

**ASSESSING AND STREAMLINING THE POTENTIAL OF
THE OPEN BALKANS INITIATIVE**

**VOLUME 1
COUNTRY DISPARITY ANALYSES: DESK RESEARCH**

Centre for Economic Analyses – CEA

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About the Project

THE CENTRE FOR ECONOMIC ANALYSES (THE CEA) IS CONDUCTING A 1-YEAR PROJECT ENTITLED: ASSESSING AND STREAMLINING THE POTENTIAL OF THE OPEN BALKANS INITIATIVE (THE OBI)

BACKGROUND

Recognising the EU's lack of interest in enlargement towards the Western Balkans, Serbian President Aleksandar Vučić, Prime Minister of North Macedonia Zoran Zaev, and Albanian Prime Minister Edi Rama decided to “take destiny into their own hands” and launch a “mini-Schengen” in October 2019. In July 2021, this idea evolved to become the regional initiative “**Open Balkans**¹”. While the initiative is no substitute for membership in the EU, it provides a path to accelerated membership and the utilisation of existing yet insufficiently used potential in these countries, which might lead to additional economic growth and development and, in turn, welfare for their citizens.

CHALLENGES IN KEEPING UP THE MOMENTUM

Developing and cultivating neighbourly relations in the Western Balkans in expectation of economic prosperity will require that border controls and other barriers be eliminated in order to facilitate the movement of people, goods and services, and capital around the region. Regional disparities analyses (e.g., coastal vs. internal, NUTS 2 and NUTS 3 regions, urban vs. rural, capital cities vs. other cities) of the Open Balkan countries might offer insights while setting priorities for more accelerated growth and internal convergence of the Open Balkans region. **At the moment, there is a lack of properly elaborated analyses to be able to assess the existing challenges.**

The COVID-19 pandemic, the food and energy crises, and the war in Ukraine show the importance of internal cooperation and coordination and the need for mutual understanding and solidarity among Open Balkan countries. Internal coordination and cooperation, exchanges of experiences, and solidarity in the region bring value to future EU integration if the Open Balkan countries can speak with one voice.

TOOLS AND INSTRUMENTS FOR ASSESSING THE POTENTIAL FOR ACHIEVING COOPERATION AND COORDINATION

While on the highest political level there is still evidence of political will for the Open Balkans, on the administrative level (or ‘on the ground’) people cannot really sense the benefits of this initiative just yet. **At the very least, what is missing is more evidence-based policy research on the bottlenecks in cooperation and potential of the six countries of the Open Balkans.**

ACTIVITIES OF THE PROJECT

An independent pool of experts from the six countries diagnosing and investigating the bottlenecks in cooperation and coordination among the Open Balkan countries will add value to the already demonstrated political will for the Open Balkans Initiative, leading to its more structured, priority-focused, and systematic development.

¹ By Open Balkans Initiative, we will define the territorial space of six countries of the Western Balkan – WB6: Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Kosovo, and Serbia.

Introduction

This document illustrates the disparities and similarities within and among the WB6 countries. We analyse the disparities and similarities in the EU's NUTS 2 and NUTS 3 regions depending on the data available. The idea is that, given the OBI MoUs and the OBI Agreements and the EU's freedom of movement, some regions of the WB6 countries may be more similar than others. Thus, those NUTS regions that are converging towards a certain cluster, e.g., are showing similarities in some demographic attributes and/or some socio-economic attributes might be a platform for the more efficient implementation of the EU's freedom of movement and the objectives of the OBI MoUs and OBI Agreements. Yet, this does not mean that regions with larger disparities cannot achieve the same objectives. It simply demonstrates that for more similar regions the policies might be implemented more efficiently because they face similar challenges. Those regions that reveal more disparities will need probably greater resources to reach convergence and fewer inequalities. We believe this information is important for policymakers to bring welfare to the citizens of the WB6 countries.

This text is Volume 1 of Task 2 and presents a summary of the country reports prepared by the experts. The next Volume 2 of Task 2 presents the economic view of the territorial challenges, needs and potential, while Volume 3 of Task 2 presents cluster analysis of the NUTS 3 regions (where data are available).

Our country experts took a neutral stance and unbiased approach as they conducted the data collection and analysis for this research task. Irrespective of their particular stance on the OBI, whether informed criticism or support for the initiative, their opinion did not affect the data collection process or the data analysis in the sense of favouring, disregarding, or encouraging one answer or outcome over others.

Among the WB6 countries, three are members of the OBI, and three have been invited to become members, but have not done so yet. Therefore, this analysis is conducted separately for the member countries (Albania, North Macedonia, Serbia) and for the non-member countries (Bosnia and Herzegovina, Kosovo, Montenegro). The OBI countries from the Western Balkans (Albania, North Macedonia, Serbia) are defined for the purpose of understanding in this document as “**participating**” and the countries from the Western Balkans that are not part of the OBI (Bosnia and Herzegovina, Kosovo, Montenegro) will be defined for that purpose as “**not participating**”.

