

## **Governance Quality, Economic Growth and Well-Being: An Empirical Analysis for six Western Balkan Countries**

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### ***Abstract***

*The quality of governance plays a crucial role in driving economic growth and enhancing citizens' well-being, particularly in developing countries. This study examines the relationship between governance quality, economic performance, and social development in six Western Balkan countries from 2010 to 2024. These countries have undergone extensive economic, political and institutional reforms to improve the quality of governance, in align with EU standards. The analysis relies on data from the Worldwide Governance Indicators (WGI), the World Development Indicators (WDI) and the Human Development Index (HDI). Empirical findings reveal a strong and positive correlation between governance quality and both economic growth and well-being. Countries with stronger institutions exhibit more stable growth, higher social outcomes and improved human development. The study highlights that effective governance, characterized by transparency, accountability and the rule of law, is a key driver of sustainable development in transition economies. The findings show that there is a strong and positive relationship between governance quality, economic growth and well-being of citizens for the indicators analyzed in this study.*

**Keywords:** Governance quality, economic growth, well-being, Western Balkans, sustainable development, public institutions.

### **1. Introduction**

In recent decades, the quality of governance has gained increasing recognition as a key driver of economic growth and social well-being in both developed and developing economies. Numerous empirical studies emphasize that strong institutional frameworks, the rule of law, low levels of corruption, and an efficient public administration are essential for achieving sustainable economic performance.

According to the World Bank, good governance is defined by a country's ability to implement core governance principles effectively, creating a stable framework for development. It facilitates growth by enabling sound policies, supporting the private sector, ensuring efficient public resource allocation, and maintaining macroeconomic stability.

Kaufmann et al. (2010) conceptualize governance through three main dimensions: the processes by which governments are selected, monitored, and replaced; the government's capacity to formulate and implement sound policies; and the respect for institutions that govern the interaction between citizens and the state. Similarly, the OECD (2020) emphasises that effective governance underpins long-term development by ensuring transparency,

accountability, participation, and the rule of law. Beleiu, et al. (2015), analyzed the impact of governance on economic growth and found a highly positive correlation between the rule of law, regulatory quality and economic growth.

The quality of governance is one of the prerequisites for sustainable and faster economic development of the Balkan countries, given their historical background, the specific economic circumstances during the transition after the 1990s, the slow economic recovery and the long and complicated road to accession to the European Union (Djurovic and Bojaj, 2020). In developing countries, particularly in transition economies like those in the Western Balkans, governance quality has become increasingly critical. The challenges addressed for good governance in Albania and other Balkan countries, are the rule of law, macroeconomic stability, economic growth, efficient use of public resources, quality of public services, and increasing well-being for citizens (Keco et al., 2023; Tomorri and Keco, 2024). The quality of governance has become more important in recent years, especially in Western Balkan countries that need to reform their institutions to meet the conditions for the European Union. Reforms aimed at enhancing the performance of public institutions, improving the efficiency of public services, and strengthening democratic governance are essential to addressing systemic weaknesses.

The successful process of convergence and adaptation to the requisites of the accession criteria, invariably involves extensive reforms by the Balkan countries pursuing EU membership (Kollias et al., 2024).

### **1.1 Research Design and Objectives**

The objective of this study is to examine the relationship between governance quality, economic growth and citizens' well-being in six Western Balkan countries over the period 2010-2024. The research draws upon a range of indicators, including the Worldwide Governance Indicators (WGI), the World Development Indicators (WDI), and the Human Development Index (HDI). Through this analysis, the study aims to contribute to a deeper understanding of how governance impacts development outcomes in transitional economies.

## **2. Literature review**

The relationship between governance quality, economic growth, and citizen well-being has been the subject of extensive academic debate, particularly in the context of developing and transition economies. Good governance is widely acknowledged as a foundational element in promoting long-term development, as it ensures that institutions function efficiently, public resources are managed effectively, and citizens can hold their governments accountable. In countries with fragile institutions or post-transition legacies, governance quality is often the critical factor that determines the success or failure of broader development efforts. Several researchers have emphasized that effective governance contributes to growth by creating a stable political and regulatory environment, fostering private investment, and improving the delivery of public services.

The World Bank defines governance as the way power is exercised in the management of a country's economic and social resources, while the UNDP extends this definition to include participation, accountability, transparency, and adherence to the rule of law. Governance is defined as the process of selection, monitoring and replacement of governments, the power of the government to effectively establish and perform sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them (Kaufmann, et al., 2010; 2024).

Empirical studies have consistently confirmed a strong and positive relationship between governance quality and economic growth. Elisa and Sara (2011), Radulović, (2020) argue that countries with stronger institutions and lower levels of corruption experience more robust economic expansion, as governance directly affects the efficiency of investment, the

stability of the macroeconomic environment, and the allocation of public resources. Similarly, Zhuo et al. (2021) finds that improvements in governance indicators have a statistically significant impact on GDP growth across developed and emerging economies. The efficiency and quality of the government reflect citizens' perceptions of the quality of public services, the quality of policy formulation and implementation, as well as the credibility of the government's commitment to such policies, which explains the differences in economic growth in different countries (Kurtaj et al., 2024).

