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Empowering Western Balkans Economies: State Aid Incentives and Transparency in the Region

WEBecon WESTERN BALKAN ECONOMIC THINK TANKS NETWORK

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EMPOWERING WESTERN BALKANS ECONOMIES: STATE AID INCENTIVES AND TRANSPARENCY IN THE REGION

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ACKNOWLEDGMENT

The policy study has been prepared within the project 'State aid and foreign direct investment in the Western Balkan countries: Fostering transparency and generating space for regional coordination of investment policies' funded by the Open Society Foundations Western Balkans, by organizations-members of the Western Balkans Economic Think Tanks Network (WEBecon). The study includes individual data collection for each economy, conducted by Albanian Center for Competitiveness and International Trade (Albania), Center for Development Evaluation and Social Science Research (Bosnia and Herzegovina), Institute for Strategic Studies and Prognosis (Montenegro), Finance Think – Economic Research & Policy Institute (North Macedonia) and Center for Advanced Economic Studies (Serbia). Authors acknowledge valuable contribution to the study to Ms. Nora Jusufi, responsible for collecting the necessary data for Kosovo. Studies benefited of rounds of peer review by an anonymous reviewer.

INTRODUCTION

State aid refers to any support provided by a government to a particular company and/or industry, in a form of grants, loans, tax exemptions, subsidies and other incentives, in order to promote job creation, economic growth and regional cooperation. The European Union defines state aid as any measure that has a potential to contort the competition within a single market, favouring certain undertakings. To ensure fair competition, it has strict control mechanism that secure careful inspection and approval by competent authorities to avoid unfair dominance of a certain company. According to Article 107 of the Treaty on the Functioning of the EU "any aid granted by a member state or through state resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between member states, be incompatible with the internal market".

Despite such firm rules, the Treaty allows providing a state aid in specific circumstances necessary for obtaining strong and fair functioning of the economy. The aid considered to be compatible with the internal market refers to[1]:

aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment;

aid to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State;

aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest;

aid to promote culture and heritage conservation where such aid does not affect trading conditions and competition in the Union to an extent that is contrary to the common interest;

other categories of aid as may be specified by decision of the Council on a proposal from the Commission.

The state aid can display itself in various forms such as: subsidies, guarantees, tax exemptions, but also in less visible forms of intervention: conversion of debt into equity, purchase and sale of state real estate at a lower / higher price than market, etc.

The aid given to promote or facilitate the economic development of certain areas with low standard of living is also known as regional aid. The main objective of the regional aid is to stimulate the investment and job creation in the assisted areas and ensure regional development and territorial cohesion. These objectives discern the regional aid of the other types of aid such as aid for research and development, aid for innovation, employment, training, environment protection, rescue and restructuring aid, which aimed at solving problems that may arise in any industry and is known as horizontal aid. The aid directed toward specific industry is known as sectoral aid. Each of the state aid type has a certain objectives and is adequately regulated by laws, guidelines and rules which serve as a regulation cornerstone.

The state aid in EU is strongly controlled by the Commission, constantly reviewing the aid measures in member states. The Commission is a decision-making body that has the possibility to decide whether the granted state aid meets the criteria and is required by the functioning of the internal market. The Treaty provides an opportunity to the Commission, to decide that a specific granted aid should be terminate or alter, if it is not compatible with the internal market, or is misused in some way. Any member state that wants to introduce a new measure of state aid should request prior notification

1 Article 107(2) of the Treaty on the Functioning of the EU

from the Commission, except for aid covered by a block exemption directed to support investment and research and development of the small and medium enterprises, as well as to boost employment and training, small amounts of aid (de minimis aid) not exceeding 200.000 Euros per company in a period of 3 fiscal years and aid granted under an aid scheme already authorized by the Commission (European Commission, 2013)[2].

As signatories to the Stabilization and Association Agreement, the Western Balkans countries are obliged to align their national policies and rules for state aid with those in the EU. In this regard, the WB countries have to adopt the state aid legislative framework in line with EU requirements, with continuous follow up of the changes at EU level, but also, have to secure strengthened implementation of the respective rules, especially through increased capacities of the state aid authorities for proper implementation of the legislative. The opening of the Chapter 8 that regulates the competition and state aid made WB countries conform their rules and staff more quickly. The definition of the state aid, the forms, general conditions and rules for reporting and monitoring are laid down in the national legislative of each WB country. Additionally, each country has established a specific body to control the granted state aid. Table 1 summarizes the respective laws and bodies that regulates the state aid issues.

2 European Commission (2013) Competition: State aid procedures. European Commission Factsheet

Table 1. Laws and bodies for state aid control

Country	Legislative framework on state aid	State body on state aid control
Albania	Law on state aid (2005)	Commission for state aid
Bosnia and Herzegovina	Law on state aid system (2012)	Council for state aid
Kosovo	Law on state aid (2017)	Commission for state aid
Montenegro	Law on state aid control (2011)	Agency for state aid protection
North Macedonia	Law on state aid control (2010)	Commission for protection of the competition
Serbia	Law on state aid control (2009)	Commission for state aid control

According to Tota and Hasanpapaj (2023)[3], WB countries face many challenges dealing with the state aid, mainly due to the lack of efficient institutions and insufficient human resources being able to understand and properly implement the state aid rules. EU confirms that WB countries have made a significant progress in aligning the state aid rules with the EU requirements, but have achieved low results in the legislatives' implementation and enforcement capacities of state aid authorities who still face limited skills and knowledge to lead the process of state aid granting.

The progress reports for each country show that most of the WB countries adopted sound primary legislation, but the implementing measures remain weak and insufficient and should be further strengthened. Also, the implementing capacities remain a huge challenge for the entire region, given that the implementation of the state aid requires special expertise and skilled professionals (Table 2).

3 Tota, E. and Hasanpapaj, B. (2023) State aid trends in the Western Balkans in the light of the European Union acquis. Corporate Law and Governance Review Special Issue 5(2)

Table 2. Review of the progress in regulation and implementation of the state aid rules

Country	Legislative framework on state aid	Enforcement capacities of state aid authorities	Implementation of the Law on state aid
Albania	Partially aligned with EU rules	Remains insufficient	Should be further aligned with EU acquis
Bosnia and Herzegovina	Partially aligned with EU rules	Remains insufficient	Should be further aligned with EU acquis
Kosovo	Broadly aligned with EU rules	Remains weak – no body has been established	Should be further aligned with EU acquis
Montenegro	Largely aligned with EU rules	Should be further strengthened	Solid progress – should be further strengthened
North Macedonia	Broadly aligned with EU rules	Remains insufficient	Should be further aligned with EU acquis
Serbia	Broadly aligned with EU rules	Should be further strengthened	Should be further strengthened

Source: EU Progress reports 2023

CHAPTER 1

SPENDING ON STATE AID: KEY PROGRAMS AND MEASURES IN THE WESTERN BALKAN COUNTRIES, BY SIZE AND TYPES

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1. INTRODUCTION

The economic situation in the Western Balkan region (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia) is gradually improving, with projected GDP growth of 3.2% in 2024 and 3.5% in 2025 (World Bank, 2024). However, the region still faces significant structural challenges, including slow recovery from COVID-19 crisis, high unemployment and low productivity, as well as delays in implementing reforms needed to join the European Union (UN). The World Bank report for 2023 revealed that economic growth in the Western Balkans slowed to 2.6 percent in 2023, from the 3.4 percent reached in 2022, reflecting the impact of weak growth in the European Union (EU), a key trading partner for the Western Balkans. However, as of end-2023, levels of real GDP in the Western Balkan countries surpassed the pre-pandemic levels. The regional labour market continued to perform well in 2023. Unemployment declined across all countries, with the overall rate reaching 10.9 percent in 2023. Real wages increased in 2023, reversing trends in 2022 during which inflation outpaced wages. Poverty in the Western Balkans returned to its declining trend during 2023, but at a slower pace than pre-pandemic, from over 3 percentage points annually pre-pandemic to about 1 percentage point annually between 2022 and 2025 (World Bank, 2024).

In the described economic situation in the region, granting state aid to market players while ensuring compliance with the internal market requirements, as derived from the European Union (EU) acquis, seems to be a challenging exercise for the Western Balkans. The COVID-19 pandemic highlighted the difficulties in balancing state aid to support struggling sectors while adhering to EU competition rules. This dual pressure has necessitated a closer examination of state aid practices in the region (Tota and Hasanpapaj, 2023). The overall size of state aid in the Western Balkans has been increasing, particularly in response to economic challenges exacerbated by the COVID-19 pandemic. For instance, the EU has provided substantial financial support through various packages, including a €1 billion Energy Support Package aimed at addressing immediate economic impacts and fostering energy resilience in the region (WBIF, 2022). Specific data on the total amount of state aid granted in the Western Balkans is limited, but reports indicate that countries like Serbia and Albania have been actively implementing state aid measures to stimulate their economies. The focus has been on aligning these measures with EU standards, which requires ongoing reforms and improvements in state aid governance (Milenkovic, 2016).

State aid plays a significant role in stimulating economic growth, particularly in emerging economies like those in the Western Balkans. Foreign aid is a crucial source of financing for developing countries, where it can supplement domestic savings and investment. However, studies indicate that the impact of foreign aid on economic growth is conditional. For instance, a study examining Sub-Saharan Africa found that while aid alone does not significantly boost growth, it can have a positive effect when combined with good governance and sound economic policies (Tang and Bundhoo, 2017; Abate, 2022). In addition to foreign aid, state intervention through public investment is essential for stimulating economic growth. Governments are expected to provide public goods and services, such as infrastructure, education, and healthcare, which are critical for fostering a conducive environment for private sector development. For example, investments in high-quality infrastructure can significantly enhance economic productivity and growth potential (Gigineishvili et al., 2023). State aid control has evolved through time to encompass different objectives. These programs should be targeted at addressing specific market failures or equity objectives. Assessing aid programs helps determine if they are truly needed to promote economic development in areas with low standards of living or serious underemployment (Buelens et al., 2007). Systematic analysis of state aid spending trends is needed to build an evidence base for effective policymaking (Makkar et al., 2022). These trends are especially important during overlapping economic, health and social crises, like the COVID-19 pandemic, to inform decision-making for better aid effectiveness going forward (Van Hove, 2020). Analysing the types of state aid, particularly the distinction between horizontal and vertical aid, is crucial for developing effective and efficient policies. Horizontal state aid is aimed at general objectives like R&D, SME development, and environmental protection, while vertical aid targets specific sectors or firms (Gual and Jodar-Rosell, 2006). Therefore, vertical state aid has a higher potential to distort competition since it favours specific firms or sectors over others. This is also confirmed in previous research conducted in Western Balkan region, where horizontal aid is generally considered more effective and efficient since it has a lower impact on competition (Radukić and Vučetić, 2019).

As previously explained, the Western Balkan region faces unique economic conditions and developmental needs. These nations, while on different trajectories of economic reform and EU integration, commonly utilize state aid as a tool to stimulate growth, support strategic industries, and enhance competitiveness. Understanding trends in state aid allows policymakers to prioritize sectors critical to national development agendas. Therefore, the main research questions that this chapter aims to answer are how the state aid spendings are distributed in the Western Balkan region, what are the key programs and measures that countries in the region are using, and if there are any regional patterns that emerge. The main aim is understanding the allocation of state aid by assessing how these countries navigate economic challenges, foster development, and align with broader European Union (EU) standards and practices.

This chapter provides a detailed examination of state aid spending across Western Balkan countries, focusing on key programs and measures categorized by size and types. By analysing these aspects in depth, it aims to offer a nuanced understanding of how state aid is allocated and utilized within this region. The scope of the analysis includes a comprehensive review of state aid expenditures, dissecting them by different types and sectors to uncover patterns and trends. The analysis not only identifies the total amounts of state aid but also delves into the specific categories of aid, such as subsidies, tax incentives, grants, and other financial measures. The purpose of this chapter is to present a clear and structured overview of state aid distribution, enabling a comparative understanding that can inform policy decisions and strategic planning. This comparative approach is intended to offer valuable insights for policymakers, helping them to design more effective and equitable state aid programs. Ultimately, this detailed examination aims to contribute to a more informed and strategic approach to state aid in the Western Balkans, supporting the region's economic growth and development through better-targeted and more efficient use of public funds.

The chapter is structured into several key sections to ensure a systematic and comprehensive analysis. The next section includes description of methodology and data collection process. It defines the scope of state aid included in the study, outlines the data collection process, and describes the sources used. It also provides a detailed description of the data, including coverage, disaggregation, and any limitations encountered during the data collection process. The following section presents a thorough analysis of the collected data, organized into a regional overview and sub-sections presenting each type of state aid. The analysis is structured to extract the maximum possible information from the data, ensuring that each country's unique state aid distribution is effectively captured and compared. The section on regional overview provides a comparative analysis of state aid spending across countries, featuring tables and figures that illustrate total expenditures, the share of expenditures in GDP, and expenditures by type (e.g., vertical, horizontal, agriculture, de minimis state aid). After providing regional overview for the overall spending on state aid, the following sections are providing in-depth analysis of different types of state aid programs and comparing them between countries. In conclusion, this chapter aims to offer a detailed and comparative analysis of state aid spending in the Western Balkans, supported by robust data collection methodologies and informed by the relevant legislative and institutional contexts. The insights derived from this analysis will contribute to a deeper understanding of state aid practices in the light of regional economic development.

2. METHODOLOGY AND DATA

The methodological approach within this chapter included the collection and analysis of data on state aid spending in six countries of the Western Balkans. The definition of state aid used in each country was the definition prescribed by the legislative framework in each country and encompassed all spending provided to economic entities from public budgets in terms of direct expenditures and reduced revenues.[1]

2.1 Data collection

Data were collected on total spending and specific programs or groups of programs for the period 2018-2022. The data collection process involved gathering relevant information from various sources, including legislative documents, institutional reports, and statistical databases. The legislative documents consulted included laws and by-laws that define the methodology and ways of reporting on state aid in each country. For data collection through desk research, reports from competent institutions for approval, control and reporting on state aid, such as the Commission for State Aid Control or Commission for Protection of Competition, were used. In addition to the sources mentioned, data collection also included sending requests for access to public information to institutions that implement state aid, in cases of lack of publicly available data or the need for additional clarification of data from publicly available sources. Data were collected manually and entered in an Excel file. In addition to total state aid spent in the period 2018-2022, researchers collected spendings for various programs and groups of programs.

2.2 Data analysis

The data were compiled to ensure accuracy and reliability, with a focus on capturing the full scope of state aid expenditures across different sectors and regions. For the purposes of analysis and cross-country comparison, all budget items were translated into Euro. Although different disaggregation of state aid may be available within reports of national institutions, we provided in-depth analysis of state aid groups by main objectives that are prescribed by the European Commission2 and include: agriculture, horizontal measures, sectoral or vertical measures and regional aid. In addition to these previously mentioned groups, we also analysed de minimis state aid even though this type of aid is usually not included in the European State Aid Scoreboard3. The following broad definitions were used to capture state aid spendings across different groups:

1 A review of the legislative framework was provided in the previous chapter.

Horizontal state aid is designed to address general economic and societal objectives that are not sector specific. These types of aid tend to have less potential for distorting competition because they apply across the economy and target overarching goals, such as innovation, environmental protection, or employment. It usually includes aid for research, development, and innovation programs, environmental protection and energy aid, aid for training and employment.

Vertical state aid is granted to specific sectors, firms, or industries, and thus has a higher potential to distort competition by favouring certain players over others. The programs included in vertical aid are those focused on specific sectors, aid for rescue and restructuring firms in financial distress, and aid for services of general economic interest.

De minimis aid refers to small amounts of state aid that are considered too insignificant to affect competition or trade on the market or between countries. The state aid legislation in each country defines the maximum amount of aid that can be considered as de minimis aid.

Agriculture and rural development aid is specifically targeted at the agriculture sector and rural development, supporting farmers, rural businesses, and the sustainable development of rural areas. It helps address sector-specific challenges such as food security, environmental protection, and rural livelihoods.

Other types of state aid include programs that, by their targets and design, were not classified in each of the abovementioned categories. This group usually includes regional aid or services of general economic interest.

Data analysis includes relative indicators of spending on state aid, in relation to GDP, as well as on spending by groups in relation to total spending. A similar approach was used in a previous analysis of state aid spending in comparing several countries in the Western Balkan region (Radukić and Vučetić, 2019).

2.3 Limitations of the study

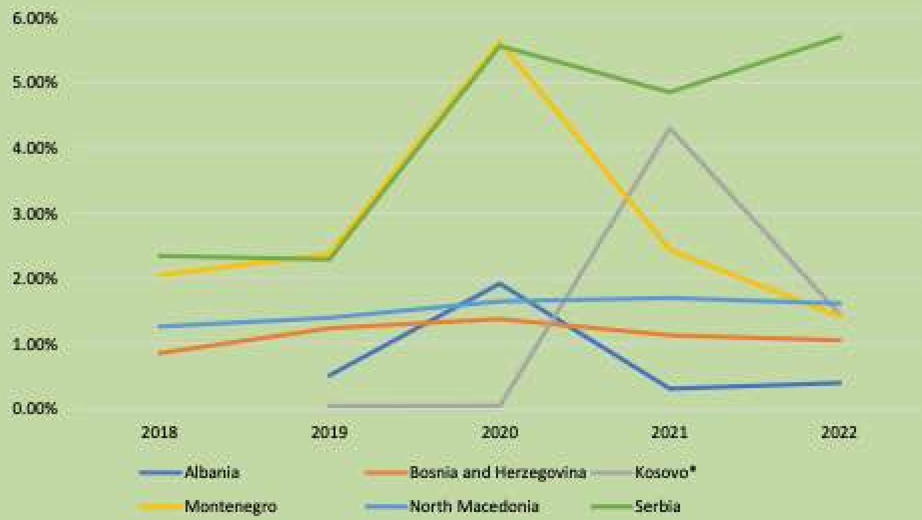
The data collection process described has several limitations that could affect the comprehensiveness, accuracy, and comparability of the data on state aid expenditures. First of all, it refers to the lack of reliability in the data published in publicly available reports in countries where a low level of awareness of the reporting units in determining what constitutes state aid, such as for example case in Bosnia and Herzegovina.4 Different methodologies in defining state aid as well as reporting standards in each of these countries can lead to inconsistencies in data. Desk research may not capture all relevant data, especially since some information is not publicly available or is incomplete. Relying on requests for access to public information can lead to gaps in the data as in some cases institutions did not respond or they provided incomplete information. Although efforts were made to ensure accuracy and reliability, manual compilation of data can introduce errors. Inconsistencies in data reporting and interpretation can affect the reliability of the final dataset. Transferring budget items to Euros for comparison purposes introduces exchange rate variability, which may distort the data. Another limitation is the aggregation of data into groups of state aid according to EU practices, in countries where this practice is not yet fully aligned, and the research team classified the measures in accordance with the knowledge of the way of their implementation and their purpose. For example, sectoral or vertical measures may vary greatly between countries, and the specificity of such aid might not be fully accounted for in a general analysis.

3. REGIONAL OVERVIEW

The section on regional overview offers a comprehensive comparative analysis of state aid spending across six Western Balkan countries. It features detailed tables and figures that illustrate total expenditures, the proportion of these expenditures in relation to GDP, and a breakdown of expenditures by type, including vertical, horizontal, agricultural, and de minimis state aid. Through this analysis, the section provides valuable insights into the allocation of state aid in different national contexts, enabling a clearer understanding of regional trends and disparities. This section presents a general analysis at the regional level, while the following sections present more detailed analysis by program groups, including an explanation of the reasons for changes in the trend in certain countries.

Firstly, Figure 1is presenting trends in total state aid spending as a percentage of GDP for 6 countries in the analysed period.

Figure 1: Total state aid spending as a percentage of GDP, 2018-2022



Source: Authors own calculations; Data for Kosovo not reliable, due to missing data for certain categories of state aid; Eurostat data for GDP

Based on data on state aid spending as a percentage of GDP from 2018 to 2022, several trends and comparisons among the countries can be observed. Albania's state aid as a percentage of GDP saw a sharp rise from 0.51% in 2019 to 1.92% in 2020 due to the COVID-19 pandemic, before dropping to 0.31% in 2021 and 0.40% in 2022. Bosnia and Herzegovina experienced a steady increase from 0.85% in 2018 to 1.38% in 2020, followed by a decrease to 1.05% in 2022. Kosovo had minimal aid in 2019-2020 but saw a substantial rise to 4.30% in 2021, dropping to 1.45% in 2022. Montenegro peaked at 5.62% in 2020 before decreasing to 1.42% in 2022. North Macedonia's aid gradually rose to 1.70% in 2021 before stabilizing at 1.62% in 2022. Serbia allocated the highest state aid, starting at 2.35% in 2018, peaking at 5.56% in 2020, and sustaining high levels at 5.70% in 2022.

When comparing the figures across countries, Serbia consistently stands out with the highest levels of state aid, particularly during and after the pandemic. Kosovo, while having minimal state aid initially, saw a significant spike in 2021. Albania, Bosnia and Herzegovina, and Montenegro show similar patterns of increased state aid in 2020 followed by reductions in subsequent years, reflecting common responses to the pandemic. North Macedonia maintains the most stable trend, with only slight increases and decreases, indicating a steadier approach to state aid. Overall, the data reflects how different countries adjusted their state aid policies in response to economic challenges, particularly the COVID-19 pandemic, with varying degrees of intensity and subsequent normalization.

In addition to presenting the analysis of state aid in relation to GPD, the data in Table 1 presents the total state aid in euros for six countries from 2018 to 2022.

Table 1: Total state aid in mill Euros, 2018-2022

Total state aid in mill €	2018	2019	2020	2021	2022
Albania	/	70.45	255.62	47.14	71.79
Bosnia and Herzegovina	148.22	226.45	244.87	225.88	245.56
Kosovo	/	3.10	3.22	341.91	129.18
Montenegro	95.38	117.73	235.24	120.70	84.04
North Macedonia	135.91	157.49	178.95	201.55	210.62
Serbia	1,006.16	1,053.95	2,602.18	2,587.48	3,444.97

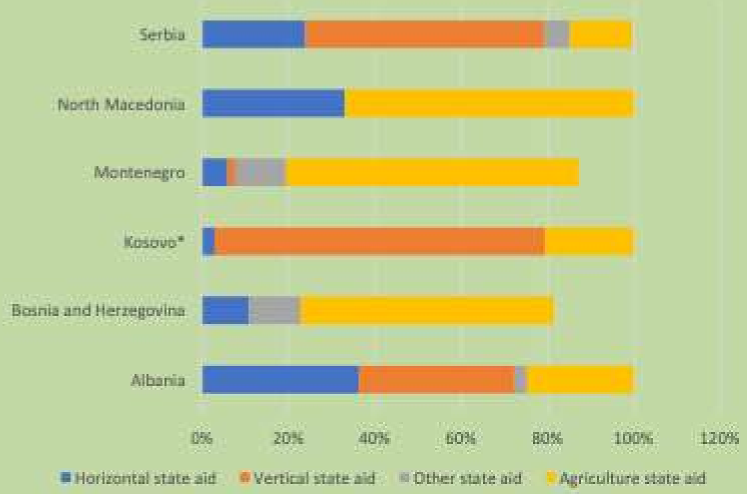
Source: Authors own calculations; Data for Kosovo not reliable, due to missing data for certain categories of state aid

Albania's state aid exhibited a volatile trend between 2019 and 2022. Starting at €70.45 million in 2019, it dramatically increased to €255.62 million in 2020, likely reflecting economic responses to the COVID-19 pandemic. However, this surge was followed by a sharp decline to €47.14 million in 2021, before partially recovering to €71.79 million in 2022. In contrast, Bosnia and Herzegovina showed a steady increase in state aid, rising from €148.22 million in 2018 to €245.56 million in 2022, indicating consistent economic policies and a systematic approach to state aid. Similarly, North Macedonia's state aid increased steadily from €135.91 million in 2018 to €210.62 million in 2022, reflecting stable economic planning. Kosovo and Montenegro displayed more volatile patterns. Kosovo saw a massive spike from €3.10 million in 2019 to €341.91 million in 2020, likely due to pandemic-related measures, followed by a drop to €129.18 million in 2021.5 Montenegro's aid peaked at €235.24 million in 2020, then decreased to €84.04 million in 2022. Serbia, however, stands out with a significant increase in state aid, rising from €1,006.16 million in 2018 to €3,444.97 million in 2022, reflecting large-scale economic interventions, especially after 2020, making it a notable outlier in the region.

The trends in state aid spending reveal distinct patterns across the six countries. Bosnia and Herzegovina and North Macedonia exhibit stable, consistent and systematic increases in state aid. Conversely, Albania, Kosovo, and Montenegro show more volatility, with significant peaks and troughs that likely reflect responses to specific events or crises. Serbia's rapid and substantial increase in state aid, especially from 2020 onwards, setting it apart from the other countries in terms of aid dynamics.