In terms of **methodology**, the analysis is performed first by presenting the regional organisation of each country (NUTS 2 and NUTS 3 levels). The regional initiatives each country is participating in are listed along with some characteristics. Then we present which data were collected. The data collection depends on the characteristics of the OBI MoUs and OBI Agreements. Next presented are the disparities and similarities on the NUTS 3 level revealed by the data and, finally, the results of cluster analysis of the collected data. Conclusions follow.

The WB6 countries at a glance

Table 1 illustrates the overall state of each WB6 country. As per the World Bank's country classification by income level², the WB6 countries are classified as upper middle-income economies. The unemployment rate is still two-digit and relatively high. Moreover, the youth unemployment rates are even higher and approaching one-third, except for Serbia which is a little lower. The youth NEET is also relatively high. These countries thus did not succeed in the transition to create an environment where they can employ their human capital to its full potential. The most densely populated is Kosovo while the least densely populated country is Montenegro. There is a relatively bigger difference in life expectancy, ranging up to almost 10 years (Albanians live the longest while Serbians have the lowest life expectancy).

Table 1. Data on the WB6 countries from the country reports prepared by the experts

	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia
Population (million)	2.794	3.531	1.798	0.618	1.837	6.834
Land area km²	28,748	51,244	10,905	13,883	26,665	88,499
Density (population/area)	97	69	165	45	69	77
GDP in current prices (EUR million)	13,283	19,000	7,958	4,995	11,714	53,306
GDP per capita (EUR)	4,681	5,445	4,486	8,002	6,378	7,800
Unemployment rate	11.5	17.0	20.7	14.7	15.7	17.8
Youth unemployment rate	27.1	38.3	38.9	30.7	29.6	17.7
Youth NEET	26.1	19.3	32.5	21.1	19.6	16.4
Life expectancy at birth	81.6	76.0	77.0	73.8	73.2	72.7

Territorial organisation of the WB6 countries

The table below illustrates the distribution of municipalities in the WB6 countries by classes of population. More fragmented are B&H, MN and NM when measured by population per municipality (around 25,000 per local self governments (LSG)). On the other hand, on average, larger municipalities are found in Albania, Kosovo and Serbia. In Albania, half the population lives in seven cities with a population of more than 100,000. The challenge for policymakers is that these 7 urban centres compete for resources with the other half of the population in the country (the other 54 municipalities). The concentration of population in these cities holds relevant implications for the provision of services in the other municipalities (that must administer large territories with few inhabitants). In both countries, internal migration reflects the magnetic attraction of large urban centres and absence of proper regional and rural policies aimed at redistributing the population in the territory. In B&H, half of the population lives in 84% of the municipalities. In Kosovo, similar to Albania, half the population lives in 8 of the 38 municipalities. Montenegro has the smallest population of all of the WB6 countries and is the least densely populated (Table 1). Half the population lives in 4 of the 25 municipalities (16% of all municipalities). The situation in North Macedonia and Serbia is similar to that in Montenegro. Namely, half the population in North Macedonia and Serbia lives in around 20% of the municipalities.

² See: <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>.

Table 2. Population of municipalities (local self governments – LSGs) in the WB6 countries. Grey highlights classes that added together make up around half the population.

	Albania			Bosnia and Herzegovina			Kosovo			Montenegro			North Macedonia			Serbia		
	LSG	% LSG	% pop	LSG	% LSG	% pop	LSG	% LSG	% pop	LSG	% LSG	% pop	LSG	% LSG	% pop	LSG	% LSG	% pop
<5,000	3	5	0.4	27	18.9	1.9	3	7.9	0.5	5	20.0	2.5	17	21	3.0	2	1	0
5,001–10,000	6	15	2.0	17	30.8	5.2	5	21.1	2.4	4	36.0	6.9	16	41	9.1	23	17	5
10,001–15,000	7	26	4.8	22	46.2	12.6	2	26.3	3.8	2	44.0	11.3	11	55	16.7	32	40	14
15,001–20,000	4	33	7.3	17	58.1	21.1	2	31.6	5.8	4	60.0	22.6	8	65	24.4	20	53	21
20,001–30,000	17	61	22.4	23	74.2	37.1	3	39.5	10.1	5	80.0	42.0	6	73	31.9	25	71	36
30,001–40,000	6	70	29.2	14	84.0	51.2	7	57.9	24.3	1	84.0	46.9	5	79	41.9	14	81	46
40,001–50,000	4	77	35.5	5	87.5	57.3	1	60.5	26.8	2	92.0	60.7	5	85	54.5	8	86	54
50,001–60,000	1	79	37.6	6	91.7	66.7	6	76.3	45.5	0	92.0	60.7	3	89	63.4	7	91	63
60,001–70,000	4	85	46.5	4	94.5	74.1	1	78.9	49.4	1	96.0	60.7	5	95	81.2	2	92	66
70,001–100,000	2	89	52.2	2	95.8	79.0	5	92.1	74.0	0	96.0	60.7	4	100	100.0	4	95	73
100,001–200,000	6	98	80.1	6	100.0	100.0	3	100	100.0	1	100.0	71.7	0	100	100.0	6	99	95
>200,000	1	100	100.0	0	100.0	100.0	0	100	100.0	0	100.0	100.0	0	100	100.0	1	100	100
Total	61			143			38			25			80			144		
Population/LSG in '000	46			25			47			25			23			47		

