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Exploring Institutional Capital for Sustainable Growth: Measurement Challenges and Analysis of EU Candidate Countries' Conditions

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Abstract: This paper examines institutional capital and its impact on sustainable economic development, emphasizing the challenge of accurately measuring this capital across various contexts, particularly in EU candidate countries. Institutional capital is conceptualized as encompassing both the tangible and intangible elements within institutions, including the formal and informal rules that govern political, economic, and social interactions. This includes, but is not limited to, sanctions, customs, constitutions, and laws.

The research covers different aspects of institutional capital, such as governance, democratic values, and their collective influence on the functionality of institutions. Through a detailed literature review, the study offers diverse perspectives on its critical role in economic development. A new methodology is introduced, combining key indicators to create a new index for institutional capital assessment, capturing its complex nature.

The paper then focuses on specific EU candidate countries, evaluating their institutional structures and potential areas for development. This analysis utilizes the newly developed index to gain insights into the institutional framework of these countries. The findings highlight the importance of strong and efficient institutions in fostering long-term development and concretizing the way for successful EU integration.

Keywords: Institutional Capital; Economic Growth; EU Candidate Countries; Governance Efficiency; Economic Freedom; Measurement Methodology

INTRODUCTION

Institutional capital, a term often encountered in the discussion of development economics and political science, refers to the collection of intangible assets and resources integral within institutions that significantly influence the functionality and progress of societies and organizations. At its core, Institutional capital includes the structures, systems, norms, and relationships that are established and maintained within a community or organization. These elements collectively contribute to the governance, efficiency, and overall social structure of a society.

The concept of Institutional capital is complex, including various components such as the rule of law, democratic governance, efficient and transparent public administration, and the social norms and networks that promote trust and cooperation among community members. These components play a critical role in the overall well-being and development of an institution, be it a small community organization or an entire nation.

One of the many authors who studied institutional capital is (North, 1991). According to him, "institutional capital is linked to the rules of the game in a society. It is invented by people to shape social relationships. Institution's structure incentives in human exchanges, whether political, social, or economic. They are related to contracts, contract enforcement, property rights protection, rule of law, governing bureaucracies, and financial markets. They also include customs and beliefs, norms, social values, and traditions (the so-called informal institutions). Formal institutions tend to be the crystallization of informal institutions."

Older economic theories by (Solow, 1956) and (Romer, 1990) focused on human skills, physical investment, and technological progress as the main drivers of economic growth. But these ideas, while basic, didn't fully explain the dynamics of development. The important work of (North, 1994) started a new way of thinking, showing how much institutional capital affects a country's economic growth. This new view has influenced the policies of big entities like the World Bank and the International Monetary Fund (IMF).

The importance of institutional capital becomes particularly evident in the context of sustainable development. Sustainable development, as defined by the United Nations, is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs. In this framework, institutional capital is not just beneficial but essential. It provides the foundation upon which sustainable development can be built and maintained. One of the key aspects of institutional capital is the promotion of good governance and the rule of law. Strong, well-functioning institutions are crucial for ensuring that resources are allocated and used

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effectively, and that decisions are made transparently and accountably. This is particularly important in the context of sustainable development, where resources often need to be managed carefully to ensure long-term viability. Good governance also helps in reducing corruption, which can be a significant obstacle to equitable development. Furthermore, Institutional capital contributes to stability and predictability in the socio-economic environment. This stability is crucial for fostering a supportive environment for investment and entrepreneurship, which are key drivers of economic growth. Economic growth, when managed well, is a vital component of sustainable development, as it provides the resources needed to meet a variety of social and environmental objectives.

Lastly, institutional capital is essential for fostering adaptability and resilience within societies and organizations. Institutions that can adapt to changing circumstances and withstand external shocks, such as economic downturns or natural disasters, are better equipped to sustain development efforts over the long term. This adaptability and resilience are particularly important in the face of global challenges such as climate change, which require coordinated and sustained responses over extended periods.

Without strong and effective institutions, efforts toward sustainable development are likely to be less effective and sustainable in the long run. In this light, the focus on building and strengthening institutional capital is not just desirable but essential for any society or organization aiming for sustainable growth and development.

LITERATURE REVIEW

The field of economic development has seen a big change, especially in recognizing institutional capital as an important factor in sustainable development.

There are various definitions and perspectives regarding the term institutional capital, a term that has recently been introduced as an influential factor in a country's overall development.

Acemoglu, Johnson, and Robinson (2005) view institutions as a combination of three interconnected concepts:

- **Economic Institutions:** include factors regulating a society's economic structure and the distribution of resources. Examples are property rights, entry barriers, business contracts, redistribution schemes, taxes which affect performance and economic growth.
- **Political Power:** economic institutions are created as the result of collective choices of society, which is made up of different groups with conflicting interests. The relative political power of these groups regulates their ability to manage resource allocation and policy implementation. The distribution of political power determines the design and quality of economic institutions. It results de facto from political power and de jure from political institutions.
- **Political Institutions**: include institutions that provide de jure political power. They are related to the characteristics of government and constitution design.