The quality of governance is an important instrument for stimulating sustainable development in the country. Durguti et al. (2020), in their study, show that remittances have a significant impact on economic growth. Public sector organisations are under investigation by multiple disciplines; literature usually focuses on their management, the way a government performs and its contribution to collective well-being (Andrews, 2010). Government or policymakers should widen their focus to include political and economic variables that affect economic growth. They should make every effort to achieve good governance and enhance economic growth (Mahran, 2023; Misi Lopes, et al., 2023; Al-Naser and Hamdan, 2021).

The link between governance and social well-being has also received increasing attention in the literature. Governance quality affects not only economic performance but also public trust, social cohesion, and the quality of life. According to the United Nations Development Programme (2020), good governance directly contributes to the achievement of human development by increasing the quality of public services, reducing inequality and promoting citizen decision-making.

Helliwell et al. (2018), Reginato et al. (2023) find that citizen satisfaction and perceived well-being are closely tied to the functioning of public institutions, the impartiality of services, and the degree of corruption. Indicators, such as voice and accountability and rule of law have a strong correlation with subjective well-being and life satisfaction. Churilova et al. (2019) compared the HDI with other well-being variables and found it to be a strong indicator of human development. Moreover, governance plays a critical role in creating an enabling environment for foreign direct investment (FDI) and private sector development.

FDI has played an important role in enterprise restructuring in the whole transition region during privatizations, in this way greatly strengthening the private sector and contributing to structural changes (Estrin and Uvalic, 2014).

According to Bayar (2016), AlBassam (2013), countries with strong legal and regulatory frameworks tend to attract more investment and experience higher productivity growth. These benefits are particularly pronounced in economies in transition, where FDI serves as a key driver of modernization and technology transfer. In the analysis of the World Governance Indicators, it turns out that the rule of law and the control of corruption significantly affect the economic development of a country (Fawaz et al, 2021; Samarasinghe, 2018).

Good governance requires open and developmental politics, professional administration, decision-making processes, transparency and accountability, and a strong civil society. Raczowska et al. (2023) in their study, argue that there is a significant relationship between good governance and economic growth in EU countries. According to Mira and Hammadache (2017), the institutional quality of a state determines its ability to deliver public goods, regulate markets, and implement reforms effectively. The efforts of international institutions and public authorities on sustainable development can also support the process of reducing poverty and increasing the well-being of the population in developing countries. Governments worldwide are still seeking solutions that support sustainable development, and good governance is identified as a crucial tool for achieving this goal ((Mansi et al., 2020; Güney, 2017).

The results show that there is a strong positive relationship between the quality of governance and per capita income (Khyareh and Amini, 2021). Another relevant strand of the literature focuses on the role of governance in fostering inclusive development and reducing inequality. Petreski (2014) examined the impact of institutional quality on economic growth in

transition economies and concluded that regulatory environments with good governance had a positive impact on economic growth. Gumedé et al. (2024) argue that effective governance leads to better social spending, more equitable access to education and health services, and higher levels of human development. Similarly, Acemoglu and Robinson (2010) point out that inclusive institutions, those that provide equal opportunities and uphold the rule of law, are key to avoiding the persistence of underdevelopment. Governance is a very important component of good economic growth and well-being in developing countries (Kambo et al., 2022).

Good governance results in strong economic performance, and a government should examine the factors that effectively drive economic growth in a country (Tarek and Ahmed, 2013; Emara and Chiu, 2016). In the specific context of the Western Balkans, researchers have underscored the region's ongoing struggle with governance deficits, which often act as barriers to both economic modernization and EU integration. Different studies, by Pere (2015), Jusufaj and Maxhuni (2022), Zeka and Shehaj (2021), highlight that although institutional reforms have been implemented across the region, significant disparities persist in terms of regulatory quality, public sector performance, and rule of law enforcement. The economic growth of the countries of the Western Balkans must be based mainly on the accelerated construction of efficient public institutions (Kostić et al., 2019).

This is especially important for countries in the Western Balkans, where governance capacity is often hindered by political fragmentation, weak judicial systems, and limited administrative resources. The OECD (2020, 2022) emphasizes that addressing governance weaknesses in the region is essential for unlocking sustainable growth and accelerating EU accession.

Despite a growing consensus on the importance of governance, challenges remain in measuring its real impact. Governance indicators are often perception-based and may not capture informal practices or localized governance structures. However, when triangulated with macroeconomic and human development data, they provide a useful analytical tool for assessing institutional performance and policy effectiveness.