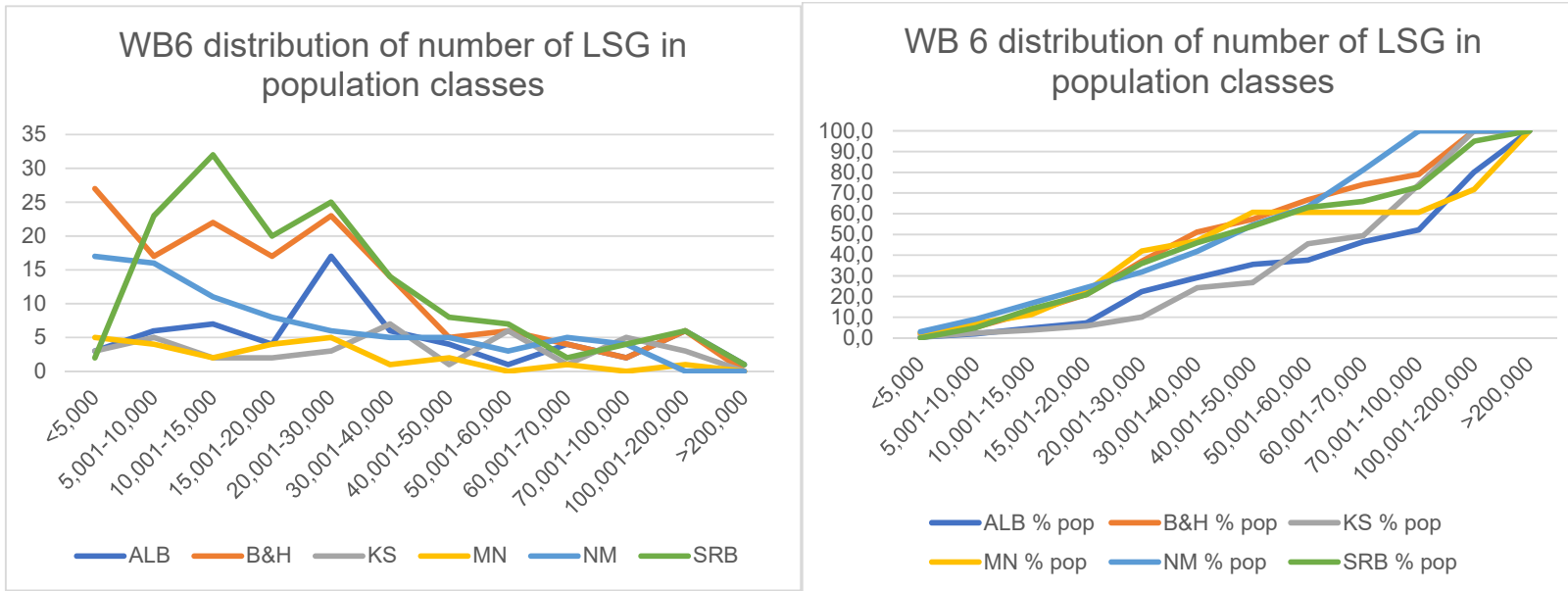


Figure 1. Distribution of LSG in WB6 in population classes

The concentration of the population in the WB6 countries is found in municipalities with a population of up to 30,000 (69% of all 491 municipalities on the left-hand side of Figure 1). On the right-hand of Figure 1, Albania and Kosovo do not have that much by way of population concentration in municipalities with a population of up to 40,000. In Montenegro, 23 of the 25 municipalities have a population of up to 50,000. B&H, NM and MN are similar in the sense that 20% of their municipalities have less than 5,000 citizens. This generates additional costs because of technical efficiency and the high fixed costs of servicing citizens for the small municipalities in these countries.

We provide information per country, although more details are available in the country reports prepared by the experts.

Albania

Albania has NUTS 2 regions for statistical and planning purposes. The NUTS 3 level (in Albanian the term is *qark*) has a representative regional body (regional council) formed from representatives of elected bodies of the constituent municipalities. The regional council head and board are elected by the regional council. Municipal representative and executive bodies are elected. In 2020, Albania introduced four development regions under the Law on Regional Development and Cohesion.

Bosnia and Herzegovina

Bosnia and Herzegovina (BiH) has access to the Adriatic Sea (24 kilometre coastline). The country's constitutional and institutional architecture is strongly decentralised with two asymmetrical regions (the entities of the Federation and Republika Srpska) and a self-administered local community, the Brcko District. The larger of the two regions, the Federation entity, is further decentralised and consists of ten cantons. There is a total of 143 local communities (Brcko District, 79 in the Federation, 63 in Republika Srpska).³ BiH has 32 cities and 112 municipalities.

Bosnia and Herzegovina is in an early stage of preparation in the area of statistics. The country does not have an agreement on NUTS 2 and 3 level units (only a provisional agreement on NUTS 2). The country's collection of statistics is decentralised, and often not harmonised. Further, several statistics, such as on external migration or Youth NEET, are not collected. BiH is the second-biggest country and economy in the Western Balkans, after Serbia.