The definition that most closely matches the context of this research is the one proposed by Platje (2008), according to which "institutional capital is defined as the whole of institutions and governing structures which reduce uncertainty, stimulate efficient adaptation (the ability of a system to adapt to changing conditions), and stimulate the functioning of distribution systems and appropriate production and consumption structures." He emphasizes that "governing structures are those that interpret and implement the rules of the game such as the judicial system, the legislative system, and the executive system, as well as government agencies." Therefore, in summary, it can be stated that institutional capital is linked to the whole of written and unwritten institutions that influence economic activity. Thus, according to Benedique (2009), "institutions are the primary collective resources accumulated in every society. In this case, every society is institutionalized. These resources must be taken into consideration to improve the socio-economic conditions of its members, not only for economic growth but above all for sustainable economic development." Also, the author in his research emphasizes "the undeniable role of institutional capital on economic growth and sustainable development, and furthermore asserts the interrelated connection of this capital with human capital, considering both as determinants of economic development". Meanwhile, Bresser and Millonig (2003) note that "institutional capital is about the specific conditions in the internal and external institutional context of an organization that allow the formation of competitive advantages." "Most people today live in societies that have failed to create strong and sustainable institutions. As a result, individuals in these societies more often apply and use informal mechanisms rather than institutional ones. Institutional improvement in these countries can be discussed at the moment when individuals will support local knowledge and educational institutions, and avoid the old informal ways of interacting. Only when this is achieved will the development challenges for these countries be met" (Shirley, 2003). There is a large number of research done by various authors who have viewed institutional capital from macroeconomic and microeconomic perspectives. Thus, from a macroeconomic perspective, institutional capital is defined "as the superiority that derives from national economic and political institutions and which is considered a competitive advantage or superior benefit gained by certain economies" (Wolsink, 1999; Brunell, 2005; Schneider, 2010; Hallsmith & Lietar, 2011).

Meanwhile, the microeconomic perspective defines institutional capital "as an input that can create economic benefits" (Oliver, 1997; Lounsbury & Glynn, 2001; Child & Marinova, 2014; Schultz, 1968; Picciotto, 1996) or "as the entirety of rules, behaviors, and agreements, written and unwritten, established by organizations and on which the latter relies" (Hoff & Sen, 2005; Hall & Soskice, 2003; Platje, 2008).

Thus, institutional capital, according to Hall and Soskice (2003), Platje (2008), and Leicht, McMullan, and Harrison (2012), is considered as the entirety of environmental elements and abilities which are embodied in the environment as added value of assets. They define this type of capital as 'agreements or structures (formal or informal) of an economy's institutional institutions.'

Hoff and Sen (2005) describe institutional capital as 'the entirety of rules and behaviors, written and unwritten, established by organizations or on which the organization relies.' Other academics, such as Schultz (1968) and Picciotto (1996), view institutional capital under the context of benefits that a firm can receive if it uses this input properly.

Brunell (2005) studied institutional capital from a political perspective and divided it into two parts: institutional capital controlled by the state and institutional capital controlled by civil society. He states, 'State-controlled institutional capital can promote the effective use of resources and their control by civil society by improving the participation strategies of the latter and organizational forms. Civil society means that state resources have been used by effective organizational forms and collective actions.' Strong abilities of private groups can contribute to the growth of institutional capital.

This exploration of institutional capital's components lays the groundwork for understanding its indispensable role in achieving sustainable development, as outlined by the United Nations. Institutional capital is not just an extra part of economic systems; it's central to deciding the direction and quality of a nation's economic development. The shift to focusing on institutional capital isn't just a change in theory; it's a response to what we see happening in the global economy. The insights from Acemoglu, Johnson, and Robinson (2001) further back up this idea, showing that how well traditional growth factors work is closely tied to how strong institutional frameworks are. These institutions include organizing productive sectors, fairly distributing rights, having strong legal systems, and effective governance. Williamson (2000) also highlighted this, pointing out the key role of economic institutions in making decisions about things like investment and innovation. This contrasts with Sachs' (2003) emphasis on cultural and geographical factors, arguing that differences in institutional structures are a main reason why growth levels vary between countries.

North (1994) explained how institutions greatly affect areas like developing human skills and technological progress. The way institutions evolve, as Rodrik (2003) described, depends on what society chooses and expects to gain economically. Acemoglu and Robinson (2012) went deeper into this, showing how the development of institutions is shaped not just by economic efficiency but also by the complex mix of power struggles and political deals among different groups.

Institutions also help economic transactions by setting up legal frameworks, which in turn lowers the costs of doing business and builds trust among people in the market. Shirley (2003) argued that while cultural norms can help enforce contracts, they're not enough for the best trade, especially among different social and economic groups. This highlights how essential institutional structures are in creating a setting where economic interactions can happen easily. Moreover, institutional capital plays a key role in sustainable development by setting and limiting the powers of groups that might otherwise use resources for narrow interests. In short, institutions act as a way to make sure resource use is in line with sustainable development.

The need for institutional capital in sustainable development is very clear. When it comes to managing resources, institutions are key in stopping the over-use of resources. This role is important in setting the limits of resource use, making sure they are used in a way that benefits everyone, not just a few. The need for this becomes very clear when looking at countries with uneven institutional structures. These countries often face development challenges, mainly because of limited access to resources, which hurts production and income growth. In contrast, countries with fair institutional frameworks usually show significant progress in development.

The role of institutions in sustainable development becomes even bigger when you think about their impact on democratic values. Institutions that support democratic principles, like freedom of speech and spreading information, are essential in creating a setting that's good for development. They help grow social groups and networks, which helps stabilize income levels and unemployment rates. This stabilizing effect is often seen through systems like the welfare state, which are important in making sure there is social security and fairness. Developing these kinds of institutions is not just about economic efficiency but also reflects what society values and the political choices it makes. So, the growth of institutional capital is as much a social and political process as it is an economic one.

The move from focusing on traditional growth factors to a deeper understanding of the role of institutions marks a big step forward in economic theory and practice. Institutions, with their power to shape economic interactions, enforce legal rules, and support democratic values, are fundamental to achieving sustainable development goals. The impact of this understanding is huge, both for policymakers and the global community.