Assessing state aid spending across various types—such as horizontal, vertical, de minimis, and agriculture state aid—is crucial for understanding the full scope of government interventions in the economy. As emphasised in the literature review, by analysing these different types, policymakers can evaluate the effectiveness of aid distribution, ensure compliance with regulations, and tailor future policies to maximise economic and social benefits while minimising market distortions. Figure 2is presenting the structure of state aid spending in 2022 for 6 analysed countries.

Figure 2: Structure of the state aid spending in 2022

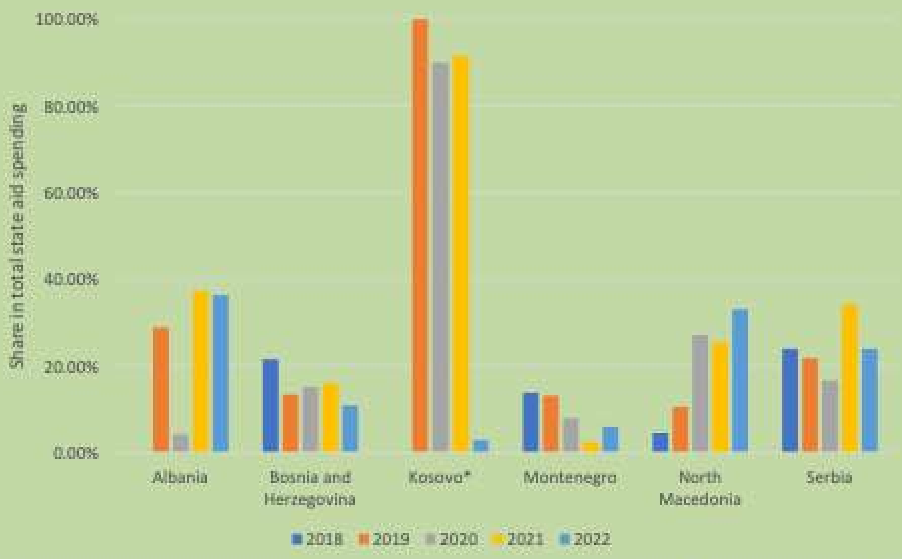


Source: Authors own calculations; Data for Kosovo not reliable, due to missing data for certain categories of state aid; Totals are not equal to 100% for Bosnia and Herzegovina and Serbia since they had de minimis state aid programs in 2022, for which there were no available data in other countries

In analysing state aid spending across the region in 2022, distinct patterns emerge. Albania allocates a balanced proportion of its state aid to horizontal and vertical measures, each comprising 36% of total aid, while agriculture receives 25% and other aid types make up 3%. In contrast, Bosnia and Herzegovina's aid is heavily skewed towards agriculture at 59%, with minimal horizontal aid (11%) and almost no vertical aid in 2022. Kosovo, on the other hand, dedicates a significant 77% of its aid to vertical measures, while horizontal aid is minimal at just 3%, and agriculture receives 21%. Montenegro shows a predominant focus on agriculture with 68% of its aid directed there, and a relatively small allocation for other categories. North Macedonia also emphasizes agriculture, with 67% of aid going there, while around 33% goes to horizontal state aid measures. Serbia presents a more diversified approach with 55% of its aid allocated to vertical measures, 24% to horizontal aid, and 14% to agriculture, while other types of aid constitute 6%. Overall, the distribution of state aid varies significantly, reflecting different national priorities and economic strategies.

The trends of spending on different types of state aid, as well as the participation of these types of programs in the total spending of public budgets changed in the analysed period, and below we present the analysis of the trends of participation in the total spending on state aid for 4 basic groups of programs: horizontal, vertical, aid for agriculture and for other types of aid. Only in cases of Bosnia and Herzegovina and Serbia there are available data on spending on programs that can be classified in the group of de minimis state aid programs.

Figure 3: Spendings on horizontal state aid as a share in total state aid spending, 2018-2022



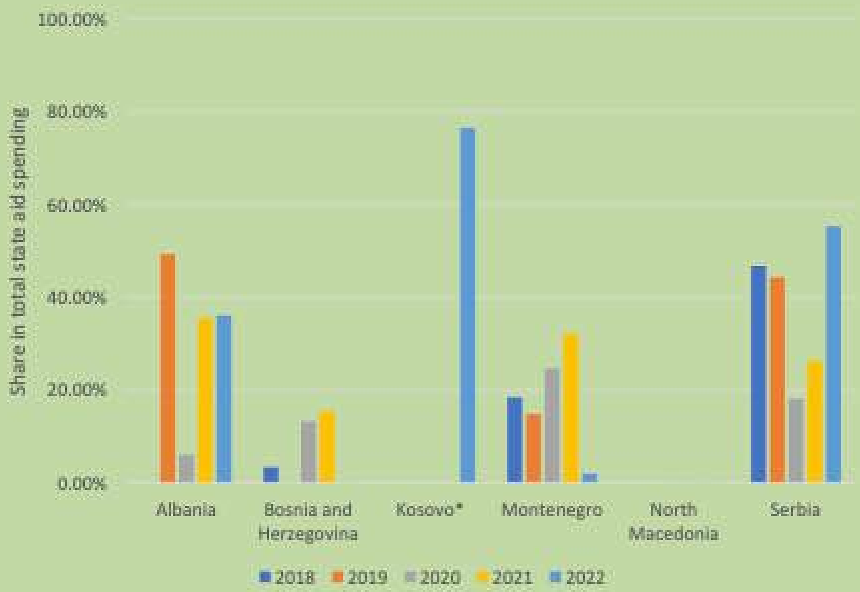
Source: Authors own calculations; Data for Kosovo not reliable, due to missing data for certain categories of state aid

Figure 3 presents data on the share of horizontal state aid as a percentage of total state aid across six countries from 2018 to 2022. Albania's share of horizontal state aid fluctuated significantly, dropping from 28.87% in 2019 to 4.22% in 2020 before stabilizing around 36% in 2021 and 2022, reflecting shifts in policy focus. Bosnia and Herzegovina experienced a steady decline in horizontal aid, from 21.54% in 2018 to 10.92% by 2022, indicating a move towards non-horizontal measures. Kosovo saw extreme variations, but it is not reliable due to missing data for some state aid programs. Montenegro also saw a decline, falling from 13.81% in 2018 to 5.94% in 2022, with an abrupt dip in 2021. North Macedonia, however, increased its horizontal aid share from 4.55% in 2018 to 33.05% in 2022, signalling a strategic shift towards broader economic support. Serbia's share showed fluctuations, from 23.98% in 2018, peaking at 34.25% in 2021, and slightly decreasing to 23.95% in 2022.

Presented data shows that Bosnia and Herzegovina, and Montenegro exhibit the most consistent downward trends, suggesting a move away from horizontal state aid. Kosovo and Albania show significant volatility, while North Macedonia demonstrates a clear upward trend, reflecting a growing reliance on horizontal state aid. Serbia's trends are mixed but suggest a temporary surge in horizontal state aid in 2021, similar to Albania. Overall, these trends highlight varying approaches and shifts in economic policy across Western Balkan countries, with some nations increasing their reliance on horizontal state aid while others have reduced it over time. The discussion on the changes in programs for each state aid group is in more detail elaborated in the following sections.

Figure 4 presents data on the share of vertical state aid as a percentage of total state aid across six countries from 2018 to 2022. Albania's vertical state aid fluctuated significantly, starting at 49.27% in 2019, dropping sharply to 5.99% in 2020, then stabilizing around 35-36% in 2021 and 2022, reflecting a reactive policy focus on sector-specific needs. Bosnia and Herzegovina showed unsteady application of vertical aid, starting at 3.29% in 2018, dropping to zero in 2019, peaking at 15.37% in 2021, and returning to zero in 2022, suggesting inconsistent sectoral support. Kosovo had no vertical aid from 2019 to 2021 but saw a sharp spike to 76.52% in 2022, indicating a major policy shift towards sector-specific interventions. But due to missing data for some programs implemented in Kosovo, the trend is not reliable. Montenegro's vertical aid peaked at 32.15% in 2021 but dropped drastically to 1.94% in 2022, signalling a potential strategic reallocation. North Macedonia showed negligible vertical aid, consistently under 0.10%, focusing more on horizontal measures. Serbia experienced major fluctuations, with a high of 46.77% in 2018, dropping to 18.07% in 2020, and peaking at 55.30% in 2022, indicating a renewed emphasis on sector-specific support.

Figure 4: Spendings on vertical state aid as a share in total state aid spending, 2018-2022

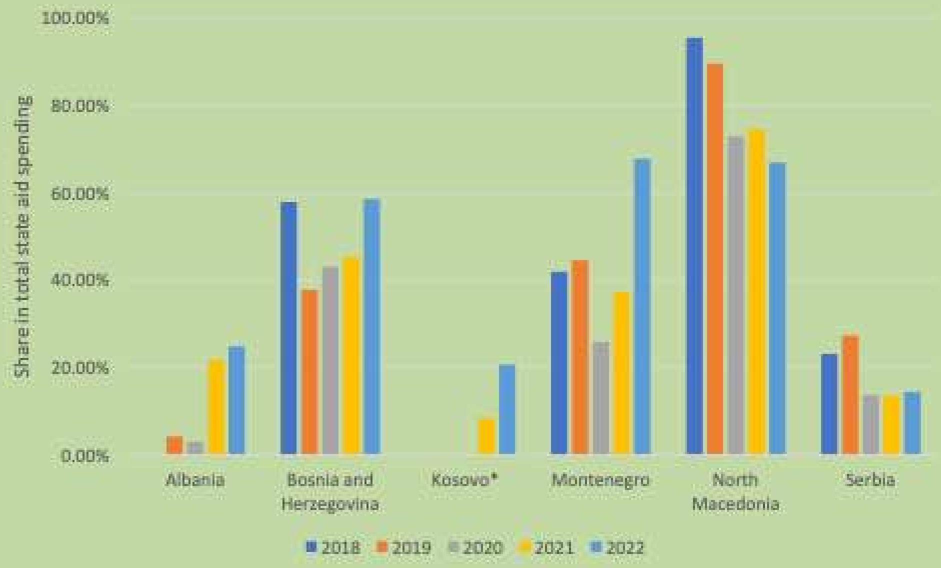


Source: Authors own calculations; Data for Kosovo not reliable, due to missing data for certain categories of state aid

Analysed data showed that North Macedonia exhibits the most stable trend, albeit at extremely low levels, indicating a consistent lack of emphasis on vertical state aid. Albania, Montenegro, and Serbia show significant fluctuations, reflecting changing priorities or responses to economic conditions. Kosovo's dramatic shift in 2022 also exemplifies volatility. Bosnia and Herzegovina show an unusual pattern of fluctuating between zero and relatively modest percentages, reflecting an inconsistent application of vertical state aid. Serbia and Kosovo (especially in 2022) seem to have periods of intense focus on vertical state aid, indicating strategic, sector-specific interventions. Overall, the trends across these countries reveal varied approaches to vertical state aid, with some countries showing dramatic shifts, potentially in response to sectoral crises or strategic reorientations, while others maintain either a steady application or minimal use of such aid. The discussion on the changes in programs and trends for each state aid group is in more detail elaborated in the following sections.

After presenting data on horizontal and vertical state aid programs and their shares in the total state aid, Figure 5 presents data on the share of agriculture state aid as a percentage of total state aid across six countries from 2018 to 2022.

Figure 5: Spendings on state aid for agriculture as a share in total state aid spending, 2018-2022



Source: Authors own calculations; Data for Kosovo not reliable, due to missing data for certain categories of state aid

Albania's agricultural state aid increased significantly from 4.17% in 2019 to 24.80% in 2022, indicating a growing focus on the sector. Bosnia and Herzegovina consistently prioritized agriculture, starting at 57.85% in 2018 and peaking at 58.55% in 2022, highlighting its ongoing importance. Montenegro's agricultural aid fluctuated but rose sharply to 67.68% in 2022, emphasizing increased support. North Macedonia consistently focused on agriculture, with the share starting at 95.45% in 2018 and decreasing slightly to 66.86% in 2022, though agriculture remained dominant. Serbia showed stable but lower levels of agricultural aid, ranging from 13.44% to 27.36%, indicating a more diversified aid strategy across sectors.

When comparing state aid spending throughout the region, North Macedonia and Bosnia and Herzegovina exhibit a consistently high emphasis on agriculture state aid, although North Macedonia shows a gradual decline over time. Albania, Kosovo, and Montenegro show an increasing focus on agriculture, with significant jumps in their respective shares, particularly in the later years of the period. Serbia maintains a relatively low and stable share of agriculture state aid, suggesting a more diversified approach to state aid allocation. Montenegro's sharp increase in 2022 indicates a significant policy shift towards agriculture, which contrasts with the more stable or gradually changing trends in other countries. Overall, these trends highlight varying levels of commitment to agricultural support across the Western Balkan countries, with some nations consistently prioritizing agriculture, while others have either recently shifted focus towards it or maintain a more balanced approach.

In addition to the above-mentioned groups of aid, states usually set aside part of the budget for low-value aid, the so-called de minimis aid. However, as part of the research, data were collected only for Bosnia and Herzegovina, Serbia and Montenegro. These data indicate that when it comes to Serbia and Montenegro, this type of aid is almost negligible in the total amount of state aid, while in Bosnia and Herzegovina it makes up almost 20% of the total state aid (see Figure 2). All other types of state aid, which could not be classified into the categories mentioned above, and in accordance with the explained methodological approach, are included in the category of other types of state aid. This type of aid was observed in all countries, except in the case of North Macedonia. Figure 6presents data on the share of "Other state aid" as a percentage of total state aid across five countries from 2018 to 2022. Bosnia and Herzegovina these other types of state aid include state aid to promote regional development and services of general economic interest. Kosovo exhibits very limited use of other types of state aid, with a share of 9.94% only in 2020, and no allocation in other years. The program to support women in business in 2020 was classified as other type of state aid in Kosovo. Montenegro shows a declining trend in other state aid as a share of total state aid, starting at 22.57% in 2018 and gradually decreasing to 11.62% by 2022. In case of Montenegro, this category covers regional state aid, aid for general economic interest and COVID

Figure 6: Spendings on other types of state aid as a share in total state aid spending, 2018-2022

Source: Authors own calculations; Data for Kosovo not reliable, due to missing data for certain categories of state aid

Albania shows significant volatility in the allocation of other types of state aid. Starting with missing data in 2018, the share jumps to 17.69% in 2019 and then spikes dramatically to 86.85% in 2020. However, this is followed by a sharp decline to 5.58% in 2021 and further down to 2.84% in 2022. Further analysis of this type of aid is provided in the separate section on other types of state aid, but these are related to operational state aid. Bosnia and Herzegovina display a fluctuating trend with a peak in 2019 at 44.71%, followed by a drop to 10.82% in 2020. The share then stabilizes around 13-14% in 2021 and 2022. In case of 19 support package. Serbia's trend is characterized by sharp fluctuations. The share starts at 5.07% in 2018, remains low in 2019 at 4.65%, then dramatically increases to 50.92% in 2020. However, this is followed by a sharp decline to 25.27% in 2021 and further down to 5.94% in 2022. In case of Serbia, this group includes incentives for attracting foreign direct investments (FDI), spendings on development fund credit line and COVID 19 support package. Overall, the data reveals varying approaches to other kinds of state aid across these countries, with some experiencing significant temporary shifts (notably in 2020), while others either consistently de-emphasize this category or gradually reduce their allocation.

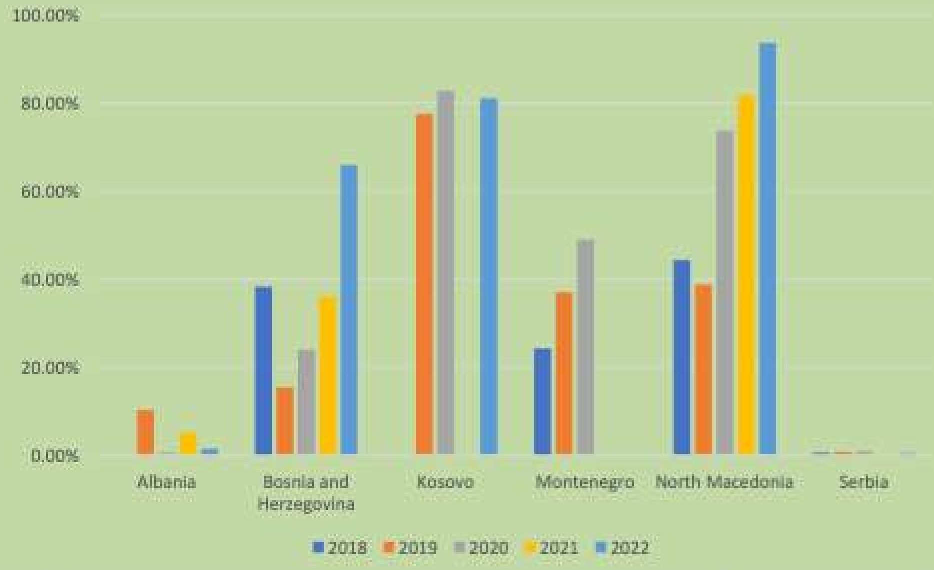
After presenting the general trends in state aid spending, the share of different types of aid in total spending, and trend analysis for 6 countries of the Western Balkans in the period 2018-2022, the following sections present the types of state aid in more detail and provide an in-depth comparison analysis covering differences and similarities in terms of size, targeted measures, and topics in each group.

3.1 Horizontal state aid in the region

Trends on the share of horizontal state aid within Wester Balkan countries, as seen in the previous sections, highlight varying approaches and shifts in economic policy, with some nations increasing their reliance on horizontal state aid while others have reduced it over time. This section tries to reveal what are the similarities and differences within horizontal state aid in the countries, and what programs and measures each country is implementing. Given that their economies differ significantly through size, the analysis will focus on comparing the share of each targeted area/sector within the total horizontal state aid to make meaningful comparison.

Figure 7 shows that the majority of Western Balkan countries allocate large portions of their horizontal state aid to employment and training. This indicates shared labour market challenges, prompting the implementation of various measures to support business development, provide employment and wage subsidies, and offer tax exemptions for newly employed etc. North Macedonia is the largest investor in employment and training, with a significant increase in state aid to this sector, from €2.7 million in 2018 to €65.1 million in 2022. Kosovo ranks second in its portion size, maintaining a steady allocation of around 80% of its horizontal state aid to employment and training. In the case of Montenegro, data is available only for the period from 2018 to 2020. During this time, the country consistently increased its aid to employment and training, reaching the point in 2022 where almost 50% of its total horizontal state aid was allocated to this sector. The trend in Bosnia and Herzegovina is quite volatile, with a drastic drop in aid to employment and training from 38.32% in 2018 to 15.42% in 2019. However, in the following years, the aid was on the rise, and in 2022 the country allocated 66% of its total horizontal state aid to this sector. Albania and Serbia allocate the smallest portions of their horizontal state aid to employment and training. Albania is consistently reducing its aid, the country dedicated only 10.28% in 2019 and a mere 1.46% in 2022 of its horizontal state aid to this sector. Serbia allocates less than 1% of its horizontal state aid to employment and training. However, the amount of funds is not negligible. During the observed period, spending fluctuated starting from €1.4 million in 2018 and reaching €3.8 million in 2022.

Figure 7: Spendings on employment and training as a share in total horizontal state aid spending, 2018-2022



Source: Authors own calculations; Data for Kosovo not reliable, due to missing data for certain categories of state aid

Spending on research and development (R&D) varies significantly across the region (Chart 8). Albania leads in investment, dedicating more than 80% of its total horizontal state aid to R&D from 2019 to 2021, though this percentage decreased to 66% in 2022. Country's focus on dedicating a substantial portion of its state aid to R&D is a deliberate strategy for fostering long-term economic growth and innovation. Albania implements National Strategy for Science, Technology, and Innovation (NSTI), with the aim of transforming Albania into a knowledge-based economy (programs: The Innovation Fund, Higher Education Research Grants). In contrast, Montenegro has steadily increased its R&D spending, from 2.7% in 2018 to 38.7% in 2022. Serbia and Bosnia and Herzegovina have the lowest shares in this sector. Serbia experienced a significant decline in 2021, with R&D spending dropping to just 0.3%, although it rebounded to 1.4% the following year. However, the data for Serbia should be viewed with caution, as it only includes one R&D-targeted program, with other budgets reported collectively with different incentives. The Innovation Fund in the country emphasises that allocating more funds would be beneficial, but this should be done in parallel with building up their capacities and the entire innovation infrastructure, such as Science and Technology Parks, Technology Transfer Offices, and other related institutions. In North Macedonia, state aid towards R&D has significantly declined over the years. Observing this trend alongside state aid for employment and training reveals that, although funds were equally distributed between the two sectors at the beginning of the observed period, funding for employment and training has since overtaken that for R&D. Bosnia and Herzegovina allocates very little to R&D, consistently less than 1% of its total horizontal state aid (with no funding in both 2019 and 2022) reflecting a lack of prioritization in government spending. Additionally, the country lacks infrastructure that could facilitate R&D activities (Regional Cooperation Council, 2022). The fragmented governance structure in B&H further complicates coherent policymaking, resulting in inconsistent implementation of R&D strategies across the country. These disparities in R&D spending reflect the varying levels of commitment to fostering innovation and knowledge-based economies across the region, with some countries, like Albania, making R&D a key pillar of their economic strategy, while others, such as Bosnia and Herzegovina and Serbia, show a need for more structured investment and policy coordination in this critical sector.

Figure 8: Spendings on research and development as a share in total horizontal state aid spending, 2018-2022

Source: Authors own calculations; Kosovo does not implement programs targeting R&D sector

To analyse spending on support programs for SMEs, the analysis will focus on absolute numbers rather than percentages, as the latter can be misleading (Table 2). For instance, in Kosovo horizontal state aid surged in 2021 due to implementation of the COVID-19 recovery package, which dropped the share of aid for SMEs from 17.2% in 2020 to 0.3% in 2021, despite an increase in the actual amount allocated to SMEs. Looking at absolute numbers, country that allocates the most funds to support SMEs is Bosnia and Herzegovina. In particular, in 2020 the country dedicated €19.1 millions to SMEs, accounting for 52% of its total horizontal state aid. In the following years the trend showed a decline reaching €9.1 millions in 2022. In North Macedonia aid to SMEs has been consistently increasing, with the highest amounts recorded in 2021 and 2022 at around €1.1 million. In Kosovo, support for SMEs has fluctuated over the years, reaching its lowest in 2020, then nearly doubling in 2021, only to decrease again in 2022 to a level close to that of 2018, totalling €0.7 million. Albania exhibits a steady increase in aid for SMEs, though it represents a very small fraction of the total horizontal aid, less than 1%, and is specifically targeted at green businesses. Serbia and Montenegro do not provide aid to SMEs as part of their horizontal state aid. While some countries exhibit steady trends in allocating aid to SMEs, others like Kosovo and North Macedonia have shown significant increases in the post-COVID years. Conversely, countries like Albania persistently dedicate only a very small portion of their horizontal state aid to this sector, or like Serbia and Montenegro no aid at all, likely indicating a reliance on other programs and measures to support their economic strategies. Following sections will reveal some country-specific programs and measures which will help understand the trends.

Table 2: Total state aid spendings for the support of SMEs in Euros, 2018-2022

State aid for SMEs, in € millions	2018	2019	2020	2021	2022
Albania			0.08	0.09	0.09
Bosnia and Herzegovina	8.8	19.1	19.1	15.9	9.1
Kosovo		0.7	0.5	0.9	0.7
Montenegro	:	:	:	:	:
North Macedonia	0.7	0.8	0.7	1.1	1.1
Serbia	:	:	:	:	:

Source: Authors own calculations; Data for Kosovo not reliable, due to missing data for certain categories of state aid

Some sectors within the horizontal state aid are present only in part of the Western Balkan countries. For instance, aid to corporate and private sector are provided in Serbia, Bosnia and Herzegovina, and Kosovo (Table 3). In Bosnia and Herzegovina, the aid supports rehabilitation and restructuring of business entities in difficulties. The country's downward trend reflects a decreasing reliance on state aid for these sectors over the years. This reduction could be attributed to a combination of factors, such as improvements in the financial stability of the businesses or shifts in government priorities towards other sectors (which will be observed in the following sections). Kosovo implemented COVID-19 recovery package just for a year, in 2021, totalling €312 million. On the other hand, Serbia stands out with the continues implementation of several programs targeting private and corporate sector including programs like tax exemption and incentives, credit lines, short-term financing, guarantees etc. Aid for the corporate and private sector in Serbia has increased over the observed period, starting at €236 million in 2018 and peaking in 2021 at €880 million, before slightly decreasing the following year to €810 million. This strong support for the private and corporate sectors is aligned with Serbia's broader economic strategy, which aims to strengthen businesses' competitiveness both domestically and internationally. However, there are certain shortcomings that should be noted. While it is true that Serbia invests significantly in the development of the private sector, it's important to draw a distinction between subsidies aimed at fostering the domestic private sector and those intended for attracting foreign direct investment (FDI). Programs targeting the domestic market are fragmented and operate on a first-come, first-served basis. This fragmentation means they cover a wide range of firms but with relatively small amounts (5,000 to 20,000 euros), which are insufficient to make a meaningful difference in business operations or adequately support critical processes such as digitalization, green transition, automation, and similar initiatives. Meanwhile, the amounts allocated for direct investments are drastically higher, but their structure de facto restricts application to foreign companies—largely due to high investment and employment thresholds. Thus, in order to avoid FDI creating imbalances in the labour market, there should be more programs that, in addition to providing financial resources, offer significant technical assistance in areas crucial for future competitiveness.