Among the three NUTS 2 units, the Federation and Republika Srpska entities are almost equal in size (26,110 km² and 24,641 km²). The third unit, the Brcko District, is significantly and around 50 times smaller (493 km²). The Federation has access to the Adriatic Sea (24 km kilometre coastline), while the Brcko District has access in the north of BiH to the Danube River via its Sava River port. Republika Srpska is a landlocked territory.

Kosovo

Kosovo is a landlocked country with a single-tier local government consisting of 38 municipalities, including the capital city of Prishtina. The NUTS 1 and NUTS 2 levels refer to the territory of Kosovo and there are seven administrative and statistical planning regions on the NUTS 3 level. Of the 38 municipalities, 10 are considered to be Serb-majority municipalities, which were established during the decentralisation process implemented after 2008, following Kosovo's declaration of independence. The decentralisation process was largely designed as a power-sharing formula to facilitate the integration of the Serbian community into Kosovo based on the Ahtisaari Plan.

Montenegro

With regard to the nomenclature of territorial units for statistics, the territory of Montenegro is at once NUTS 1 and NUTS 2 and NUTS 3 level units, and has 25 local administrative units (municipalities). If 10,000 inhabitants is used as a criterion for classifying municipalities as rural or urban, then 9 municipalities are rural (less than 10,000 inhabitants) and 16 are urban (more than 10,000 inhabitants).

³ Four municipalities in the Federation form the City of Sarajevo, and six municipalities in Republika Srpska form the City of Istocno Sarajevo. Both cities are not calculated in the 143 local communities.

Although the territorial division in Montenegro is often made into the coastal, central and northern regions, there are actually no statistics that refer to this division. Nevertheless, the coastal region is mainly tourist-oriented and includes the following municipalities: Ulcinj, Bar, Budva, Kotor, Tivat, and Herceg Novi. The central region has the largest number of inhabitants, noting that the capital city Podgorica and the town Cetinje are located there, as are Nikšić, Danilovgrad, Zeta and Tuzi. The northern region chiefly relies on agricultural production and includes all the other municipalities of Montenegro, albeit there are also two winter tourism centres: Kolašin and Žabljak.

North Macedonia

The Republic of North Macedonia (RNM) is a landlocked country with a one-tier local government consisting of 80 municipalities, plus the capital city of Skopje as a separate local self-government unit (comprising 10 of the 80 municipalities). The NUTS 1 and NUTS 2 levels refer to the territory of North Macedonia and there are eight statistical planning regions on the NUTS 3 level. The territory of RNM measures 25,436 km². All 80 LGUs are part of one of the 8 statistical planning regions. The LGUs in North Macedonia are the LAU 1 territorial units (former NUTS 4 level⁴). Central and local government in RNM hold elections every 4 years where, e.g., the mayors and municipal councils are elected. The eight statistical NUTS 3 level regions are only for statistical planning purposes and do not have any competency assigned to either appoint or elect leadership. The eight planning regions are regulated by the Law on Balanced Regional Development in RNM⁵.

Serbia

The Republic of Serbia is a landlocked country with a territory of 77,589 km² and a population of 6.8 million. The Constitution of the Republic of Serbia⁶ guarantees the right of citizens to provincial autonomy and local self-government. Serbia is organised on a territorial, administrative and statistical basis.

The territorial organisation of Serbia is governed by the Law on Territorial Organisation⁷ which divides Serbia into 144 municipalities, 28 cities, and the city of Belgrade⁸ as territorial or local self-government units (totalling 173), and 2 autonomous provinces (Vojvodina and Kosovo and Metohija) as forms of territorial autonomy. In addition, under the same law, local self-government units consist of populated areas (4,709 – among which 167 are urban while the rest are rural) and cadastral municipalities (4,523)⁹.

The administrative organisation of Serbia is regulated by the Decree on Administrative Districts¹⁰ and the above-mentioned Law on Territorial Organisation. Aside from local self-government units and autonomous provinces, Serbia is administratively divided into administrative districts (srb. *upravni okruzi*). An administrative district is formed for the purpose of carrying out state administration tasks outside the seat of central government. Administrative districts do not have the powers of local self-government, nor are they part of the territorial organisation of the Republic of Serbia. By decree, Serbia

⁴ For more, see: <https://ec.europa.eu/eurostat/web/nuts/local-administrative-units>.

⁵ For more, see : <https://mls.gov.mk/images/files/Zakon%20za%20ramnomeren%20regionalen%20razvoj-mk.pdf>.

⁶ https://www.paragraf.rs/propisi/ustav_republike_srbije.html

⁷ https://www.paragraf.rs/propisi/zakon_o_teritorijalnoj_organizaciji_republike_srbije.html

⁸ Out of 29 cities, 5 of them – Belgrade, Niš, Užice, Požarevac and Vranje – have their own municipalities.

https://www.stat.gov.rs/media/4254/gradovi_sa_go-2.pdf

⁹ These numbers do not include AP Kosovo and Metohija.