Looking ahead, studying institutional capital and its impact on sustainable development is likely to stay an important and evolving area. Future research should aim to further clarify the complex relationships between institutional structures and different parts of economic development. Also, there's a need for a deeper understanding of how these relationships change in different cultural and geographical settings. As the world deals with issues like climate change, inequality, and technological changes, the role of institutions in managing these challenges will surely stay at the center of economic discussions and policymaking.

METHODOLOGY

Measuring institutional capital presents a significant challenge, primarily due to its intangible nature. Unlike tangible assets, institutional capital includes the unseen yet crucial elements like governance structures, legal frameworks, and societal norms. The effectiveness of these components is not easily quantifiable, making the development of an appropriate measurement index a complex task. The ideal index would need to contain various dimensions of institutional structures and their efficiency, including aspects ranging from rule of law and corruption to economic freedom and governance. The following methods are examined to determine their suitability for assessing institutional capital. This evaluation is focused on identifying the most appropriate and effective techniques for measuring this complex concept.

- **Transparency International's Corruption Perceptions Index (CPI)**: This annual index, in use since the early 1990s, ranks countries based on the perceived levels of public sector corruption. It synthesizes data from expert assessments and opinion surveys, producing scores on a scale of 0 (highly corrupt) to 100 (very clean). The CPI is vital in measuring how corruption affects institutional capital by weakening trust, altering resource allocation, and hindering effective governance.
- **World Bank's Worldwide Governance Indicators (WGI)**: Including six broad dimensions of governance, the WGI, introduced in the late 1990s and updated annually, provides a detailed look at various aspects of institutional quality. These dimensions include Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. Each dimension is assessed through a mix of surveys and expert input, offering a comprehensive view of the governance and institutional environment.
- **Global Competitiveness Index (GCI)**: Published annually by the World Economic Forum since the early 2000s, the GCI integrates 12 pillars grouped into four categories: Enabling Environment, Human Capital, Markets, and Innovation Ecosystem. This index assesses the set of institutions, policies, and factors that determine the level of productivity of a country. The GCI is instrumental in understanding the relationship between institutional capital and economic competitiveness.
- **Bertelsmann Stiftung's Transformation Index (BTI)**: The BTI, established in the early 2000s and updated every two years, analyzes the status of democracy and market economy in developing and transition countries. It consists of the Status Index, which assesses the state of political and economic transformation, and the Governance Index, which evaluates the quality of political leadership in driving these transformations.
- **Freedom in the World Report (Freedom House)**: Assessing the political rights and civil liberties worldwide since the 1970s, this annual report provides numerical ratings and descriptive texts for countries and territories. It offers insights into the status of freedom, rule of law, and democratic governance, critical components of institutional capital.
- **Heritage Foundation's Economic Freedom Index**: This index, launched in the mid-1990s and updated annually, measures economic freedom based on factors like property rights, judicial effectiveness, government integrity, tax burden, government spending, and business, labor, and monetary freedom. It categorizes these into four broad areas: Rule of Law, Government Size, Regulatory Efficiency, and Open Markets. The index is a key tool for understanding the economic dimensions of institutional capital.
- **World Justice Project's Rule of Law Index**: This comprehensive index, established in the late 2000s and updated annually, assesses countries' adherence to the rule of law. It covers areas like constraints on government powers, corruption, transparency, fundamental rights, order and security, regulatory enforcement, civil justice, and criminal justice. The index provides a detailed evaluation of the legal and governance aspects of institutional capital.

Each of the proposed methods and indices, such as the Transparency International's Corruption Perceptions Index and the World Bank's Worldwide Governance Indicators, offers valuable insights into varying aspects of institutional capital. However, each of these tools has its own set of limitations when used alone, as they may only capture specific elements of the broader concept of institutional capital. Recognizing these constraints, and in pursuit of a more complete tool to assess institutional capital, this study has selectively integrated two primary indices: the Rule of Law factors and Economic Freedom factors into a comprehensive index.

This decision originates from the understanding that, while many indices could potentially evaluate aspects of institutional capital, a combination of these two specifically chosen indices can more effectively measure its complex nature. Consequently, this thorough index is designed as a multifunctional tool to capture the intricate and intertwined dimensions of institutional capital.

The Rule of Law Index was selected for its detailed approach in measuring the efficiency and integrity of government and legal systems. This index stands out for its ability to analyze the complexities of how laws are implemented, enforced, and respected within a nation. It provides a multifaceted view of government functionality, covering aspects such as the fairness and effectiveness of the judicial system, the prevalence of corruption, and the protection of fundamental rights. By incorporating this index, the study aims to capture the complicated dynamics of governance and legal frameworks, which are crucial in shaping the political and social environment of a nation. The Index is made of several factors, each representing a different dimension of the rule of law:

- **Constraints on Government Powers**: This factor measures the extent to which those who govern are bound by law. It examines the checks by the judiciary and other institutions on government power.
- **Absence of Corruption**: The degree to which corruption is prevented in various branches of government, including the police, the judiciary, and the legislature.
- **Open Government**: Measures the openness of government, including the effectiveness of its basic laws and information on legal rights.
- **Fundamental Rights**: Evaluates the protection of fundamental human rights, including freedom of opinion and religion, the right to privacy, freedom of assembly, and labor rights.
- **Order and Security**: Assesses how well the society assures the security of persons and property.
- **Regulatory Enforcement**: Examines the enforcement of regulations, administrative proceedings, and due process.
- **Civil Justice**: The degree to which civil justice systems are accessible, impartial, effective, and free from discrimination.
- **Criminal Justice**: Evaluates the criminal justice system in terms of its effectiveness, timeliness, and fairness.

