

Chapter 6.

AN INNOVATIVE APPROACH TO MEASURING DEVELOPMENT ACHIEVEMENTS – SERBIA IN THE EUROPEAN CONTEXT

The world we live in is undergoing a profound social and planetary transformation, accompanied by growing uncertainty. The escalation of climate change risks as the greatest source of long-term concern¹²³, along with economic turbulence, stricter regulations, and technological accelerations, strongly influences movements in the insurance sector, which is itself changing and modernizing in line with the demands of the new era.

Key trends that will shape this sector include: the application of *predictive AI* technologies, which in the context of insurance can be used to assess risks, optimise policy prices, prevent fraud, and even personalise services for customers; *automation in the claims processing*, i.e., the use of technology, including artificial intelligence (AI) and robots, to automate various steps in the insurance claims process; the affirmation of *personalised insurance*, i.e., the creation of policies that are largely tailored to customers; the introduction of *IoT connected devices* to collect data that can help reduce risks, optimise premiums, or even speed up and make the claims process more efficient; the application of *telematics*, which combines telecommunications and computer science to collect, transmit, and analyse data (typically used in the automotive industry); the appearance of *emerging and unprecedented risks*, which are unpredictable and require new approaches in the insurance sphere.

Additionally, there is a very relevant trend of *integrating sustainability and Environmental, Social, and Governance - ESG criteria into the management of insurance companies*, which is seen as the only correct path.¹²⁴ This trend is closely linked to changes in the conceptualisation of development and the measurement of development achievements, which are the focus of this research.

¹²³ World Economic Forum (2025). *The Global Risk Report 2025*. Geneva: WEF, p. 4.

¹²⁴ See: <https://wint.ai>

1. HISTORICAL OVERVIEW OF MEASURING DEVELOPMENT ACHIEVEMENTS

During the post-war period, which spans more than seven decades, there has been a true evolution in the understanding of economic development, which was reflected in the way development achievements were measured, specifically in the evaluation of changes in human welfare. The traditional approach to national economic development, characteristic of the 1950s and 1960s, was marked by the dominance of economic growth, measured by the increase in GDP, either total or *per capita*. Although economic growth was highly valued by the creators of development policy, it was not considered the goal of economic development but rather the main indicator of development performance. Increasing the welfare of the population was the ultimate concern of development, but it was assumed that, in accordance with the 'trickle-down' theory¹²⁵, economic growth would automatically ensure the realisation of that goal, which is why it was placed at the center of attention.

By the end of the 1960s, the sense of satisfaction created by the post-war economic boom gradually gave way to disappointment caused by the social and ecological consequences of growth. This resulted in a sort of 'humanization' of the theory of economic growth and a shift in focus from increasing GDP to changes in welfare that arise from its growth.¹²⁶ Given the importance placed on improving welfare when measuring economic growth, two extreme viewpoints emerge. According to one, the primary task of statistics is to determine the contribution of economic activity to human welfare. According to the other, measuring economic growth should be separated from welfare and changes in it, and should be limited only to products and services that are part of market exchanges.¹²⁷ In most cases, these viewpoints do not confront each other in an extreme form. Insisting on measuring welfare in its strict sense would introduce so many subjective elements into the calculation that it would call into question the validity of the results obtained. On the other hand, loyalty to market transactions would be paid for by losing important items in the calculation of economic growth.

¹²⁵ Moore, H. L., & Saffron, W. (2022). Conceptualising and measuring prosperity. *GOLD VI Working Paper Series #11*, 3. Barcelona: United Cities and Local Governments.

¹²⁶ See: Jovanović Gavrilović, B. (1989). *Kvalitet privrednog rasta*. Belgrade: Savremena administracija, p. 4; and Jovanović Gavrilović, B., Gligorić Matić, M., & Jovanović Gavrilović, V. (2024). Quantity and Quality of Growth in the New Economic Reality. *Novi Ekonomist*, 18(35), p. 24.

¹²⁷ Mishan, E. J. (1967). *The Costs of Economic Growth*. London: Staples Press.

Thus, the problem essentially boiled down to finding the optimal degree of imputation into the existing system of measuring production and economic growth. There were proposals to adjust conventional indicators of economic growth to make them more sensitive to changes in income distribution and the position of the poor¹²⁸, or to take into account the damage done to the natural environment¹²⁹.

A number of authors, in an effort to overcome the shortcomings of GDP, reject the very idea of measuring welfare in monetary terms. Instead of making greater or lesser interventions in the existing system of calculating production and economic growth, they propose replacing aggregate value indicators with a set of social indicators. Pioneering research in this field was conducted under the auspices of the Institute for Social Development Research at the UN during the 1960s.¹³⁰

Efforts were also made to develop composite indicators of welfare that could replace or complement GDP. Among them, attention was drawn to the Physical Quality of Life Indicator (PQLI), based on three individual indicators: life expectancy at one year of age, infant mortality, and literacy.¹³¹ The PQLI, like the list of social indicators, was separate from GDP, and thus, there was a lack of synergy between the economic and social aspects of prosperity.