¹⁰ https://www.paragraf.rs/propisi/uredba_o_upravnim_okruzima.html.

is divided into 29 (de facto 25) administrative districts, and the area of each administrative district includes a certain number of municipalities and cities. The city of Belgrade, as the capital city, also holds the status of one of the administrative districts.

Finally, the statistical organisation of Serbia is governed by the Decree on the nomenclature of statistical units.¹¹ According to the decree, the territory of Serbia is divided for the statistical purposes of collecting, processing, visualising and analysing data into three subdivisions – NUTS 1, NUTS 2 and NUTS 3.

Regional development experiences

We provide information regarding country concerning regional development on the NUTS 3 level, but more details are available in the country reports prepared by the experts.

Table 3. NUTS 3 in the WB6 countries from the country reports prepared by the experts

	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia
Population (million)	2.794	3.531	1.798	0.618	1.837	6.834
Urban units (settlements, municipalities, administrative units)	67	31	23	16	43	167
Rural units (settlements, cities/municipalities, administrative units, populated areas)	306	112	15	9	37	4,542
NUTS 1	1	1	1	1	1	2
NUTS 2	3	3	1	1	1	4
NUTS 3	12	NA	7	1	8	25
NUTS 3 Competences	For statistical planning purposes; 12 regions represent the second-tier level of local governance and have administrative powers; 4 development regions	Not yet defined NUTS 3	For statistical planning purposes	The whole country but de facto: Southern region; Central region; Northern region	For statistical planning purposes	NUTS 3 is administrative deconcentration For development purposes there are 4 regions
NUTS 3 Disparities	Persisting since 2016	NA	Persisting since 2016	Coastal region compared to		Not changed in the last 6 years, except Southern

¹¹ <http://www.pravno-informacioni-sistem.rs/SIGlasnikPortal/eli/rep/sgrs/vlada/uredba/2009/109/10/reg>

				the rural north		and Eastern Serbia have performed better and overtaken the Western and Shumadija region
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While Bosnia and Herzegovina is decentralised with two asymmetrical regions (the entities of the Federation and Republika Srpska) and the self-administered local community of the Brcko District and have not yet organised itself on the NUTS 3 level, Montenegro is a single NUTS 3 region. Moreover, Montenegro's de facto disparities are noted between the coastal municipalities and the rural north. On the other hand, the NUTS 3 regional organisation in North Macedonia, Albania and Kosovo is for statistical purposes only. The disparities among NUTS 3 in these three countries have persisted for over a decade now. In Serbia, NUTS 3 is for the purpose of administrative deconcentration while for development purposes there are four regions. In the last 5 years, the least developed region in Serbia improved its performance and overtook its peer. We provide information per country, although more details are available in the country reports prepared by the experts.

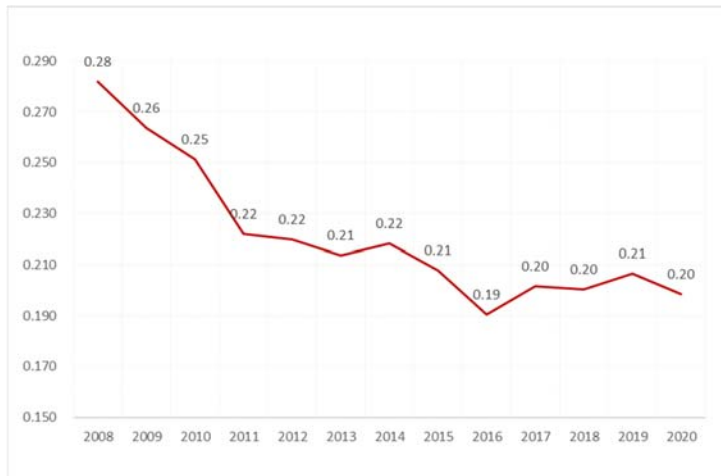
Albania

While NUTS 3 is important for statistical purposes, on the administrative level the role of these regions is quite rudimentary. The latest territorial and administrative reform from 2014 left the role in local governance of the 12 regions almost unchanged.

Following a substantial contraction of imbalances on the regional level as measured by the coefficient of variation presented in the Figure 2¹², in the last 5 years they have stabilised (coefficient of variation ranging between 0.2 and – 0.21). Nevertheless, the index of per capita GDP in euros shows that disparities persist on the regional level.