On the other hand, the Economic Freedom Index was chosen for its comprehensive evaluation of a nation's economic efficiency based on multiple factors. This index assesses the degree of economic freedom within a country by analyzing various dimensions, including trade freedom, business freedom, investment freedom, and financial freedom, among others. It provides insights into how policies and institutions support or slow economic activities, such as the ease of starting a business, the efficiency of regulatory processes, and the protection of property rights. The inclusion of this index is important for understanding the economic landscape of a country and how its economic policies and practices facilitate or hinder economic growth and development. Scores in this index are derived from 12 quantitative and qualitative factors, grouped into four broad categories, each graded on a scale of 0 to 100:

- Rule of Law: Includes property rights, government integrity, and judicial effectiveness.
- Government Size: Assesses tax burden, government spending, and fiscal health.
- Regulatory Efficiency: Looks at business freedom, labor freedom, and monetary freedom.
- Open Markets: Measures trade freedom, investment freedom, and financial freedom.

The comprehensive index developed in this study aims to provide a complete and detailed understanding of institutional capital. It acknowledges the necessity of evaluating both the legal-political and economic areas to gain a complete picture of a nation's institutional strength and effectiveness.

It aims to provide a nuanced understanding of the efficiency and effectiveness of institutions, addressing both their political-social and economic dimensions, thus capturing the complexity and breadth of institutional structures and their impact on societal and economic development.

Each country's score in both the Rule of Law Index and the Economic Freedom Index is calculated based on these factors. In the Rule of Law Index, scores range from 0 (weakest adherence to the rule of law) to 100 (strongest adherence). In the Economic Freedom Index, a country’s overall score is derived by averaging its scores on the 12 individual factors, with a higher score indicating a higher level of economic freedom.

By integrating these two indices the study aims to evaluate the complex interaction between legal frameworks, governance quality, economic policy, and freedom in the context of sustainable development. This integration allows for a more complete understanding of how these aspects contribute to the overall institutional strength and development potential of a country.

The selection of Albania, Bosnia, Georgia, Moldova, Montenegro, North Macedonia, Serbia, and Turkey for this study is profoundly significant, as these countries are currently in the process of joining the European Union. This choice is based in the EU’s areas requirements for membership, which place a high emphasis on the rule of law, good governance, economic

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stability, and adherence to democratic values. The efficiency and effectiveness of institutions in these areas are important for countries aspiring to EU membership. These nations must demonstrate that their institutions are capable of upholding EU standards, ensuring stable governance, and facilitating economic integration. The capacity of their institutions to adapt to EU regulations, policies, and the broader economic and political environment is crucial for their successful accession to the Union.

Additionally, the period from 2019 to 2023, including the Covid and post-Covid era, is critically important for this study. This timeframe provides a unique perspective through which to assess the resilience and adaptability of institutions in unprecedented circumstances. The Covid-19 pandemic presented significant challenges to political, economic, and social systems worldwide. Analysing how these countries' institutions responded to the pandemic, managed economic repercussions, and supported health and social systems offers valuable insights into their institutional strength and readiness for EU membership. This period, marked by both crisis and recovery, is crucial in understanding the current and future capabilities of these nations' institutions in the face of global challenges, directly impacting their potential for integration into the European Union.

The subsequent table displays data obtained from the World Justice Project and the Heritage Foundation, which has been carefully analyzed and interpreted by the authors. This table is designed to effectively convey the key findings, offering a clear and accessible overview of the institutional characteristics of the selected countries.

Table 1: Rule of law and economic freedom factors for EU candidate countries (2019-2023)

Factor Abbreviation	Factor	YEAR	AL	BA	GE	MD	ME	MK	RS	TR
L-19	**Limited governing powers**	2019	49	45	57	43	-	47	40	29
L-20	**Limited governing powers**	2020	45	45	55	44	-	47	39	30
L-21	**Limited governing powers**	2021	43	45	54	47	-	47	38	28
L-22	**Limited governing powers**	2022	43	46	53	50	-	47	37	28
L-23	**Limited governing powers**	2023	43	45	53	51	52	46	35	28
C-19	**Lack of corruption**	2019	35	44	70	32	-	47	44	48
C-20	**Lack of corruption**	2020	37	44	68	34	-	44	44	47
C-21	**Lack of corruption**	2021	37	42	68	36	-	45	43	46
C-22	**Lack of corruption**	2022	36	42	68	37	-	45	42	45
C-23	**Lack of corruption**	2023	36	42	68	38	48	45	42	44
T-19	**Transparent governance**	2019	46	47	59	55	-	49	47	42
T-20	**Transparent governance**	2020	47	47	57	55	-	48	47	42
T-21	**Transparent governance**	2021	47	47	59	57	-	50	46	40
T-22	**Transparent governance**	2022	46	47	59	57	-	50	46	40
T-23	**Transparent governance**	2023	47	47	59	57	53	50	45	40
F-19	**Fundamental rights**	2019	61	59	62	54	-	57	70	32
F-20	**Fundamental rights**	2020	59	59	61	54	-	59	70	32
F-21	**Fundamental rights**	2021	58	59	63	56	-	59	56	31
F-22	**Fundamental rights**	2022	59	60	62	58	-	60	55	30
F-23	**Fundamental rights**	2023	57	58	62	59	67	60	55	30
O-19	**Order and security**	2019	79	76	78	80	-	79	78	67
O-20	**Order and security**	2020	79	76	79	80	-	79	77	69
O-21	**Order and security**	2021	78	78	79	81	-	79	77	70
O-22	**Order and security**	2022	78	77	79	81	-	80	76	73
O-23	**Order and security**	2023	78	77	79	81	82	80	76	72
E-19	**Law enforcement**	2019	44	49	56	42	-	48	47	42
E-20	**Law enforcement**	2020	44	49	57	43	-	48	48	41
E-21	**Law enforcement**	2021	43	48	56	45	-	47	47	41

