	8,5	41,0	6
Acess to Alternative Financial Sources (OECD)	2,5	58,1	2
Business Friendly Regulations		43,9	6
Public Administration Delivery		46,0	5
Taxation and non-tax revenues		41,8	6
Informality		49,5	4
Burden of government regulation (1 worst-7 best)	3,2	50,9	4
Predictability	-0,1	44,5	5
Regulatory Quality	53,4	45,7	5
Quality of Public Private Dialogue	0,6	43,1	6
Tax wedge	38,2	42,7	5
Share of non tax revenues in public revenues	17,8	40,9	6
Proportion of informal employment in total employment	10,1	57,0	2
Public procurement average number of bids	2,5	42,0	5
Level Playing Field and Business Innovation		56,1	2
Innovations		60,3	2
Business Digitalization		58,5	1
Informal employment %	10,1	57,0	2
Public procurement average number of bids	2,5	42,0	5
Competitive Industrial Performance Index	0,0	60,5	2
European Innovation Scoreboard	61,8	60,0	2
Internet speed Fixed Broadband Mbps	66,5	64,9	1
eCommerce Index	75,3	57,4	2
Digitalisation of Business Procedures	5,0	52,8	3
Sustainable and Equitable Development		53,9	2
Equality		62,6	1
Gender equality		53,1	3
Green economy		45,9	5
Local Autonomy Index	64,4	68,1	1
NEET rate	14,4	60,8	1
Gender Gap Report	0,7	48,6	4
Gini Coeficient	35,0	44,4	5
Carbon Intensity of power (g CO_2e/kWh)	569,0	44,5	6
Renewable Energy Consumption	21,5	40,5	6
EBRD Green Agenda	5,5	52,6	4

4.6. Serbia

Serbia (2nd) ranks second with an overall SBE Index score of 51.48. Scoring 50.9 in Fundamental Prerequisites, Serbia meets the average standards, although corruption perception could be improved. In the Markets pillar, it leans slightly better in the Labour Market and Human Capital sub-pillar with a score of 57.2, but its Financial and Capital Markets lag behind at 48.2. For Business-Friendly Regulations, Serbia has a mixed performance, doing well in government regulation but falling short in taxation. In Level Playing Field and Business Innovation, it closely follows Croatia, excelling in Business Digitalization. However, it falls behind in Green Economy metrics under the Sustainable and Equitable Development pillar, despite strong performance in Equality metrics.

a) eAgrar Reform

The Register of Agricultural Holdings (RPG) in Serbia was established in 2009 to regulate subsidies and support measures for farmers. However, the manual process of registration and administrative errors became a burden for over 350,000 agricultural holdings. To address these challenges, the eAgrar information system was introduced. This system automates procedures, connects public databases, and allows farmers to electronically submit their registration applications and updates. The implementation of eAgrar has been successful with a significant number of agricultural holdings registering since the launch. It has streamlined the registration process, reduced administrative costs, and increased legal certainty for farmers.

The eAgrar reform brought about substantial improvements compared to the previous manual registration process. Before the reform, agricultural holdings had to submit physical documents annually, a time-consuming and error-prone process. With eAgrar, the Agricultural Payments Administration now handles the registration process in accordance with regulations and EU requirements. Farmers can submit their documents electronically, and 70% of the data is collected automatically from existing records. This not only eliminates administrative errors but also provides clarity on renewal conditions and acquiring passive status. The implementation of eAgrar has been supported by the development of software, professional training and the establishment of a contact centre. Overall, the eAgrar system has proven to be a step in the right direction, paving the way for future development and improvement that could provide benefits for both farmers and the Agricultural Payments Administration.

b) Introduction of eFiscalisation and eInvoicing

The reform focused on enhancing fiscalization, and digitalizing the process was initiated with the adoption of the new Fiscalization Law in late 2020. It was further developed through the implementation of sub-legislative acts and organizational-technical measures until 2022, when full implementation began. This reform encompassed both eFiscalization and the introduction of electronic invoicing (eInvoicing) in Serbia. The eFiscalization system relies on advanced digital solutions, utilizing devices that are typically connected to the Tax Administration via the internet. Notably, the introduction of "All in one" devices allowed for both fiscal and Point of Sale (POS) functionalities. The fiscal function allows for a receipt to be issued to the customer, while the POS function allows for cashless transactions. The Serbian government recognized the importance of cashless payments and dedicated three measures to strengthen them in the programme for Combating the Shadow Economy 2023-2025. Further support for cashless payments in Serbia is provided through the POS programme, which is intended to distribute up to 25,000 POS devices for SMEs and government institutions and is supported through the "Better Way" national initiative for cashless payments project.