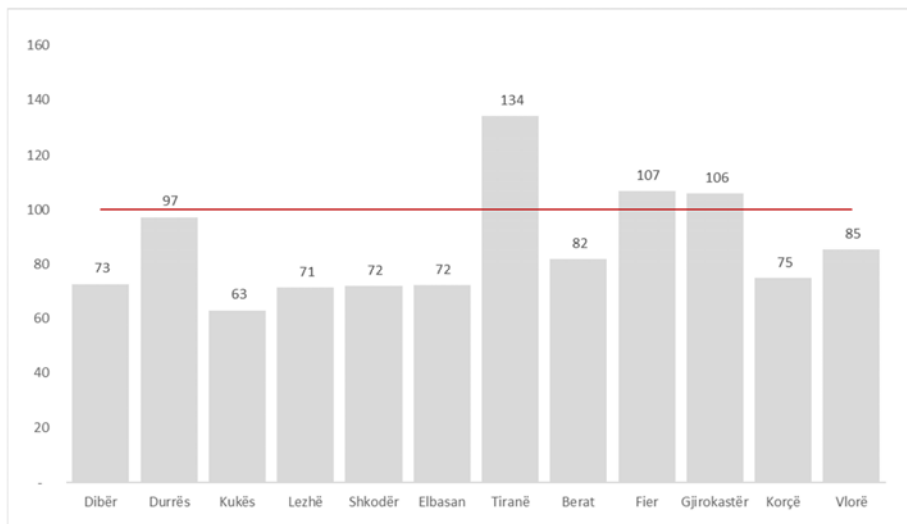
¹² The coefficient of variation measures the average deviation from the mean. That is, in our case it is measuring the relative standard deviation of each region from the average GDP per capita. The higher the coefficient of variation, the greater the deviation from the mean, i.e., the more imbalanced the regions are as measured by per capita GDP.

Figure 2. Coefficient of variation for the 12 NUTS 3 regions in Albania



Source: INSTAT and the authors' calculations

Figure 3. GDP per capita for the 12 NUTS 3 regions in Albania (Albania = 100), 2021



GDP per capita rose in all regions in 2021, with the NUTS 3 regions of Tiranë, Fier and Gjirokastrë surpassing the national average. There are notable variations in the contribution of the 12 NUTS 3 regions to nominal GDP (in EUR). Tiranë, primarily driven by construction, real estate, and trade activities, accounts for over 44% of total GDP. When considering the cumulative figures, the regions of Tirana, Durrës (wholesale and retail trade, transport and storage, hospitality, food activities), and Fier (trade and extraction industry, particularly in the oil sector) together represent more than 65% of GDP and GVA formation. The northern region, characterised by a diverse range of sectors contributing to GVA formation such as agriculture, trade, tourism, extraction, and energy production, holds the smallest share in GDP/GVA. The southern region, encompassing prominent coastal areas and tourism destinations, follows closely behind. While the coastal regions possess the potential to be significant contributors to GDP, they face challenges like structural problems and deficiencies in infrastructure, human resources, informality, and other factors that hinder the creation of value.

Bosnia and Herzegovina

Provisional NUTS 2 level units have been defined, consisting of the Federation and the Republika Srpska entities, and the Brčko District, while NUTS 3 units have not been defined.

Kosovo

As mentioned, the basic territorial unit of local self-government in Kosovo is the municipality, while NUTS 1 and NUTS 2 refer to the territory of Kosovo made up of 38 municipalities. However, for statistical and administrative purposes, these 38 municipalities are often grouped into 7 regions on the NUTS 3 level. These seven NUTS 3 regions in Kosovo include: Ferizaj/Uroševac, Gjakova/Đakovica, Gjilan/Gnjilane, Mitrovica, Peja/Peć, Pristina/Priština, and Prizren. In contrast, pursuant to Law no. 04/L-076 on Police¹³ there are eight Regional Police Directorates, with the eighth being the region of Mitrovica North, a mostly Serb-populated region. Regional directorates hold regional jurisdiction over the smaller municipalities that surround them. Accordingly, the way the law on police organises the administrative and statistical regions is used widely in Kosovo.

The first attempt to adopt a regional approach in Kosovo to development came in 2008 when the Ministry of Local Government Administration supported by the EU Office on Kosovo established five Regional Development Agencies that divided Kosovo into five geographical zones (Centre, East, West, South, North)¹⁴. Still, the work of these agencies faded when the EU's funding stopped. In an effort to address the developmental imbalance between regions, Kosovo established the Ministry for Regional Development¹⁵. A funding scheme of the Ministry entails balanced regional development, which includes funding opportunities for business community and municipalities.

Although these NUTS 3 regions in Kosovo do not constitute a legal or political entity, they are identifiable on car licence plates as each region is assigned a specific number (from 1–7), with (1) being Prishtina, while the smaller municipalities that surround given regions also receive the same number. The lack of unified policy on the regions in Kosovo means the overall data concerning the regions varies depending on the sources. Due to the municipality being the capital of Kosovo, the region of Prishtina is the most heavily populated and developed district in Kosovo. In terms of development, Prishtina is followed by Prizren, Ferizaj and Peja, whereas the region of Mitrovica is widely considered to be the least developed. The Mitrovica region (North and South) is also seen as a hotbed for ethnic tensions.

In 2018, the government approved a conceptual document on regional development that included plans for establishing a developmental region as a “a functional territory for implementation of integrated regional development policies, with settlements, economies, infrastructures and natural systems in a balanced, uniform spatial community where equal opportunities for balanced regional development can be provided”.¹⁶ In 2021, the government of Kosovo also approved the Strategy for Regional Development 2020–2030 and Action Plan. The strategy has three overall strategic objectives: Coordination of regional development policies; Balanced regional development and regions capable of inter-regional competition; and utilisation of natural, cultural and human resources in the service of

¹³ See Article 32 of Law no. 04/L-076 on Police, available at: <https://gzk.rks-gov.net/ActDetail.aspx?ActID=2806>

¹⁴ See: <https://ardacentre.org/wp/>

¹⁵ Visit: <https://mzhr.rks-gov.net/page.aspx?id=2,1,1,1>

¹⁶ For more, see: <https://mzhr.rks-gov.net/desk/inc/media/1E2A13A2-A0AD-4C22-A6F5-B35A8A3AFB32.pdf>

sustainable regional development¹⁷. One of the government's targets is to reduce regional disparities to 70% by 2030 through giving balanced financial aid to the private and public sectors.