E-22	**Law enforcement**	2022	42	49	57	45	-	48	46	40
E-23	**Law enforcement**	2023	43	49	58	46	48	48	46	42
V-19	**Civil justice**	2019	44	51	53	47	-	57	50	45
V-20	**Civil justice**	2020	48	48	54	48	-	55	51	44
V-21	**Civil justice**	2021	47	47	54	50	-	53	50	43
V-22	**Civil justice**	2022	46	47	53	50	-	52	49	43
V-23	**Civil justice**	2023	45	46	53	50	54	52	47	41
R-19	**Criminal justice**	2019	47	50	52	34	-	47	38	38
R-20	**Criminal justice**	2020	50	48	52	36	-	45	40	38
R-21	**Criminal justice**	2021	40	46	53	39	-	45	39	36
R-22	**Criminal justice**	2022	40	48	51	39	-	45	39	34
R-23	**Criminal justice**	2023	38	47	52	41	47	44	39	34
B-19	**Tax Burden**	2019	86.3	84.3	87.1	85.4	85.3	91.8	82	76.4
B-20	**Tax Burden**	2020	85.9	83.6	87.1	86.1	85.4	91.5	83.7	76.7
B-21	**Tax Burden**	2021	89	93.8	89.1	94	83.6	94.9	92.5	73.2
B-22	**Tax Burden**	2022	89.1	94	89.1	94.1	83.9	95	90.9	74.7
B-23	**Tax Burden**	2023	89.1	93.2	89.1	93.4	88.2	95	87.9	73
S-19	**Gov't Spending**	2019	73.9	46.1	73.6	59.1	32.6	70	45.1	65.1
S-20	**Gov't Spending**	2020	74.6	49.3	73.6	71.6	32.1	71	49.7	64.1
S-21	**Gov't Spending**	2021	74.6	49.5	76.9	71	35.3	71	49.6	64.5
S-22	**Gov't Spending**	2022	72.1	46.2	72.7	68.1	29.5	67.7	42.5	63.8
S-23	**Gov't Spending**	2023	71	46.6	70	64.4	31.7	63.9	37.6	66.1
H-19	**Fiscal Health**	2019	80.6	96.6	93.9	92	23.2	82.9	90.1	92.2
H-20	**Fiscal Health**	2020	86.3	97.3	94.4	96.2	23.4	87.7	94.1	86.1
H-21	**Fiscal Health**	2021	86.6	97.1	94.9	96.5	37.2	87.8	94.6	75.8
H-22	**Fiscal Health**	2022	70.6	95.9	67.1	87.2	11.9	69.8	85.7	59.2
H-23	**Fiscal Health**	2023	58.2	96.3	43	82.1	48.1	51.4	73.5	63
U-19	**Business Freedom**	2019	69.3	49.7	85.8	67	73.3	80.2	72.9	66
U-20	**Business Freedom**	2020	65.7	45.7	85.3	68.1	70.8	80.6	72.6	67
U-21	**Business Freedom**	2021	66.1	48.2	84.9	66.2	73.5	77.8	71	68.5
U-22	**Business Freedom**	2022	70.7	66.6	74.1	64.2	67.1	74.4	74.4	63.4
U-23	**Business Freedom**	2023	70.7	67	69.8	60.2	67.3	74.1	74.3	59.7
A-19	**Labor Freedom**	2019	52.7	67	76.6	39	73.4	71.5	67.4	49.2
A-20	**Labor Freedom**	2020	52.1	67.4	76.3	37	74.8	67	66.9	49.2
A-21	**Labor Freedom**	2021	51.6	67.8	76.7	39.2	78	65.2	67.3	48.8
A-22	**Labor Freedom**	2022	51.1	60.2	61.9	46.4	61.7	54.1	62.9	47.1
A-23	**Labor Freedom**	2023	49.7	60.6	62.1	46.6	61.6	52.7	68.1	54.9
M-19	**Monetary Freedom**	2019	81.5	83.1	76	73.5	81.6	78.7	80	70
M-20	**Monetary Freedom**	2020	81.2	82.7	78.3	72	80.3	77.7	80.7	66.1
M-21	**Monetary Freedom**	2021	82	84.1	76.7	71.5	83.4	78.7	81.1	65.4
M-22	**Monetary Freedom**	2022	82	84.9	76	72.4	85.6	78.3	81.6	61.9
M-23	**Monetary Freedom**	2023	81.3	81.9	72	71.2	81.8	75	78.6	58.6
D-19	**Trade Freedom**	2019	87.8	82.6	88.6	78	84.7	82	77	79.6
D-20	**Trade Freedom**	2020	88.4	80	88.6	78	83.8	86.2	78	78
D-21	**Trade Freedom**	2021	82.8	69.2	86	76.8	79.4	77.4	77.2	76
D-22	**Trade Freedom**	2022	82.6	68.8	86.6	76.6	78.8	77.8	77	75.6
D-23	**Trade Freedom**	2023	82.8	68	86	75.6	79.2	77.8	76	75.8
I-19	**Investment Freedom**	2019	70	65	80	55	75	65	70	70
I-20	**Investment Freedom**	2020	70	65	80	55	75	65	70	70
I-21	**Investment Freedom**	2021	70	65	80	55	75	65	70	70
I-22	**Investment Freedom**	2022	70	65	80	55	75	65	70	70
I-23	**Investment Freedom**	2023	70	65	80	55	75	65	70	70
N-19	**Financial Freedom**	2019	70	60	70	50	50	60	50	60
N-20	**Financial Freedom**	2020	70	60	70	50	50	60	50	60
N-21	**Financial Freedom**	2021	70	60	70	50	50	60	50	60
N-22	**Financial Freedom**	2022	70	60	70	50	50	60	50	60
N-23	**Financial Freedom**	2023	70	60	80	50	50	60	50	60