In summary, the literature strongly supports the hypothesis that the quality of governance is a central pillar of economic growth and social well-being. The Western Balkans region, with its diverse institutional trajectories and reform paths, presents a compelling case for examining how governance impacts economic and social development. This paper enriches the existing literature by examining indicators of governance, economic growth and human development in a comprehensive analysis for six Western Balkan countries.

### 3. Materials and methods

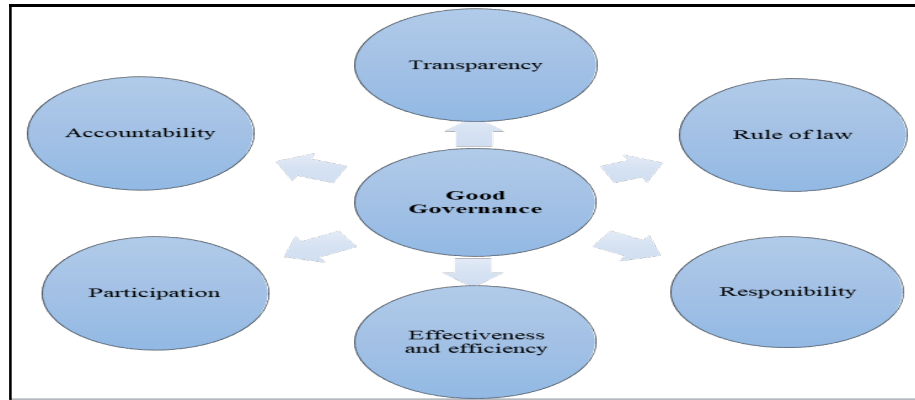
The methodology used for this paper includes a literature review, collection of data and indicators published by national and international institutions, as well as a comparative analysis of the relationship between the quality of governance, economic growth and well-being of citizens in the Western Balkan countries.

#### 3.1. Data Source and Analysis Indicators

In this context, the analyzed indicators and data sources are as follows:

- **Worldwide Governance Indicators (WGI)**, published by the World Bank, respectively: Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption,
- **World Development Indicators (WDI)**, published by the World Bank, respectively: GDP, GDP per capita, GDP growth, Unemployment rate, Inflation, Foreign Direct Investment (FDI),
- **Human Development Index (HDI)**, as an indicator of citizens' well-being, published by the United Nations Development Programme (UNDP).

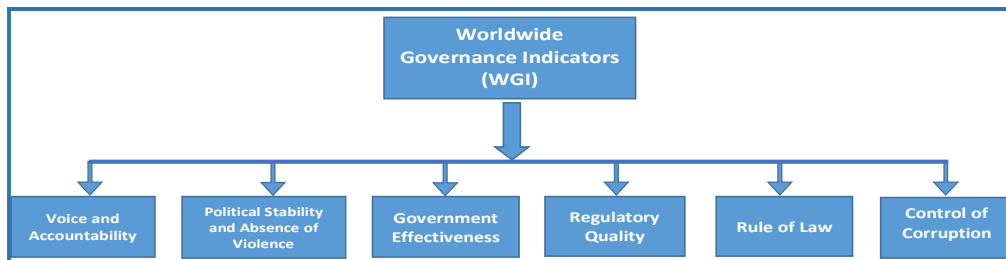
The analysis uses a statistical data approach to examine the effects of governance indicators on macroeconomic performance and citizen well-being. The study focuses on six Western Balkan countries, including Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia and Kosovo. The database covers the period from 2010 to 2024, with annual observations for each country, subject to data availability.



**Figure 1.** Good governance' indicators  
Source: Authors' composition, 2025

The performance of good governance is measured using and analyzed these indicators:

- **Transparency.** Includes public institutions and agencies that provide sufficient information that is accessible to citizens and all stakeholders.
- **Participation.** Reflects the involvement of citizens and other actors in the decision-making processes of public institutions and government agencies.
- **Accountability.** Reflects the responsibility of government institutions and public organizations towards citizens for their decisions and activities.
- **Rule of law.** Includes policy formulation and implementation of activities of public organizations and government institutions in compliance with laws and regulations.
- **Effectiveness and efficiency.** Referring to the activity and competencies of public institutions and agencies in performing their functions and providing public services with efficiency and effectiveness.
- **Responsibility.** Reflects the accountability of government institutions and public organizations to citizens and other actors regarding the provision of services and their activities.