Table 3: Total state aid spendings for corporate and private sector in Euros, 2018-2022

State aid for corporate and private sector, in € millions	2018	2019	2020	2021	2022
Serbia	236	225	426	880	810
Bosnia and Herzegovina	5.1	2.6	1.9	1.7	0.0
Kosovo	:	:	:	312	:

Source: Authors own calculations; Data for Kosovo not reliable, due to missing data for certain categories of state aid

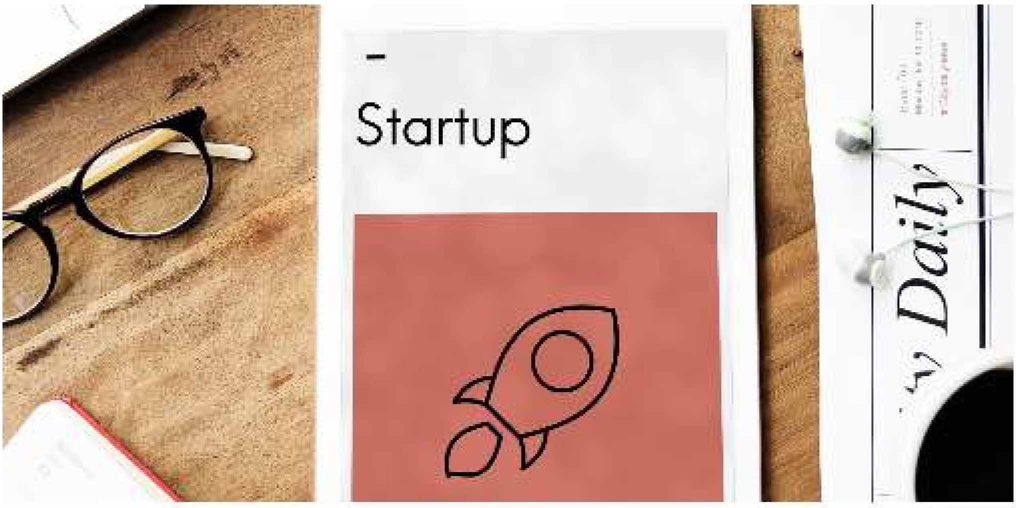
Environmental protection is a focus of state aid in both Bosnia and Herzegovina and Montenegro, though their approaches differ significantly. Bosnia and Herzegovina allocates relatively small amounts — around 3% of its horizontal state aid — with no reported spending in 2022. In contrast, Montenegro dedicates a substantial portion of its state aid to environmental protection, with 73% allocated in 2018, amounting to €9.6 million. This funding remained stable until 2021, when it dropped sharply to €2.6 million. However, the aid slightly recovered in 2022, reaching €3.1 million. Montenegro's state aid primarily supports renewable energy initiatives through donations, interest subsidies, debt write-offs, and reduced amounts during forced settlements. These measures reflect Montenegro's strong commitment to expanding its renewable energy capacity, aligning with both national objectives and broader European energy policies. Additionally, in 2022, the Energy Community's Ministerial Council set a new national target for Montenegro to achieve a 50% share of renewable energy in its total gross final energy consumption by 20306.

Culture and sports are incorporated into the horizontal state aid programs of both Albania and Bosnia and Herzegovina, but the two countries exhibit divergent trends. In Albania, state aid for culture and sports has been on the rise. Starting at 7% of total horizontal state aid in 2019, it experienced a slight dip in 2021 before increasing to 22% by 2022. Albania is leveraging investments in culture and sports to enhance its international image and boost its appeal as a tourist destination. By supporting cultural events, heritage sites, and sports facilities, the country is fostering tourism, creating jobs, and promoting national identity. Furthermore, this increased aid to culture and sports is part of a broader effort to strengthen Albania's national branding, which has contributed to economic development and international recognition. Recent tourism performance indicators also support this approach. In contrast, Bosnia and Herzegovina has seen fluctuating levels of aid for culture and sports, with funding ultimately dropping to zero in 2022. A key issue in Bosnia and Herzegovina is the absence of a coherent national strategy or strategic framework for the development and investment in culture and sports. This lack of direction hampers effective planning and resource allocation, making it difficult to maintain consistent funding levels. The absence of a structured, programmatic approach further complicates efforts to secure sustained support for these sectors (Turčilo et al., 2019). These trends in the culture and sports sectors indicate that while Albania has recognized the potential of these areas as drivers of economic growth and national identity, Bosnia and Herzegovina faces challenges and constraints that have led to a reduction in state aid over time.

Figure 9: Spendings on culture and sports as a share in total horizontal state aid spending, 2018-2022

Source: Authors own calculations

Lastly, Albania has implemented two country-specific programs within its horizontal state aid. These one-year programs included one in 2021 aimed at the empowerment of young men and women (€0.1 million), and another in 2022 to support startups and startup facilitators (€2.5 millions). In 2021, Albania faced significant challenges due to the COVID-19 pandemic, which exacerbated youth unemployment and economic uncertainty. This program aimed to mitigate these effects by offering support specifically tailored to young men and women. The program in 2022 was a response to the increasing recognition of the importance of startups in driving economic growth and technological advancement, particularly in a post-pandemic recovery scenario.



3.2 Vertical/Sectoral state aid in the region

Vertical state aid in Western Balkan countries includes various support programs and subsidies targeted at specific sectors and projects, making comparisons within the region challenging. This analysis aims to identify common sectors receiving vertical state aid and to spot any prevailing trends. Additionally, it will highlight notable differences where some countries diverge by favouring specific sectors, aligning with their unique strategies for economic development.

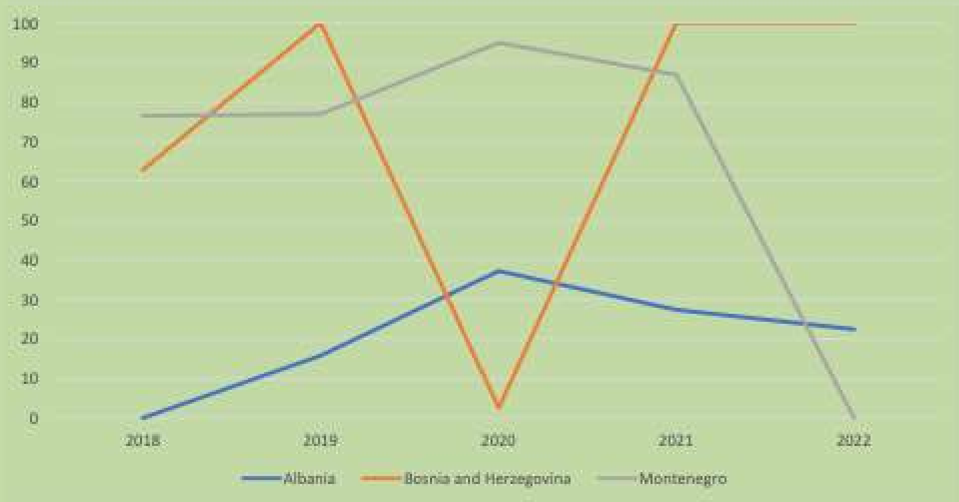
It is observed from the available data on vertical state aid that some of the countries have a few sectors in common – infrastructure (state owned enterprises maintaining air, road, sea and rail transport; and/or water supply companies), and information and media.

Three countries within the region implement support programs in infrastructure: Albania, Bosnia and Herzegovina and Montenegro (Chart 10). The data reveals that Montenegro is the biggest spender on infrastructure. Fund allocations for infrastructure have consistently risen, peaking at nearly €55 million in 2020. Support measures include donations, interest subsidies, debt write-offs, and reduced amounts during forced settlements. Most of these funds were allocated to the national airline company. The Ministry of Transport and Maritime Affairs allocated financial assistance totalling €43 million to Montenegro Airlines AD Podgorica, for settling due obligations in accordance with the Law on Investment in the Consolidation and Development of the Company for Passenger and Goods Transport in Air Traffic. This approach highlights country's focus on addressing immediate economic needs but may also necessitate careful monitoring to balance short-term gains with long-term economic sustainability and competitiveness.

Figure 10: Total spendings on infrastructure in Euros, 2018-2022

Source: Authors own calculations

Figure 11: Spendings on infrastructure as part of the total vertical state aid in %, 2018-2022



Source: Authors own calculations

Viewed as a percentage of the total vertical state aid, the data reshapes its understanding (Chart 11). It reveals that Bosnia and Herzegovina allocates the largest portion of its vertical state aid to infrastructure. This provides a clearer picture, countering previous chart that might misleadingly suggest Bosnia and Herzegovina does not prioritize this sector; in fact, it has directed its entire vertical state aid budget to infrastructure for several years within the observed period. The data also highlights a similar trend in Montenegro, indicating that both countries heavily invest in and prioritize infrastructure over other sectors. Albania, though allocating smaller amounts, still contributes significant funding to the sector. Interestingly, Montenegro and Albania allocated the highest amounts in 2020, while Bosnia and Herzegovina reduced its investment to almost zero in the same year, indicating a need for aid in another sector. In 2020, Bosnia and Herzegovina allocated almost all of its vertical state aid to coal mining and steel production. Observed trends confirm what is common for state aid in developing countries, and that is for state aid to primarily ensure survival of economic entities in the market by undertaking a stabilizing role rather than to stimulate economic development.

Information and media are another sector covered by vertical state aid in Albania, Bosnia and Herzegovina, Montenegro, and Serbia (Chart 12). It's important to note the differences: in Albania and Bosnia and Herzegovina, the aid specifically supports broadband and media; in Montenegro, the program also encompasses culture and sports; and in Serbia, it extends to include the film industry. Serbia is by far the largest spender within the region, with its contributions to the sector incomparable to those of other states (Table 4). The country has demonstrated a steady trend of investments in the sector, consistently allocating around a quarter of its total vertical state aid funds. However, in 2022, while Serbia significantly increased its overall vertical state aid, it maintained the same funding level for this specific sector. This resulted in a reduction of its proportion to 6%. That year Serbia allocated 84% of its vertical state aid to a support program for state-owned enterprises (SOEs).

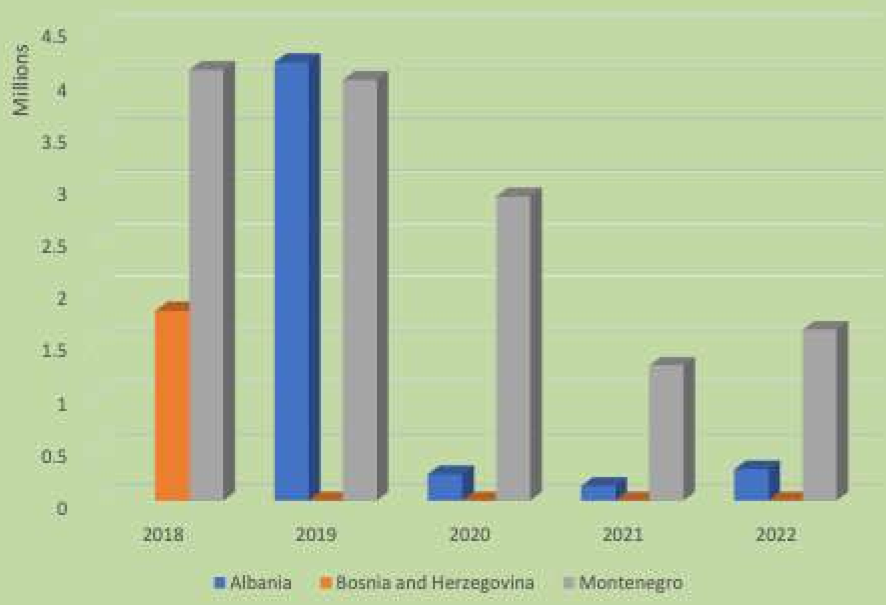
Table 4: Total state aid spendings on Information and media sector in Serbia in Euros, 2018-2022

Information and media state aid, in € millions	2018	2019	2020	2021	2022
Serbia	112.6	120.9	112.3	114.0	116.7

Source: Authors own calculations

Among the other three countries, there is a noticeable trend of reduced funding for the information and media sector (Chart 9). Bosnia and Herzegovina allocated close to €2 million in 2018 but discontinued funding in the subsequent years. Albania spent a little over €4 million on the sector in 2019, however the following year the amount dropped down to €0.25 million. After further decline in 2021, it came back up to €0.3 million in 2022. Montenegro spent the most in 2018 allocating €4.1 million to the sector. In the following years the trend declined reaching €1.3 million in 2022. The fluctuating investment trends within the information and media sector across these countries demonstrates inconsistency in support and suggest an ease in shifting priorities to other sectors. However, supporting a strong, independent, and professional media sector aligns with EU norms and expectations around freedom of expression, the rule of law, and the protection of fundamental rights. State aid to the media sector can thus be seen as part of broader efforts to meet EU accession requirements and stabilize the region politically.

Figure 12: Total state aid spendings on Information and media sector in Euros, 2018-2022



Source: Authors own calculations

Other sectors bring together fewer countries. Specifically, tourism sector is targeted within vertical state aid only in Albania and North Macedonia, with Albania spending considerably larger amounts. The country spent the most in 2018 at €24 million on tourism. In 2020 the amount drooped fourfold, coming down to €6 million. However, in the following years, the trend began to recover, reaching €18 million in 2022. In North Macedonia, data suggests that support programs for tourism have experienced multiple disruptions. Specifically, the country allocated €0.02 million to tourism in 2019 but provided no funds the following year. In 2021, there was an expenditure of €0.07 million, but no investments were made in 2022. In 2022 the country completely shifted its focus to the manufacturing sector. However, there are available programs for tourism development for the whole analysed period, but not all of the envisaged can be define as state aid, as they are mainly directed to preparation, print and dissemination of promotional materials, organization of promotional campaigns by the respective agency for tourism development and support, arrangement and maintenance of tourist sites across the country, etc., where companies are not beneficiaries of the funds. Aid in the tourism sector reflects countries' commitment to developing the industry, shifting state aid from a stabilizing role to a more proactive development function, as the sector has a multiplier effect on overall economic growth.

Figure 13: Spending on other sectors within vertical state aid for each country in Euros, 2018-2022

Source: Authors own calculations

Observing vertical state aid in the Western Balkan region reveals distinct country-specific trends. These variations in state aid investment highlight the different economic strategies of each country, suggesting a tailored approach to addressing unique regional challenges and opportunities. As illustrated in Chart 13, some countries have developed support programs that vary in continuity — some are ongoing, others are one-time initiatives, and a few are recent initiatives with uncertain futures. Each program reflects the strategic sectors prioritized by the respective countries. In 2020, Bosnia and Herzegovina allocated €31.6 million to coal mining and steel production. Kosovo focused on the energy sector in 2022, investing €98.9 million. Montenegro spent €3.8 million on other sectors in 2021, while North Macedonia directed €0.2 million towards the manufacturing industry in 2022. This subsidy aimed to prevent a significant increase in electricity tariffs, in order to mitigate the impact of high electricity costs on citizens, given the high inflation rates at that period. Serbia stands out by consistently channelling resources into two main areas: environmental protection and support for state-owned enterprises (SOEs). In Serbia, the amount allocated for the support of state-owned enterprises (SOEs) saw a substantial increase, jumping from €371.2 million in 2021 to €1,600.6 million in 2022. This support was primarily directed towards the state-owned Electric Power Industry of Serbia (EPS) to cover damages, as well as to a lesser extent towards other state-owned enterprises in the energy sector. This illustrates a long-standing issue that Serbia has faced in the energy sector—inefficient and irresponsible management. On the other hand, Serbia has started reforming the management of its strategic public enterprises, but this is still in a very early phase. Montenegro similarly (as seen in the previous sections) allocates substantial state aid to SOEs, although it classifies this assistance under the infrastructure/transport sector. It indicates a reliance on state intervention, which can influence market competition and efficiency. It's difficult to view these expenditures as anything other than subsidies that compensate for negligence. Thus, the countries should focus on implementing comprehensive reforms to improve the management and competitiveness of state-owned enterprises (SOEs). This could include strengthening corporate governance practices, introducing performance-based accountability, and ensuring greater transparency in decision-making processes. By fostering competition and reducing reliance on state aid for recurring issues, such reforms can help avoid future expenditures and promote the long-term sustainability of these enterprises.

3.3 De minimis state aid in the region

States usually set aside part of the budget for low-value aid, the so-called de minimis aid. However, as seen in the previous section, data were collected only for Bosnia and Herzegovina, Montenegro and Serbia. These data indicate that when it comes to Serbia and Montenegro, this type of aid is almost negligible in the total amount of state aid, while in Bosnia and Herzegovina it makes up almost 20% of the total state aid.

Table 4: Spending on de minimis types of state aid across Western Balkans in Euros, 2018-2022

Other types of state aid in Euro	2018	2019	2020	2021	2022
Bosnia and Herzegovina	17.8	9.2	43.6	22.2	45.8
Montenegro	3.2	4.1	1.6	3.5	10.8
Serbia	10.8	20.7	17.2	21.1	15.2

Source: Authors own calculations

Total amounts over the period of years from 2018 to 2022 for Bosnia and Herzegovina show that this country has been allocating significant amounts for de minimis state aid. It has marked the lowest value when the amount dropped from €17.8 million in 2018 to €9.2 million in 2019. However, in 2020 the value of this type of state aid nearly quintupled, reaching €43.6 million. The significant surge in value was likely a response to the ongoing crisis caused by COVID-19. The following year, the amount was halved before climbing again to reach a new peak in 2022 at €45.8 million. Compared to Serbia this state aid plays much larger role, indicating that the countries have different approaches and economic strategies. De minimis state aid in Bosnia and Herzegovina includes aid granted to a single economic entity for any purpose, provided it does not exceed €200,000 within any three fiscal years.

Montenegro's de minimis state aid allocation displays notable fluctuations over the observed period from 2018 to 2022. Beginning with an allocation of €3.2 million in 2018, Montenegro increased its aid in 2019, but then significantly reduced the amount in 2020. The aid allocation rebounded in 2021 and more than tripled in 2022 to €10,8 millions, marking the highest allocation in the five-year span. This dramatic increase in 2022 suggests a strategic deployment of aid possibly aimed at accelerating recovery and stimulating economic growth post-pandemic.

Serbia shows slight fluctuations in its de minimis state aid during the observed period. The lowest amount was recorded in 2018 at €10.8 million, which doubled to €20.7 million the following year. This trend remained steady until 2022 when it slightly declined to €15.2 million. The size of the aid suggests the country's focus on other types of state aid. However, the scope of its consistent programs and measures throughout the observed period is significant. These ongoing programs can be categorized as follows:

Support programs for internationalization for companies and entrepreneurs; for competitiveness development; for the digital transformation of SMEs; for competitiveness, productivity, and internationalization of SMEs; for export promotion; for attracting foreign investments in targeted sectors.

Programs for encouraging the development of entrepreneurship through development projects and financial support for business startups, and for female entrepreneurs and youth.

Grants of the Innovation Fund (development stage program and innovation vouchers).

Program of a standardized set of services for micro, SMEs and entrepreneurs (training, advisory services, mentoring, and services for young and women entrepreneurs).

Support program for the manufacturing industry sectors (allocated for co-financing activities of SMEs from 4 sectors of the manufacturing industry – machinery and equipment, food industry, wood and furniture industry, rubber and plastic industry).

Although Bosnia and Herzegovina allocate larger amounts to de minimis state aid, particularly in relation to its total state aid, Serbia's approach is more tailored and strategically focused. Bosnia's aid is general, with significant fluctuations observed between 2018 and 2022. Montenegro allocated insignificant amounts, with the exception in trend in 2022. In contrast, Serbia, despite smaller allocations, maintains a consistent and targeted approach. Its de minimis state aid is directed towards specific groups and key industry sectors, aligning closely with the country's economic and development goals.

3.4 Other types of state aid in the region

All other types of state aid, which could not be classified into the categories of horizontal, vertical, agricultural or de minimis state aid (in accordance with the explained methodological approach), are included in the category of other types of state aid. This type of aid was observed in all countries, except in the case of North Macedonia. The data reveals varying approaches to other kinds of state aid across Western Balkan countries, with some experiencing significant temporary shifts (notably in 2020), while others either consistently de-emphasize this category or gradually reduce their allocation.

Table 5: Spending on other types of state aid across Western Balkans in Euros, 2018-2022

Other types of state aid in Euro	2018	2019	2020	2021	2022
Albania		12.5	222.0	2.6	2.0
Bosnia and Herzegovina	7.9	101.3	26.5	30.7	29.2
Kosovo*	0.0	0.0	0.3	0.0	0.0
Montenegro	21.5	28.4	96.2	30.6	9.8
Serbia	60.0	49.1	1,325.1	653.8	204.5

Source: Authors own calculations; Data for Kosovo not reliable, due to missing data for certain categories of state aid

Total amounts for other types of state aid have fluctuated significantly, with Albania following a similar trend. After missing data for 2018, the country allocated €12.5 million in 2019. The following year saw a dramatic increase to €222.0 million, a trend observed across almost all Western Balkan countries, likely due to the economic challenges of COVID-19. However, the trend sharply declined in the subsequent two years, dropping to €2.0 million in 2022. Albania's only program under other types of state aid is operational aid, which aims to improve conditions for enterprises using fuels in production, including industrial and agro-industrial products, as well as entities with heated greenhouses using solar fuels.

In Bosnia and Herzegovina, the amount allocated for other types of state aid was lowest in 2018, at €7.9 million. There was a dramatic surge in 2019, with allocations rising to €101.3 million in 2020. However, this was followed by a decrease, reaching €29.2 million in 2022. Other types of state aid in Bosnia and Herzegovina covers services of general economic interest and state aid to promote regional development. The first one is granted to legal and natural persons entrusted with special tasks or exclusive rights, ensuring they can perform these tasks without disrupting market competition or violating international obligations, provided the aid solely compensates for task performance. The later provides assistance for initial investments, including costs of gross wages and benefits for jobs created directly by the investment project, operational support, or aid to newly established small businesses.

Kosovo is distinct among Western Balkan countries due to its limited data availability. The only available data is from 2020, showing that Kosovo allocated €0.32 million in other types of state aid for a women's business support program implemented by the Kosovo Investment and Enterprise Support Agency (KIESA). The current data limitations hinder any attempts to analyse trends further or make meaningful comparisons.

In Montenegro, other types of state aid have shown a significant increase from €21.5 million in 2018 to €96.2 million in 2020. This trend was further disrupted by a substantial decrease in the following years, with aid values falling to a ten times lower level, reaching just €9.8 million in 2022. This trend places Montenegro alongside Albania as the countries allocating the smallest amounts to other types of state aid in the Western Balkans. In Montenegro, this type of state aid includes regional aid (comprising of donations, interest subsidies, debt write-offs, reduced amounts in forced settlements, tax reliefs, below-market interest rate loans, loans to companies in difficulty, and guarantees), state aid for general economic interest and COVID-19 support packages.

In 2018 and 2019, Serbia allocated relatively small amounts to other types of state aid compared to its total state aid allocations (as illustrated in section 1.2, Chart 6). However, in 2020, Serbia's allocation to this category surged to €1,325.1 million, the highest among all Western Balkan countries. This dramatic increase was largely due to the inclusion of a COVID-19 support package totalling €1,261.2 million. This package included measures such as tax and social security deferrals, budgetary support for minimum wage payments, loans and guarantees for maintaining liquidity and working capital, a moratorium on debt payments, one-time subsidies for hotels per bed and accommodation unit, and insurance premium subsidies for travel agencies and operators. This shift disrupted Serbia's previous trend of primarily using funds in this aid category to attract foreign direct investments (FDI). A new program, the development fund credit line, was introduced in 2021 and continued into 2022. It includes investment loans, loans for permanent working capital, short-term loans to boost competitiveness and liquidity, and investment loans from the European Investment Bank credit line with lower or subsidized interest rates. The amount of aid was halved in 2021 and continued to decline, reaching €204.5 million in 2022. Despite this decline, Serbia still allocated the largest absolute funds in other types of state aid among the Western Balkans. Moreover, similar to Bosnia and Herzegovina, Serbia's share of this aid in the total state aid remains larger compared to other countries in the region (looking at the post COVID-19 years).