The mentioned shortcoming was addressed with the affirmation of the concept of human development and the introduction of the Human Development Index - HDI, probably the most well-known measure of development achievements, which combines economic and social indicators.¹³² The current definition of HDI lacks an ecological component, although there have been attempts to 'green' the index.¹³³ Indeed, the 2020 Human Development Report defined the Planetary Pressures-Adjusted HDI - PHDI, which takes into account planetary pressures,

¹²⁸ Chenery, H. B. et al. (1974). *Redistribution with Growth*. Oxford: Oxford University Press.

¹²⁹ Nordhaus, W., & Tobin, J. (1972). Is Growth Obsolete? *Economic Growth, Fiftieth Anniversary Colloquium*. New York: National Bureau of Economic Research.

¹³⁰ Hicks, N., & Streeten, P. (1979). Indicators of Development: The Search for a Basic Needs Yardstick. *World Development*, 7(6), p. 575.

¹³¹ Morris, M. D., & Liser, F. D. (1977). The PQLI: Measuring Progress in Meeting Human Needs. *Communique on Development Issue*, p. 32.

¹³² United Nations Development Program (1990). *Human Development Report*. New York: Oxford University Press.

¹³³ Atkinson, G. et al. (1997). *Measuring Sustainable Development: macroeconomics and the environment*. Cheltenham: Elgar, pp. 149-150.

i.e., the interaction between humans and the planet¹³⁴, but this index did not challenge the central position that the traditionally defined HDI holds in monitoring human development.

Alongside the idea of human development, the concept of sustainable development was also affirmed, which has become a universal development paradigm applicable to all countries of the world. It is a holistic approach to development that integrates economic, social, and ecological aspects, taking into account the interests of both present and future generations. Sustainable development has stimulated efforts to measure developmental achievements, which has resulted in numerous new indicators. A crucial role in this process has been played by various international initiatives, including the OECD World Forum on 'Statistics, Knowledge, and Policies', initiated in 2004¹³⁵, the organizing of the 'Beyond GDP' conference by the European Commission and its partners¹³⁶, as well as the publication of the influential Stiglitz-Sen-Fitoussi Commission report, which provided an important impulse for measuring economic performance and social progress.¹³⁷ A recent UN initiative should also be added to this, which opens the door for the introduction and institutionalization of a new global metric that goes 'beyond GDP,' focusing on the well-being of people and the planet, as well as sustainability.¹³⁸ The mentioned idea was incorporated into the 'Pact for the Future', adopted at the UN's 'Summit of the Future' in 2024, with the aim of identifying a limited number of 10-20 universally applicable headline indicators of progress in sustainable development that complement and surpass GDP.¹³⁹ Given the key role of the UN in the standardization and institutionalization of GDP, this initiative could facilitate a global shift toward measuring development achievements beyond GDP. Work is also underway on the construction of the 2025 SNA, which represents an

¹³⁴ United Nations Development Program (2020). *Human Development Report 2020: The Next frontier - Human development and the Anthropocene*. New York: UNDP, pp. 233-244.

¹³⁵ OECD (2004). *OECD World Forum on Key Indicators*. Palermo: OECD.

¹³⁶ European Commission & European Parliament (2009). *Beyond GDP – Measuring progress, true wealth, and the well-being of nations*. Luxembourg: Publications Office of the European Union.

¹³⁷ Stiglitz, J., Sen, A., & Fitoussi, J-P. (2009). *The Measurement of Economic Performance and Social Progress Revisited*. OFCE.

¹³⁸ United Nations System Chief Executives Board for Coordination (2022). *Valuing what counts - United Nations system-wide contribution on progress beyond gross domestic product (GDP)*. New York: CEB.

¹³⁹ United Nations (2024). *Summit of the Future Outcome Documents*. New York: UN, p. 34.

important step toward a more comprehensive measurement system that includes a chapter on well-being and sustainability.¹⁴⁰ To achieve a truly integrated and multidimensional accounting system, further adjustments are needed, but it is essential to recognize the importance of creating such a system.

Some of the existing indicators, compatible with the idea of sustainable development, 'adjust' GDP, such as the Index of Sustainable Economic Welfare¹⁴¹, which was later revised and renamed the Genuine Progress Indicator¹⁴², Green GDPs calculated using different methodological approaches¹⁴³, Adjusted Net Savings, also known as Genuine Savings¹⁴⁴, and health-adjusted GDP *per capita*¹⁴⁵. Others are linked together to form a set of sustainable development indicators (economic, social, ecological), with their final aggregation missing. As an example, we can mention the comprehensive list of indicators through which the achievement of the UN Sustainable Development Goals by 2030 is monitored. A special group consists of composite indices of development achievements that combine several different measures (where GDP may or may not be included) into a single number.

Thanks to the abundance of quantitative and qualitative information available today, it is possible to track progress in economic, social, and ecological terms through multidimensional, complex indicators. Only aggregate indices, which cover various aspects of sustainable development and well-being, can compete with GDP as an undeniably important but insufficient indicator for measuring development achievements. Within the 'beyond GDP' development discourse, an alternative metric of well-being, happiness, and social progress has been built, based on economics as a scientific discipline, but also psychology. The most well-known composite indices of development achievements related to the

¹⁴⁰ <https://unstats>

¹⁴¹ Daly, H. E., & Cobb, J. B. (1989). *For the common good: redirecting the economy towards community, the environment, and a sustainable future*. Boston: Beacon Press.