**Figure 2.** The Worldwide Governance Indicators (WGI)  
Source: Authors' composition, 2025

The quality of governance is defined and evaluated by the World Bank (Kaufmann et al, 2010), according to these indicators:

- 1) **“Voice and Accountability”**, is crucial to how citizens participate in the choice of government, as well as for freedom of expression, freedom of association, and the state of the free media.
- 2) **“Political Stability and Absence of Violence/Terrorism”**, is related to the likelihood that a government will be destabilized or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism.
- 3) **“Government Effectiveness”**, is an indicator that evaluates and shows the quality of public services, the quality of civil service performance and the degree of its independence from political pressures, the quality of the formulation and implementation of public policies, and the credibility of the government’s commitment to such policies.
- 4) **“Regulatory Quality”**, is related to the government’s ability to choose appropriate policies and implement legislation that enables and supports private sector development.
- 5) **“Rule of Law”**, is an indicator frames and standardizes rules, related to trust in the law, its observance and enforcement, the protection of property rights, the activities of the police and courts, and the likelihood of crime and violence.
- 6) **“Control of Corruption”**, is an indicator concerning the abuse of public power to pursue private interests, including petty and serious forms of corruption and the degree of control over the state by elites or private interests.

The quality of governance has gained importance in recent years in developing countries to promote sustainable development, as well as reduce corruption and increase trust in government. The indicators used in the statistical analysis; their symbols and data sources are presented in the table below.

**Table 1.** Indicators used in the statistical analysis

Indicators	Symbol	Unit of measure	Source
Voice and Accountability	VA	(-2.5 to +2.5)	World Development Indicators (World Bank, 2025)
Political Stability and Absence of Violence	PSAV	(-2.5 to +2.5)	World Development Indicators (World Bank, 2025)
Government Effectiveness	GE	(-2.5 to +2.5)	World Development Indicators (World Bank, 2025)
Regulatory Quality	RQ	(-2.5 to +2.5)	World Development Indicators (World Bank, 2025)
Rule of Law	RL	(-2.5 to +2.5)	World Development Indicators (World Bank, 2025)
Control of Corruption	CC	(-2.5 to +2.5)	World Development Indicators (World Bank, 2025)
GDP growth (annual %)	GDP	(in %)	World Development Indicators (World Bank, 2025)
GDP per capita/\$	GDP	(in \$)	World Development Indicators (World Bank, 2025)
Unemployment Rate	UR	(in %)	World Development Indicators (World Bank, 2025)
Inflation	I	(in %)	World Development Indicators (World Bank, 2025)
Foreign Direct Investment	FDI	(in % of GDP)	World Development Indicators (World Bank, 2025)
Human Development Index	HDI	(0 to 1)	United Nations Development Programme, 2025

*Source: Authors' composition, 2025*

#### 4. Results and discussions

to the review of the literature and the methodology used, this paper focuses on the the relationship between governance quality, economic growth, and citizens’ well-being in the Western Balkan countries. The quality of governance is one of the prerequisites for sustainable

and faster economic development of the Balkan countries, given their historical background, the specific economic circumstances during the transition after the 1990s, the slow economic recovery and economic and the long and complicated road to accession to the European Union. Good governance affects better economic policies and a better level of well-being of citizens. There is a gap between economic development in the Western Balkans region and the European Union countries.

Some of the challenges that must be addressed for good governance in these countries are; corruption control, rule of law, performance of public institutions, macroeconomic stability, sustainable economic development, employment level, citizens' well-being, quality of public services, efficient use of public resources, transparency and accountability of public institutions.

The implementation of good governance policies in the Balkan countries can promote economic development and ensure convergence towards the level of developed economies. The economic and political development of the Balkans has had a significant impact on the European Union (EU) and other neighbouring countries. The results show that there is a long-term relationship between government quality and economic growth for the analyzed indicators. In this regard, these countries must focus more on reforms that improve governance if they want to achieve sustainable development in the future.

#### 4.1 Descriptive Statistics and Correlation Analysis

The descriptive statistics reveal significant variation across Western Balkan countries in both governance quality and development indicators over the 2010-2024 period.

**Table 2.** The World Development Indicators in Balkan Countries\_2024

N o	Country	GDP /mln_\$	GDP per capita/\$	GDP growth in %	Inflati on in %	Unemployment in %	FDI in % of GDP
1	Albania	27,178	10,012	3.96	2.21	10.25	6.31
2	Bosnia & Herzegovina	28,343	8,957	2.48	1.69	10.72	3.98
3	North Macedonia	16,685	9,310	2.76	3.49	13.42	7.03
4	Montenegro	8,070	12,935	3.04	3.34	14.10	7.41
5	Serbia	89,084	13,524	3.88	4.67	7.39	n/a
6	Kosovo	11,149	7,299	4.41	1.62	n/a	n/a

*Source: Authors' composition based on data from World Bank, 2025*

Referring to Gross Domestic Product (GDP) for 2024, it turns out that, Serbia clearly dominates the Western Balkans region with an economic output exceeding 89,084 mln \$. This positions it as the region's largest economy by far, followed by Bosnia and Herzegovina and Albania, respectively (28,343 mln \$ and 27,178 mln \$,) while on the other hand, Montenegro and Kosovo have lower GDP levels, reflecting the relatively smaller size of their economies, respectively (8,070 mln \$, 11,149 mln \$).