Source: World Justice Project; The Heritage Foundation (Elaborated by the authors)

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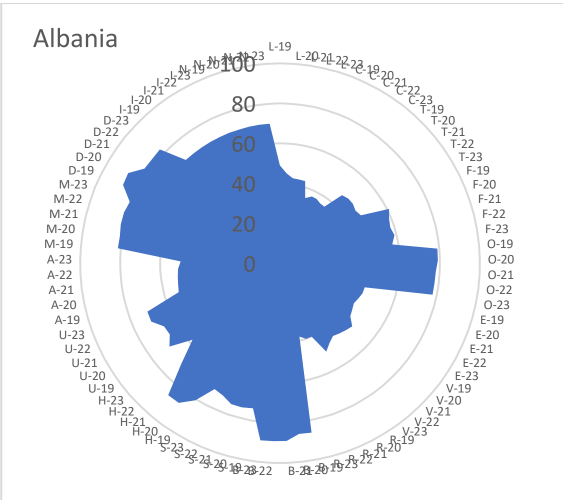
RESULTS AND DISCUSSION

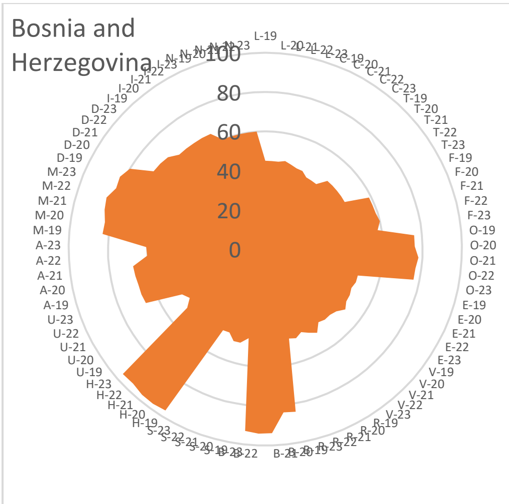
In the Results and Discussion section, the situation of each country is visually represented through radar charts, covering the period from 2019 to 2023. These charts incorporate 17 factors from the Rule of Law and Economic Freedom indices. Each radar chart is structured to provide an intuitive and comparative view of a country's performance across these factors.

The design of the radar charts is such that they allow for an immediate visual interpretation of the data. The length of each axis in the chart corresponds to the country's score in a particular factor for the time period 2019 – 2023, with longer axes indicating scores that are closer to the optimal value of 100. This means that a longer axis represents a better situation for the country regarding that specific aspect of institutional efficiency.

For example, a long axis in the area of 'Transparent governance' would suggest that the country has a strong framework for an open government, which is a positive indicator of institutional efficiency. Conversely, a shorter axis in the area of 'Fiscal Health' might indicate challenges or weaknesses in this area.

By employing radar charts for each country, the section provides a clear, comparative visual representation of how each country fares in terms of institutional efficiency. This method not only highlights the strengths and areas for improvement for each country but also enables a straightforward comparison between the countries on each of the 17 factors.





Graph 1: Albania and Bosnia & Herzegovina institutional efficiency situation
Source: Authors Elaboration

The radar chart data for Albania shows a mixed picture of institutional performance over the examined period. Albania excels in areas like tax burden monetary freedom, and trade freedom, consistently scoring above 80. These high scores suggest effective economic policy management, a conducive trading environment, and a stable monetary system. However, the country struggles with corruption, law enforcement, and criminal justice, where scores are mostly below 70. These lower scores indicate challenges in combating corruption, enforcing laws effectively, and maintaining an efficient criminal justice system. The findings point to the need for Albania to focus on improving governance, enhancing anti-corruption measures, and reforming its business landscape to create a more liberated business environment. Addressing these challenges is crucial for Albania, especially in the context of its aspirations for European Union membership. The EU places a strong emphasis on the rule of law, good governance, and economic stability, making it essential for Albania to strengthen its institutions in these areas.

Bosnia shows outstanding performance in tax burden, fiscal health, and monetary freedom,' with particularly high scores in fiscal health, often surpassing 90. These scores reflect strong fiscal management and effective monetary policies. However, Bosnia encounters significant challenges in limited governing powers, corruption, and government spending, indicating issues with governance effectiveness, corruption control, and fiscal discipline. The lower scores in these areas highlight the need for reforms to strengthen governance and enhance transparency and accountability. Despite these challenges, Bosnia's solid performance in fiscal health and tax policies shows a stable economic base. However, improving governance and reducing corruption are crucial for fostering a stronger business environment and enhancing overall economic freedom. This balance of strengths and areas for improvement highlights the complexity of Bosnia's institutional landscape and the need for targeted strategies to strengthen its governance and economic policies, particularly in the context of potential European integration and meeting the EU's rigorous standards in governance and economic stability.