¹⁴² Cobb, C., Halstead, T., & Rowe, J. (1995). *The Genuine Progress Indicator: Summary of Data and Methodology*. San Francisco.

¹⁴³ United Nations (2003). Handbook of National Accounting: Integrated Environmental and Economic Accounting. *Studies in Methods*, 61(1).

¹⁴⁴ Pearce, D., & Atkinson, G. (1993). Capital Theory and the Measurement of Sustainable Development: An Indicator of Weak Sustainability. *Ecological Economics*, 8.

¹⁴⁵ European Commission (2023). *Strategic Foresight Report 2023*. Luxembourg: Publications Office of the European Union.

concept of sustainability are: Ecological Footprint¹⁴⁶, Living Planet Index¹⁴⁷, Happy Planet Index¹⁴⁸, Social Progress Index¹⁴⁹, and OECD's Better Life Initiative¹⁵⁰. This group also includes the Legatum Prosperity Index (LPI), which is the subject of special attention in this chapter.

2. PROSPERITY INDEX AS A COMPREHENSIVE MEASURE OF DEVELOPMENT ACHIEVEMENTS

Conceptual Framework

The Prosperity Index of the Legatum Institute (now the Prosperity Institute) - LPI is a comprehensive indicator of economic progress and quality of life, encompassing both material and non-material well-being. As such, it far exceeds traditional macroeconomic measures of national prosperity that rely solely on indicators of material wealth, such as GDP *per capita*. This index is also unique in that, in addition to objective variables, it includes subjective variables that provide insight into people's perception of their standard of living and well-being. This aligns with the growing interest in research on 'subjective well-being' (commonly known as 'the science of happiness'), which is important for a holistic assessment of prosperity. Furthermore, the LPI is one of the few indices that includes an ecological component, which, together with the economic and social dimensions, represents the main pillars of sustainable development.

The Prosperity Index stems from the very definition of the concept. True prosperity, according to the Prosperity Institute, assumes that people have the opportunity to progress and realise their potential while simultaneously contributing to the progress of the country. This implies an *inclusive society* in which the fundamental freedoms and security of each individual are protected. In a prosperous society: people live in peace, free from oppression, crime, and the threat of violence; the dignity of every individual is respected, and freedom of speech, religion, and assembly are protected; governing institutions operate

¹⁴⁶ Wackernagel, M., & Rees, W. E. (1996). *Our Ecological Footprint: Reducing Human Impact on the Earth*. Gabriola Island, BC: New Society Publishers.

¹⁴⁷ Loh, J. J. et al. (1998). *Living Planet Report 1998: Overconsumption is driving the rapid decline of the world's natural environments*. Gland: World Wildlife Fund for Nature.

¹⁴⁸ Marks, N. et al. (2006). *The Happy Planet Index*. London: New Economics Foundation.

¹⁴⁹ Porter, M. E., Stern, S., & Loría, R. A. (2013). *Social progress index 2013*. Washington, DC: Social Progress Imperative.

¹⁵⁰ OECD (2020). *How's Life? 2020: Measuring Well-Being*. Paris: OECD Publishing.

professionally, are accountable to citizens, and subject to the rule of law; stable families and broader communities instill values that shape culture and build trust needed for social progress. The driving force of prosperity is an *open economy* that relies on the ideas and talents of people to create a sustainable path out of poverty. In such circumstances: property rights are protected, allowing the flow of investments; business regulations enable entrepreneurship, competition, and innovation; open markets and high-quality infrastructure facilitate trade and business; fiscal and monetary policies are responsibly used to stimulate employment, productivity, and sustainable economic growth. Prosperity is built by *empowered people* who create a society focused on promoting well-being. This means the following: everyone is able to build a life free from poverty; people care for their physical and mental health and have access to effective healthcare; education is valued, and everyone has access to high-quality education to realize their potential; the natural environment is carefully respected, taking into account the interests of both present and future generations. Finally, it is worth noting that from the perspective of prosperity, it is not only important what we receive, but also who we become.¹⁵¹

Measuring national prosperity is an important task for every country. A well-constructed prosperity index can help policymakers assess the achieved results, identify key trends over time, pinpoint limiting factors on the path to prosperity, and define agendas for further growth and development. The trajectory from poverty to prosperity differs from country to country. The specific circumstances that characterize each country are crucial in determining priorities. Diagnosing limiting factors for development that takes into account the specific circumstances of each country is a prerequisite for creating relevant development strategies.

Methodology

The conceptual framework of the Legatum Institute for measuring prosperity, which serves as the basis for our research, covers 3 domains as the foundations of prosperity, divided into 12 pillars that address fundamental aspects of prosperity. (See Table 1) The pillars are further decomposed into a total of 67 elements, which represent key policy areas such as investor protection, basic education, rule of law, macroeconomic stability, and air pollution. In calculating the LPI, 300 indicators were used, with each element having between one and eight indicators, and each pillar having between five and eight elements.¹⁵²

¹⁵¹ See: Legatum Institute (2023). *The 2023 Legatum Prosperity Index*. London: Legatum Institute, p. 7.