In terms of GDP per capita, a better measure of average income and living standards it turns out that Serbia and Montenegro lead the region, with GDP per capita respectively (13,524 \$ and 12,935 \$), indicating higher levels of average income. Albania and North Macedonia have middle-income levels per capita, respectively (10,012 \$ and 9,310 \$). In contrast, Kosovo and Bosnia and Herzegovina have lower levels of GDP per capita, respectively (7,299 \$ and 8,957 \$), indicating more limited income and consumption capacity per capita. In terms of GDP growth, Kosovo ranks as the fastest growing economy in the region, with an annual growth rate of (4.41%). This is because of a dynamic post-transition recovery, driven by remittances, investments and public sector development. Albania and Serbia also show strong economic

performance, both with growth rates respectively (3.96% and 3.88%), reflecting a relatively healthy economic situation, progress in reforms as well as increased investment.

Montenegro and North Macedonia have moderate growth rates (3.04% and 2.76%), while Bosnia and Herzegovina reports the lowest GDP growth of (2.48%), which may be indicative of structural economic challenges, slower investment dynamics. In general, the economic growth in all the countries of the region is positive, but uneven, highlighting the role of governance and the reliable investment climate in fostering economic development. As for the data on the inflation rate, they differ significantly in all the countries of the region. Serbia results in the highest inflation rate at (4.67%). Similarly, North Macedonia and Montenegro face moderate inflationary pressures, fluctuating between (3.49% and 3.34%).

Meanwhile, Kosovo and Bosnia and Herzegovina report the lowest inflation rates, respectively (1.62% and 1.69%), signaling relatively stable price environments. Albania is also in the low inflation category, with a rate of (2.21%). Overall, inflation rates indicate that most Western Balkan countries are maintaining macroeconomic stability.

Unemployment remains a persistent challenge for most Western Balkan economies. Montenegro reports the highest unemployment rate at (14.1%), closely followed by North Macedonia, at (13.4%). These high levels of unemployment indicate structural weaknesses in the functioning of the labor market and job availability.

Albania and Bosnia and Herzegovina also experience double-digit unemployment, although at slightly lower levels (10.25% and 10.72%). Serbia has the lowest unemployment rate of (7.39%), indicating a relatively stronger labor market. In general, the Balkan region still faces difficulties in job creation, especially for the youth and the rural population, despite overall GDP growth.

Foreign Direct Investments (FDI) as a share of GDP are highest in Montenegro, where they account for (7.41%) of GDP. This reflects Montenegro's high dependence on foreign investment, in the tourism and infrastructure sectors. Similarly, North Macedonia and Albania attract relatively strong FDI flows, with values (7.03% and 6.31%), fuelling increased investor confidence and an improving business environment.

Bosnia and Herzegovina lags significantly behind in attracting FDI, with only (3.98%) of GDP. Serbia is traditionally a major FDI destination in the region due to the size of its economy and the reforms it has implemented. In general, countries with higher FDI to GDP ratios are likely to benefit from better technology transfer, increased productivity and job creation.

### **Comparative Insights**

Macroeconomic indicators in the Western Balkans are characterized by diversity and asymmetry. While Serbia leads in terms of overall economic size and labor market performance, Kosovo and Albania show notable growth dynamics despite lower income levels. Montenegro stands out for high GDP per capita and foreign direct investment inflows but faces challenges in the unemployment level. Bosnia and Herzegovina, on the other hand, performs poorly across all indicators, showing institutional bottlenecks and weak policy coordination.

This comparative analysis supports the argument that governance quality and institutional capacity play a critical role in the performance of macroeconomic indicators. Countries with more effective public administration, stronger legal systems, and stable investment climates tend to perform better in economic and social development. These findings provide a basis for further empirical analysis regarding the relationship between governance quality and economic growth.

**Human Development Index (HDI)**, as an indicator of citizens' well-being, published by the United Nations Development Programme (UNDP). The Human development Index consists of the mean of three components: (1) per capita GNI (as a proxy for material or economic well-being), (2) population life expectancy (as a crude proxy for general health and bodily wellness),



and (3) an education index based on averaging of years of schooling for adults aged 25 years and more and expected years of schooling for children of school entering age (as a crude proxy for mental development or human capabilities). The minimum and maximum values for the indicator are expressed in different units in indices between 0 and 1, (UNDP, 2025).

**Table 3.** The Human Development Index in Balkan Countries\_2000-2023

Country	2000	2010	2015	2020	2022	2023	HDI rank, 2022
Albania	0.68	0.77	0.80	0.79	0.81	0.81	70
Bosnia & Herzegovina	0.67	0.73	0.77	0.78	0.80	0.80	73
North Macedonia	0.69	0.77	0.80	0.78	0.81	0.82	67
Montenegro	n/a	0.82	0.84	0.84	0.85	0.86	48
Serbia	0.70	0.78	0.80	0.81	0.83	0.83	61
Kosovo	n/a	n/a	n/a	n/a	n/a	n/a	n/a

*Source: Authors' composition based on data from UNDP, 2025*

The Human Development Index (HDI) is a composite index that assesses long-term progress in three key dimensions: health (life expectancy), education (mean and expected years of schooling), and standard of living (GNI per capita).