With the simultaneous implementation of eFiscalization and eInvoicing, payment transactions in Serbia underwent major changes. This digital system allows all transactions, both retail and wholesale, to be monitored in real time. This means that both supply and demand are effectively being monitored in real time, allowing for discrepancies to be detected and analysed, to identify when it is necessary to make an inspection visit to investigate further. This reform has allowed the control of compliance, to transit from periodic inspections to real-time monitoring involving consumer participation. Moreover, a number of previously strenuous obligations such as keeping control tapes were eliminated, and improved through real-time data transfer to the Tax Administration.

Regarding eInvoicing, a standardized electronic format and exchange system were established through the Electronic Invoice System (EIS). The system was introduced gradually, firstly on a business-to-government basis and then finally in 2023 on a business-to-business basis for the major part of the economy. This streamlined the process, enhancing efficiency and creating incentives for businesses to further digitalize their operations.

c) Electronic Building Permits

Reform of the construction permitting procedure in Serbia aims to simplify and streamline the process of obtaining building permits. Over the past ten years, there has been tremendous progress in simplifying individual steps in the procedure and improving transparency and investor protection. The reason for initiating the reform was the lengthy, expensive, and inefficient process of obtaining construction permits, which took an average of 264 days prior to the reforms, which were implemented starting in 2014.

The first wave of reform introduced a one-stop shop system in the jurisdiction of local government units, where the competent authority takes on the responsibility of obtaining all necessary conditions and approvals from other public authorities that was previously handled by the investors themselves. In addition to the legal and institutional reforms, an ICT platform called CEOP (Central Registry of Unified Procedures) was established in 2016, transforming the paper-based system into a fully electronic procedure.

As a result, the process has become more transparent, significantly reducing the risk of corruption. In 2017, these reform efforts were acknowledged in the World Bank's Doing Business report, where Serbia improved its ranking in the Dealing with Construction Permits index by 146 places compared to 2014, reaching 36th position out of 190 economies analysed.

Further reform steps have included the improvement of building regulations and specific training programmes for employees of local government units and the Republic Cadastre Authority. These additional improvements have further contributed to the overall competitiveness of the economy, as demonstrated by Serbia's ranking on the Doing Business list. According to the latest index, Serbia ranks 9th in the world in terms of dealing with construction permits, with a substantial increase in the number of permits issued (29,344 in 2022 compared to 7,668 in 2014).

This reform has simplified and reduced the administrative steps and institutional processes required to obtain construction permits, resulting in a more efficient and transparent system. Prior to the reforms, the procedure took an average of 264 days to complete, while after the reforms, it has been shortened to an average of 99.5 days, beating the average time of 170 days for Europe and Central Asia. The implementation of the one-stop shop system has eliminated the need to submit documentation to various government and local authorities, public enterprises and other organizations individually, with all documentation now being submitted electronically through the CEOP platform.

Croatia	Value	Score	Rank
Overall score		57,7	1
Fundamental Prerequisites		60,4	1
Macroeconomic and Financial Stability		55,6	2
Rule of Law		65,2	1
Inflation	10,8	53,7	2
Fiscal Balance	0,4	63,6	1
Public Debt	68,8	40,7	6
Current Account Balance	-1,6	64,5	1
NPL Ratio	3,3	55,7	3
Judical Effectivness	69,9	68,2	1
Corruption Perception Index	50,0	67,1	1
Judicial Framework and Independence	3,5	60,3	1
Markets		63,6	1
Labour Market and Human Capital		63,9	1
Financial and Capital Market		63,3	1
Education Index (HDI)	0,8	61,5	1
PISA test resaults - Science	472,0	66,5	1
Unemployment rate	7,0	63,8	1
Banking Sector Assets to GDP	77,8	67,1	1
Market Cap to GDP	38,9	55,0	2
Acess to Alternative Financial Sources (OECD)	3,0	67,9	1
Business Friendly Regulations		48,9	4
Public Administration Delivery		51,8	2
Taxation and non-tax revenues		46,0	4
Informality		59,8	1
Burden of government regulation (1 worst-7 best)	2,2	37,8	7
Predictability	0,4	53,1	3
Regulatory Quality	69,2	60,9	1
Quality of Public Private Dialogue	0,9	55,3	2
Tax wedge	31,3	50,1	4
Share of non tax revenues in public revenues	17,3	41,8	5
Proportion of informal employment in total employment	2,9	64,3	1
Public procurement average number of bids	3,7	55,3	2
Level Playing Field and Business Innovation		60,1	1
Innovations		64,3	1
Business Digitalization		56,1	2
Informal employment %	2,9	64,3	1
Public procurement average number of bids	3,7	55,3	2
Competitive Industrial Performance Index	0,0	64,7	1
European Innovation Scoreboard	66,5	63,9	1
Internet speed Fixed Broadband Mbps	41,5	45,8	5
eCommerce Index	84,0	63,8	1
Digitalisation of Business Procedures	6,0	59,4	1
Sustainable and Equitable Development		55,3	1
Equality		52,1	4
Gender equality		55,4	2
Green economy		58,3	1
Local Autonomy Index	50,5	43,5	6
NEET rate	14,4	60,8	1
Gender Gap Report	0,7	48,6	4
Gini Coeficient	29,5	62,2	2
Carbon Intensity of power (g CO_2e/kWh)	246,0	57,8	2
Renewable Energy Consumption	31,6	51,5	4
EBRD Green Agenda	6,8	65,6	1