All of the Western Balkan countries have shown declining trends in other types of state aid following initial fluctuations, where increased amounts were allocated as a response to the critical conditions brought on by COVID-19. These amounts have since dropped with the stabilization of the economies, allowing countries to resume their usual programs and measures. The observed trends highlight significant differences in the aims of these measures. For instance, countries like Kosovo and Albania are very target and sector-specific, first focusing on supporting woman in business and the latter on improving conditions for enterprises using fuels in production. On the other hand, Bosnia and Herzegovina and Montenegro adopt a more general approach, with services of general economic interest and regional development programs. Serbia, in contrast, demonstrates how its programs align with its broader development strategy, particularly focusing on foreign direct investments.

4. STATE AID FOR THE AGRICULTURE IN THE REGION

In examining state aid spending by groups of state aid across the region in the previous sections, it becomes evident that North Macedonia and Bosnia and Herzegovina place a consistently strong emphasis on agriculture, though North Macedonia shows a gradual reduction in this focus over time. Conversely, Albania, Kosovo, and Montenegro demonstrate a growing commitment to agriculture, with notable increases in their respective shares, particularly in the later years. Serbia maintains a relatively low but stable level of agricultural state aid, indicating a more diversified approach to aid distribution. Montenegro's sharp rise in 2022 suggests a significant policy shift towards agriculture, contrasting with the more stable or gradually evolving trends seen in other countries. These patterns reveal varying degrees of commitment to agricultural support among Western Balkan nations, with some consistently prioritizing the sector, while others have recently increased their focus or adopted a more balanced approach. In this section, we will analyse in more detail the state's spending on agricultural aid, and which programs within each state are included in the total spending of this type of aid.

Table 6: Spending on agricultural state aid across Western Balkans in mill Euros, 2018-2022

Agriculture state aid in mill Euro	2018	2019	2020	2021	2022
Albania		2.94	7.51	10.20	17.80
Bosnia and Herzegovina	85.75	85.53	105.28	102.25	143.78
Kosovo*	0.00	0.00	0.00	28.57	26.63
Montenegro	39.96	52.37	60.72	44.82	56.88
North Macedonia	129.72	140.96	130.38	150.10	140.81
Serbia	232.48	288.34	356.28	347.84	494.93

Source: Authors own calculations; Data for Kosovo not reliable, due to missing data for certain categories of state aid

The analysis of agricultural state aid spending across the Western Balkans from 2018 to 2022 reveals significant variations both in trends over time and in the overall size of state aid among the countries.

Albania showed a significant increase in state aid for agriculture during this period. Starting at €2.94 million in 2019, Albania's spending grew to €17.80 million by 2022. This represents a more than six-fold increase, indicating a growing focus on supporting the agricultural sector. However, in absolute terms, Albania's spending remains the smallest among the countries in the region. In Albania this group covers the support for cows as headage payment in the amount of 85 €/head, support for sheep and goats is as headage payment in the amount of 10 €/head, support for beekeeping as payment per bee hive in the amount of €8.6 per bee hive, support for crops in greenhouses as payment per hectare in the amount of 1,800 €/ha, support for diesel where farmers are provided with a free amount of diesel (equivalent of the value of fiscal exemption), which is used for mechanized works in agricultural crops. In addition to these, the amounts covered also aid for organic farming as support to organic farms or farms in conversion where farmers receive payment from 750 to 1,650 €/farm, depending on the years of conversion. There is also agricultural advisory service which is established as a public body and funded by the budget, as well as support for Global Gap certification, covering 50% of the invoice provided for certification.

Bosnia and Herzegovina experienced consistent growth in agricultural state aid. Starting from €85.75 million in 2018, the amount grew to €143.78 million by 2022. This increase highlights a sustained commitment to supporting agriculture, with notable jumps especially between 2021 and 2022. Despite this growth, Bosnia and Herzegovina's aid levels were outpaced by Serbia and North Macedonia, though it still ranks significantly higher than Montenegro and Albania. Assistance for agriculture in Bosnia and Herzegovina is provided through the work of all ministries responsible for agriculture and rural development, and includes various programs and measures, such as co-financing the production and processing of plant species, livestock breeding, through subsidies and the awarding of grants.

Kosovo had no recorded agricultural state aid until 2021, when it allocated €28.57 million. This was followed by a slight reduction to €26.63 million in 2022. While Kosovo's spending is notable given the zero allocation in previous years, it remains modest compared to other Western Balkan countries, reflecting either the recent initiation of such support or potential budgetary constraints. In Kosovo it is a Rural Development Program, which includes several measures covering investments in physical assets of agricultural households, investments in physical assets in processing and trading of agricultural products, preparation and implementation of Local Development Strategies - "Leader Approach", and farm diversification and business development.

Montenegro demonstrated a mixed trend in state aid spending. Beginning with €39.96 million in 2018, Montenegro's agricultural state aid saw a sharp increase to €60.72 million by 2020. However, spending dropped in 2021 to €44.82 million, before rising again to €56.88 million in 2022. Despite these fluctuations, Montenegro's overall aid levels remain moderate in comparison to the higher spenders like Serbia and North Macedonia. Programs in Montenegro include measures for development of agriculture, rural development and fisheries, implementation of measures for food safety, implementation of animal health protection measures, and implementation of phytosanitary measures.

North Macedonia consistently maintained high levels of agricultural state aid, with slight fluctuations over the five years. Starting at €129.72 million in 2018, the country saw an increase to €150.10 million in 2021, before a small decline to €140.81 million in 2022. This stable yet high level of aid reflects a strong and steady commitment to agriculture, positioning North Macedonia as a leading supporter of the sector in the region. When it comes to North Macedonia, programs include measures to support the income of agricultural holdings in terms of direct payments for plant production and for livestock production, measures for additional support of the agriculture, measures for financial support of the rural development, measures for financial support of the fisheries and aquaculture, intervention measures for financial support in agriculture to mitigate the consequences caused by the increase in production costs for the production of agricultural crops and measures for financial support in agriculture to encourage the consumption of fresh fruit. Trought IPARD program, business in agriculture is provided with grants for investments in fixed assets of agricultural holdings, grants for investments in fixed assets for processing and marketing of agricultural and fish products and grants for farm diversification and business development.

Serbia stands out as the largest spender on agricultural state aid in the Western Balkans. Starting at €232.48 million in 2018, Serbia's aid increased significantly, reaching nearly €494.93 million by 2022. This dramatic rise underscores Serbia's dominant role in agricultural support within the region, far surpassing the spending levels of all other Western Balkan countries. In addition to agriculture subsidies paid out of public budget, that includes incentives in livestock farming and in crop production, there are measures for rural development, credit support, organic production, market support measures, and support provided through World Bank project. IPARD II program is the major support to agricultural production in Serbia and it covers the following measures:

- Investments in the physical assets of agricultural farms - Construction of facilities and purchase of new machinery and equipment, except for investments in the purchase of new tractors
- Investments in physical assets related to the processing and marketing of agricultural products
- Investments for the diversification of agricultural holdings and business development

In summary, Serbia leads in the size of state aid for agriculture, followed by North Macedonia and Bosnia and Herzegovina. Albania and Kosovo, despite some recent increases, remain at the lower end of the spectrum. The overall trends show a regional increase in support for agriculture, with some countries displaying more consistent growth while others experience fluctuations. Agricultural state aid programs across the Western Balkans share common elements like direct payments for plant and livestock production, rural development initiatives, organic farming support, and participation in the EU's IPARD program, particularly in North Macedonia and Serbia. However, differences arise in the scope and scale of these programs, with Serbia offering the most comprehensive and well-funded support, while Albania and Kosovo focus on smaller, more specific initiatives like diesel support and recent rural development efforts. Montenegro's aid fluctuates more than others, reflecting shifting priorities, while Albania uniquely supports Global Gap certification. Despite these differences, all countries emphasize strengthening their agricultural sectors through tailored programs.

5. CONCLUSIONS AND RECOMMENDATIONS

In conclusion, state aid can be seen as a critical tool for stimulating economic growth and development in the Western Balkans, where emerging economies face unique challenges and opportunities. By thoroughly examining state aid spending across the region, this chapter highlights the strategic role that financial assistance plays in supporting key sectors, promoting competitiveness, and aligning with EU standards. The analysis underscores the importance of understanding the legislative and institutional frameworks that govern state aid, as these significantly influence how aid is allocated and reported. Through a detailed comparison of programs and measures, the chapter offers valuable insights for policymakers, helping to identify best practices and areas for improvement. Ultimately, this comprehensive examination aims to guide more effective and equitable state aid distribution, contributing to the region's broader economic development goals.

The methodological approach for this chapter involved a comprehensive process of collecting and analysing state aid data across six Western Balkan countries for the period 2018-2022. This process included defining state aid according to each country's legislative framework and gathering data from various sources such as legislative documents, institutional reports, and statistical databases. Despite the rigorous data collection, which aimed to ensure accuracy by converting budget items to Euros and analysing aid by main objectives prescribed by the European Commission, several limitations were encountered. These include inconsistencies in data due to varying methodologies and reporting standards, potential gaps from incomplete or unresponsive public information requests, and issues arising from the manual compilation and conversion of data. Additionally, the aggregation of data into EU-defined groups may not fully capture country-specific nuances, affecting the comparability and reliability of the analysis. Despite these challenges, the methodology provides a valuable foundation for understanding and comparing state aid spending in the region.

The trends in state aid spending across the six Western Balkan countries reveal distinct patterns of growth and response to economic challenges. Bosnia and Herzegovina and North Macedonia demonstrate stable and consistent growth, indicating reliable economic policies and systematic increases in aid. In contrast, Albania, Kosovo, and Montenegro exhibit more volatility, with significant fluctuations that likely reflect reactions to specific events or crises. Serbia is notable for its rapid and substantial increase in state aid, particularly from 2020 onwards, highlighting significant economic strategies or responses to major events. When comparing figures, Serbia stands out with the highest levels of state aid, especially during and after the pandemic, while Kosovo experienced a notable spike in 2021 after minimal aid initially. Albania, Bosnia and Herzegovina, and Montenegro showed similar trends with increased aid in 2020 followed by reductions, reflecting a common response to the pandemic. North Macedonia, however, maintained a more stable trend with minor fluctuations. Overall, these patterns illustrate how different countries adjusted their state aid policies in response to economic challenges, with varying degrees of intensity and subsequent normalization.

In 2022, the distribution of state aid across the Western Balkans reveals distinct national priorities. Albania's aid is evenly split between horizontal and vertical measures, each receiving 36% of the total, with agriculture getting 25% and other aid types comprising 3%. Bosnia and Herzegovina's aid is predominantly agricultural, with 59% allocated to this sector, minimal horizontal aid at 11%, and almost no vertical aid. Kosovo focuses heavily on vertical measures, dedicating 77% of its aid to this category, while only 3% is allocated to horizontal aid and 21% to agriculture. Montenegro also prioritizes agriculture, directing 68% of its aid there and allocating relatively little to other categories. North Macedonia similarly emphasizes agriculture, with 67% of its aid going to this sector and 33% to horizontal measures. Serbia adopts a more balanced approach, with 55% of its aid going to vertical measures, 24% to horizontal aid, 14% to agriculture, and 6% to other types. This variation in aid distribution reflects each country's unique economic priorities and strategic focus.

The trends in the allocation of horizontal state aid within Western Balkan countries reflect diverse development strategies and underlying challenges. Employment and training receive significant attention across the region, indicating shared labour market issues. North Macedonia and Kosovo, in particular, allocate substantial portions of their state aid to these sectors, reflecting continuing efforts to address unemployment and workforce development. This focus is followed by investment in the corporate and private sectors, aimed at stimulating economic activity and further reducing unemployment. However, these programs and measures should be reevaluated, as seen in Serbia's case, where state aid for corporate and private sector could benefit from adjustments to better align with current market needs and ensure more sustainable outcomes. The allocation of horizontal state aid to other areas reveals distinct priorities among countries. Montenegro stands out as a strong investor in renewable energy, reflecting an ambitious commitment to sustainable development. Albania, by contrast, has directed significant state aid to culture and sports, a strategy aimed at creating an attractive image for tourism, which plays a critical role in its economic development. On the other hand, research and development (R&D) spending varies greatly across the region. Albania has demonstrated a strong commitment to R&D, dedicating a substantial portion of its state aid to this sector. In contrast, Serbia and Bosnia and Herzegovina require more robust infrastructure and institutions to effectively channel and increase aid toward R&D, highlighting a need for deeper investment in innovation capacity. The analysis of support programs for small and medium-sized enterprises (SMEs) reveals a similar disparity. While some countries experienced significant post-COVID increases in aid to SMEs, others maintained minimal or no aid. Some initiatives are clearly designed as one-time responses to specific challenges, such as Albania's post-COVID programs aimed at addressing increased unemployment among women and youth.

The analysis of vertical state aid in the Western Balkan region underscores the diverse strategic priorities and economic challenges each country faces. While some countries have maintained continuous support programs, others have fluctuated dramatically, reflecting shifts in economic policy or reactions to external pressures such as the COVID-19 pandemic. For instance, the heavy investment in infrastructure by countries like Bosnia and Herzegovina and Montenegro illustrates their focus on long-term economic foundations, whereas the variability in the information and media sector across the region highlights a more responsive, perhaps less stable, support strategy. Serbia's substantial increase in aid to state-owned enterprises in 2022 further underscores a strategic pivot to bolster national industries during uncertain times. Albania and North Macedonia are distinguished by their support to tourism sector. And Kosovo allocates all its vertical state aid to energy sector. The analysis also underscores the need for several key reforms to enhance the effectiveness of state aid in the Western Balkan region. First, restructuring the management of state-owned enterprises (SOEs) is crucial to fostering competitiveness and reducing the need for recurring state support. This can be achieved through improved corporate governance, greater transparency, and performance-based accountability, which would lead to more efficient operations and limit political interference. In addition, strengthening independent media is essential for ensuring the rule of law and supporting political stability. A free and independent press plays a critical role in holding governments accountable and promoting transparency, which is vital for the region's political and democratic development, particularly in the context of European Union accession efforts. Investment in independent media would also contribute to greater public trust and democratic resilience. The energy sector, particularly the transition to renewable sources, also requires more strategic policymaking. Countries in the region should establish comprehensive, long-term strategies to ensure the efficient use of state aid in promoting renewable energy projects. Aligning these policies with EU energy goals will help reduce inefficiencies and accelerate the shift toward sustainable energy sources.

Data on de minimis state aid were available only for Bosnia and Herzegovina, Montenegro and Serbia. In Serbia and Montenegro, this type of aid constitutes a negligible portion of the total state aid, whereas in Bosnia and Herzegovina, it accounts for almost 20% of the total. Apart from the size, the approaches to state aid in these countries also vary significantly. Bosnia focuses on broader economic support through a single program that targets any economic entity, subject to specific regulations and limitations on aid. Serbia, in contrast, offers a diverse array of support programs and grants tailored to specific groups, including companies, entrepreneurs, youth, women, and startups. The question arises whether the substantial allocation of de minimis state in Bosnia and Herzegovina indicate a broad need across many sectors or a lack of focus in how aid is distributed. It may be beneficial for policymakers in Bosnia and Herzegovina to review the impact and effectiveness of the current broad-spectrum de minimis state aid approach. Evaluating whether more nuanced and targeted aid programs could yield better economic outcomes would be a constructive step forward.

All Western Balkan countries have experienced declining trends in other types of state aid after initial increases prompted by the critical conditions of the COVID-19 pandemic. The observed trends reveal significant differences in the objectives of the implemented measures. For instance, Kosovo and Albania focus on very targeted and sector-specific aid, supporting women in business and improving conditions for enterprises using fuels in production, respectively. In contrast, Bosnia and Herzegovina and Montenegro employ a more generalized approach, focusing on services of general economic interest and regional development programs. Serbia's strategy stands out, especially with its significant allocation to foreign direct investments. Notably, the size of the aid is the smallest in Albania and Montenegro, while Bosnia and Herzegovina and Serbia are on the other end of the spectrum, with Serbia allocating the largest funds due to its focused recovery efforts.

Based on the conducted analysis, several important recommendations can be made. Firstly, to enhance the effectiveness of state aid in the Western Balkans, improving data availability and transparency is essential. A centralized, harmonized database for state aid reporting in some countries within the region, aligned with EU standards, would ensure more consistent data collection, reducing inconsistencies and gaps. This could be supported by clearer guidelines for reporting institutions and capacity-building programs for data providers. Monitoring and evaluation frameworks should also be strengthened to assess the impact of state aid programs regularly. Implementing a region-wide system of independent audits and evaluations would provide valuable feedback on aid effectiveness, enabling policymakers to adjust strategies and ensure that aid is achieving its intended outcomes. Furthermore, ensuring public access to detailed, timely state aid data would enhance transparency and accountability, fostering trust in the management and allocation of public funds.

In addition to regular monitoring and evaluation at the level of each country, regional cooperation has the potential to greatly enhance the effectiveness and impact of state aid in the Western Balkans. Given the common challenges these countries face — addressing labour market and employment issues, strengthening infrastructure, reforming state-owned enterprises (SOEs), fostering independent media, and transitioning to renewable energy — closer collaboration offers an opportunity to align state aid policies and address these issues in a more coordinated and efficient manner. Such cooperation would reduce duplicative efforts, optimize the use of public funds, and facilitate the adoption of best practices across the region. For instance, regional collaboration on SOE reform could help standardize governance practices, enabling more transparent and accountable systems that would reduce the recurrent need for state bailouts. Cross-border cooperation in renewable energy presents another critical area for regional synergy. By developing regional energy networks and aligning national policies with EU directives, Western Balkan countries could attract greater investment, streamline the transition to sustainable energy sources, and collectively meet climate and energy goals. In addition, joint efforts to address labour market and employment challenges would create more cohesive strategies for workforce development, skill enhancement, and job creation. Furthermore, collaboration on strengthening media independence would contribute to enhanced rule of law and political stability, both of which are essential for long-term economic growth and EU accession. References

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CHAPTER 2

STATE AID AND FOREIGN DIRECT INVESTMENTS (FDIS) IN THE WESTERN BALKANS

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1. INTRODUCTION

Investments are one of the main power sources of the economic growth, as they lead to increased national wealth and human development (Colen et al. 2008). Beside the domestic investments, foreign direct investments (FDIs) have crucial impact on the economic growth of the host country. According to the World Trade Organization 'foreign direct investments occurs when an investor based in one country (home country) acquires asset in another country (host country) with the intent to manage that asset.' EU defines the FDIs as a category of cross-border investment in which an investor resident in one country establishes a lasting interest in and significant degree of influence over a business resident in another country. Policymakers in both, developing and developed countries, confirm that FDIs are fundamental component of a prosperous growth strategy. EU concludes that FDIs are crucial driver of the competitiveness and economic growth, while the World Bank portray that FDIs are key for economic rehabilitation after the COVID-19 pandemic (Pazarbasioglu, 2020).

There is a vast literature that studies the impact of FDIs on the economic development (Ayenew, 2022; Paul and Feliciano-Cestero, 2021; Benetrix et al. 2023; Paul and Benito, 2018). FDIs provide gains for the countries through know-how and technology transfer, skills spill-over and human capital advancement, creation of jobs, encouraging innovation and competition and international trade integration (OECD, 2022). The host countries, especially developing ones, also take advantage of reducing the knowledge/technology gap with the developed countries, as the FDIs transfer new knowledge and skills. FDIs can also encourage innovation and competition thus provide stimulus to employment and economic growth. These investments can strengthen the linkages with the local firms, increase the management competence, and open the access to international markets, so they can give energy to growth, boost the productivity and expand the export (Alfaro, 2016).

Such potential benefits of the FDIs encouraged countries, both developed and developing ones to considerably reduce the barriers and to create attractive measures and incentives to attract foreign investments. Recognizing the potential benefits of the FDIs, but also facing limited domestic markets, the Western Balkan countries (WB6) have undertaken significant steps for increasing the easiness to do business, supporting the entrance of foreign investments, as well as for introducing fiscal and financial measures to incentivize and attract investors. Hence, many countries took necessary steps to ease and attract the entrance of FDIs and boost growth of their economies. The liberalization of FDIs is still at different stages across countries. Many restrictions still prevail in the large developing countries and in the economies that are not committed to the OECD Code of Liberalisation of Capital Movements and the National Treatment instrument of the OECD Declaration on International Investment and Multinational Enterprises. According to OECD FDI Restrictiveness Index, the extent of restrictiveness greatly varies among countries, while some remain more restrictive to FDIs, such as Asia-Pacific region, OECD and developing countries are more open to FDIs. Different levels of restrictiveness also occur among sectors. Many countries removed restrictions in manufacturing sectors, which has been crucial for moving the sector up the value chain (Mistura and Roulet, 2019). On the other side, many primary and service sectors remain hard to reach by potential foreign investors, hindering the potential of flowing new and innovative services in the host economies.

Despite reducing the barriers, the WB6 also introduced many fiscal, financial and other incentives as a tool for attracting more FDIs. There are significant similarities between the countries' incentives, mainly in terms of their type. Almost all WB6 offer tax and customs exemptions, grants and loans that support the investments of the foreign companies, and wage and contribution subsidies that steer the creation of new employments. However, there are significant differences in terms of the complexity, transparency and data availability on the existing incentives and the amount of granted state aid to the FDIs. Hence, the objective of this Chapter is to provide a descriptive analysis of the existing investment incentives for attracting FDIs in the WB6, from the aspect of policy and institutional framework and existing measures, as well to portray the amount of granted state aid and its potential impact on the economies' condition.

The chapter is structured as follows. The second section reviews the investment climate in the WB6 through the easiness of doing business and the existing regulation on the FDIs, and provides a descriptive analysis of the FDIs trends in all six countries of WB. Section 3 describes the existing investment incentives in the region and provides estimations on the granted state aid to FDIs according different types and measures. The last section concludes and provides specific recommendations for improving the availability, transparency and targeting of the investment incentives toward increased inflows of FDIs.

2. STYLIZED FACTS ON THE INVESTMENT CLIMATE IN THE WESTERN BALKANS

2.1 Easiness of doing business: openness to and restrictiveness for FDIs in WB6

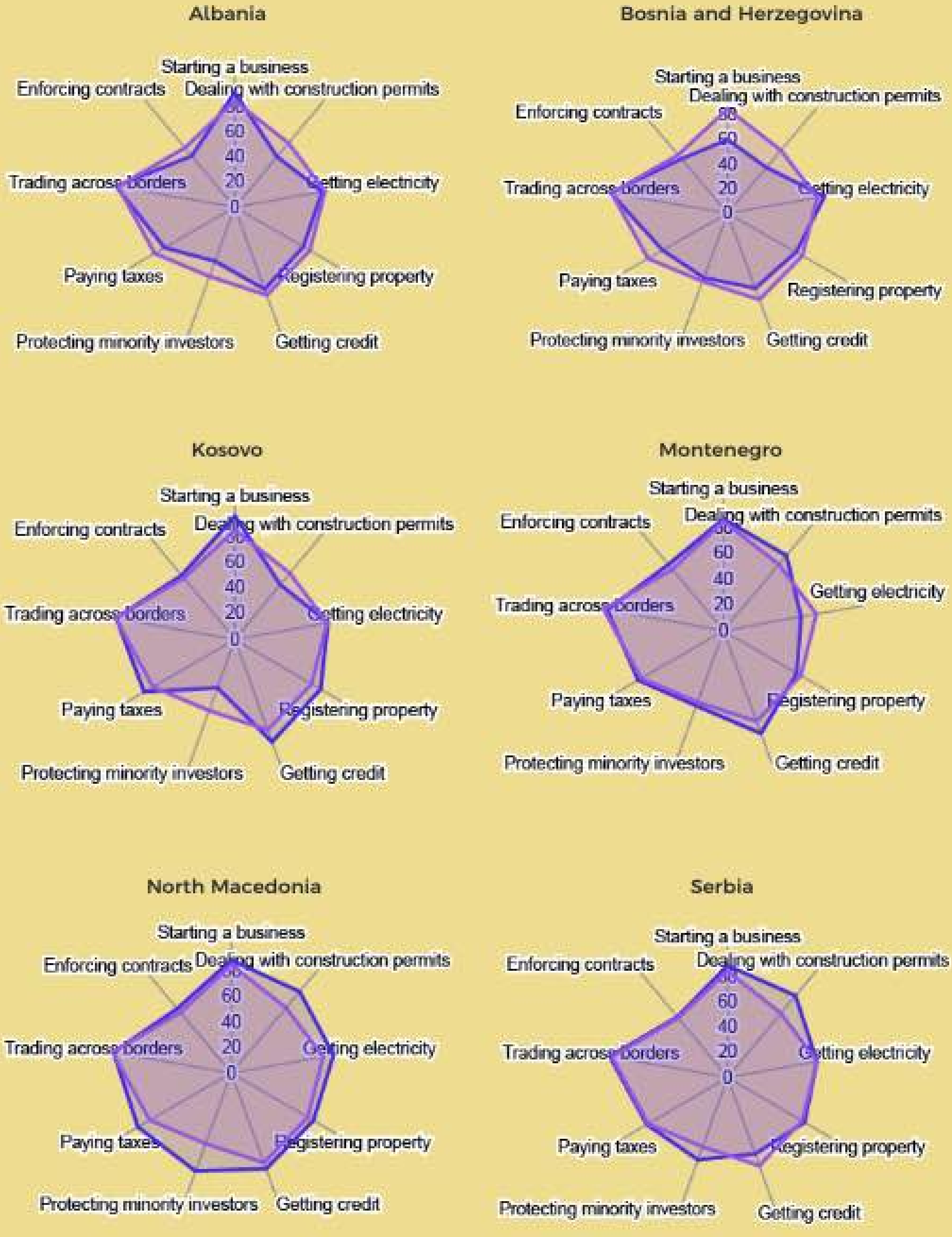
Western Balkan economies (WB6) perform similarly compared to OECD high income countries on the Ease of Doing Business Index (World Bank, 2020), with a regional average of 73 scores (Figure 1). WB6 perform best on average in starting a business (85) and trading across borders (94.8), while lowest scores are obtained for protection of minority investors (59) and enforcement of contracts (62), issues related to the insufficient rule of law in the region. WB6 outperforms the OECD in the ease of getting credit, but the WB average for paying taxes and getting electricity is 10.3 and 12.6 points respectively, below the OECD average.