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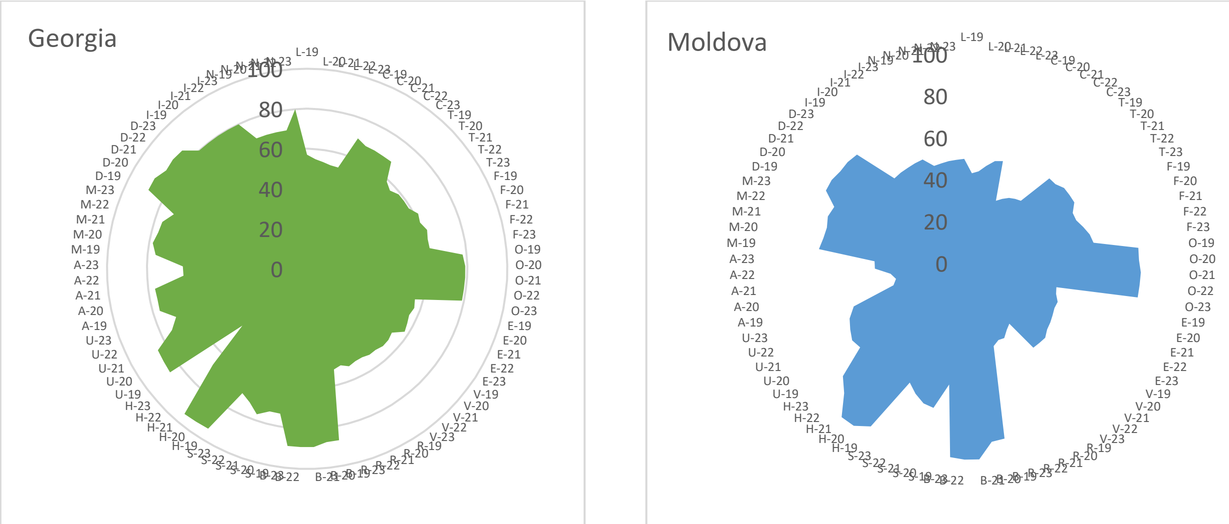
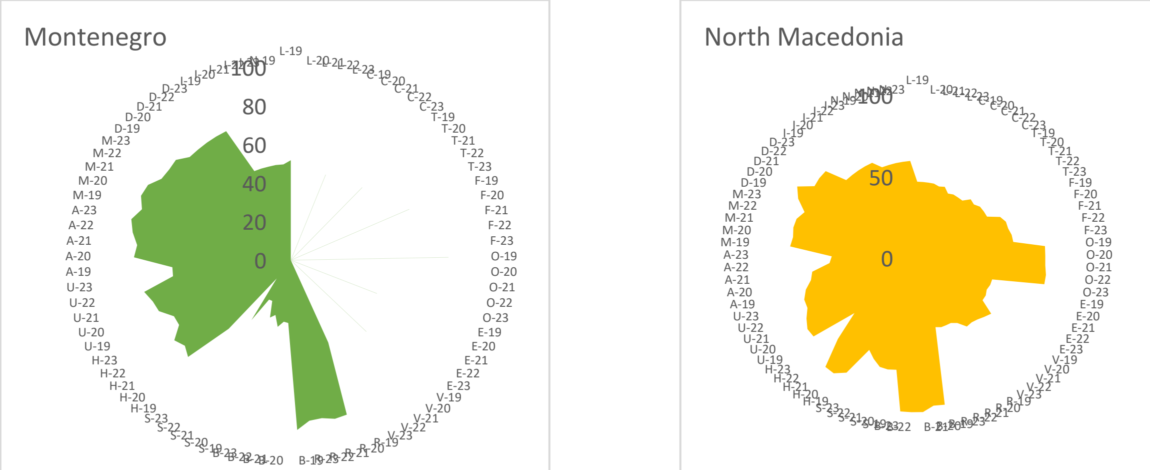


Graph 2: Georgia and Moldova institutional efficiency situation
Source: Authors Elaboration

In the context of EU candidate countries, Georgia stands out for its strong institutional performance. The country has demonstrated exceptional strengths in tax burden, fiscal health, and trade freedom, with high scores indicating effective tax management, sound fiscal policies, and a favorable trade environment. These areas underline Georgia's capability in managing economic policies efficiently. However, Georgia faces notable challenges in limited governing powers, civil justice, and criminal justice, highlighting areas for improvement in governance and legal systems. These challenges point to the need for reforms in enhancing governance structures, improving legal frameworks, and supporting law enforcement effectiveness. Despite these areas of concern, Georgia's overall performance is admirable, surpassing other EU candidate countries. This highlights its potential as a leading example of successful institutional development in the region. The period under review, particularly marked by the pandemic, underscores the resilience and adaptability of Georgia’s institutions in navigating complex challenges, setting a standard for other candidate countries aspiring for EU integration.

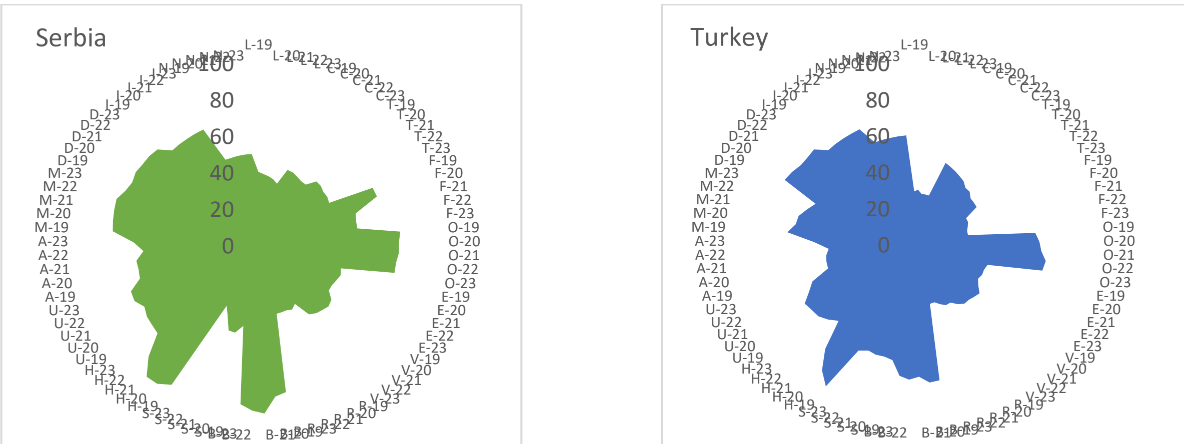
For Moldova, the radar chart analysis from 2019 to 2023 outlines both the strengths and the weaker aspects of its institutions. Moldova has shown strengths in order and security, tax burden, and fiscal health, consistently achieving high scores. These areas reflect its capability in maintaining social stability, effective tax regulation, and responsible fiscal management, essential for economic health. However, Moldova encounters significant challenges in corruption, law enforcement, and criminal justice. Persistent low scores in these areas indicate a pressing need for institutional reforms. Effective strategies to combat corruption are vital for enhancing transparency and building public trust. Enhancing law enforcement efficiency is crucial for upholding order and ensuring justice. Moreover, strengthening the criminal justice system is key to ensuring fair and timely legal proceedings, which are fundamental for societal trust and investor confidence. Aligning with EU standards necessitates not only maintaining the areas of strength but also addressing the critical areas of weakness. This involves implementing strong anti-corruption measures, reforming law enforcement agencies for greater efficacy, and reforming the criminal justice system for greater efficiency and fairness.