¹⁵² *Ibid*, pp. 92-93.

Since the indicators are expressed in different units, their normalization has been carried out to make the comparison between the indicators and countries meaningful. For this purpose, the distance-to-frontier (DTF) approach was used, which compares the performance of a given country in terms of a particular indicator with the values of the assumed best and worst-case scenarios for that indicator. Accordingly, the distance-to-frontier score reflects the relative position of the country. This approach also allows for the comparison of scores over time.

Table 1. The building blocks of prosperity: domains and pillars of prosperity

Domains		
Inclusive Societies	Open Economies	Empowered People
Pillars		
Safety and Security	Investment Environment	Living Conditions
Personal Freedom	Enterprise Conditions	Health
Governance	Infrastructure and Market Access	Education
Social Capital	Economic Quality	Natural Environment

Source: Authors' own representation

Each indicator is assigned a weight that reflects its level of importance within a given element in influencing prosperity. Typically, four weights are used: 0.5, 1, 1.5, or 2. The distance-to-frontier scores for each indicator are multiplied by the corresponding weight, and then summed to obtain the score for each element. The same procedure is repeated to determine the scores for the pillars with the elements within them. Domain scores are obtained by assigning equal weights to each pillar. The LPI is then calculated as the average of the scores of the three domains, with each domain receiving the same weight.

Since the chosen weighting method is only one of the possible approaches, the sensitivity of the LPI to changes in the selection of weights has been tested. The actual weighting approach is compared with (a) equally weighted indicators and elements, and (b) a randomized weighting approach derived using Monte Carlo randomization simulations. It was shown that the scores and rankings of countries are more influenced by variations in the values of the indicators themselves than by the applied weights, which indicates the robustness of the empirical results obtained through the application of the LPI.¹⁵³

¹⁵³ More detailed methodological explanations can be found in: Legatum Institute (2019). *The Legatum Prosperity Index 2019 - Methodology Report*. London: Legatum Institute.

While the LPI score provides an overall assessment of a country's prosperity, the scores for each domain/pillar/element reveal the results achieved in a specific aspect of prosperity. The main domains within the LPI reflect the institutional, economic, and social dimensions of prosperity. However, it would be analytically desirable and justifiable to exclude the element Natural Environment from the third domain, thus obtaining an ecological dimension, which, along with the economic and social dimensions, constitutes an important determinant of sustainable development as a generator of prosperity.

Table 2. Twelve pillars of LPI classified into four dimensions

Dimensions			
Institutional	Economic	Social	Environmental
Pillars			
Safety and Security	Investment Environment	Living Conditions	Natural Environment
Personal Freedom	Enterprise Conditions	Health	
Governance	Infrastructure and Market Access	Education	
Social Capital	Economic Quality		

Source: Authors' own representation

3. ANALYSIS OF DEVELOPMENT ACHIEVEMENTS IN SERBIA AND OTHER EUROPEAN COUNTRIES

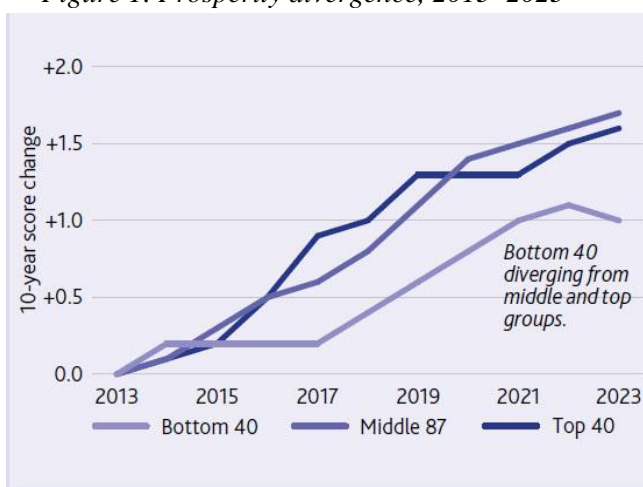
The Prosperity Index, as a holistic measure of human progress, offers a unique insight into how prosperity is shaped and changing in nearly all countries around the world. The LPI analysis covers 167 countries, categorized into eight regions, representing 99.4% of the global population. Europe is divided into Western and Eastern Europe, with Serbia belonging to the Eastern European group of countries.

Data for 2023 shows a concerning global trend – for the third consecutive year, prosperity has stagnated due to the weakening of institutions and democratic processes. The fact that institutions are deteriorating represents a ‘red flag’ signalling potential problems in countries around the world with political instability, corruption, or other systemic issues that make it difficult for them to fully realise their potential. Recent economic shocks that have rocked the world have most severely affected the least prosperous countries, which also have the lowest capacity to cope with them. However, even these countries have made

progress in the last decade in terms of basic living conditions, narrowing the gap that separates them from the rest of the world.¹⁵⁴

When considering all dimensions of prosperity, a clear divergence is evident in the results achieved globally during the observed period (2013 - 2023) between the 40 countries ranked the lowest in 2013 and the remaining 87 plus 40 countries that were positioned in the middle or at the top of the list in the same year (see Figure 1). This actually means that the gap between the average score of the bottom 40 and the middle and top 87 plus 49 countries is larger in 2023 than in 2013. Although prosperity scores have increased in the lowest-ranked countries, the rate of growth has been slower compared to the rest of the world.