Montenegro

Montenegro is divided into NUTS 1, NUTS 2 and NUTS 3 levels, the territorial division in Montenegro is often made into the coastal, central and northern regions. Nevertheless, the coastal region is primarily tourism-oriented and includes the municipalities: Ulcinj, Bar, Budva, Kotor, Tivat and Herceg Novi. The central region has the highest number of inhabitants, noting that the capital city Podgorica and the town Cetinje are located there, along with Nikšić, Danilovgrad, Zeta and Tuzi. The northern region is mostly oriented to agricultural production and includes all the other municipalities of Montenegro, albeit there are also two winter tourism centres: Kolašin and Žabljak.

The uneven development of the north compared to the south of the country is evident. One measure for developing the northern region was to construct the highway, which has been completed (the highway section at least). Yet, this single measure has also already encouraged the north's development, immediately visible in the investment momentum in Kolašin today, which includes the construction of ski centres and a dozen high-class hotels, having previously been one of the least developed municipalities. This example makes it obvious that a clear regional development strategy can ensure the uniform regional development of the country.

Five municipalities in Montenegro have a higher development index than the rest of the country, four of which are from the coastal region (Budva, Tivat, Herceg Novi, Kotor) while the fifth, Podgorica, is the capital. The coastal region's development was considerably nourished by the construction of large tourist projects: settlements with marinas for yachts and luxury accommodation facilities, as financed with direct foreign investments (Porto Montenegro, Porto Novi, Lustica Bay). Among the coastal municipalities, Bar, which has a large port, is slightly below the average level of development, while Ulcinj, which has exceptional natural beauty and a sandy 13-km-long beach, is on the level of development of the northern municipalities. Despite certain deviations among individual municipalities in the region (coastal, central, northern), the general framework therefore clearly shows the more advanced development of the coastal and central part of the country compared to the north.

North Macedonia

The Law on Balanced Regional Development (Official Gazette of the Republic of Macedonia, no. 63/07) divides North Macedonia into eight statistical planning regions – the same as the statistical regions on the EU NUTS 3 level¹⁸. In accordance with NUTS, Macedonian territory is classified as NUTS 1 and NUTS 2. The planning regions are for statistical purposes and for planning balanced regional development; neither expenditure nor revenue is assigned to them, except for the 1% of GDP¹⁹ transfer (by law) that is to be divided among the regions depending on their development index and variables (socioeconomic and demographic). The goals and objectives of this law are not being achieved because the regions are still seeing imbalances, as shown in the following graphs. These

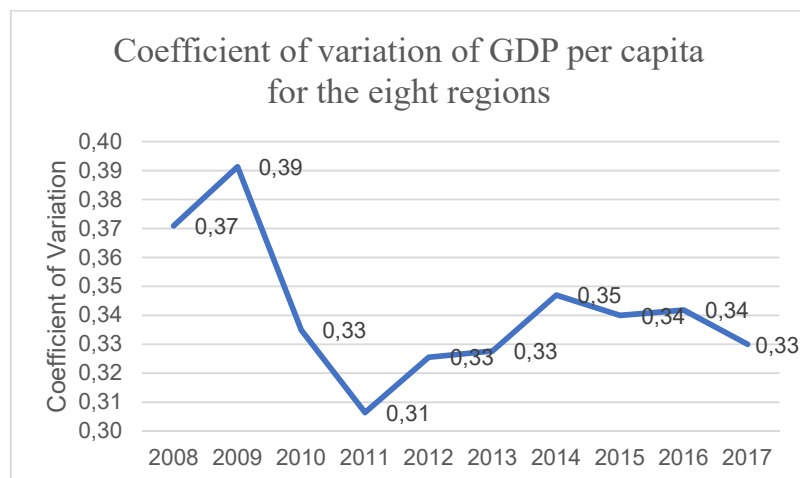
¹⁷ Strategy for Regional Development 2020–2030. Available at: <https://mzhr.rks-gov.net/desk/inc/media/34EC69C2-E0F8-49EA-B4E7-42D71001F22C.pdf>

¹⁸ Note that there is a new Law on Balanced Regional Development (OG, 24/21).

¹⁹ Note that the average allocation from the central budget for balanced regional development from 2007 to 2020 is approximately 0.02% of GDP.