4.7. Croatia

Croatia (1st) takes the top spot with an SBE Index score of 57.65. Leading in Fundamental Prerequisites with a score of 60.4, Croatia shines particularly in the rule of law and macroeconomic stability, which are bolstered by strong fiscal and current account balances. In the Markets pillar, it holds the first place with a score of 63.6, showing an advanced labour market and human capital sub-pillar, supported by better-than-average education indices and a low unemployment rate. However, its financial markets remain underdeveloped compared to EU standards. In Business-Friendly Regulations, Croatia offers a mixed performance, excelling in public-private dialogue but still facing some regulatory burdens. In Level Playing Field and Business Innovation, it leads, particularly in innovation, as evidenced by strong scores in the Competitive Industrial Performance Index and European Innovation Scoreboard. In Sustainable and Equitable Development, Croatia takes the top spot, showing impressive metrics, especially in Gender Equality and the EBRD Green Agenda.

Under the project it was not envisaged to provide an analysis of the best practices for Croatia as was the case for the other economies.

Chapter 5:

BFC SEE Standard: Development of the Local Business Environment

Chapter 5: BFC SEE Standard: Development of the Local Business Environment

Business Friendly Certification South-East Europe (BFC SEE) is a unique programme for evaluating and improving the conditions for doing business and investing on the local level. The programme enables cooperation of all actors involved in the process of attracting investment and developing conditions for easier business. It is intended for municipalities and cities that have appropriate capacities and are strategically committed to improving their business environment, attracting investment and encouraging their local economic development. Moreover, it provides them with a straightforward roadmap for creating a favourable business environment and introducing international standards of efficient and transparent local administration in accordance with principles of good governance. Also, the programme presents a guide for activities that will enable the local government to build and improve organizational capacities, plan development, and monitor the effects of its work, make decisions through dialogue with the private sector and through transparent work contribute to predictability and reduction of the risks in doing business.

BFC SEE ensures a stable and predictable business environment. For businesses and investors looking to move or expand their operations in South-East Europe, it indicates cities and municipalities which offer the best investment climate and the greatest development potential. Establishing and strengthening dialogue with representatives of municipalities and cities regarding strategic and development priorities contributes to a reliable partnership, and thus to the creation of an attractive destination for new investment. It also contributes to strengthening cooperation between the central government and municipalities with a business-friendly environment, and to creating a competitive business climate in the whole SEE region.

Clear methodology is at the heart of the approach. One of the main goals of the BFC SEE programme is to encourage local governments to take a proactive approach towards realizing their development potentials and to provide the methodology for its realization. The criteria for certification present a form of reminder of how a local government should develop its capacities. The results of implementing the certification process are improved competitiveness of the local economy and the attractiveness of the municipality/city as a destination for new investment together with development of the existing economy.

The certification methodology has been continuously evolving. As members have gradually improved over time, the certification methodology has been evolving through four successive sets of criteria. The criteria have changed slightly in terms of content from one edition to another and can be compared over a longer time period. The most recent, 4th edition, is based on 62 sub-criteria, grouped into 10 different areas.