Figure 1. Prosperity divergence, 2013–2023



Source: Legatum Institute (2023), *op. cit.*, p. 26.

The reason for this divergence lies in structural factors within the institutional and economic dimensions of prosperity. In the institutional domain, the lag behind more prosperous countries is particularly evident in the pillars of Safety & Security and Personal Freedom, while in the economic sphere, it is noticeable in Enterprise Conditions and Economic Quality.¹⁵⁵ In situations where the focus is placed on poverty reduction rather than on building prosperity, improvements in basic living conditions, i.e., in the social dimension, in the 40 countries with the lowest levels of prosperity, have not been accompanied by corresponding progress in the institutional and economic spheres. As a result, these improvements are unsustainable.

¹⁵⁴ Legatum Institute (2023), *op. cit.*, p. 10.

¹⁵⁵ *Ibid*, pp. 27-28.

Among the eight regions of the world, in terms of overall prosperity ranking, Western Europe occupies the first position, while Eastern Europe ranks fourth.

Table 3. Ranking of European Regions According to LPI and Prosperity Pillars

	Overall Prosperity Rating	Safety and Security	Personal Freedom	Governance	Social Capital	Investment Environment	Enterprise Conditions	Infrastructure and Market Access	Economic Quality	Living Conditions	Health	Education	Natural Environment
Western Europe	1	1	1	1	2	2	2	2	2	1	1	2	1
Eastern Europe	4	4	4	5	5	4	5	4	4	3	5	3	4

Source: Legatum Institute (2023), op. cit., p. 32.

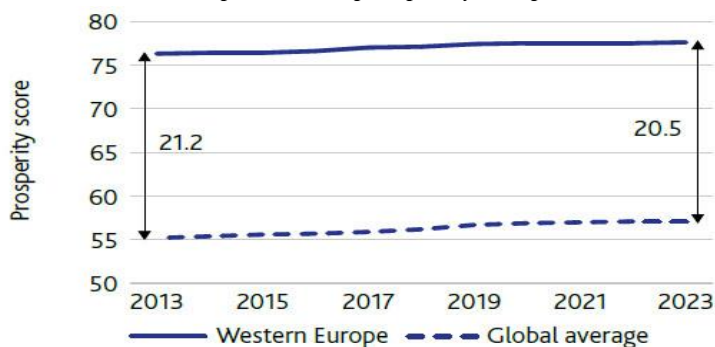
When looking at the dimensions of prosperity, Western Europe is particularly superior in the Environmental and Institutional dimensions, while Eastern Europe records relatively better performance in the Social dimension.

In terms of the prosperity pillars, in all cases where Western Europe ranks second, North America holds the primacy. Eastern Europe lags behind Western Europe and North America in every pillar, and in most pillars it also falls behind East Asia and the Pacific. In some pillars, Eastern Europe even trails behind Latin America and the Caribbean, as well as Central and South Asia.

Over the past decade, the LPI score for Western Europe has increased, but at a slightly slower pace than the global average, resulting in a narrowing of the distance between the two (see Figure 2). During this period, the region has experienced improvements across all prosperity pillars, except for Safety & Security and Personal Freedom, where some deterioration was observed, as well as Social Capital, which has seen stagnation. The most significant improvements were observed in the Infrastructure & Market Access pillar, as well as in Education (the latter primarily due to an increase in tertiary education participation).¹⁵⁶

¹⁵⁶ Ibid, p. 34.

Figure 2. Western Europe: Global prosperity comparison, 2013–2023



Source: Legatum Institute (2023), *op. cit.*, p. 34.

Western Europe, as the most prosperous region in the world, includes the top nine highest-ranked countries globally, including Denmark, which holds the leading position in the LPI in 2023 (See Table 4) Compared to 2013, Denmark has improved its position, rising from fourth place to first, surpassing Sweden, Norway, and Switzerland.

Table 4. Ranking of Western European Countries According to LPI, 2013 and 2023

Country	Global rank		Country	Global rank	
	2013	2023		2013	2023
Denmark	4	1	United Kingdom	10	12
Sweden	1	2	Austria	11	14
Norway	2	3	Belgium	20	18
Finland	5	4	France	21	23
Switzerland	3	5	Spain	24	24
Netherlands	6	6	Portugal	29	26
Luxembourg	8	7	Malta	27	28
Iceland	14	8	Italy	30	30
Germany	9	9	Cyprus	31	34
Ireland	15	11	Greece	42	40

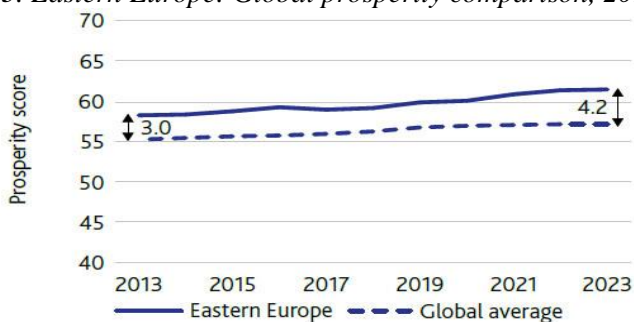
Source: Authors' own representation of data taken from Legatum Institute (2023), *op. cit.*, p. 22.