In the context of the Western Balkans, HDI scores have generally improved over the past two decades, reflecting progress in institutional development, investment in education and healthcare, and alignment with EU standards. Albania has shown steady improvement in HDI over the period. In 2000, the country had a low HDI score of 0.68, but by 2023 it had risen to 0.81, moving Albania into the “High Human Development” category. The most rapid gains occurred between 2000 and 2015, where progress was likely driven by reforms in education, healthcare access, and infrastructure. After 2015, the rate of progress slowed slightly, with HDI stabilizing around 0.79-0.81. In 2022, Albania ranked 70th globally, reflecting a competitive position in the region.

Bosnia and Herzegovina started at a similar point to Albania in 2000, with an HDI of 0.67, and reached 0.80 by 2023. The improvement has been gradual but consistent, showing that social investments have contributed to long-term human development. However, the country still ranks lower than Montenegro and Serbia in 2022, with an HDI rank of 73rd. North Macedonia has also made significant progress, rising from an HDI of 0.69 in 2000 to 0.82 in 2023. Despite a slight decline in 2020, the overall trend has been upward. In fact, North Macedonia ranks 67th globally as of 2022, the highest among the core Western Balkan countries excluding Montenegro. This improvement is likely driven by strong education policies, EU-aligned reforms, and political stability in recent years.

Montenegro leads the region in terms of HDI performance. Since 2010, Montenegro had a high HDI of 0.82, and by 2023 it had reached 0.86. This places it consistently within the “Very High Human Development” category. With a global HDI ranking of 48th in 2022, Montenegro outperforms all other Western Balkan countries. This success can be attributed to early reform success, high investment in tourism, and integration with European standards.

Serbia has shown strong and consistent HDI growth, moving from 0.70 in 2000 to 0.83 in 2023. The country has shown particularly robust progress in the last decade, reflecting advances in education access, digital governance, and economic modernization. In 2022, Serbia ranked 61st globally, placing it between Montenegro and North Macedonia.

Unfortunately, Kosovo is not included in the HDI database provided, which may be due to limited or inconsistent reporting of data to UNDP.

### Comparative Analysis

Montenegro maintains the leading HDI score in the region, reflecting higher living standards and social development. Serbia and North Macedonia have strong performances, closely followed by Albania. Bosnia and Herzegovina lags slightly behind, despite similar starting points in 2000. Kosovo does not have comprehensive HDI data. Across the region, the data show that all countries have improved their human development levels over the past two decades. However, the pace and degree of improvement are not equal, likely influenced by differences in governance quality, institutional reforms, public investment and EU integration progress.

**Worldwide Governance Indicators (WGI).** Based on the data of the World Bank, the quality of governance is evaluated with six governance indicators, respectively: Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. The Quality of Government Index is a summary of these sub-indicators. According to different theoretical perspectives and supported by empirical studies, good governance significantly affects the economic growth and the well-being of the citizens of a country. The quality of governance and public institutions significantly affects economic development and shows the differences between different countries.

Researchers, policymakers, international institutions, etc., in recent years, have analyzed and examined the impact of governance quality on the sustainable development of a country. These indicators range from [-2.5 (weak governance) to +2.5 (strong governance)]. The table below, presents the values of six indicators that evaluate the quality of governance in Western Balkan Countries. The ranking of the values of the indicators is done from the lowest to the highest, which means that the higher the value of the indicator, the more positively it affects the quality of governance.

**Table 4.** Worldwide Governance Indicators in Western Balkan countries\_2023

Country	Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Albania	0.17	0.18	0.25	0.17	-0.16	-0.33
Bosnia & Herzegovina	-0.32	-0.35	-0.97	-0.14	-0.35	-0.58
North Macedonia	0.16	0.17	-0.05	0.43	-0.17	-0.35
Montenegro	0.34	0.07	0.25	0.37	-0.04	-0.08
Serbia	-0.06	-0.04	0.01	0.14	-0.07	-0.45
Kosovo	-0.09	-0.32	-0.08	-0.30	-0.31	-0.19

*Source: Authors' composition based on data from World Bank, 2024*

### Descriptive Analysis of Governance Indicators in the Western Balkans countries.

**Voice and Accountability.** This indicator measures the extent to which citizens can participate in selecting their government, as well as freedom of expression, association and media. Montenegro (0.34) ranks highest, reflecting relatively strong democratic processes and media freedom. North Macedonia (0.16) and Albania (0.17) also show modestly positive scores, indicating moderate citizen participation and institutional openness.