1. **Strategic and institutional framework for economic development** - Strategically directed development of the local community with a clearly defined plan for infrastructure development and capital investment, with representatives of the public and businesses participating in the planning.
2. **Organizational capacities for local economic development** - A functional office for local economic development that takes care of implementing priority development projects and actively cooperates with the local business community.
3. **Public**-private dialogue and cooperation – A partnership relationship between local government and businesspeople through a functional Economic Council, which is regionally recognized as an indispensable mechanism in creating a favourable local business climate and a channel for communication with businesses, which in this way become the most effective promoter of the municipality's investment potential.
4. **Efficient system for issuing construction permits** - An efficient system for obtaining construction permits has been established with clear and

transparent procedures and instructions available to interested investors.

5. **Proactive approach in investment promotion and destination marketing** - A proactive approach in the promotion of investment potential with information on investment opportunities, comparative advantages of the municipality and advantages for business and investment.
6. **Predictable costs of doing business and responsible financial management** - Predictability of business costs and responsible financial management through an organized and functional mechanism for presenting accurate or indicative business costs in the investment planning process
7. **Labour force availability and alignment with the needs of businesses** - Supporting the local labour market through clearly defined measures and retraining programmes according to the needs of the local economy
8. **Stimulating policies and measures for supporting entrepreneurship and innovation** - Incentive policy and support for the development of entrepreneurship through a set of financial and non-financial measures, incentives and benefits for those interested in starting a business.
9. **Environmental protection and circular economy** - A strategic commitment to environmental protection and a local policy of fees and charges that stimulates the involvement of the private sector in the circular economy, all with the aim of raising the environmental awareness of citizens, businesspeople, local governments and utility companies.
10. **Digital transformation and e**-services - Orientation towards the digitalization of administrative procedures and the establishment of innovative solutions in the provision of information and services to the public and the business sector through electronic services.

Certification of cities/municipalities means fulfilling these standards. It provides a guarantee that existing entrepreneurs and potential investors will receive services and information that facilitate doing business. The certificate means that the local government has documented the processes and services it provides in accordance with the certification criteria, and that this has been confirmed by an independent expert commission.

The certification process takes 12 months, and local governments must exceed 75% of the standards to be certified as business friendly. However, the time that a municipality needs to fulfil all the criteria varies according to how many are already in place at the beginning of the certification process. The certification requires sustainability in the sense that the processes in the local administration continue to function even after the successful certification. The validity of the certificate is limited to 3 years, requiring repeated verification, promotion, and sustainability of the established procedures.

The most recent certification was conducted according to the 3rd edition of the methodology, which consisted of the following:

1. **Local Development Strategy** - Fulfilment the requirements of the BFC SEE standard contributes to greater transparency of the process of drafting and adopting the municipal Strategic Development Plan. Certification contributes to greater participation of civil and private sector representatives through their presence in working groups and public debates. Through the process itself, municipalities improve their procedures for monitoring, coordination and reporting on the level of completion of planned projects.
2. **Organizational Unit in Charge of Local Economic Development (LEDO)** - During the process, municipalities improve their organizational capacities. This implies the establishment of a well-organized unit (a LED office) that communicates with relevant institutions, gives support to the existing local business community and potential investors.
3. **Public and Private Sector Cooperation** - Public-private dialogue is necessary for understanding and improving the business environment. It can be accomplished by formal and informal contacts, and continuity and a constructive approach must be maintained. During the certification process, mayors must establish an advisory body – an economic/

business council – that provides a formal and organized setting for public-private dialogue. The economic council is a permanent body with a mandate to discuss all issues relevant for the economy and local economic development and propose activities to the local government to improve the conditions for doing business.