Austria is the only country in Western Europe whose prosperity level, measured by LPI, has not increased in the last decade, largely due to weak performance in the area of Economic Quality. In contrast, Greece has made the most progress in

the region during the observed period, which was marked by relative political stability and austerity policies, yet it remains the least prosperous.¹⁵⁷

The prosperity index in the Eastern European region grew faster than the global average during the 2013-2023 period, resulting in an increased gap between the two (see Figure 3). Improvements are visible across all pillars of prosperity, except for Personal Freedom, where a noticeable decline has occurred, and Safety & Security, which saw a slight deterioration. Governance, on the other hand, is characterised by stagnation. Unlike these cases, the Social Capital pillar, which also belongs to the Institutional dimension, saw a very pronounced improvement in prosperity over the observed decade. Significant progress, much more pronounced than in Western Europe, was also recorded in the Infrastructure & Market Access pillar within the Economic dimension of prosperity.

Figure 3. Eastern Europe: Global prosperity comparison, 2013–2023



Source: Legatum Institute (2023), *op. cit.*, p. 40.

The rank of Eastern European countries ranges from 21st place, held by Estonia, to 92nd place, which corresponds to Azerbaijan. (See Table 5) Estonia was already among the leading Eastern European countries in 2013, and since then, it has improved its global position in the LPI by two places. In the Economic Quality pillar, Estonia is ranked 14th in the world, which is an improvement of 9 places compared to the starting position in 2013.¹⁵⁸

Hungary progressed the slowest in the region, having recorded a decline in the score in the Institutional dimension, specifically in the pillars of Personal Freedom and Governance. Lithuania, which ranks among the five most prosperous countries in Eastern Europe, achieved the greatest progress over the observed decade. This is particularly noticeable in the Social Capital pillar, where there is a positive shift of as much as 30 places, albeit from a very low starting

¹⁵⁷ Ibid, p. 35.

¹⁵⁸ Ibid, p. 41.

position. Azerbaijan remains the least prosperous country in Eastern Europe, despite ranking second in the region in terms of progress dynamics during the observed decade.¹⁵⁹

Table 5. Ranking of Eastern European Countries by LPI, 2013 and 2023

Country	Global rank		Country	Global rank	
	2013	2023		2013	2023
Estonia	23	21	Serbia	66	52
Czechia	28	24	Georgia	64	53
Slovenia	25	27	North Macedonia	57	55
Latvia	36	31	Armenia	76	61
Lithuania	38	32	Albania	65	65
Slovakia	35	35	Moldova	86	70
Poland	34	37	Bosnia and Herzegovina	77	72
Croatia	44	41	Ukraine	94	74
Hungary	40	42	Russia	87	77
Romania	50	45	Belarus	83	78
Bulgaria	49	48	Azerbaijan	104	92
Montenegro	52	49			

Source: Authors' own representation of data taken from: Legatum Institute (2023), op. cit., p. 22.

According to the data in Table 5, Serbia ranks 52nd in the world by LPI in 2023. It is positioned lower than all Western European countries, as well as Eastern European EU member states. Among the candidates for EU membership, only Montenegro ranks ahead of Serbia. Compared to 2013, our country has advanced by as much as 14 places on the global prosperity scale, with its prosperity score increasing from 57.9 to 62.8.¹⁶⁰ Throughout the observed period, Serbia's LPI has exceeded the global average, and after 2017, it has also been higher than the average for Eastern European countries (see Figure 4).

Over the observed decade, our country has made progress in all dimensions of prosperity, measured by the value of the corresponding index, as well as its relative position in the world. This progress was particularly evident in the Economic dimension, where Serbia recorded a positive shift of 17 places on the global prosperity ranking, along with an improvement of 35 places in the Economic Quality pillar, which placed us among the top 10 countries with the greatest progress in this pillar.¹⁶¹ Serbia also performs well in the Social Capital pillar, where it recorded a significant jump of 93 places, the largest after China.

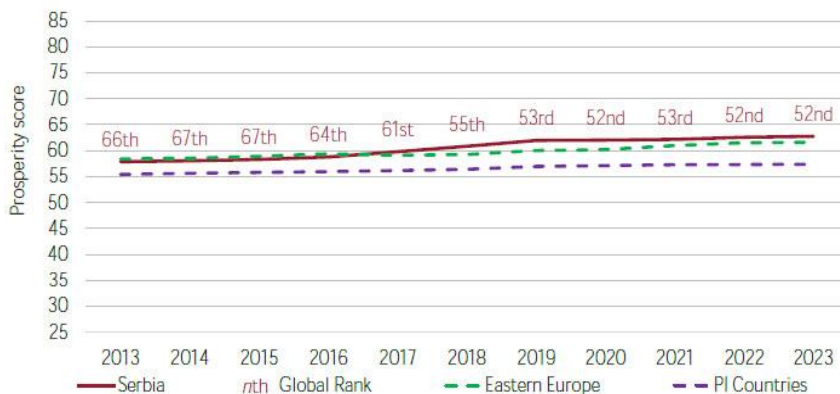
¹⁵⁹ Ibid.