Figure 1. Average score for doing business, 2020

Source: The World Bank.

Doing business in North Macedonia, Serbia and Kosovo is rated as very easy, and easy in the rest of WB6. North Macedonia is ranked highest (17) and has the best score among WB6 of 80.7, even higher compared to the OECD average of 78.4. There, it needs least time and money to obtain electricity, pay taxes and resolve insolvency. On the other hand, Bosnia and Herzegovina has worst rank (90) and lowest score (65.4), being hardest to start a business and obtain construction permit and credit. The businesses in WB6 need a lot more time and resources to pay taxes. The yearly number of tax payments done by the companies ranges between 7 (North Macedonia) to 35 (Albania), and the average time spent for paying taxes is up to 411 hours in Bosnia Herzegovina, which is more than double the time needed in OECD (168 hours). Among WB6, companies in Albania spent the most time and money to obtain construction permit (Figure 2). The detailed scores and rankings of the WB6 countries are provided in Annex 1.

Figure 2. Country's score at Ease of Doing Business Index, 2022



Note: The purple line presents the WB6 average score.

Source: The World Bank.

Worldwide, WB6 are positioned among the most open to FDI. According to FDI Regulatory Restrictiveness Index, their FDI regimes are less restrictive compared to the average of OECD, especially in the primary and tertiary sectors (Figure 3, upper part). The FDI regulatory system in Kosovo is almost completely open, with only few restrictions in the legal, accounting and auditing sectors, while Albanian economy is the most closed, especially for foreign investors in the primary sectors such as fisheries (Figure 3, middle part). Mainly, the index in WB economies arises from two types of restrictions related to the equity and ownership (Figure 3, lower part). The economies keep few foreign equity restrictions mainly in service sectors, which are also common for the developing countries. The national regulations in all countries allow full foreign ownership of service companies, excluding in defence, media and transport. None of the six countries has prepared a negative list with sectors where foreign investments are prohibited, neither possesses a screening mechanism that scans the potential foreign investors and provide approval prior to making an investment.

Figure 3. FDI Regulatory Restrictiveness Index by sector and type*, 2020

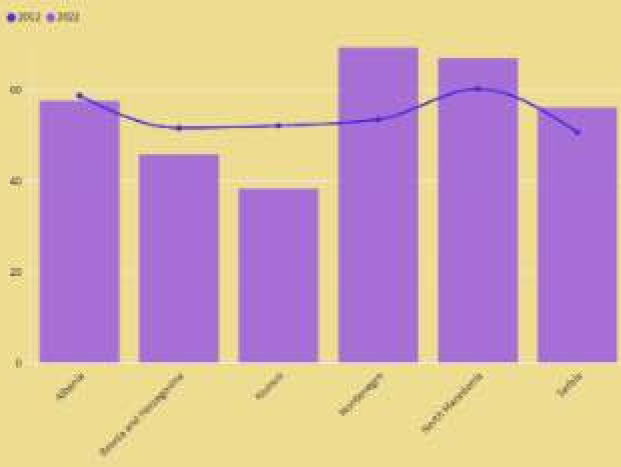
**The other two types of restrictions are 1. Screening and approval and 2. Key foreign personnel. Both value zero for all countries.*
Note: The index ranges between 0 (open) and 1 (closed).
Source: OECD

2.2 Policy and institutional framework: regulation and promotion of FDIs in WB6

Sound and clear legal framework that regulates and eases the entrance of foreign investors and protects their rights is necessary to attract investments and boost economies' growth. In that manner, all WB6 countries have established transparent, predictable and easy to implement legislative that governs the foreign investments in their national economies. Main tool that regulates the investment climate is the investment law. North Macedonia and Serbia have investment laws that govern both domestic and foreign investments, while the other countries have prepared law that specifically rules FDIs. Also, foreign investments are governed by the laws on strategic investments in Albania, Kosovo and North Macedonia, and special laws that regulate the operation of the foreign companies located in the FEZ. Serbia has the best policy framework for investments, followed by Montenegro and North Macedonia (Figure 4, upper part). According to the Worldwide Governance Indicators, the WB6 countries improved the quality of their regulatory framework, while Bosnia and Herzegovina and Kosovo lag behind the other countries and their indicator worsened in the last 10 years (Figure 4, lower part).

Figure 4. Legal framework quality

Source: OECD - Investment policy framework score



Source: The World Bank - Worldwide governance indicator (Regulatory quality)

Beside transparent and sound regulatory framework, strong investment promotion and facilitation measures are a crucial mean for attracting FDIs. The first act as a marketer of the host economy, while the facilitation measures ease the entrance and operation of investors. In that manner, functional investment agencies that promote the investment opportunities, attract investors and provide appropriate aftercare, are also crucial to increase the awareness of the potential investors and support their entrance and operation. All six countries of Western Balkan have established such agencies that provide efficient support to the foreign investors, using different set of responsibilities and tools. In North Macedonia, the responsibilities for attracting and care of foreign investors are divided between two agencies: 1. Agency for Foreign Investment and Export Promotion that takes care of the foreign and domestic investors located outside the FEZ, and 2. Directorate for Technological Industrial Development Zones responsible for investors that operate in the zones. Albania is the only WB6 country whose agency is established as governmental entity under the Ministry of Finance and Economy, while all other national agencies have a status of autonomous public agencies (OECD, 2022). With an average score of 3.9 (out of 5), Serbian promotion agency is assessed as the one that offers best promotion and facilitation services, investors targeting and aftercare to the foreign investors (Figure 5).

The agencies' mandates include a different set of tasks such as promotion and facilitation of the inward FDIs, support of the export and innovation of the domestic investments, screening and prior approval of the potential investors, negotiating, etc. (Table 1). The Albanian Investment Development Agency, Kosovo Investment and Enterprise Support Agency and the Agency for Foreign Investment and Export Promotion of North Macedonia have very large mandates performing more functions, compared to the agencies of Bosnia and Herzegovina, Montenegro and Serbia, which are mainly concentrated on promotion and facilitation of inward FDIs and support of the domestic investments. Albeit with the greatest mandates and responsibilities, the Kosovan agency has been assessed by investors that does not have the capacity to provide the needed support. Hence, the government announced establishment of a new agency responsible for promotion and care of foreign investors, which is still not functional (US Department of State, 2023). None of the agencies have mandate to issue business permits. This task is done by lower administrative bodies, which is usually assessed as time-consuming by investors (UNCTAD, 2024). In addition to these mandates, investment promotion agencies in the region are also included in the processes of policymaking related to FDIs, preparing national strategies, plans and programs for attracting FDIs, monitoring and evaluation. However, the limited human and financial resources hinder their potential to attract investments in the next period (OECD, 2018).

Figure 5. Investment promotion agencies score

Source: OECD

Table 1. Mandates of the Investment Promotion Agencies

	Albania	Bosnia and Herzegov-ina	Kosovo	Montenegro	North Macedonia		Serbia
Mandate	Albanian Investment Development Agency - AIDA	Foreign Investment Promotion Agency – FIPA	Kosovo Investment and Enterprise Support Agency - KIESA	Montenegro Investment Agency - MIA	Agency for Foreign Investments and Export Promotion - ASIPI	Directorate for Technological Industrial Development Zones - DTIDZ	Development Agency of Serbia - RIA
Promotion of inward FDI	√	√	√	√	√	√	√
Promotion of outward investments	√		√				
Promotion of domestic investments	√		√	√	√		√
Operation as One Stop Shop	√		√			√	√
Screening of the poten-tial investments	√				√	√	
Issuing relevant permits							
Negotiating		√	√		√	√	
Promotion of the ex-port	√		√		√		√
Promotion of the inno-vation	√	√	√	√	√		
Facilitation of the trade	√		√		√		
Management of the free economic zones			√			√	
Granting state aid			√			√	

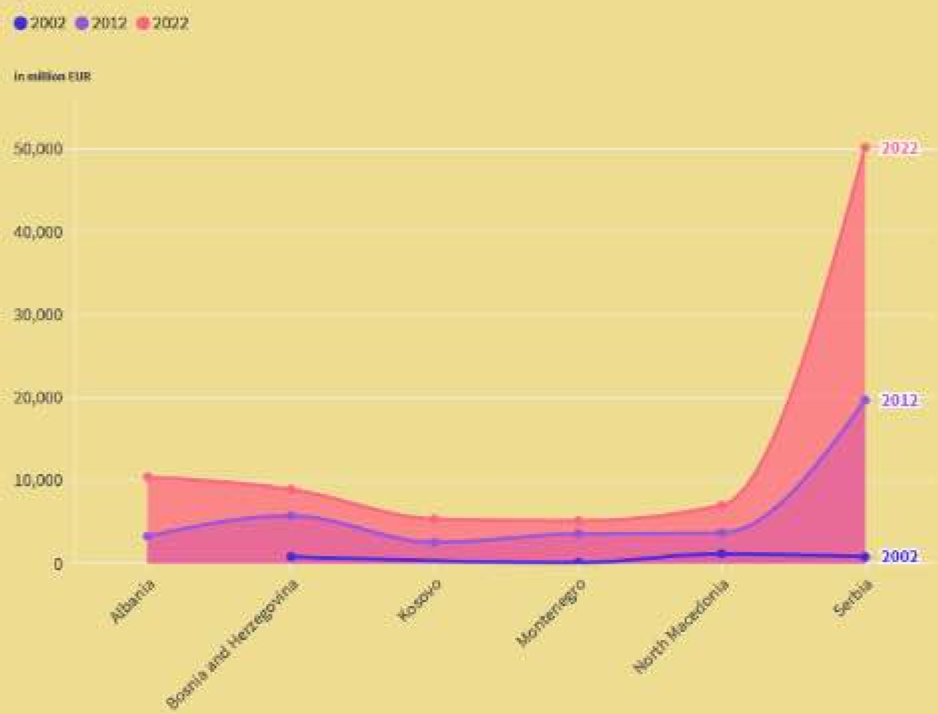
Source: OECD and National Laws

2.3 FDIs in figures: trends in FDIs in the WB6

Despite the increased trade and investment openness of WB6 in the late 1990s, the economies have struggled to attract FDIs in their transition period. Compared to the Central European and Baltics countries, WB economies have received substantially lower inflows of FDIs (EBRD, 2003). Starting from 2000 onward, they improved their economic activity and started significant economic reforms, entering processes of trade liberalization, EU support programs and brighter prospects for EU membership. The enhanced economic and political stability, mixed with the strengthened national policies for attracting FDIs, led to increased inflows of FDIs thereafter. In 2022, the inward FDI stock in the WB6 amounted for 86.9 billion EUR, more than double compared to 38.5 billion EUR ten years ago, and incomparably higher than only 2.8 billion EUR in 2002[1]. Despite the noteworthy increase of the FDI stock in the last decade, the intra-regional shares did not change significantly (Figure 6). In 2022, more than double of the FDI stock, or more than 50 billion EUR, have been concentrated in Serbia.

1 Data for Albania and Kosovo for 2002 are missing.

Figure 6. Inward FDI stock



Source: WIIW Database

Most of the WB6 attracted significant FDIs after 2005, mainly after the introduction of the concept of free economic zones (FEZ) and the distinctive incentives offered to foreign investors. The total inflow of FDIs in 2006 more than doubled compared to 2005, from 2.3 to 5.2 billion EUR, mainly due to the notable inflows of 3.4 billion EUR in Serbia, nearly 3 times higher amount than the 1.2 billion EUR in the previous year, which could have been driven by the privatization process. Bosnia and Herzegovina and Kosovo also doubled the FDIs inflows in 2006, while North Macedonia recorded 5 times higher inflow of FDIs in 2006 (345 million EUR).

Figure 7 shows that in the last 20 years, Albania and Kosovo have relatively stable increase of the FDI inflows, while in the other countries volatilities in inflows are observed from year to year, especially in North Macedonia.

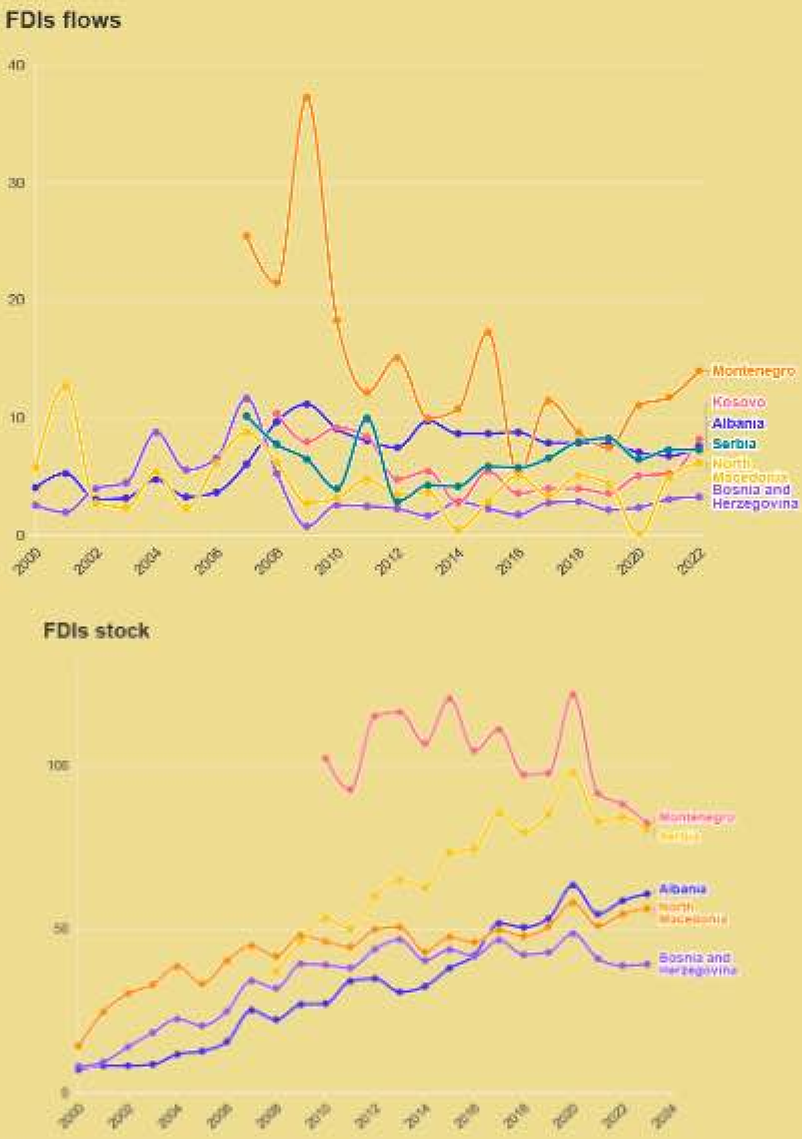
Having dipped slightly in 2020 and 2021 during the COVID-19 pandemic, FDI inflows to WB6 countries fully recovered in 2022, reaching maximum levels in all countries. Unlike the others, Montenegro did not experience a decline of the inflows during the pandemic period. Since 2019, the country recorded a year-on-year increase of the inward FDI flows, reaching 877 million EUR in 2022, levels not seen since 2010. In terms of FDI flows, WB6 continuously outperform EU and OECD, due to the reduced barriers for FDIs, as well as the favourable business environment (OECD, 2024b). Also, the high levels of FDIs could be partially due to the region becoming preferred investment destination for companies from the EU, especially after the COVID period, mostly due to the offered incentives, strategic connectivity and the low labour costs (Jovanovic et al. 2021).

Figure 7. FDI inflows in the period 2004-2022

Source: WIIW Database

Although Serbia is responsible for the bulk of the FDIs in WB6, in terms of GDP, Montenegro has the highest FDI inflows and inward stock (Figure 8) although the average net FDI inflows decreased from 37.3% during 2009 to 14% in 2022. According to this measure, Montenegro is the largest recipient of FDI flows among the WB6. The accumulation of significant net inflows has made the economy maintaining its position as the leading investment destination in the region; its stock of FDI reached 82.4% of GDP in 2023. Conversely, Bosnia and Herzegovina recorded relatively low net inflows, only 3.3% of GDP. It ranks last in the region, but still more favourable compared to the OECD average. The stock of direct investment amounted to 38.9% in 2022, the lowest among WB6 and the first time it had fallen below 40% of GDP since 2011 (UNCTAD, 2023).

Figure 8. FDI inflow and inward stock as % of GDP, in 2022



Source: World Bank Indicators and UNCTAD.

Table 2 reveals that, generally, most of the inward FDI stock in the WB6 originates from the EU countries like Austria, Germany, Netherlands, Switzerland, Italy and UK. Croatia (in Bosnia and Herzegovina), Turkey (in Albania and Kosovo), Russia (in Montenegro and Serbia) and Greece (in North Macedonia) are also among top five foreign investors. Serbia is among the largest investors in Bosnia and Herzegovina and Montenegro, pointing out to possible intra-regional investment opportunities among WB6.

Table 2. Top 5 inward FDI stock by partner, in 2022

Host country	Origin country (% of total inward FDI stock)
Albania	1. Switzerland (17.1%) 2. Netherlands (16.9) 3. Canada (13.1%) 4. Italy (10.9) 5. Turkey (7.6%)
Bosnia and Herzegovina	1. Austria (15.6%) 2. Croatia (14.6%) 3. Serbia (13.9%) 4. Slovenia (7.5%) 5. UK (6.3)
Kosovo	1. Germany (16.8%) 2. Switzerland (14.9) 3. Turkey (8.3%) 4. USA (7.2%) 5. Austria (6.1%)
Montenegro	1. Russia (14%) 2. Serbia (8.6%) 3. Azerbaijan (7.5%) 4. Hungary (6.8%) 5. Italy (6.5%)
North Macedonia	1. Austria (15%) 2. Greece (10.4%) 3. UK (9%) 4. Germany (8.2%) 5. Netherlands (7.8%)
Serbia	1. Netherlands (13.6%) 2. Austria (10.9%) 3. China (9.3%) 4. Germany (8.3%) 5. Switzerland (5.9%)

Source: WIIW Database.

Table 3 additionally strengthens the conclusion for intra-regional investment, pointing out that the flows among WB6 are non-trivial. On average, 55% of the total outward FDI stock that originates from the countries of interest is invested in another WB6 country. 45% of the investments from Bosnia and Herzegovina, to 71% of the investments from North Macedonia, are placed in one of the WB6. A third of the Bosnian FDIs are invested in Montenegro and Serbia, 35.6% of Kosovo's FDIs are placed in Albania, while Serbia is the most attractive country for the Macedonian investors. The share of the inward stock of FDIs between the countries is significantly lower among all WB6.

Table 3. Outward FDI stock in WB countries, in %, 2022

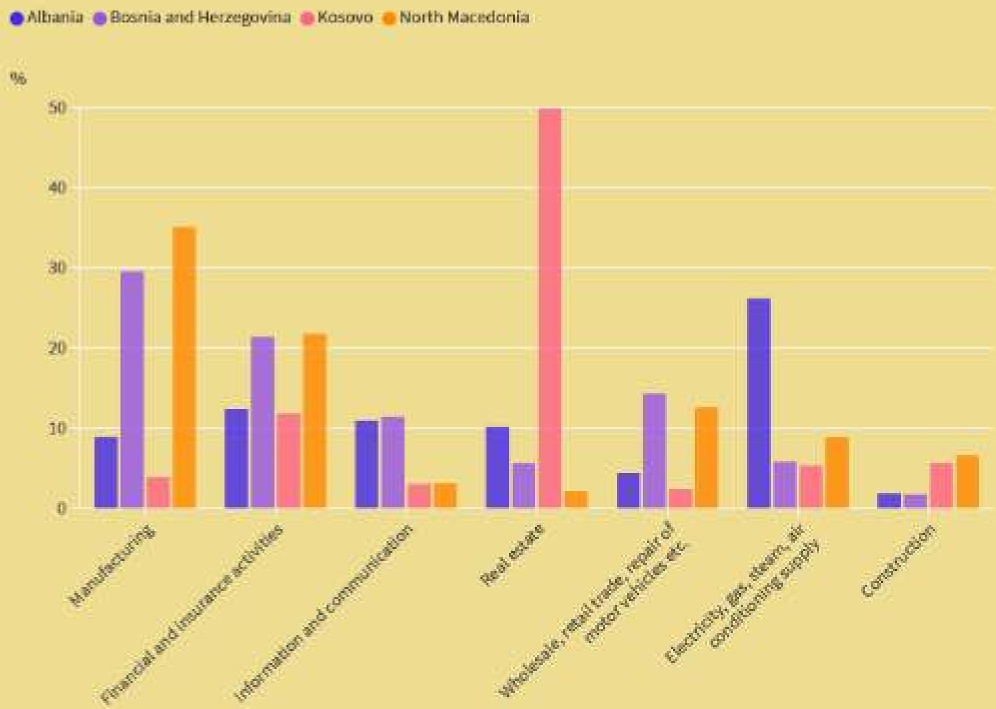
			Albania	Bosnia	Kosovo	Montenegro	North Macedonia	Serbia
Outward stock	Recipient country	Bosnia and Herzegovina	x	x	x	18.1	1.8	15.1
		Kosovo	35.6	0.9	x	7	5.1	1.9
		North Macedonia	0.9	8.9	0.8	x	x	60.7
		Serbia	1.7	38.3	x	17.1	1.1	X
Inward stock	Recipient country	Bosnia and Herzegovina	x	x	x	0.4	x	13.9
		Kosovo	5.7	0.1	x	x	0.5	0.4
		Montenegro	0.1	2.3	0.4	x	0.1	8.6
		North Macedonia	0.8	0.3	x	0.04	x	1.5
		Serbia	0.01	0.8	x	0.8	0.2	x

Note: Data for Albania and Montenegro (outward stock) are unavailable.

Source: WIIW Database.

The sectoral distribution of the FDIs is another interesting hallmark for analysis, as it is crucial for accessing the impact of FDIs to the host economy, such as its support to boosting exports and/or creating new jobs. By 2022, the service sector accounted the largest share in the inward FDI stock in WB6 (Figure 9). Information and communication, banking, wholesale and retail trade, have been the most attractive sectors for the foreign investors. Only Bosnia and Herzegovina and North Macedonia attracted considerable number of investors in the manufacturing sectors. A third of the total FDIs in these two countries belong to manufacturing, which is in contrast to the much lower share in Albania (8.9%) and Kosovo (3.9%). According to the National Bank of Serbia (2024), in 2022, most of FDIs are concentrated in the manufacturing and construction sectors.

Figure 9. Inward FDI stock by sector of economic activity, in 2022



Source: WIIW Database

Note: Data for Montenegro and Serbia are unavailable.

3. DATA AND METHODOLOGY

The objective of this chapter is two-fold: to map the current state aid measures directed toward foreign companies and to measure the state funds granted for attracting and supporting the FDIs. Both objectives refer to all six countries of Western Balkans, although there are significant differences in terms of data availability and transparency. Also, both objectives are explored through the prism of a comparative review, with the aim of gaining insight into regional similarities and differences in governments' efforts to attract FDIs.