4. **A system of services for obtaining building permits** - A city/municipality which has created a positive business climate must be able to provide all information and assistance to investors, so that they know exactly what to expect during the process. Investors need real estimates of the time and money needed from the moment of starting the procedure until the completion of a facility. One usual improvement that the city/municipality can quickly implement is providing complete information on the status of spatial planning documents, on the procedure for obtaining consent, and all the necessary forms. It is important to present existing infrastructure at available sites, the capacities and prices of connections to utility systems, electric power supply, telecommunications, gas supply, etc.
5. **The Existence of the Analytical Basis for the Support of the Local Business Community and Attracting Investments** - Through the certification process the city/municipality updates statistical or economic indicators that can be beneficial to decision makers and businesspeople. Interested businesspeople are given a clear picture of the economic trends, the structure of employed and unemployed persons and their availability, the structure of companies and entrepreneurs by activity and revenue, and information on potential subcontractors in the certified municipality.
6. **Activities for the promotion of investment and the quality of the business environment in the city/municipality** - The certification programme does not insist on promotional activities at any cost or to any extent. It is far more important to create favourable conditions for doing business and to clarify the comparative advantages of the municipality. Marketing activities should be carried out only after these are in place, especially in areas that have potential and are recognized as development priorities. By the end of the process municipalities will have improved their presentation skills and materials on the possibilities for doing business, aimed at potential foreign and domestic investors.
7. **Predictability of costs and responsible financial management** - One of the basic elements of a business decision is the predictability of operating costs, especially in the first years of business activity, regardless of whether the issue is the launch of an entrepreneurial activity, maintaining or expanding existing business capacities or a new investment. A BFC SEE city/municipality publishes in one place the data that a business entity can use to predict its costs, as well as possible incentives that can reduce them.
8. **Tracking the dynamics of the local labour market and active attitude towards the established situation and needs** - A city/municipality that has created a positive business climate provides basic information on the number and structure of the unemployed, employed, and data on average wages. The local government supports certain training tailored to the needs of businesses and investors, either independently or in cooperation with the appropriate econmies employment services and educational institutions.
9. **The city/municipality provides support for the development of entrepreneurship** - The BFC SEE standard recognizes local government support measures to people who want to realize their business ideas by operating their own small businesses or by maintaining and expanding existing activities, whether in services, manufacturing or rural entrepreneurship. Indicators present the allocation of financial resources from the city/municipality budget and the implementation of measures to support entrepreneurship, monitoring the effects of such measures through economic indicators and promoting entrepreneurship associations.
10. **Suitable infrastructure and reliable utility services** - During the certification process municipalities and

cities develop their strategic medium- and long-term infrastructure investment plans. The BFC SEE standard insists on transparent and clear information on infrastructure and utility services, on having a service in place through which users of utility services can ask questions, report problems and receive feedback, but also on surveying the views of the business community on the price and quality of utility services.

In the last round, more than 100 local governments in the region joined the programme, including municipalities that will join BFC SEE in edition IV of the standard. A total of 134 processes of certification and recertification have been realized since 2012.

Table 7: Overview of fulfilment of criteria, regional average and for each economy for the 3rd edition

No.	Category	**REGION**	HR	BiH		SRB	MNE
				FBIH	RS		
1	Local Development Strategy	**89.0%**	97.9%	90.1%	94.3%	80.0%	86.3%
2	Organizational Unit in Charge of Local Economic Development (LEDO)	**91.6%**	97.1%	89.7%	95.5%	88.5%	90.0%
3	Public and Private Sector Cooperation	**88.7%**	99.1%	86.0%	89.7%	87.9%	88.4%
4	System of services for obtaining building permits	**92.6%**	98.4%	92.9%	92.3%	92.4%	89.5%
5	Existence of the AAnalytical bBasis for the sSupport of the lLocal bBusiness cCommunity and aAttracting Investments	**92.9%**	95.8%	90.6%	94.8%	93.8%	90.0%
6	Activities for promotion of investment and quality of the business environment	**91.6%**	94.9%	95.5%	92.3%	89.6%	82.3%
7	Predictability of costs and responsible financial management	**90.2%**	95.8%	85.9%	91.2%	90.6%	93.8%
8	Tracking the dynamics of the local labour market and active attitude towards the established situation and needs	**84.9%**	92.9%	83.9%	86.9%	85.0%	77.1%
9	City/municipality provides support for the development of entrepreneurship	**86.2%**	95.2%	86.3%	82.1%	87.1%	88.6%
10	Appropriate iInfrastructure and Reliable Utility Services	**85.9%**	96.2%	87.2%	90.4%	78.5%	80.8%

Source: Authors' calculations, data not available for North Macedonia, Albania and Kosovo*[15]

15 This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence

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The CORE Partnership now encompasses more than 20 institutions, chambers, CSOs and universities. In 2022, the CORE Partnership was enlarged by including organizations from Albania and Kosovo*. Currently, the following organizations acting as BFC SEE technical secretariats:

- **Association of Local Governments – ZELS, North Macedonia** – a respected and influential national organization in North Macedonia that brings together all municipalities and the City of Skopje. Founded in 1972, ZELS serves as a representative and advocate for municipalities, promoting local democracy, decentralization and the development of a democratic society and economy. The association actively participates in international networks and has implemented numerous projects in collaboration with various international organizations.
- **Association for Local Autonomy – ALAA, Albania** – founded in 2010 to strengthen democratic structures and mechanisms in the municipalities of Albania, with a focus on enhancing local autonomy and decision-making. ALA seeks to promote inclusiveness, transparency, and the protection of common interests in local governance, as well as improve local services through sharing best practices and enhancing administrative qualifications and training.
- **Chamber of Commerce and Industry of Republika Srpska, Bosnia and Herzegovina** - a Chamber System unique in the region. As a non-governmental organization, it represents the interests of businesses and economic associations in the Republika Srpska, connecting entrepreneurs, providing advisory services, and facilitating economic relations with other economies. The Chamber operates through its Assembly, Board of Directors, and branch associations, ensuring democratic decision-making and the provision of business services to its members.
- **Chamber of Economy of Montenegro** – a reputable and influential business association that represents the interests of all businesspeople in the economy. With a focus on economic development, the Chamber plays a crucial role in promoting business opportunities, fostering ethics and practices, and providing professional assistance to its members. It also actively participates in shaping economic policies and advocating for the common interests of its members before public authorities.
- **Faculty of Economics in Rijeka, Croatia** – The Centre for Local Economic Development (CLER d.o.o.) was established in 2012 by the University of Rijeka's Faculty

of Economics to address the comprehensive needs of local development management in Croatian society. With a focus on scientific, technical, and development activities, CLER aims to enhance the development potential of municipalities, cities, districts, and other stakeholders through knowledge transfer, interdisciplinary approaches, and collaboration with domestic and international institutions. The centre's mission is to utilize the expertise of the Faculty of Economics and other stakeholders to promote a business-friendly environment, implement regulatory frameworks, and facilitate the rapid transfer of modern knowledge to local public sector operations. They have also partnered with the certification project BFC SEE to further their goals.

- **Institute for Development Research – Riinvest, Kosovo*[16]** – promotes entrepreneurship-based economic development through its research, analysis, and market interventions in sectors like horticulture, tourism, food processing, and healthcare. They also provide training programmes to enhance the capacities of municipal officials, business owners, civil society, and journalists. Additionally, Riinvest actively contributes to academic research and offers solutions for overall societal development.
- **National Alliance for Local Economic Development – NALED, Serbia** – a leading independent association in Serbia that brings together businesses, local governments, and civil society organizations to improve the business climate. With government and international support, their mission is to promote institutional reforms and enhance cooperation between sectors for investment promotion, policy reforms, and municipal capacity building. NALED is known for its unique structure, original projects, and expertise in monitoring legislative activity and measuring public administration performance.
- **Regional Development Agency for Herzegovina, Bosnia and Herzegovina** - established in December 2003 through the efforts of local municipalities, development associations, and chambers of commerce in the Herzegovina region of Bosnia and Herzegovina. As a non-governmental and independent agency, REDAH aims to promote and coordinate development activities in the region through a partnership approach involving the public, private, and non-government sectors. The agency's mission is to support comprehensive regional economic development in Herzegovina and contribute to the overall balanced development of the region.

16 This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence

Appendix:
Detailed Methodology

Appendix: Detailed Methodology

Composite indicators, which assess and compare the performance of economies, are gaining growing recognition as valuable instruments in policy analysis and public communication.[1] They are commonly employed to assess complex and multifaceted concepts that are difficult to define and pose challenges in direct measurement.

There is no unique definition of a business-friendly environment. Following the literature, we define this as all the factors that are external and beyond the control of individual enterprises and their management bearing on their business activities.[2] Hence, the SBE Index captures a wide range of constraints and opportunities that a business environment presents. It encompasses both general (contextual) conditions – macroeconomic and institutional factors and the operational environment – labour market, financial institutions, competitors, …[3]

The SBE index is a composite indicator that summarizes and measures conditions and the overall atmosphere that is conducive to the growth, development, and success of businesses, particularly small enterprises in the observed economies.

The SBE Index aims to place the observed economies' performance and progress at the centre of the policy arena. It will gauge the impact of recent policy reforms while highlighting the strengths and weaknesses of regional economies and gaps in business environment-related data.

The SBE Index follows a methodological approach provided in the OECD Handbook on Constructing Composite Indicators: Methodology and User Guide[4] and uses the COIN Tool to develop and analyse composite indicators.[5] Composite indicators involve a long sequence of steps that need to be followed meticulously. In the next section we describe the conceptual framework and the normalisation and weighting.