¹⁶⁰ Country Profiles: Legatum Prosperity Index 2023, <http://www.prosperity.com>

¹⁶¹ Ibid.

On the other hand, the prosperity score in Serbia decreased in two pillars – Personal Freedom and Governance, which led to a drop in the country’s global ranking by ten and twenty places, respectively.

Figure 4. Serbia: Prosperity over time



Source: <https://www.prosperity.com>

In 2023, Serbia holds the highest rank among the observed countries in the Social Capital pillar (38th place), and the lowest rank in the Natural Environment pillar (131st place) (see Table 6).

Table 6. Serbia: Prosperity scores and ranks by pillars in the world, 2013-2023

Pillars	Prosperity score		Rank - Global	10-year rank change
	2013	2023	2023	
Safety and Security	71.7	79.8	44	+17
Personal Freedom	65.6	60.5	75	-10
Governance	48.6	44.8	96	-20
Social Capital	43.1	61.3	38	+93
Investment Environment	48.0	54.5	78	+10
Enterprise Conditions	49.0	54.0	82	+23
Infrastructure & Market Access	50.4	60.5	66	+2
Economic Quality	47.3	55.4	61	+35
Living Conditions	81.9	87.7	41	+7
Health	71.3	71.9	80	+2
Education	70.0	73.0	45	+5
Natural Environment	47.4	49.6	131	+21

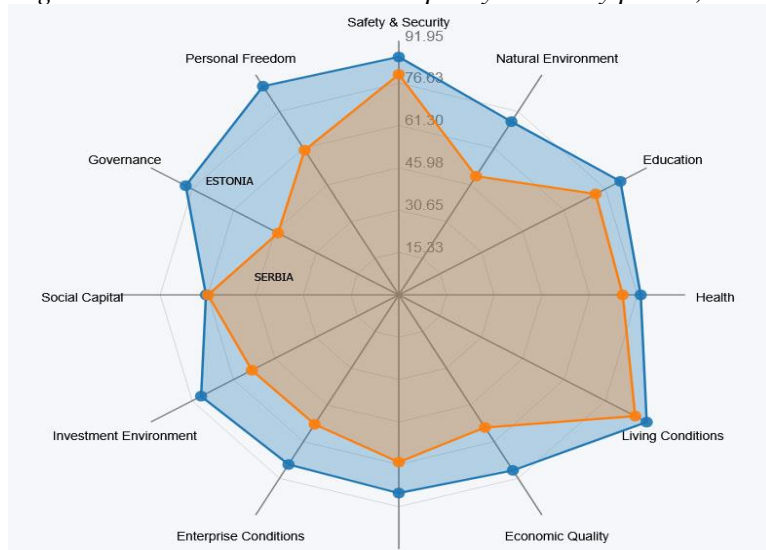
Source: Authors' own representation of data taken from <http://www.prosperity.com>

In Figure 5, the prosperity scores by pillars for Serbia in 2023 are visually represented. The country records the best result in the Living Conditions pillar (this was also the case in 2013), while the worst result is in the Governance pillar (in 2013, the lowest score was in the Social Capital pillar).

In comparison to Estonia, which is represented on the same graph as the most prosperous country in Eastern Europe, Serbia fares worse in all pillars, although the difference in Social Capital is negligible (61.9 for Estonia compared to 61.3 for Serbia). The lag is particularly pronounced in the Governance pillar. A similar situation existed in 2013, although in the meantime, Serbia made significant progress in the Social Capital pillar, while the gap in Governance has widened to Serbia's disadvantage.

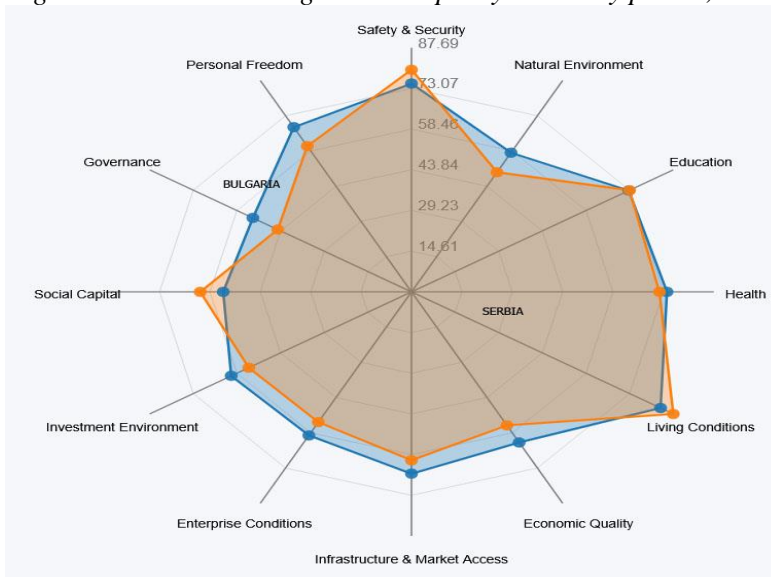
Compared to Bulgaria, the least prosperous country in the European Union from Eastern Europe, Serbia is superior in three pillars – Safety & Security, Social Capital, and Living Conditions, as shown in Figure 6 (in 2013, Bulgaria recorded a better score in the first two of these three pillars). The biggest difference in score to the detriment of Serbia is noticeable in Governance, which, as an important pillar within the Institutional dimension of prosperity, remains Serbia's weakest point.