To fulfil the first objective, we use data for each country collected by the project partners. As a sources of data we use many national documents, laws, acts, programs, and similar, as countries, except Montenegro, do not have a state aid registries or similar one-stop documents. Also, there is no single document that present data on the granted state aid to (foreign) companies, hence, we use data collected through a comprehensive research across the national reports and budgets. Also, the right to access data of public interest has been used in the cases where the necessary data were publicly unavailable. Considering that the data for each country are published in national currency, they have been converted to EUR, in order to provide a comparative analysis.

4. INVESTMENT INCENTIVES IN THE WESTERN BALKANS

4.1 Measures to attract foreign investors

WB6 have long history of using measures as a key mechanism to attract foreign investors. Such measures include tax exemptions, custom duty breaks, social contribution exemptions, employment subsidies, tax holidays and investments grants. Also, countries offer priority treatment to foreign investors, when execute administrative tasks, mainly for strategic investors and for those located in the FEZ. However, there is no encompassing evidence on the impact of these measures, but it is well-known that such measures ravage the national budgets. Also, there is no well-documented evidence that such measures are crucial for investment decision-making, despite there have been narratives that countries raced "to the bottom" – i.e. offering more and more favourable conditions to investors – and that as a consequence the investor chose the country which offered most. According to the World Bank (2018), the transparency, clarity and predictability of the public institutions, the freedom for doing business and legal protection are more crucial when choosing a destination for investment.

OECD (2022) assesses that the investment incentive schemes of WB6 are complex and sometimes hard to navigate, as they are managed by different bodies that lack transparency in their management and implementation. Also, measures are included in different national documents and laws which are not available in English, additionally confusing (potential) investors. For example, different incentives for attracting foreign investors in North Macedonia are prescribed in the national Plan for Economic Growth, Law on Financial Support of Investments, Law on Strategic Investment, and Law on Technological Industrial Development Zones. In Albania, there are also a vast number of documents that regulate different incentives for strategic investors and investors located at the FEZ. The state aid for foreign companies in Albania is granted according the measures prescribed in the national Law on Strategic Investments that offers incentives and eased administrative procedures to both foreign and domestic investors, based on the investment value and number of jobs created. Several sectors are defined as strategic: mining and energy, transport, tourism, agriculture and fishing, economic zones and priority development areas, e-communication and urban waste industry, and companies that invest certain funds may obtain status of strategic investors. In Bosnia and Herzegovina, incentives are primarily provided at entity level.

Nevertheless, most of the WB6 economies introduced fiscal, financial and other incentives to steer the FDIs flows and support job creation, know-how transfers and economic growth. Figure 10 shows that the incentive schemes of North Macedonia and Serbia are most favourable. Unlike the other peers, Kosovo does not provide investor incentives.

Figure 10. Investor incentives score

Source: OECD

4.1.1 Fiscal incentives

In the last decade, most countries of WB6 provided generous tax and customs exemptions, holidays and allowances, as tools to attract FDIs, especially in the strategic sectors and for investors located in the FEZ. Many studies concluded that these incentives are pure 'race to the bottom' in which countries lose potential tax revenue, with few net gains, which are not always an important reason for investment and have a small impact on the inward FDIs (Kersan-Sabic, 2013; Egger and Raff, 2014). According to EU Code of conduct for business taxation: 'tax measures which provide a significantly lower effective level of taxation, including zero taxation, than those levels which generally apply in the Member State in question are to be regarded as potentially harmful and therefore covered by this code", which raises the fiscal incentives schemes of the WB6 as a wary issue.

However, almost all countries provide a wide range of fiscal incentives related to the value added, corporate, personal income and infrastructure taxes, as well as custom duties (Table 2.2). Most of them introduced a flat tax regime set around 10% or 15%, for both corporate and personal income taxes. Bosnia and Herzegovina, Montenegro and Serbia provide incentives related to these taxes, regardless of FDI's location. Serbia offers a 10-years tax holiday on the corporate income tax for investments over EUR9 million and at least 100 jobs created. Montenegro provides exemptions to investments located in the less developed areas. In Albania and North Macedonia, such incentives are provided only to the companies located in the FEZ. All six countries offer VAT exemptions to the companies located in the FEZ[2], on the import of selected materials used for inward processing activities destined for export. In North Macedonia, imported construction materials and equipment are also tax exempted. All countries, except Bosnia and Herzegovina and Kosovo, introduced property tax exemptions for foreign companies. Custom duties in all countries do not apply to the companies located in the FEZ. In North Macedonia customs duties are not charged on raw materials, equipment, machinery, or spare parts imported into a FEZ from outside the customs territory, provided that they are used for processing export goods and not subsequently released in free circulation. Goods produced in the Serbian FEZ with at least half domestic inputs are considered to be of Serbian origin and are eligible to be imported into Serbian territory without customs duties or exported without customs duties under free trade agreements (Table 4).

2 Kosovo does not have any free economic zone. VAT exemptions rule for companies located across the country.

Table 4. Fiscal incentives in the Western Balkan countries

	Personal income tax rate		Corporate income tax rate		VAT rate		Property tax rate		Custom duties	
	Standard	Incentive	Standard	Incentive	Standard	Incentive	Standard	Incentive	Standard	Incentive
Albania	13% - 23%	0%	15%	7.5%	20%	0%	Variable	0%	0% - 15%	0%
Bosnia and Herzegovina	10%	10%	10%	5%	17%	0%	0.1% - 0.2%	0.1% - 0.2%	Variable	0%
Kosovo	0-10%	0-10%	10%	10%	18%	0%	0.15% - 1%	0.15% - 1%	10%	0%
Montenegro	9%- 13%	0%	9%	0%	19%	0%	0.25% - 1%	0%	Variable	0%
North Mace-donia	10%	0%	10%	0%	18%	0%	0.1% - 0.2%	0%	5% - 20%	0%
Serbia	10%-20%	6.5%-7.5%	15%	0%	20%	0%	0.6% - 1%	Variable	Variable	0%

Source: Albania: TEDA website (www.teda.tirana.al); Bosnia and Herzegovina: Tax Administration web site; Montenegro: Tax Administration; North Macedonia: Law on Technological Industrial Development Zones; Serbia: Serbia Tax Card 2024

4.1.2 Financial incentives

Besides fiscal incentives, foreign companies located in WB6 may be granted financial resources as a motive for increasing their capacities and operation activities. Some of the WB6 countries recently introduced such measures in form of grants and/or loans as a support of the innovation, competitiveness and entrepreneurship of the beneficiaries and the whole economy.

In 2018, Macedonian government passed its Plan for Economic Growth and in 2021 amended its Law on Financial Support of Investments (Official Gazette 178/21) which prescribes substantial financial incentives to foreign companies as a support of the employment, investment and innovation. Also, the Directorate for Technological Industrial Development Zones provide grants to the foreign companies located in the FEZ, to support the job creation and investments. Serbian government supports the investments of the foreign companies through grants provided through the national Investment Law and Regional Development Law. In Montenegro, there is no distinction between domestic and foreign companies, and all are entitled to use the available financial incentives such as grants and subsidies (mostly through the Program for Improving Competitiveness), loans with lower interest rates (through the Investment Development Fund's loans) and guarantees. In Bosnia and Herzegovina, Republic of Srpska offers financial incentives to foreign companies including: 1) funds for the development of the economy, including incentives for increasing the salaries of employees in business entities and incentives for direct investments; 2) incentives provided through the programme of support for employment; and 3) banking privileges, including subsidised loans (The Law on Incentives in the Economy of the Republic of Srpska, Official Gazette 37/22). The government of Brcko District also offers employment and investment grants to foreign companies. Albanian government also supports foreign companies through investment grants, and provides financial support for the training of the current employees in the foreign companies. Kosovo is the only country that does not provide any financial incentives to the foreign companies (Table 2.3).

4.1.3 Non-financial incentives

The available fiscal and financial incentives are not always the main driver when choosing the investment destination. Other non-financial incentives are often at least as important or even more important drivers. Forte and Neves (2023) suggest that the quality of the human capital and the availability of infrastructure are the strongest drivers of FDIs in small countries. The infrastructure, tourism and openness are more important principles in attracting FDIs in the developing countries (Singh et al. 2008).

Almost all WB6 countries offer a variety of such incentives, mainly to foreign companies located in the FEZ. Eased administrative procedures, access to utility and infrastructural services and good aftercare are most widely used incentives across WB6. Table 5 reveals that Albania and North Macedonia offer larger number of incentives related to eased administrative procedures, long-term lease rights for the used land, free connection to utilities such as gas, water, sewage, internet, power and communication. Companies located within Macedonian FEZ are entitled to use the knowledge of DTIDZ through preparation of business analysis as cost-benefit estimations, identification of suppliers and project-specific location factors. Montenegro and Serbia offer simple and fast customs procedures to the foreign companies. The Law on Strategic Investments in Kosovo provides provision of state-owned real estate and supported access to basic infrastructure, and the government can also issue guarantees or jointly finance FDI projects.

Table 5. Financial and non-financial incentives in the Western Balkan countries

	Financial incentives		Non-financial incentives
	Employment support	Investments support	
Albania	Grants for employees training	Grants for establishing a local office, easing the market access, investments in real estate and infrastructure development, use of fuel and renewable energy	Long-term lease land Expedited administrative procedures Adequate utility and infrastructure Promotional support through AIDA
Bosnia and Herzegovina	Grants for increasing the salary of workers (Republic of Srpska) Grants for new employments (Brcko District)	Grants for introduction of new technologies and modern equipment (Republic of Srpska) Grants for investments of special importance (Republic of Srpska) Grants for investment in fixed assets (Brcko District)	Adequate utility and infrastructure Promotional support through FIPA
Kosovo	N/A	N/A	State-owned property Access to basic infrastructure Public-private partnership
Montenegro	Exemptions from social security contributions	Grants for support of the processing industry, craftsmanship, digitalization, procurement of high-value equipment, standardization, internationalization, promotion of circular economy, use of renewable energy, scientific research, innovation, tourism development	Simple customs procedures
North Macedonia	Grants for new employments Exemptions from social security contributions	Grants for purchasing equipment in the free economic zones Grants for construction in the free economic zones Grants for support for establishing organizational forms for technological development and research, increasing competitiveness, projects of significant economic interest, capital investments, competitiveness, conquering markets and increasing sale	Long term lease of land Adequate utility and infrastructure Business analysis Establishing linkages with local stakeholders Eased administrative procedures
Serbia	Recruitment incentives Exemptions for social security contributions Workplace training	Grants for supporting investments in tangible and intangible assets Grants for start-ups and innovative companies Export support programmes	Simple customs procedures Eased administrative procedures Low prices for using infrastructure

Source: Measures mapped by project partners: ACIT for Albania, CREDI for Bosnia and Herzegovina, ISSP for Montenegro, Finance Think for North Macedonia and CEVES for Serbia.

4.2 STATE AID GRANTED TO FOREIGN COMPANIES: ANALYSIS HAMPERED BY DATA AVAILABILITY

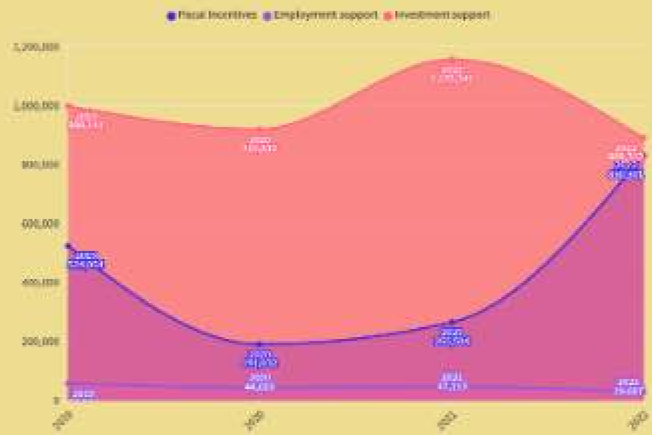
The complexity of the management structure and the low transparency in the conduct and disbursement of FDI incentives among WB6 often hampered the comprehensive evaluation of the cost of these measures. None of the analysed economies publish data related to the granted sum of incentives to FDIs on a regular base, nor at one place. Albania and North Macedonia are the only countries that possess (limited) data on the granted state aid to FDIs by types, and for Serbia, data are available only for the support of investments done by the FDIs. In Montenegro, there is no distinction between domestic and foreign investors in terms of state aid eligibility, and the available data show the total amount of granted state aid annually. Due to the complex setting of Bosnia and Herzegovina, and different incentives provided by each entity, obtaining data on the granted state aid to FDI has been an unsuccessful mission. Hence, in this section, we analyse the data for Albania, North Macedonia and Serbia.

All three countries record an increase of the state aid granted to FDIs in the last five years, albeit there are country-specific differences in terms of the total amount and incentives' type (Figure 11). Albania is the country with the lowest amount of state aid for FDIs, which ranges between 1.15 – 1.75 million EUR annually, 30 and 90 times lower compared to the granted state aid in North Macedonia and Serbia, respectively. The amount given for employment support is relatively stable and low throughout the years, only 40 thousand EUR, while in 2022, there is an evident shift of the amount granted as fiscal incentives and for investment support, so that the total is almost equally divided between these types in Albania. According to US Government (2023), only few foreign investors obtain status as strategic investors, as most of the aid has been granted to domestic companies operating in the tourism sector. This may justify the low amount of granted state aid.

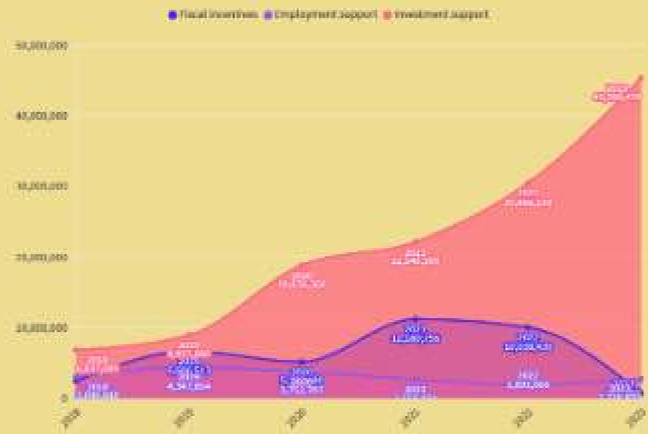
In North Macedonia there is a continuous growth of the state aid granted to foreign companies, which is mainly caused by the incentives for investment support. In 2021, the amount for investment support doubled, probably driven by the new measures prescribed in the Law on Financial Support of Investments, but also the exit of the economy from the grips of COVID pandemic. There too, the amount paid to support employment has been relatively stable over the years, around 2 to 3 million EUR, while fiscal exemptions show certain variations that may be due to the expiration of the tax holiday period for the foreign companies that have been established in the country more than 10 years ago. The amount of provided state aid for investment support from Serbian government to foreign companies is much higher compared to the other countries, more than 3 times higher compared to the total state aid granted by the Macedonian government, and incomparably higher than the one granted in Albania.

Figure 11. Granted state aid by type, in EUR

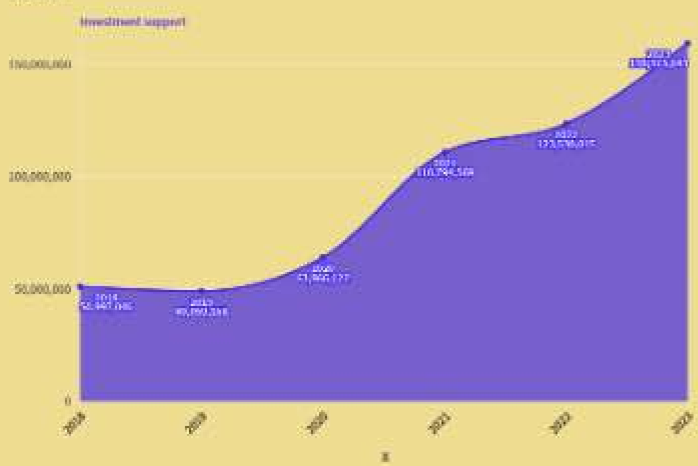
Albania



North Macedonia



Serbia



Source: Author's calculations based on data collected by the project partners

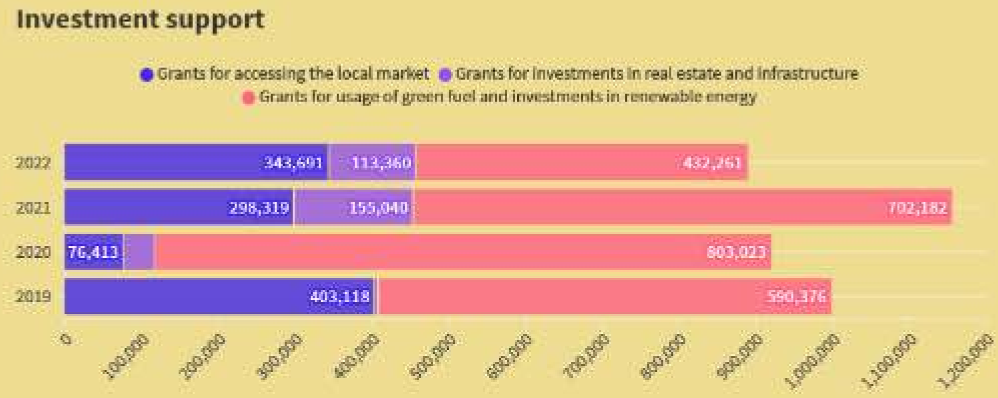
The in-depth analysis of the granted state aid in Albania and North also reveals differences in the state aid purpose and type. In Albania, there is only a cumulative amount of the granted fiscal incentives, without proper division of the base according to the measures described in Table 2.2. Also, there is no data on the state aid given to support new jobs through direct grants and/or social contribution subsidies, but the amount for employment support presented in the previous figure refers to grants for staff training. Incentives that support investment are mainly granted as direct grants for acquiring local market, investments in real estate and infrastructure, and for usage of green fuel and investment in renewable energy. Throughout the years, the latter incentive prevails, as more than half (in 2020 nearly 90%) of the granted aid for investment support is directed for usage of green fuel and renewable energy, which may be connected with the energy crisis that hit the world due to the Russia-Ukraine conflict (Figure 12).

shows that since 2019 (with exception of 2021), the granted amount is evenly divided between customs exemptions and personal income tax exemptions. Foreign companies are also entitled to VAT exemptions on different bases, but there are no available data on the forgone revenue.

As seen in Section 2.2, two institutions are responsible to support the investments of the foreign companies in North Macedonia. The share of state aid provided to foreign companies located in FEZ in the total granted state aid for investment support continuously decreased, from 54% in 2018 to 23% in 2023, due to the introduction of new measures within the Plan for Economic Growth available for all foreign companies, not only those located in the zones.

Among the other investment support measures, those provided for capital investments and increasing competitiveness are mostly funded. In 2023, more than 15 million EUR are paid for each of these two measures, which is nearly two thirds of the total granted support for investments. In all other years, the aid granted for capital investments dominates, while that for research and development, increasing sales and projects of significant economic interest is much lower.

Figure 12. Granted state aid by sub-types in Albania

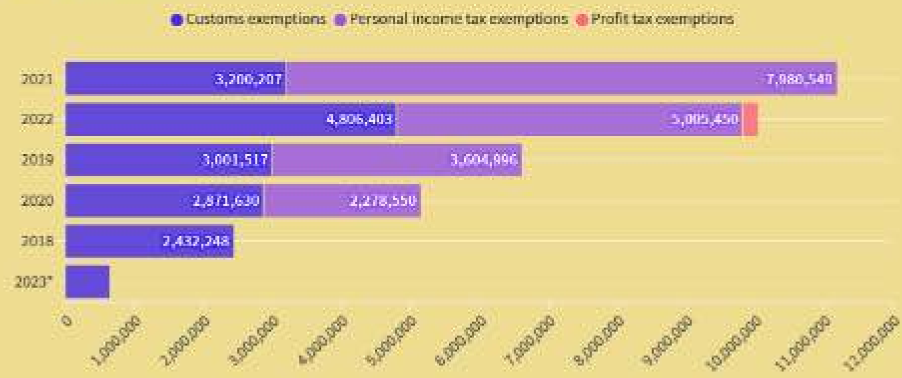


Source: Author's calculations based on data collected by the project partners

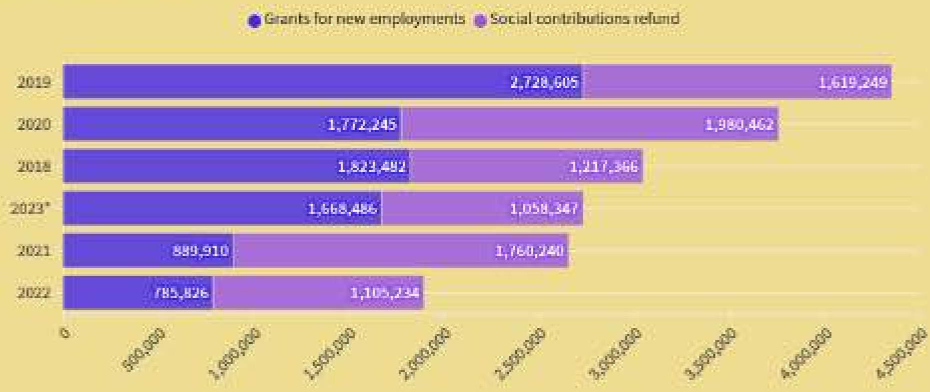
The data on the granted aid by sub-types in North Macedonia are more detailed (Figure 13). Fiscal incentives provided to the foreign companies located in the technological development zones are under the authority of the Public Revenue Office which is authorised to carry out tax assessment and collection. The data

Figure 13. Granted state aid by sub-types in North Macedonia

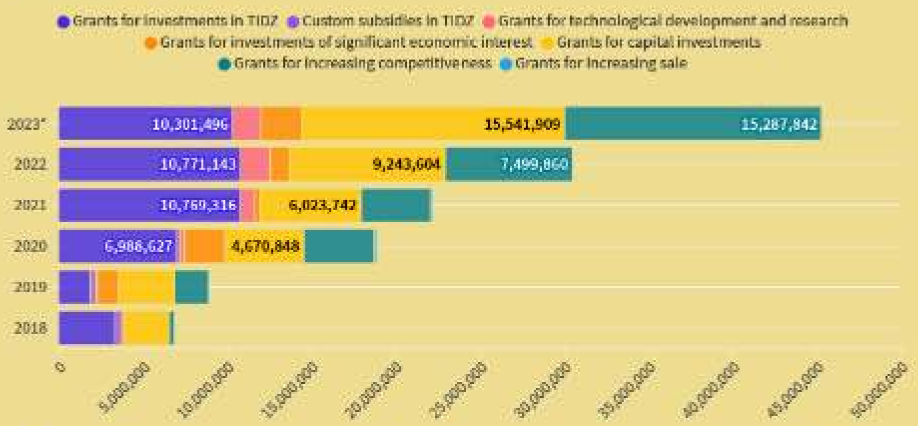
Fiscal incentives



Employment support



Investment support



Note: Data for incentives provided to the foreign companies located in the FEZ in North Macedonia for 2023 are incomplete, as stated by the provider of the data, the Directorate on Technological Industrial Development Zones. Up to date, no updated data have been given.*

Source: Author's calculations based on data collected by the project partners

In all three countries, the granted state aid to FDI increased in absolute amounts, while as a share of GDP it records an increase in North Macedonia and Serbia only. In Albania, it shows a stagnant trend of around 0.01% of GDP. North Macedonia has highest share of the granted aid in GDP, reaching more than 0.4% in 2023, although in absolute numbers its aid is more than three times lower than the one granted to foreign companies located in Serbia (Figure 14).