1 Greco, S., Ishizaka, A., Tasiou, M. et al. On the Methodological Framework of Composite Indices: A Review of the Issues of Weighting, Aggregation, and Robustness. Soc Indic Res 141, 61–94 (2019). https://doi.org/10.1007/s11205-017-1832-9. There are numerous composite indicators that compare economies' performance across various domains. Some well-known examples include Global Innovation Index, WEF

2 Fernando, A. C. (2011). Business environment. Pearson Education India, p.36.

3 Worthington, I., Britton, C., & Thompson, E. (2023). The business environment: A global perspective. 9th ed. Pearson, p. 6-7.

4 Nardo, M., et al. (2005), "Handbook on Constructing Composite Indicators: Methodology and User Guide", OECD Statistics Working Papers, No. 2005/03, OECD Publishing, Paris, https://doi.org/10.1787/533411815016. Retrieved from http://www.oecd.org/sdd/42495745.pdf

5 Becker, W., Benavente, D., Dominguez Torreiro, M., Tacao Moura, C., Fragoso Neves, A., Saisana, M. and Vertesy, D., COIN Tool User Guide, EUR 29899 EN, Publications Office of the European Union, Luxembourg, 2019, ISBN 978-92-76-12385-9, https://doi.org/10.2760/523877, JRC118407. Retrieved from

The SBE index conceptual framework

A conceptual framework serves as the foundation for selecting and merging variables into a purposeful composite indicator. The overall SBE ranking is based on five pillars that are important in presenting a complete picture of the business environment. The figure below shows the pillars that enable and facilitate a business friendly environment.

Table 8: Five pillars of a business-friendly environment

Fundamental prerequisites	**Markets**	**Business Friendly Regulation**	**Resilient, vibrant, and innovative businesses**	**Sustainable and equitable development**

Each of the five pillars is divided into several sub-pillars, each of which is composed of individual indicators – a total of 34.

Table 9: SBE Index sub-pillars

p.01	Fundamental Prerequisites	sp.01	Macroeconomic and Financial Stability
		sp.02	Rule of Law
p.02	Functional markets	sp.03	Labour Market and Human Capital
		sp.04	Financial and Capital Market
p.03	Business Friendly Regulation	sp.05	Public Administration Delivery
		sp.06	Regulatory Quality
p.04	Resilient and innovative businesses	sp.07	Informality
		sp.08	Innovations
		sp.09	Business Digitalization
p.05	Sustainable and equitable development	sp.10	Equality
		sp.11	Gender Equality
		sp.12	Green economy

The first pillar encompasses macroeconomic and financial stability and rule of law as fundamental prerequisites. Macroeconomic conditions are crucial for the business environment because they directly impact overall economic stability, growth prospects, and business operations in an economy or region. The other fundamental requirement is the rule of law. When contracts are enforceable through a fair and impartial legal system, this enables businesses to plan their operations, investments and strategies with confidence, reducing the risk of legal disputes and uncertainty.

The second pillar refers to functional labour and capital markets. Available human capital is a cornerstone of a business-friendly environment because it enhances a company's productivity, innovation, competitiveness and overall success. Similarly, well-functioning capital markets are essential for companies to access the capital they need to grow.

The third pillar refers to efficient and transparent public administration and a business-conducive regulatory framework. High regulatory quality requires clear, consistent regulations that are stable over time. Regulations that are well-designed and efficiently enforced can streamline administrative processes, reduce red tape, and simplify compliance requirements. This, in turn, lowers the barriers to running a business.

The fourth pillar takes into account the impact of other companies in an economy and their business practices on the business-friendly environment. Ensuring a level playing field in the formal economy means that businesses must comply with the same rules and regulations. This reduces the ability of some businesses to gain a competitive advantage by operating in the informal sector where they might evade taxes, labour regulations or other legal obligations. Business digitalization and innovative practices can create a more favourable business environment by reducing costs, improving overall supply chain efficiency, expanding market reach and access to emerging technologies, and foster a culture of innovation. As a result, economies where businesses embrace these practices are often better positioned to thrive in a competitive and rapidly evolving global economy.