Figure 5. Serbia and Estonia: Prosperity scores by pillars, 2023



Source: Authors' own representation based on the data from <http://www.prosperity.com>

Figure 6. Serbia and Bulgaria: Prosperity scores by pillars, 2023



Source: Authors' own representation based on the data from <http://www.prosperity.com>

The relative position of the Western Balkan countries (which includes Serbia) within the Eastern European region is presented in Table 7. In 2023, Montenegro recorded the highest prosperity score, while Bosnia and Herzegovina had the lowest. All countries increased their LPI and improved their rankings within Eastern Europe during the observed period, excluding Albania, which remained in the same position after ten years. The ranking of the Western Balkan countries has somewhat changed during this period, as Serbia surpassed North Macedonia and took second place in this regional group.

Table 7. Ranking of Western Balkan Countries by LPI, 2013 - 2023

Country	Prosperity score		Rank – Eastern Europe	10-year rank change
	2013	2023	2023	
Albania	58.0	60.7	17	0
Bosnia and Herzegovina	56.6	59.1	19	+5
North Macedonia	59.6	62.0	15	+2
Montenegro	61.9	65.0	12	+3
Serbia	57.9	62.8	13	+14

Source: Authors' own representation based on the data from <http://www.prosperity.com>

Regarding the pillars of prosperity (see Table 8), Serbia's position is relatively poor in most of those belonging to the Institutional dimension (in terms of Personal Freedom, our country is even last in the observed group). An exception

is Social Capital, where in 2023, Serbia recorded better results than all other Western Balkan countries. Our country is also worse positioned in the pillars categorized under the Economic dimension, except for the Economic Quality pillar, where it ranks first in the Western Balkans. In terms of Macroeconomic Stability, as an element of prosperity within the mentioned pillar, Serbia ranked 8th in the world in 2023, having improved its position by as much as 38 places over the past ten years.

Good performance is also noticeable in the GDP *per capita* growth element, where Serbia ranks 13th globally, with an improvement of 52 places in its relative position.¹⁶² Significant progress on the prosperity scale is also visible in all other elements of Economic Quality. Serbia's advantages are evident in the Social dimension, especially in the pillars of Living Conditions and Education, where we are undeniably first. When it comes to the Environmental dimension, our country has below-average results and lags not only behind Montenegro but also Albania and North Macedonia.

Table 8. Western Balkan Countries: Prosperity scores by pillars, 2023

Pillars	Prosperity scores				
	Albania	Bosnia and Herzegovina	Macedonia	Montenegro	Serbia
Safety and Security	74.9	78.7	75.8	80.9	79.8
Personal Freedom	61.6	62.7	64.7	68.6	60.5
Governance	41.4	38.7	48.5	55.9	44.8
Social Capital	47.5	54.9	55.7	59.3	61.3
Investment Environment	55.2	51.4	60.9	56.4	54.5
Enterprise Conditions	54.9	47.6	55.1	64.1	54.0
Infrastructure and Market Access	61.6	57.6	58.4	63.2	60.5
Economic Quality	45.4	52.4	52.7	54.0	55.4
Living Conditions	76.2	84.4	83.4	83.7	87.7
Health	73.9	70.5	72.6	68.4	71.9
Education	70.1	61.9	61.0	71.7	73.0
Natural Environment	58.6	48.6	54.6	53.7	49.6

Source: Authors' own representation based on the data from <http://www.prosperity.com>

¹⁶² For a more detailed insight into the recent macroeconomic results of Serbia's economy, see: Jovanović Gavrilović, B., Gligorić Matić, M. & Jovanović Gavrilović, V. (2024). Macroeconomic Conditions: What We Can Expect? In: *Transformation of the Insurance Market – Responses to New Challenges*, Kočović, J. et al. (eds.), Belgrade: University of Belgrade, Faculty of Economics and Business, pp. 23-46.

The results Serbia has achieved in terms of prosperity during the 2013-2023 period are clearly diverse. The scores attained across dimensions, pillars, and elements serve as a strong guideline for policymakers on the direction they should take in order to improve the country's performance in various areas in the coming years. The gap in the results recorded over the observed decade across the four key dimensions of prosperity should certainly be reduced, as these dimensions are interconnected. Only synchronized progress in various aspects of prosperity, which mutually support each other, ensures its sustainability.

Quantifying prosperity as a multidimensional concept is a complex and delicate task. The LPI index, which we used in our research, is not an ideal measure of achieved development outcomes, but it is certainly a step in the right direction. This composite indicator allows for a critical reassessment and reshaping of existing development models and policies to achieve the desired goals. However, there is still considerable room for improving this index (which includes simplifying its structure, potentially separating the environmental dimension), in order to make it more suitable for understanding and analysis, something that is actively being worked on within the Prosperity Institute.