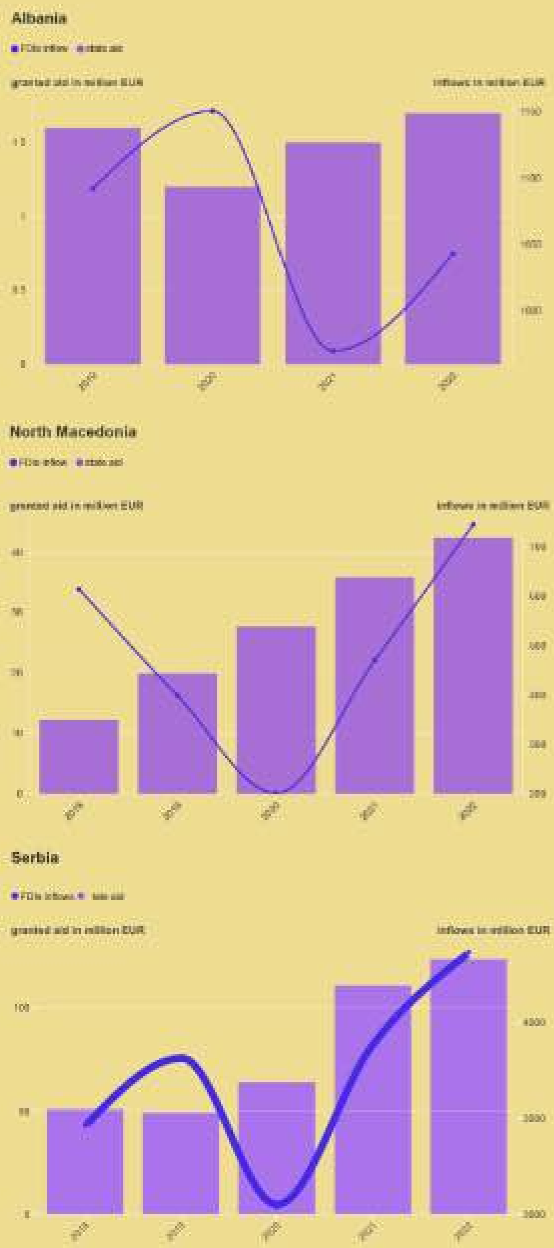
Figure 14. Share of the total granted state aid in GDP

Source: Author's calculations based on data collected by the project partners

4.2.1 FDIs and macroeconomic condition of the WB6 economies

Throughout the years, the granted state aid records continuous increase, despite the fact that investment inflows have seen significant declines during the pandemic period, which can be potentially attributed to closed economies and uncertainty in the business environment (Figure 15). Also, such relation between the state aid and inflows has been explained in Section 3.1, where vast literature confirms that the incentives are not crucial for investment decision and have low impact on the inward FDIs flows.

Figure 15. Granted state aid vs FDIs inflow



Source: Author's calculations based on data collected by the project partners

No matter the amount of granted state aid, it should not be taken as a social assistance for the beneficiaries, i.e. companies, but it should fulfil its purpose of increasing investments, innovation, and competitiveness, leading to more job vacancies and economic development and greater quality of life. In the following, we observe some indicators where state aid through increased FDIs has potentially played role in improving the macroeconomic condition in the WB6 economies.

Although in all countries, the amount of granted state aid continuously increased, most of the Sustainable Development Goals (SDGs) that could be directly or indirectly associated with FDIs effects remain challenged (Table 6). In 2023, all WB6 face significant gaps in the areas of economic growth, decent work, innovation, infrastructure and responsible consumption and production. Albania faces major challenges in achieving the SDG 8 of decent work and economic growth, mainly driven by the lack of access to financial resources, high youth unemployment and lack of fundamental labor rights (OECD, 2024). Bosnia and Herzegovina made positive movement in the areas of economic growth (SDG 8) and industry, innovation and infrastructure (SDG 9). Progress in economic growth was limited owing to persistently high unemployment, while low levels of expenditure in research and development inhibited the advancement of industry, innovation and infrastructure. The latter also hinders performance in the area of industry, innovation and infrastructure in North Macedonia. Compared to 2021, Montenegro made step forward in achieving SDG 9, while the progress in SDG 8 stagnated mainly due to the high unemployment rates. Also, all countries face significant challenges in ensuring good use of resources, energy efficiency and sustainable infrastructure, as well as creating green jobs. All these considerations could be brought in tight connection with the amounts and types of FDIs the countries attracted with the state aid granted, despite this is surely not the only factor.

The analysis of the changes in some macroeconomic indicators and indexes shown in Table 7 also confirms the economic context of the countries and reveals potentials for better targeting of the state aid in future. These indicators are only another group that could be possibly related to governments' effort to attract FDIs, and are used only as indication on the FDIs impact, as many other important factors may be in place. All WB6 countries except North Macedonia recorded decline in the score of the Global Innovation Index in a period of five years, suggesting significant drawbacks in offering innovative infrastructure, market sophistication, human capital and research, knowledge and technology.

All countries possess medium-level technological capacities related to physical investment, human capital and technological effort, to use, adopt and adapt modern technologies. This is turn is also a sign of the low positioning of the WB6 countries at the Global Competitiveness Index that assesses the ability of countries to provide high levels of prosperity to their citizens. In 2022, all WB6 countries made a strong recovery of their external sector, but still, Albania and Bosnia and Herzegovina record exports of goods and services below 50% of the GDP. Also, countries improved their labour market, with decreasing unemployment rates, but informality, labour shortages and skills mismatches are still a pressing challenge in the Western Balkan.

This analysis is an indication of the need to divide state aid between different types according to the limiting factors that slow down the fulfilment of the SDG goals, but also improving the quality of life. For example, Albania, Bosnia and Herzegovina and Montenegro face significant challenges in meeting SDG 8 due to high unemployment rates, which indicates the targeting of state aid toward employment support. As the mismatch between labor demand and supply is a limiting factor in all countries, the state aid could be granted for proper transfer of knowledge between foreign and host countries. In all countries, there is a need for greater aid that will support innovative projects that should also increase the economies' competitiveness. In North Macedonia, on the other hand, the low quality of industry and infrastructure require greater support for investments, especially those for research and development. Also, Albania and Bosnia and Herzegovina need targeted measure that will steer the export of goods and services in order to improve their external position.

Table 6. Country's assessment of the progress toward achieving Sustainable Development Goals, 2023

	Albania	BH	Kosovo	Montenegro	North Macedonia	Serbia
SDG 1 – No poverty	SDG achieved	SDG achieved	NA	SDG achieved	Challenges remain	SDG achieved
SDG 8 – Decent work and economic growth	Major challenges	Significant challenges	NA	Significant challenges	Significant challenges	Significant challenges
SDG 9 – Industry, innovation and infrastructure	Significant challenges	Significant challenges	NA	Significant challenges	Significant challenges	Significant challenges
SDG 12 – Responsible consumption and production	Significant challenges	Significant challenges	NA	N/A	Significant challenges	Significant challenges
Major challenges (lowest progress)	Challenges remain		Significant challenges		SDG achieved (greatest progress)	

Source: Sachs et al. (2023)

Table 7. Indicators of the economic development

	Albania	BH	Montenegro	North Macedonia	Serbia
Global Innovation Index (changes 2023 vs 2018)	-4.5	-3	-8.7	3.1	-2.4
Global Competitiveness Index (2020 ranking, out of 141 countries)	81	92	73	82	72
Frontier Technology Readiness Index (2021 score)	0.5	0.5	0.6	0.5	0.6
Unemployment rates (in %)	11.3	15.4	15.1	14.5	9.4
Unemployment rates (changes 2022 vs 2018, in p.p.)	-0.7	-0.3	-0.3	-3	-1.8
Export of goods and services (in 2022, % of GDP)	37.4	48.1	51.5	74.9	63.8
Export of goods and services (changes 2022 vs 2018, in p.p.)	6.1	8.1	7.7	12.5	12.8

Source: OECD and UNCTAD

5. CONCLUSION AND RECOMMENDATIONS

Over the past two decades, the WB6 countries undertook steps to attract FDIs, in order to benefit the advantages they bring, but also to widen the limited domestic markets. Today, they continue to be among the most open economies to FDIs thanks to their open markets, comprehensive regulatory environments and numerous incentives. All WB6 economies have established an investment promotion agency mandated to promote, facilitate and attract FDIs. By providing benefits, assistance and incentives, the economies are facilitating foreign investment. Such incentives include tax exemptions, custom duty breaks, social contribution exemptions, employment subsidies, tax holidays and investments grants. Also, countries offer priority treatment to foreign investors, when execute administrative tasks. However, none of the WB6 countries except Montenegro have a single document that contains information of the available incentives for attracting FDIs. The literature assesses that the investment incentive schemes of WB6 are complex and sometimes hard to navigate, as they are managed by different bodies that lack transparency in their management and implementation. Also, measures are included in different national documents and laws which are not available in English, additionally confusing (potential) investors.

On the other side, none of the analysed economies publish data related to the granted sum of incentives to FDIs on a regular base, nor at one place. The complexity of the management structure and the low transparency in the conduct and disbursement of FDI incentives among WB6 often hampered the comprehensive evaluation of the cost of these measures and restrict the analysis if and to what extent the available incentives are crucial when choosing the investment destination. Hence, our recommendation are channeled in three directions:

1. Preparing a register of the available incentives for foreign companies

As the legislative of all WB6 countries is assessed as complex and vague, where available incentives are prescribed in different laws, programs and national documents, making confusions for potential investors, one of the key necessities for further improvement is creating a one-stop register of the available support / state-aid measures. The register should point all detailed information for each measure, including the eligibility criteria, time period, amount of the support, etc. The Montenegrin State Aid Inventory is a good example and a starting point for the other WB6.

2. Publishing data on the granted state aid to foreign companies

The unavailability of the data on the granted state aid is the main challenge in all WB6 countries. Although state aid providers and national Commissions for Protection of Competition, as main institutions that control state aid, are responsible to publish data on the granted state aid, both do not fulfil their legal obligation. Hence, all countries should create an appropriate program/ software, where data on the granted state aid will be regularly published according to different indicators such as the origin of the company's capital, the type of the aid, the purpose, the amount, etc. The EU's State Aid Scoreboard can be used as an example for good publishing practice.

3. Directing state aid towards closing existing gaps and encouraging economic development

As the final purpose of the granted state aid is increased FDIs inflows and economic opportunities, it should be strategically targeted toward improvement of the weakest macroeconomic indicators. The analysis shows that there are country-specific gaps in the SDGs fulfilment, suggesting that in Albania, Bosnia and Herzegovina and Montenegro, more aid should be directed toward employment support, as the high unemployment hinders the economic growth. In North Macedonia, there is a need for greater support of the investments, especially those for innovation and infrastructure, as the current low levels prevent proper growth in this area. However, to maintain investment attraction and mobilise sustainable investment, WB6 must prioritise skilled labour, modernise education, and improve infrastructure and governance, as well as strengthen the participation of SMEs in global value chains.

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ANNEXES

Annex 1

Table 1. Ease of Doing Business Score, 2020

Country	Overall score	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Albania	67.7	91.8	52.7	71	58.4	70	46	64.9	96.3	53.5	67.7
Bosnia and Herzegovina	65.4	60	48.8	79	63.6	65	56	58.4	95.7	57.8	68.2
Kosovo	73.2	95.9	55.3	73.9	77.5	85	40	81.9	94.2	64.7	53.5
Montenegro	73.8	86.7	76.1	61.2	65.8	85	62	76.7	81.8	66.8	66.1
North Macedonia	80.7	88.6	83.5	81.5	74.5	80	82	84.7	93.9	66	82.7
Serbia	75.7	89.3	85.3	73.2	71.8	65	70	75.3	96.6	63.1	67
0 – lowest score					100 – highest score						
WB average	73	85	66.9	73.3	69.4	75	59	74	94.8	62	71.2
OECD	78.4	91.3	75.6	85.9	77	64.3	68.2	84.3	94.3	67.8	74.9

Source: The World Bank

Table 2. Ease of Doing Business Index Ranking, 2022

Country	Overall ranking	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency	Score
Albania	82	53	166	107	98	48	111	123	25	120	39	67.7
Bosnia and Herzegovina	90	184	173	74	96	67	88	141	27	93	37	65.4
Kosovo	57	12	160	90	37	15	128	48	31	53	48	73.2
Montenegro	50	101	40	136	83	15	61	75	41	44	43	73.8
North Macedonia	17	78	15	68	48	25	12	37	32	47	30	80.7
Serbia	44	73	9	94	58	67	37	85	23	65	41	75.7
WB average		85	94	95	70	48						

Source: The World Bank

CHAPTER 3

TRANSPARENCY, KEY GAPS AND IDENTIFYING OPPORTUNITIES FOR HIGHER POLICY COORDINATION AND IMPROVING REGIONAL COOPERATION

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1. INTRODUCTION

State aid plays a pivotal role in shaping economic development across the Western Balkans, with each country navigating its own path toward greater transparency and alignment with European Union (EU) standards. As these nations strive to attract foreign direct investment (FDI) and support local industries, the proper management and oversight of state aid have become increasingly significant. However, despite the legislative frameworks in place, many challenges remain in ensuring that state aid is effectively controlled, transparent, and aligned with broader regional goals. This chapter explores the current state of state aid practices in the Western Balkans, highlighting the institutional structures, transparency issues, and gaps in the alignment with EU regulations.

By examining the legislative and operational frameworks of state aid control across Serbia, Bosnia and Herzegovina, Montenegro, North Macedonia, and Albania, this analysis uncovers key areas where reform is needed. It identifies the variations in institutional capacity, data publishing practices, and ex-post monitoring across the region, while also exploring the opportunities for regional cooperation. As these countries edge closer to EU integration, strengthening their state aid systems and improving coordination within the region will be essential for fostering transparency, ensuring fair competition, and maximizing the economic benefits of state aid.

2. METHODOLOGY

This chapter applies a mixed-methods approach to examine state aid control and transparency in the Western Balkan countries, comparing these practices to established EU standards. The methodology is structured around five core elements: **desk research**, **key informant interviews (KIIs)**, **requests for information of public importance**, **comparative analysis**, and **data triangulation.**

1) Desk research - Comprehensive desk research was carried out, collecting secondary data from numerous official sources. These included EU regulations, national state aid laws and databases, annual state aid reports from the WB5 countries, and European Commission progress reports. To benchmark the region's performance, we also reviewed data from the EU's ***State Aid Scoreboard*** and ***State Aid Transparency Public Search*** tools, providing a comparative view of transparency and state aid effectiveness in the Western Balkans.

2) Key informant Interviews (KIIs) – We conducted semi-structured interviews with key stakeholders across the Western Balkan region, including officials from state aid control bodies, ministries of finance and economy, representatives from similar past projects in the past, and academic experts. These interviews aimed to gather qualitative insights into the operational challenges and opportunities in state aid control and transparency. The interviews also provided context on the practical implementation of state aid legislation and the capacity gaps within regional institutions. KIIs were held with a mix of public and private sector experts to capture a comprehensive view of the current state aid landscape.

3) Request for information of public importance - In countries where access to state aid data was restricted, we submitted formal requests for information to relevant government bodies. These requests were used to obtain additional data on state aid awards, government decision-making processes, and the use of public resources. The information gathered was crucial in in filling gaps left by incomplete or unavailable official data, and the responses were thoroughly analyzed to contribute to a more complete picture of state aid practices.

4) Comparative analysis - A systematic comparative analysis was conducted, evaluating the state aid control systems of the Western Balkans alongside EU practices. This analysis focused on institutional frameworks, SAC procedures, data publication, and transparency mechanisms. By identifying differences and similarities, we highlighted areas where WB5 countries lag behind EU standards, while also showcasing best practices that could enhance not only transparency but also regional cooperation and policy coordination regarding state aid.

5) Data triangulation - To ensure the reliability and validity of the findings, data from desk research, KIIs, and responses to requests for public information were triangulated. This approach allowed for cross-verification of the information collected, providing a robust foundation for analyzing the state aid frameworks in the region.

3. EU STATE AID CONTROL AND DATA PUBLISHING

3.1 Institutional and legal framework

In the EU, state aid control and transparency are governed by a framework primarily established by the Treaty on the Functioning of the European Union (TFEU). Article 107 TFEU defines what constitutes state aid and under what conditions it can be deemed compatible with the internal market. Article 108 TFEU outlines the procedures for the notification, examination, and approval of state aid by the European Commission. Additionally, Article 109 TFEU allows the Council to make regulations for the application of Articles 107 and 108. The European Commission, specifically the Directorate-General for Competition, is responsible for enforcing these rules European Commission (n.d.).

State aid in the EU is also regulated through various key secondary legislation. The General Block Exemption Regulation (GBER) allows certain categories of aid to be automatically considered compatible if they meet specific conditions. The De Minimis Regulation exempts small aid amounts from state aid control. The Procedural Regulation details the implementation of Article 108 TFEU, including notification and investigation procedures. The Implementing Regulation provides detailed provisions on state aid notifications and annual reports. Transparency is further enhanced by the Commission Directive 2006/111/EC, which mandates the clear documentation of financial relations between public authorities and public undertakings. Additionally, Article 6 of Commission Regulation (EC) 794/2004 requires the publication of an annual State aid synopsis based on Member States' expenditure reports. These frameworks ensure that state aid is monitored, transparent, and aligned with EU policies to maintain fair competition within the internal market European Commission (n.d.).

3.2 EU state aid control procedures and timelines

State aid control in the EU involves several key procedures and timelines to ensure compliance and transparency. The process begins with the notification of state aid, where Member States must inform the European Commission of any new aid measures before implementation. However, exceptions to this requirement include aid covered by a Block Exemption Regulation, de minimis aid not exceeding €200,000 per undertaking over three fiscal years (€100,000 in the road transport sector), and aid under an already authorized scheme. Upon receiving a notification, the Commission conducts a preliminary investigation within 20 working days to determine whether the measure constitutes state aid, is compatible with EU rules, or requires an in-depth investigation due to serious doubts about its compatibility. For straightforward cases, a simplified procedure allows for a short-form approval decision within the same 20-day period European Commission (n.d.).

The Commission also reviews existing aid to ensure alignment with current EU rules and may initiate a formal investigation if necessary. Unlawful aid, granted without prior authorization, triggers a

Commission investigation that may result in suspension or recovery obligations. A formal investigation involves detailed assessment, public comments, and concludes with a decision categorizing the aid as compatible, conditionally compatible, or incompatible (requiring recovery). If aid is deemed incompatible, the Member State must recover it with interest to restore market conditions. All Commission decisions are subject to judicial review by the General Court and the European Court of Justice. Additionally, the Commission can conduct sector inquiries to address potential distortions across Member States European Commission (n.d.). However, over 80% of new state aid measures in the EU fall under the General Block Exemption Regulation (GBER), allowing for rapid implementation without prior notification to the Commission (European Commission, 2024).

3.3 Data publishing and transparency

Data on EU state aid is published through two main tools:

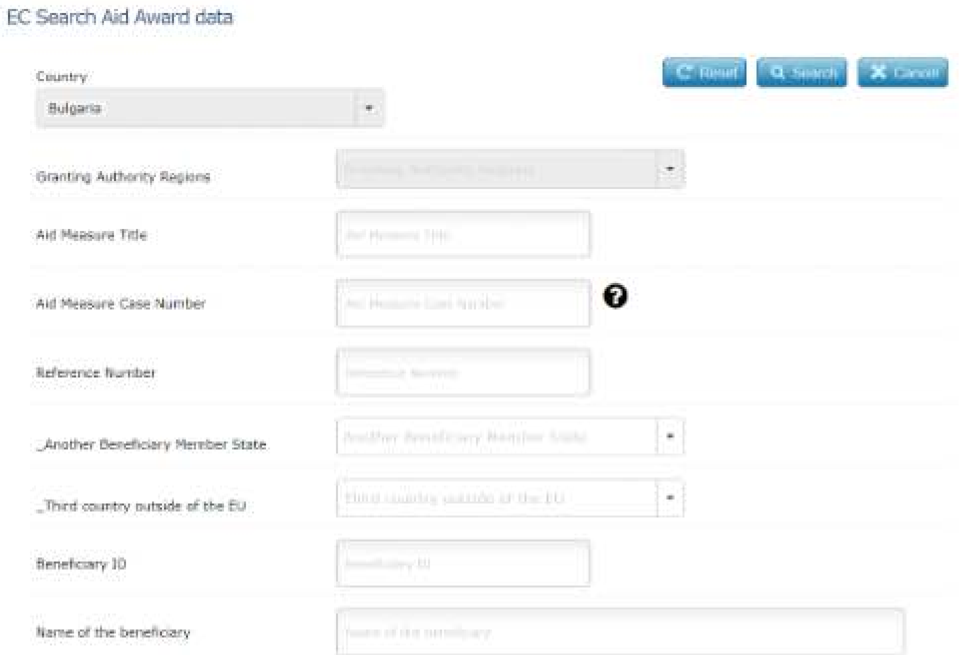
1. **State Aid Scoreboard** - Mandated by Article 6 of Commission Regulation (EC) 794/2004, it is an annual publication by the European Commission providing an overview of state aid expenditures by Member States, based on data up to December 31 of the previous year. Launched in July 2001, it serves as a benchmarking tool for state aid, offering a transparent and accessible summary of the state aid landscape within the EU and detailing the Commission's control activities. The Scoreboard excludes ongoing examinations, general measures not favoring specific sectors, and subsidies not affecting competition or trade, as well as de minimis funding and most aid to railways and the financial sector during crises, which are reported separately. Additionally, there is an interactive portal with data from 2000 to 2022, categorized by expenditure year, member state, objective, case type, and aid instrument, with data accuracy being the responsibility of Member States (European Commission, n.d.).

Picture 1. EU State Aid Scoreboard Interactive Portal

2. EU State Aid Transparency Public Search (individual award data) – In compliance with the ***European transparency requirements for State aid***, it gives access to state aid individual award data provided by Member States. Citizens and businesses can conveniently find information about awarded aid, including the beneficiary's name, the amount, location, sector, and purpose. These transparency requirements are designed to enhance the accountability of granting authorities and to minimize information gaps in the state aid market (European Commission, n.d.).

These two tools for researching state aid in the EU are excellent examples of best practices and should be considered the ultimate goal for Western Balkan countries. Furthermore, since all Western Balkan countries are candidates for EU membership, they will eventually need to adopt this reporting system.

Picture 2. The State aid transparency public search



4. STATE AID CONTROL AND TRANSPARENCY IN THE WESTERN BALKANS

Table 1. A Summary of state aid control and transparency in the Western Balkans

Topic	Serbia	Bosnia and Herzegovina	Montenegro	North Macedonia	Albania
Availability and Quality of Published State Aid Data	Annual reports lack detailed breakdowns and are not machine-readable; De minimis aid and FDI subsidies are published in more detail but are poorly structured; significant discrepancies exist between officially reported data and independently mapped figures.	Data quality and accuracy are often compromised due to under-reporting and misclassification of granted aid; uneven regulations at the entity level complicate the standardization of state-level reporting.	Annual reports lack detailed breakdowns, with no data on government levels and individual aid awards; data provided on state aid programs.	Annual reports are comparatively much more detailed, including micro-data on individual state aid awards. The only country providing data on both planned and granted aid; some discrepancies between data sources exist.	Annual reports lack detailed breakdowns, with no data on aid providers, government levels, and individual aid awards.
Ex-post Control of Granted Aid	Limited ex-post control, mostly reactive and top-down driven.	Limited ex-post control, with external pressure often required for enforcement.	Proactive enforcement in many cases.	No information on successful cases of ex-post control of granted aid.	Limited ex-post monitoring, with no recovery of illegal aid to date.
Key Transparency Issues	State aid is sometimes granted without prior CSAC approval, particularly for large foreign investors, and enforcement of state aid rules related to support for SOEs and aid under intergovernmental agreements remains limited.	The SAC lacks appropriate penalties for failing to notify state aid; reform efforts are hampered by slow administrative processes due to the country's two-entity institutional structure.	Despite a significant number of initiated and completed ex-post control cases, there is still a lack of clarity on how much illegal state aid has been repaid.	Transparency and oversight are limited by the large number of state aid providers, the absence of an up-to-date registry, and the constrained authority of the CPC.	SAC lacks operational independence, functioning under the Ministry of Economy, a major provider of state aid.

Key EU Alignment Challenges	Fiscal state aid schemes, including those related to corporate income tax, personal income tax, and free zones, remain unaligned with the EU acquis.	Inconsistent legislation across different administrative levels; the functioning of the SAC is hindered by decision-making processes based on ethnic lines.	The APC lacks adequate administrative capacities and authority to impose fines.	Laws regulating strategic investments and investment financial support create market distortions and raise concerns about transparency and corruption risks.	Implementing legislation is only partially aligned with the EU acquis in areas such as the General Block Exemption Regulation.
Reform priorities	Align fiscal state aid schemes with the EU acquis; create a regional aid map; strengthen the administrative and IT capacities of the CSAC.	Align regulations across all administrative levels; revise SAC's composition and voting procedures, and increase its staffing; implement a system for ex-ante notification of aid.	Empower the APC to impose fines and ensure its financial independence; address the shortage of APC staff and functional equipment.	Streamline better alignment of key state aid regulations with the EU; improve state aid register transparency; strengthen the administrative and financial capacity of the CPC.	Introduce legislation to enforce mechanisms for ensuring compliance with CAC decisions; amend state aid law to ensure SAC's independence and improve its capacity.

5. STATE AID FRAMEWORK: INSTITUTIONS, PROCEDURES, AND DATA MANAGEMENT

Among all WB5 countries, only Serbia has a separate state aid control institution—the Commission for State Aid Control—which is legally and operationally independent, with a permanent staff (Paragraf.rs, 2019). For example, neither Montenegro nor North Macedonia has a specialized institution responsible for state aid; instead, they rely on the Agency for the Protection of Competition (Montenegro) and the Commission for the Protection of Competition (North Macedonia) (Katalog propisa, 2018; Kzk.gov.mk, 2024). Albania, on the other hand, has a State Aid Control Department, but it lacks operational independence, as it operates under the Ministry of Economy, which is also a major provider of state aid (Financat-lokale.al, 2024). This, in effect, gives the Ministry the authority to oversee itself. Lastly, while Bosnia and Herzegovina has a separate State Aid Council, it consists of eight members who work in sessions rather than as permanent employees (Szdp.gov.ba, 2017).