Finally, the fifth pillar is linked to sustainable and equitable development. A business-friendly environment can help reduce income inequality and promote gender equality and social inclusion. An equitable business-friendly environment fosters a culture of fairness and equal opportunity. Such an environment is essential for addressing social disparities and promoting inclusive economic development, ultimately leading to a more just and prosperous society. Similarly, a sustainable business-friendly environment is a setting in which businesses can operate and thrive while adhering to sustainable and environmentally responsible practices. It combines elements of a business-friendly environment that encourage economic growth and entrepreneurship with a commitment to principles of sustainability. A green economy creates new opportunities for businesses involved in renewable energy, energy efficiency, sustainable agriculture, green technologies, and eco-friendly products.

Indicator selection

The strengths and weaknesses of the SBE Index derive largely from the quality of the underlying variables. The proposed variables were selected on the basis of their relevance, analytical soundness, timeliness, and availability. The team went through several iterations, and more than half of the initial indicators were removed as they did not satisfy one or more of the selection criteria. More importantly, due to the limited data coverage for specific economies, from a pragmatic point of view, compromises must be made and several indicators were not included.

The SBE Index includes 34 indicators, which fall into two categories:

- quantitative/objective/hard data (19 indicators);
- composite indicators/index data (15 indicators).

The SBE Index deliberately avoids the use of survey/qualitative/subjective/soft data.

Typically, it is considered good practice to have 5-7 indicators per dimension, while a minimum of 3 is deemed acceptable. For the SBE Index, there are on average 6.8 indicators per dimension (pillar), with a maximum of 8 and a minimum of 6.

65% of data coverage across each indicator and each economy is deemed acceptable. For several indicators, coverage was below this threshold so we removed them from the index. In several cases, missing data were imputed, outliers treated, and transformations applied to indicators where necessary and appropriate.

Special consideration was given to different approaches for imputing missing values. This was relevant for Kosovo* and in some cases BiH and Croatia. Imputation was not possible for Kosovo* for two indicators, Innovation scoreboard and eCommerce index, and these are left blank. However, with an indicator coverage of 94.1%, the results for Kosovo* are robust and reliable to the same extent as for other economies.

Additionally, the scores for Republika Srpska and Federation of Bosnia and Herzegovina may not add up to the score of Bosnia and Herzegovina for several reasons. For sub-pillar and pillar scores these differences may appear due to inexistence of all indicators for the two entities. For differences in particular indicators, the explanation lays in either a different base (Bosnia and Herzegovina GDP includes Brčko district), a different role (Bosnia and Herzegovina budget vs. entity budgets), while slight differences may also arise from the standardisation methodology itself, as entity scores may be slightly overvalued. Therefore, entity comparisons are only indicative, and should be taken with caution, especially in aggregates (sub-pillars and pillars).

Table 10: Number of available indicators and data coverage

	Number of available indicators	Data coverage before imputation	Data coverage after imputation
RS	33	97.1%	100.0%
BH	27	79.4%	97.1%
MC	32	94.1%	100.0%
ME	32	94.1%	100.0%
AL	32	94.1%	100.0%
KS *	27	79.4%	94.1%
HR	30	88.2%	100.0%

Source: Authors' calculations

Extreme values were examined to prevent unintended benchmarks. No skewed data were identified by the COIN tool. Nor did our analysis reveal any significant problem with outliers, as no troublesome outliers were detected.

Normalisation and Weighting

Normalisation is required prior to any data aggregation as the indicators in a data set have different measurement units. We applied standardisation (or z-scores) to convert indicators to a common scale with a mean of zero and standard deviation of one.

$$x = \frac{S\big(X - mean(X)\big)}{std(X)} + M$$

Z-score normalization is less susceptible to the influence of outliers, it preserves distribution information, provides interpretable values and simplifies weighting. The intention of the SBE Index is not to reward an occasionally exceptional score, i.e. an extremely good result on a few indicators, since in the context of SBE this is not necessarily better than a number of average scores.

Z-score normalization also simplifies the process of assigning weights to indicators. Since the indicators are standardized to have a mean of 0 and a standard deviation of 1, we can assign proportional weights to each indicator without needing to consider the magnitude or scale of the original values.

While SBE assigns equal weights to sub-pillars, that does not mean that we assign equal importance to each indicator.

Aggregation

Scores are aggregated from indicators to pillars using the arithmetical mean of scores.

A smaller sample size (only 7 units) can lead to a higher risk of sampling error, reduced generalizability and statistical power. One should be cautious in the interpretation and use of the composite index, considering the specific context and potential limitations associated with the sample size.

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In 2022, he had the opportunity to participate as one of the authors in the preparation of a scientific paper published in the international journal Sustainability.

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