Serbia (-0.06) and Kosovo (-0.09), reflecting declining public trust or freedom of expression. Bosnia and Herzegovina (-0.32) has the lowest score, suggesting limited citizen engagement and weaker democratic practices.

**Political Stability and Absence of Violence.** This indicator reflects the likelihood of political instability, violence and terrorism.

Albania (0.18) and North Macedonia (0.17) have the highest score, indicating relatively stable political environments in 2023. Montenegro (0.07) and Serbia (-0.04) are neutral, indicating moderate risks. Kosovo (-0.32) and Bosnia and Herzegovina (-0.35) have the lowest score, indicating concerns over ethnic tensions and institutional fragility.

**Government Effectiveness.** This indicator evaluates the quality of public services, the civil service, and policy implementation.

Albania and Montenegro (0.25) lead the region in terms of government and public administration performance. Serbia (0.01) and North Macedonia (-0.05) show moderate perceptions of government effectiveness. Kosovo (-0.08) shows poor government performance. Bosnia and Herzegovina (-0.97) has the lowest rating so far, indicating serious governance inefficiency and weak institutional performance.

**Regulatory Quality.** This measures the government's ability to formulate and implement sound policies and regulations that promote private sector development.

North Macedonia (0.43) has the highest score, reflecting a positive regulatory environment for business and investment. Montenegro (0.37) and Serbia (0.14) also show relatively strong regulatory quality. Albania (0.17) has a moderate score, while Bosnia and Herzegovina (-0.14) and Kosovo (-0.30) reflect problems with regulatory practices and the investment climate.

**Rule of Law.** This indicator assesses confidence in and adherence to the rules of society, including contract enforcement, property rights, the police and the courts.

Montenegro (-0.04) and Serbia (-0.07) score closer to neutrality, indicating moderate institutional trust. North Macedonia (-0.17) and Albania (-0.16) indicate weak legal institutions and problems with law enforcement. Kosovo (-0.31) and Bosnia and Herzegovina (-0.35) rank lower, indicating significant problems with the rule of law.

**Control of Corruption.** This indicator captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption.

Montenegro (-0.08) performs better compared to other countries in the region. Kosovo (-0.19) shows some progress, although it still reflects moderate concerns about corruption. Albania (-0.33), North Macedonia (-0.35), Serbia (-0.45), Bosnia and Herzegovina (-0.58), reflect significant challenges in terms of law enforcement and corruption control.

### Key Comparative Insights

Montenegro consistently performs better than other Western Balkan countries in most governance indicators, particularly in voice and accountability, government effectiveness and regulatory quality. North Macedonia also ranks relatively well, particularly in regulatory quality and political stability, although corruption and the rule of law remain ongoing challenges. Albania shows progress in government effectiveness and political stability but has significant challenges in control of corruption and the rule of law.

Serbia scores close to the regional average but has significant challenges in control of corruption, the rule of law and declining public trust.

Bosnia and Herzegovina has the weakest governance profile overall, particularly in government effectiveness, rule of law and corruption control.

Kosovo shows a mixed governance profile, with persistent problems in political stability, regulatory quality and legal institutions.

The WGI 2023 data highlights ongoing governance challenges in the Western Balkans countries, particularly in relation to corruption control, the rule of law and government effectiveness.

These governance problems directly impact economic performance, public trust and human development outcomes. Countries such as Montenegro, Albania, North Macedonia and Serbia are progressing more rapidly towards institutional reforms harmonized with EU standards, while others, such as Bosnia and Herzegovina and Kosovo, require deeper and more sustained reforms to address the sustainability and performance of public institutions.

*Based on the above data analysis, we conclude with some key findings:*

The comparative analysis of the data shows a strong and positive relationship between governance quality, economic growth and well-being in all Western Balkan countries.

- Governance quality correlates positively with human development: Countries with stronger institutions (Montenegro, North Macedonia) tend to have higher HDI scores and better social outcomes.
- Economic performance is affected by the quality of governance: Serbia and Albania have strong economic growth, referring to the performance of the quality of governance.
- Weak governance hinders economic and social development: Bosnia and Herzegovina and Kosovo have difficulties in attracting investments and improving HDI due to ongoing governance problems.
- Foreign direct investment is very sensitive to the quality of governance: Countries with better regulatory quality and soundness/accountability attract more foreign investment.
- Government effectiveness is critical, especially in the delivery of public services such as health and education
- Government effectiveness, control of corruption and regulatory quality are particularly associated with higher GDP per capita and HDI scores.
- Control of corruption and rule of law exhibit the strongest positive relationship with the HDI, indicating that institutional trust and enforcement of legal standards are essential for social well-being.
- Voice and accountability show a significant association with well-being, indicating that democratic governance and citizen participation enhance quality of life.
- Countries that have undertaken substantial reforms in recent years, such as Montenegro, Albania and North Macedonia, show economic growth and stability, compared to countries where institutional reforms have stagnated.
- These results highlight that the impact of governance goes beyond economic outcomes and deeply affects the social dimensions of citizens' well-being.