Graph 3: Montenegro and North Macedonia institutional efficiency situation
Source: Authors Elaboration

Montenegro excels in tax burden, monetary freedom, and trade freedom, indicating an effective tax system, sound monetary policies, and a constructive trade environment. However, it faces challenges in government spending, fiscal health, and financial freedom, with fluctuating scores suggesting economic vulnerabilities and the need for better fiscal management. It's also important to note that the data for Montenegro isn't complete, as the Rule of Law Index has only been available there since 2023. This gap indicates potential areas for further research and development, particularly in legal frameworks and governance structures, to provide a more comprehensive understanding of Montenegro's institutional capabilities. The period, including the pandemic, offers insights into the resilience of Montenegro's institutions, critical for its EU integration aspirations and long-term stability.

Analyzing North Macedonia's institutional capacities from 2019 to 2023, the country demonstrates strong performance in certain areas while indicating a need for improvement in others. Notably, North Macedonia shines in tax burden, business freedom, and trade freedom, with consistently high scores that point to an effective tax system, a supportive environment for business operations, and a favorable trading framework. However, the country faces significant challenges in limited governing powers, corruption, and criminal justice. These lower scores highlight critical areas for reform, especially in enhancing governance structures, combating corruption more effectively, and improving the efficiency and fairness of the criminal justice system. The period under analysis, which includes the challenges posed by the COVID-19 pandemic, provides valuable insights into the resilience and adaptability of North Macedonia's institutions. This analysis is crucial for understanding the country's readiness for European Union membership, as the EU places a strong emphasis on governance quality, corruption control, and legal system integrity. Addressing these challenges will not only be vital for meeting EU standards but also for ensuring sustainable social and economic development. The comprehensive review of North Macedonia's institutional framework over these years underlines the importance of continued efforts to strengthen these key areas, thereby enhancing the country's prospects for successful EU integration and overall national progress.



Graph 4: Serbia and Turkey institutional efficiency situation
Source: Authors Elaboration

Serbia's institutional framework, assessed between 2019 and 2023, reveals a contrast of significant accomplishments and areas for improvement. The country excels in tax burden, fiscal health, and monetary freedom, reflecting strong fiscal management and economic policies. However, it faces notable challenges in limited governing powers, criminal justice, and government spending, highlighting areas needing critical reform. These findings are particularly relevant for Serbia's European Union integration ambitions, where adherence to EU standards in governance, justice, and fiscal responsibility is critical. The resilience and adaptability of Serbia's institutions, especially during the COVID-19 pandemic, underscore the importance of ongoing efforts to strengthen key areas for sustainable growth and successful EU integration.

Turkey's institutional landscape from 2019 to 2023 showcases a blend of significant strengths and critical areas needing development. The country's proficiency is evident in tax burden, fiscal health, and trade freedom, reflecting robust fiscal policies, healthy economic management, and a strong trade framework. These areas underscore Turkey's capability in managing economic policies effectively and creating a conducive trade environment. However, the country encounters notable challenges in limited governing powers, fundamental rights, and criminal justice. These lower scores signal an urgent need for comprehensive reforms in governance structures, legal frameworks, and human rights protection. In limited governing powers, the scores point to potential shortcomings in checks and balances within the government, highlighting the need for strengthening democratic institutions and enhancing transparency. Fundamental rights scores indicate areas where Turkey must work towards better protecting individual freedoms and civil liberties, crucial for societal trust and international relations. Moreover, the criminal justice system requires attention to ensure fairness, efficiency, and impartiality in legal proceedings. The EU places high emphasis on governance quality, human rights protection, and a robust legal system. Turkey's progress in these areas will be pivotal for its EU accession process.

CONCLUSIONS

This paper's comprehensive analysis underscores the crucial role of institutional capital in sustainable economic development, especially for EU candidate countries. The research reveals that institutional capital, encompassing both tangible and intangible elements within governance and societal structures, is vital for economic growth and stability. The developed index, integrating Rule of Law and Economic Freedom factors, effectively measures this capital, capturing its complex dimensions.

Findings from EU candidate countries indicate that strong institutional frameworks are key for economic success and integration into the EU. The study highlights the importance of governance quality, transparency, and effective legal systems. Challenges like corruption, limited government powers, and judicial inefficiency emerge as common barriers to development.

The research also notes the impact of the COVID-19 pandemic, showing the importance of institutional resilience and adaptability in unprecedented times. This is crucial for ensuring long-term sustainable development and meeting the evolving challenges of a globalized world.

In conclusion, building and strengthening institutional capital is essential, not just as a theoretical concept, but as a practical necessity for countries aspiring for economic growth and EU integration. Future research should focus on the evolving nature of institutional capital, exploring its role in different cultural and geographical contexts and in addressing global challenges like climate change and inequality.

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