Legally speaking, the procedures and timelines for state aid control and data publishing are largely the same across all WB5 countries. According to their respective legislation, new state aid schemes in these countries can be implemented only after receiving a positive decision from the relevant institutions (prior control). Additionally, already implemented measures can be subject to review to ensure the aid granted complies with the legislation (subsequent control). Regarding data publishing, state aid control (SAC) institutions in Western Balkan countries are legally required to collect data from aid providers by the end of the first quarter of the previous year for the current year and publish the data by mid-year for the previous year.

Similarly, the actual level of implementation and transparency of these procedures is rather low across all these countries, with little variation. For instance, despite legal requirements for state aid providers to notify SAC institutions prior to granting aid, this is often done ex-post or not at all. In Serbia, for instance, there are reports suggesting that the CSAC sometimes learns about state aid from media sources, which can impact its effectiveness and authority. Publishing delays are common, and annual reports are generally published in non-machine-readable formats, like scanned PDFs. Additionally, report release timelines in WB5 often depend on their respective governments' approval, contributing to delays. While EU standards encourage using interactive online portals for detailed, timely and accessible data, most Western Balkan countries are not legally required to reach this level of transparency.

Due to its unique institutional design, Bosnia and Herzegovina faces particularly complex issues regarding state aid control procedures. In practice, the functioning of the SAC is hindered by decision-making processes based on ethnic lines, requiring support from at least one representative from each ethnic community (the Badinter principle) for a decision to take effect. Consequently, even if a by-law on state aid is fully compliant with the acquis, it may not be adopted or implemented in practice. Additionally, since the SAC reports directly to the Council of Ministers, there is a lack of instruments for parliamentary oversight of state aid, with oversight occurring indirectly through parliamentary supervision of government activities (Andonova and Nikolov, 2020).

When it comes to ex-post control of granted state aid, there are significant variations between some Western Balkan countries. In some, like Montenegro, the APC has a proven track record of conducting ex-post controls to identify and assess unreported state aid, often uncovering illegal aid. For example, in March 2024, the APC ordered the public electric power company (EPCG) to recover €6.5 million in unlawful state aid granted to a steel plant. Similarly, in August 2022, it issued a third decision to recover aid from Montenegro Airlines while also investigating aid to Air Montenegro, the Bar-Boljare highway, UNIPROM KAP, and Plantaže (European Commission, 2023).

On the other hand, the Albanian SAC has been criticized by the EU for years, as, despite having the authority to order the recovery of illegal and incompatible aid, it has yet to do so (European Commission, 2023). In BiH, external pressure is often required for the SAC to perform its duties, as seen in 2022 when it ruled that illegal state aid had been granted to the Tuzla thermal power plant project, but only after the Energy Community Secretariat initiated infringement proceedings, with ex-post control typically focusing on large, media-covered programs like those in energy or public media services (Vladimir Spasić, 2022).

Data availability, quality, and transparency are generally limited across the WB5 countries. In all countries, data quality is compromised by a lack of awareness and capacity among aid-providing institutions to correctly classify or even recognize state aid. Additionally, none of the SACs publish complete data on aid granted by local self-government units, which hampers the ability to analyze state aid distribution geographically. Many categories, such as regional or COVID-19-related aid, also lack necessary clarification. Additionally, most SACs' annual reports fail to distinguish between domestic and foreign aid recipients, making it challenging to gather comprehensive data on foreign direct investments (FDIs).

Box 1 . Serbia's State Aid Control Commission

The CSAC issued its first decision declaring state aid as unlawfully granted in 2021, the first instance since the state aid control system was established in Serbia in 2010. The Commission determined that aid provided to Technic Development for building a Geox shoe factory in Vranje violated the Law on State Aid Control, and it instructed the Ministry of Economy to recover the funds. This action likely occurred because the company closed its production facility in Vranje that year, resulting in the loss of 1,200 jobs and creating significant social challenges in an already struggling region. Following this event, the CSAC appears to have become more proactive in its oversight. For example, in 2022, when the Ministry of Economy signed an investment agreement with Fiat that included a €48 million subsidy for their plant in Kragujevac, the CSAC ordered the Ministry to pause the disbursement of state aid until its compliance with regulations was verified. This review process was completed at the end of the following year, after which the funds were released. In 2023, the CSAC executed one aid recovery and issued seven negative decisions on state aid grants, indicating a significant improvement in its track record.

Published state aid data is officially classified similarly across all WB5 countries, with their methodologies largely mirroring those of the EU. Published data is categorized by objective into horizontal, vertical (sectoral), aid for regional development, and de minimis state aid (the latter two not present in Albania). Additionally, countries like Serbia and Montenegro include categories such as aid for services of general economic interest and aid to mitigate the effects of the COVID-19 pandemic, while Serbia alone has a separate category for aid for rescue and restructuring. Regarding specific instruments, the data is classified into subsidies, tax breaks, state guarantees, debt write-offs, and public property allocation (the latter only in Serbia).

However, there are notable differences in data publishing performance across countries. For instance, only North Macedonia's CPC publishes micro-data on individual state aid awards, including both recipients and aid programs. In contrast, Serbia's CSAC provides micro-data only for de minimis aid. Although this data is available in Excel format, it does not fully align with commonly recognized Open Data standards, such as DCAT-AP, which ensures that state aid data is presented in a consistent, machine-readable format, enhancing accessibility, interoperability, and reusability across systems and borders (European Commission, 2024).[1] Additionally, North Macedonia includes both planned and granted state aid in its annual report, while other countries generally report only the latter. Serbia's CSAC also occasionally excludes certain budgetary resources granted (or fiscal revenues forgone) from being classified as state aid. Examples include public enterprises, particularly in the energy sector, such as EPS and Srbijagas. Such exclusions can affect the perceived extent of state intervention in the economy.[2]

6. STATE AID MONITORING AND PLANNING, TRANSPARENCY ISSUES, AND GAPS IN EU ALIGNMENT

In most WB5 countries, state aid awards do not consistently align with existing strategic documents, and there is limited ex-post monitoring to assess the effectiveness of granted aid. For example, in Serbia, key guiding documents such as the Investment Plan and Development Plan, intended to direct lower-level strategies on state aid, have yet to be adopted. This absence of defined goals and expected outcomes also limits the availability of public analysis on the impact of state aid in areas like employment, investment, and energy efficiency, making it challenging for experts to conduct independent evaluations. Among the reviewed countries, only experts from Albania and Montenegro indicated alignment between state aid and strategic frameworks, along with regular ex-post analyses. However, as this information was gathered through key informant interviews (KIIs) with state institutions, its reliability cannot be fully verified, and the research scope did not allow for a deeper investigation. It's worth noting that SACs are not responsible for analyzing the effectiveness of granted state aid; this task falls to the aid providers themselves.

1 The Serbian CSAC does not publish micro-data on subsidies aimed at attracting foreign direct investment (FDI), which is one of the largest state aid measures. However, the Ministry of Economy, as the provider of this state aid, regularly publishes this data. Yet, similar to de minimis aid data, it does not fully align with Open Data standards, requiring researchers to spend additional time organizing it before extracting relevant information for analysis.

2 For example, the CSAC Annual Report for 2022 indicated €1.6 billion in total state aid, but this figure excluded an additional €1.6 billion in direct budget support to Elektroprivreda Srbije and Srbijagas to mitigate the effects of the energy crisis affecting these public enterprises.

The CSAC argued that, for a measure to be considered state aid, it must place a particular market participant in a more favorable position; however, they suggested that this criterion does not apply in the case of a natural or legal monopoly. However, even if competition is limited within the national market, such support could be qualified as relevant in the current state aid discussions, while its legality may present certain challenges.

First, as an EU candidate country and a member of the Energy community, Serbia is expected to align its energy sector with EU directives and the Energy Community Treaty, which Serbia has signed. These frameworks promote competition, market integration, and the gradual liberalization of energy markets. Direct budget support, such as this, provided without a clear restructuring plan or measures to improve market efficiency, could reinforce or perpetuate a monopoly, which may conflict with these goals.

Furthermore, although Srbijagas and EPS operate as monopolies within Serbia, these companies engage in cross-border energy trade and impact energy markets in neighboring countries. By providing direct budget support, Serbia may indirectly affect competition not only within the regional but also the broader European energy market, especially as it moves toward EU integration.

Finally, CSAC stated that this aid qualifies as a general economic measure, implying that the selectivity criterion does not apply. However, general economic measures are those that apply broadly across sectors or the economy (e.g., tax cuts or interest rate hikes). In contrast, direct budget support for EPS and Srbijagas is selective, as it specifically targets entities within the energy sector rather than being broadly applicable across industries or companies.

Despite evident improvements over the years, key factors limiting transparency in state aid across WB countries still include infrastructure constraints, limited human resources, institutional capacity, political will, and low awareness among aid providers. None of these countries yet have dedicated software for submitting notifications or a fully centralized electronic register for state aid. While SACs generally operate effectively within their mandates, political challenges limit their ability to fully align state aid oversight with EU standards. Additionally, awareness, though it has grown in recent years, remains relatively low, especially at the local level, where many providers lack clarity on what qualifies as state aid.

However, many countries face unique challenges regarding state aid transparency and effectiveness. In Bosnia and Herzegovina, the SAC lacks appropriate penalties mechanism for failing to notify state aid, while reform efforts are hampered by slow administrative processes due to the country's two-entity institutional structure. In North Macedonia, transparency and oversight are limited by the large number of state aid providers, the absence of an up-to-date registry, and the constrained authority of the Commission for the Protection of Competition (European Commission, 2023). In Montenegro, despite a significant number of initiated and completed ex-post control cases, there is still a lack of clarity on how much of illegal state aid has been actually repaid, particularly since some recipients, like Montenegro Airlines, have declared bankruptcy (Jasna Vukićević, 2024). In Albania, the main challenge is the SAC's lack of operational independence, as it is the only regional body functioning under the Ministry of Economy (European Commission, 2023). In Serbia, a significant transparency issue involves granting state aid without prior CSAC approval, particularly to large foreign investors. Additionally, the enforcement of state aid rules regarding support for state-owned enterprises (SOEs) and aid given through intergovernmental agreements, especially for major infrastructure projects with non-EU countries, remains insufficient (European Commision, 2023).

The legislative framework for state aid in Western Balkan countries is broadly aligned with EU regulations, but significant implementation gaps remain, varying across countries. Common issues include a lack of transparent implementation records and the absence of centralized state aid registers. Each country faces unique challenges: Albania's implementing legislation, which governs most of the actual procedures, is partially aligned with the EU acquis only in some areas like the General Block Exemption Regulation, while Bosnia and Herzegovina struggles with inconsistent legislation across different administrative levels further complicating EU alignment. Montenegro's APC most notably lacks the authority to impose administrative fines, unlike the European Commission. In North Macedonia, market distortions arise from state aid schemes with unclear objectives particularly under the Law on Financial Support of Investments, and concerns about transparency and corruption risks have been raised under the new Law on Strategic Investments. In Serbia, despite CSAC's claims of compliance with EU rules during interviews, fiscal state aid schemes, including those related to corporate income tax, personal income tax, and free zones, remain unaligned with the EU acquis since the 2014 screening report. Although the CSAC has submitted an updated inventory of state aid schemes that are not aligned with the acquis, the government's action plan and regional aid map have yet to be finalized (European Commision, 2023).

7. CONCLUSIONS AND RECOMMENDATIONS

This analysis suggests that all WB5 economies continue to face challenges in developing effective state aid control systems. While generally aligned with EU regulations, gaps remain in the enforcement of these rules, particularly regarding transparency in data publication, which often relies on respective governments and state aid providers. Common issues include publication delays, inconsistent reporting, and varying data quality. Although EU standards promote accessible online portals, most Western Balkan countries are not legally required to adopt this level of transparency. Cases of state aid granted without prior notification to authorities are also common, affecting system effectiveness. Despite improvements over the years, as seen in the rising number of negative opinions issued, capacities for both ex-ante and ex-post control remain limited, affecting comprehensive assessments of aid legality and efficiency. Additionally, alignment with strategic documents is limited in most cases, and, although this responsibility rests with the aid providers, ex-post monitoring of aid efficiency is minimal. Lastly, relationships between regional governments and SOEs remain somewhat unclear, as much of this support is not classified as state aid by SACs.

However, there are significant disparities among Western Balkan countries in terms of state aid control and transparency. Serbia is the only country with a separate SAC institution that is both legally and operationally independent, while others rely on less specialized institutions, which either combine the functions of state aid control with competition protection or lack operational independence, as in Albania. While Serbia's CSAC is formally independent, just like in every other WB country, publication delays are common, and annual reports are typically issued in non-machine-readable formats, like scanned PDFs. North Macedonia's CPC stands out as the only SAC which publishes micro-data on individual state aid awards, covering both recipients and aid programs. Montenegro has shown progress in identifying unlawful state aid, although the actual repayment of such aid remains less clear. In Bosnia and Herzegovina, political complexities in the two-entity system further challenge effective state aid control and reform.

Despite evident improvements over the years, key factors affecting state aid transparency in Western Balkan countries include limited infrastructure, human resources, institutional capacity, political will, and low awareness among aid providers of state aid requirements. ll countries lack centralized electronic registers and standardized procedures for collecting, classifying, and digitizing older documentation, which remains in paper format, through appropriate software for submitting notifications. While state aid control authorities generally operate effectively within their mandates, their influence is often constrained by limited political support. Each country faces specific challenges: Bosnia and Herzegovina's SAC lacks penalties for unreported state aid; North Macedonia encounters oversight difficulties due to a high number of aid providers and an outdated registry; Montenegro lacks clarity on the repayment of illegal aid; Albania's legislation is only partially aligned with EU standards; and Serbia's main issues include state aid granted without prior approval, particularly to large foreign investors, and limited rule enforcement in large infrastructure projects with third countries.

To improve state aid transparency across the Western Balkan countries, several legislative changes are required, with specific priorities tailored to each country. In Albania, legislation must enforce both public and private mechanisms for ensuring compliance with State Aid Commission (SAC) decisions, with a strong emphasis on requiring the recovery of incompatible state aid, supported by stronger judicial involvement. Bosnia and Herzegovina (BiH) needs to adopt state aid decrees at both state and Brčko District levels and revise the State Aid Council's composition and voting procedures, alongside implementing an ex-ante notification system for state aid reporting. In Montenegro, empowering the APC to impose fines and ensuring its financial independence are critical legislative priorities. North Macedonia requires better alignment of its Law on State aid and implementing regulations with EU standards and improvements in its state aid inventory transparency. In Serbia, aligning fiscal state aid schemes with the EU acquis is essential, along with adopting a regional state aid map and enforcing ex-ante and ex-post analyses of state aid impacts.

All Western Balkan countries would benefit from establishing an electronic national state aid register modeled after the EU State Aid Scoreboard, along with an individual award register similar to the EU State Aid Transparency Public Search. Ideally, the latter should be updated quarterly, with its micro-data organized into categories for the national register. While the EU is not required to publish data if the scheme's value is under 150 million euros annually (or 750 million in total), the WB5 countries, being smaller, could benefit from a system that supports ex-post analysis to assess the effectiveness of granted aid. Additionally, following North Macedonia's example, these countries could include both allocated and planned state aid in their annual reports. Finally, these countries should consider creating an interactive geographical map to display data on regional and local aid.

All WB countries should enhance state aid control by increasing staff, professionalizing key roles, improving infrastructure, and training local state aid providers on notification and transparency obligations, while ensuring regional governments' support for SOEs complies with national legislation. In particular, Albania should amend its Law on State Aid to ensure the operational independence of its SAC body from the Ministry of Economy, mandate a minimum number of staff, and establish a permanent team for decision-making oversight. Bosnia and Herzegovina should expand its secretariat and permanently employ council members, ensuring they are professionals dedicated to their responsibilities without concern for re-election. Montenegro should particularly focus on addresing the shortage of APC staff and functional eqipment, such as printers and access to necessary softwares and databases. North Macedonia should strengthen the administrative and financial capacity of CPS especially with regard to IT infrastructure as a precondition for establishing a digital state aid registry. Finally, in Serbia, enhancing the CSAC's IT capacities could support the development and maintenance of a digital state aid register. The Commission should continue its successful collaboration with the Office for IT and eGovernment, which provides essential infrastructure and connections across the public sector.

Key international partners for supporting state aid control and transparency reforms in the Western Balkans should include the European Union, GiZ, and UNDP and partnerships with civil sector. The EU, particularly through its mechanisms such as IPA III, TAIEX, and PLAC III, should continue to provide oversight, technical assistance, and training to ensure that the region adheres to EU state aid standards. GiZ, having already implemented several public administration reform projects across the Western Balkans, has played a crucial role in organizing workshops for state aid providers and developing state aid control guides. In addition, UNDP has collaborated with governments in the region to promote Open Data initiatives, encouraging public institutions to make data more accessible and fostering its productive use. Furthermore, partnerships with non-governmental organizations and the application of findings from ongoing projects can enhance the analysis and dissemination of state aid information across the region.

Opportunities for improving regional policy coordination on state aid in the Western Balkans should not only focus on leveraging regional initiatives but also on formalizing existing relationships between regional SAC institutions. The CRM action plan, which aims to accelerate integration into the EU Single Market, includes establishing a CEFTA body dedicated to competition and state aid to enhance transparency and coordination. However, with CEFTA currently blocked due to political reasons, countries should explore alternative strategies, such as intensifying their current relationships between regional SAC bodies. For instance, a Memorandum of Cooperation could be signed to formalize regular meetings—already taking place—to occur more frequently, such as once or twice a year, to facilitate the exchange of experiences and best practices.

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ANNEXES

Annex 1: Key informant interviews (KIIs)

Team Leader on the EU funded project Support for Commission for State aid Control in Serbia

Head of Unit, Department of Business Development Policies State Aid, Ministry of Finance of Albania

Professor, Faculty of Economics, University of Tirana, Albania

Director of Union of Youth Entrepreneurs of Albania

Chamber of Diaspora, Albania

Management Consultant, Albania

Secretariat of the State Aid Council of Bosnia and Herzegovina - Head of the Secretariat and Senior Expert in the Secretariat

EU funded project "EU Support to State aid Legislation" - Team Leader

Agency for Protection of Competition of Montenegro

Ministry for Economic Development of Montenegro

Directorate for Technological and Industrial Zones of North Macedonia

Commission for Protection of Competition of North Macedonia

Commission for State Aid Control of Serbia

Development Agency of Serbia

CONCLUSION AND RECOMMENDATIONS

The analysis of state aid practices across the Western Balkans has revealed a complex landscape where state intervention plays a critical role in shaping economic development, enhancing competitiveness, and fostering alignment with broader European Union (EU) standards. This study has provided a comprehensive examination of state aid policies, focusing on key dimensions such as the types, scale, and targeted sectors of aid, while also offering a comparative overview across several Western Balkan countries. The findings highlight both promising opportunities and significant challenges, leading to a set of actionable recommendations for policymakers.

Summary of Key Findings

1. Varied Approaches to State Aid Programs Across the Region

The study observed significant diversity in how Western Balkan countries design and implement their state aid programs. In some nations, state aid has been strategically channeled to support the growth of small and medium-sized enterprises (SMEs), fostering innovation and entrepreneurship. These efforts are particularly evident in countries where the private sector is still developing and where local businesses need additional support to compete with larger, well-established firms.

Conversely, other nations have allocated state aid predominantly to large-scale industries, including infrastructure projects, manufacturing, and export-oriented sectors. While these programs have been successful in creating jobs and boosting economic output, there are concerns about their long-term sustainability, especially when state support is used to prop up sectors that may not be competitive without ongoing subsidies. This disparity in approaches reflects the different national priorities, economic structures, and stages of development across the region, but it also points to a lack of uniformity that may hinder regional policy cohesion. Addressing this inconsistency will be key to fostering a more integrated regional economy that can compete on a global scale.

2. State Aid as a Driver of Foreign Direct Investments (FDIs)

The study underscores the crucial role of state aid in attracting Foreign Direct Investments (FDIs) to the Western Balkans. Countries have utilized various incentives, such as tax breaks, grants, and subsidies, to entice foreign companies to set up operations, particularly in sectors such as manufacturing, technology, and energy. These incentives have been instrumental in boosting investment inflows, creating jobs, and transferring knowledge and technology to the region.

However, there are critical concerns regarding the sustainability and strategic focus of these investments. In some instances, state aid has been allocated to industries that may not align with the region's long-term developmental goals, leading to a dependency on foreign entities that may not have enduring commitments to local economies. Additionally, the lack of transparency in the selection and monitoring of beneficiary firms raises questions about the effectiveness of state aid in fostering sustainable economic development. Ensuring that FDIs contribute to long-term value creation, rather than short-term gains, will be crucial for the future prosperity of the region.

3. Transparency, Policy Coordination, and Regional Cooperation Challenges

One of the most pressing issues identified in this study is the lack of transparency in how state aid is allocated and managed across the Western Balkans. While state aid can be a powerful tool for economic development, its effectiveness is often undermined by opaque processes, inconsistent criteria, and inadequate oversight. This opacity not only diminishes the trust of stakeholders, including international investors and local businesses, but also raises concerns about compliance with EU regulations, which is particularly critical for those countries that are aspiring to join the EU.

Moreover, the study found that there are substantial gaps in policy coordination both within and between countries.

National governments often work in silos, with little regard for how their state aid programs impact regional dynamics. This lack of cohesion prevents the Western Balkans from realizing the full potential of regional cooperation, which could lead to greater economic integration, increased cross-border investments, and more effective use of resources. To overcome these challenges, there is a need for enhanced dialogue and collaboration between governments, as well as more structured frameworks for coordinating state aid policies across the region.

Recommendations for Policy Improvement

1. Enhance Strategic Alignment with EU Standards

Countries in the Western Balkans should prioritize aligning their state aid policies with EU guidelines. This alignment is not only essential for smoother integration into the EU but also promotes more sustainable and inclusive economic development. Policymakers need to ensure that state aid programs support sectors with long-term growth potential, rather than focusing on short-term gains. This strategic alignment will also facilitate the attraction of quality investments that contribute to structural improvements in the economy.

2. Foster Regional Cooperation and Policy Harmonization

To maximize the benefits of state aid, there is a need for greater regional cooperation. Countries should work towards harmonizing their state aid policies, enabling a more integrated market that can attract cross-border investments and stimulate regional development. This could be achieved through joint initiatives, exchange of best practices, and the creation of regional funds that target common challenges. Harmonized policies would also enhance the Western Balkans' competitiveness on a global scale, making the region a more attractive destination for international investors.

3. Improve Transparency and Accountability

To address concerns about transparency, countries should establish more robust mechanisms for reporting and monitoring state aid allocations. This includes clear criteria for eligibility, standardized reporting practices, and independent audits to ensure that funds are used effectively and in compliance with both national and EU regulations. Greater transparency will build trust among stakeholders, including international investors, and enhance the credibility of state aid programs. Transparent practices will also mitigate risks associated with misallocation and corruption, ensuring that state aid truly serves public interests.

4. Focus on Innovation and Sustainable Sectors

Future state aid strategies should increasingly focus on promoting innovation, digitalization, and sustainability. By directing support towards sectors such as green technologies, renewable energy, and digital infrastructure, countries can position themselves as competitive players in the global market. This shift would also align with broader EU strategies aimed at achieving sustainable development and reducing carbon footprints. Encouraging innovation-led growth will help the Western Balkans transition towards knowledge-based economies that are more resilient and adaptable to future challenges.

5. Strengthen Capacity Building and Institutional Support

Effective implementation of state aid programs requires strong institutional frameworks and capacity building. Governments should invest in training and resources for the institutions responsible for managing state aid, ensuring that they have the expertise to design, implement, and evaluate programs efficiently. Enhanced capacity will also support compliance with complex EU regulations, reducing the risk of legal disputes and financial penalties. Building institutional strength will also enable governments to adapt state aid programs to changing economic conditions, ensuring their continued relevance and impact.

Final Remarks

State aid remains a key policy tool for driving economic transformation in the Western Balkans. However, to fully realize its potential, it must be managed strategically, transparently, and in alignment with broader regional and international goals. By adopting the recommendations outlined in this study, policymakers can enhance the effectiveness of state aid, attract more substantial and sustainable investments, and foster a more cohesive regional economy that is well-prepared for future challenges and opportunities in the global market. The future of the Western Balkans' economic landscape depends on the ability to leverage state aid as a catalyst for inclusive and sustainable growth, while navigating the complexities of global integration and regional cooperation.