The quality of governance is an important component, especially in the Western Balkan countries, because it significantly affects economic development and identifies differences between different countries. The largest gap between the Western Balkan countries and the EU is in terms of law enforcement. Corruption is also a systemic and widespread problem, and equality before the law has not yet been achieved (OECD, 2020).

Political stability and the rule of law have an important impact on the implementation of political and economic reforms for these countries, to become members of the European Union. According to the recommendations of the EU, World Bank, OECD and other international institutions, the main challenges that must be addressed for good governance in the Western

Balkan countries are:

- drafting of healthy and stimulating policies by policymakers, to promote economic growth and citizens' well-being,
- transparency, responsibility and accountability by government and public institutions,
- participation of citizens in decision-making and policy-making processes,
- encouraging and supporting the private sector, through a stable tax and fiscal system,
- efficient use of resources by government and public institutions,
- macroeconomic stability.
- creation of a positive, attractive and competitive business climate to attract foreign investors.

## 5. Conclusions

This study examined the relationship between governance quality, economic growth, and citizen well-being in the Western Balkan countries using key global indicators such as the Worldwide Governance Indicators (WGI), the Human Development Index (HDI) and the World Development Indicators (WDI).

The empirical results show that there is a strong and positive relationship between governance quality, economic growth and well-being of citizens for the indicators analyzed in this study. The analysis in this study shows that the quality of governance plays an important role in the performance of economic and social development. Countries that perform better in core governance dimensions, such as government effectiveness, regulatory quality and the rule of law, tend to achieve higher levels of GDP per capita, greater foreign direct investment, lower unemployment and stronger human development.

These findings highlight that the quality of governance is a determining factor for the sustainable development and integration of these countries into the EU. Government effectiveness emerged as a critical element in ensuring macroeconomic stability, improving service delivery and fostering citizen trust in public institutions. Likewise, indicators such as voice and accountability, rule of law, and control of corruption play an important role in promoting social cohesion and increasing citizen satisfaction.

The Western Balkans, as a region in transition with aspirations towards integration into the European Union, continues to face important institutional challenges. Some of the challenges that need to be addressed for good governance in these countries are the drafting of legal and institutional policies; the rule of law; corruption control, macroeconomic stability, the quality of public services, the efficient use of public resources, transparency and accountability of public institutions. In conclusion, governance should be seen as a driver for the comprehensive and long-term economic and social development of a country.

*Based on the empirical findings of this study, some of the main recommendations are:*

- Enhance Government Effectiveness and Institutional Capacity. Deepen reforms in public administration, improve digital governance, invest in civil servant training and quality in public service delivery.
- Strengthening the Rule of Law and Judicial Independence. Governments should prioritize legal and institutional reforms that ensure the independence, transparency and efficiency of the judiciary, which are critical for public trust and a stable business environment.
- Improving Regulatory Quality and Business Climate. Simplifying procedures, reducing bureaucratic obstacles, and a business-friendly regulatory environment to support private sector development and long-term investments.
- Combat Corruption: Establish independent anticorruption bodies, increase digital transparency and improve public procurement systems and audit institutions to reduce misuse of public resources.
- Encouraging Citizen Participation and Accountability. Promoting and increasing citizen engagement in decision-making processes, protecting media freedom and supporting civil society organizations to ensure inclusive policymaking and institutional accountability.
- Development of Human Capital and Address Labor Market Challenges. Aligning education and skills with labor market needs, promoting youth entrepreneurship, and strengthening active labor market policies to enhance productivity and employment.
- Align Governance Practices with EU Standards. Accelerate reforms in line with EU integration criteria, particularly in the areas of justice, public procurement and democratic governance.

## Regional Insights and Policy Implications

The analysis highlights the heterogeneity of governance quality and socio-economic developments in the Western Balkan countries. The findings confirm that governance reforms

should be a central pillar of development strategies in the region. Policies aimed at strengthening the rule of law, improving regulatory quality and reducing corruption can generate long-term benefits not only for economic growth, but also for human development.

### Limitations of the Study

Data Availability and Quality. For some governance indicators and macroeconomic variables, data are limited, potentially impacting the evaluation of results. Governance indicators are composite and based on citizen perceptions, which may not fully reflect real-time outcomes, changes, or institutional practices in all countries.

### Future Research Directions

Based on the findings and limitations, future research could focus on several directions: Analysis through Advanced Econometric Techniques. The use of instrumental variables, structural modeling, can help in a more in-depth analysis of the relationship between governance and socio-economic developments. Inclusion of case studies. Conducting a quantitative analysis based on country-specific studies can provide deeper insights into governance indicators. Examining the role of digital governance and innovation. Future studies could evaluate how digitalization, e-government and innovation in the public sector affect the quality of governance, economic growth and citizens' well-being in the Western Balkan countries.

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