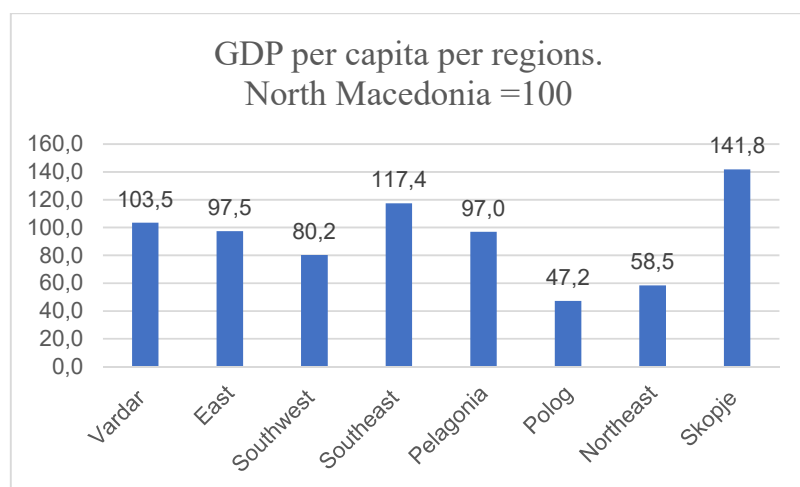
imbalances have grown since 2011 when measured by the coefficient of variation²⁰ (Figure 4), and the range of inequalities is relatively wide compared to average GDP per capita for North Macedonia (Figure 5).

Figure 4. Coefficient of variation for the eight NUTS 3 regions in North Macedonia



Source: State Statistical Office publication:
https://www.stat.gov.mk/PrikaziPublikacija_1.aspx?rbr=815

Figure 5. GDP per capita for the eight regions in North Macedonia



Source: State Statistical Office publication:
https://www.stat.gov.mk/PrikaziPublikacija_1.aspx?rbr=815

According to the development index of the planning regions in North Macedonia, only Skopje is characterised by a level of development above the national average, while all the other regions lie below it.²¹ The difference between Skopje (1.51) and the second-most developed region – Southeast

²⁰ The coefficient of variation measures the average deviation from the mean. That is, in our case it is measuring the relative standard deviation of each region from the average GDP per capita. The higher the coefficient of variation, the greater the deviation from the mean, i.e., the more imbalanced the regions are as measured by per capita GDP.

²¹ For more, see:
http://arhiva.vlada.mk/registar/files/Strategija_Za_Regionalen_Razvoj_Na_Republika_Makedonija_2009-2019_GODINA.pdf

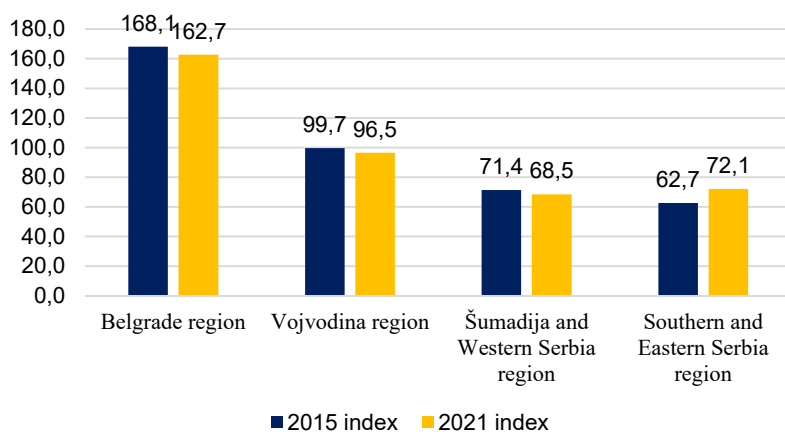
(0.97) – is significant, while the development gap between Skopje and the least-developed – Northeast (0.63) – is extremely large. Greatest progress between these two periods can be seen in the East region, where the index rose by 0.29 points, whereas the smallest progress was observed in the Skopje region.

Serbia

Regional development in Serbia is governed by the Law on Regional Development²² while the official development figures are presented on the regional and municipal/city levels according to the Regulation on establishing a unique list of development regions and local self-government units for 2014.²³ The classification of regions by their level of development is based on the value of the GDP per capita in the region relative to the national average for a given reference period. For instance, under this regulation, the ‘developed’ regions with GDP per capita higher than the national average include Belgrade and Vojvodina regions while the ‘underdeveloped’ regions include Šumadija and Western Serbia, Southern and Eastern Serbia and Kosovo and the Metohija region.

If we analyse recent data, as presented in the next figure, regional inequality has not changed significantly in the past 6 years. The most developed regions of Belgrade and Vojvodina have relatively reduced their development advantage. However, it is interesting that the once least-developed region of Southern and Eastern Serbia has ‘jumped’ the most (with an index value of almost 10 percentage points) and ‘overtaken’ Šumadija and Western Serbia in terms of development level.

Figure 6. Regional GDP per capita (Serbia=100)



Source: Statistical Office of the Republic of Serbia

There are significant regional differences in Serbia when it comes to other development indicators. For instance, Belgrade, as already noted, as the most developed city in Serbia, absorbs a huge amount of working-age population from the other regions, which explains the significantly higher number of doctors, researchers in total employment, as well as lower rates of long-term unemployment, youth unemployment and NEET rates.

²² https://www.paragraf.rs/propisi/zakon_o_regionalnom_razvoju.html

²³ <https://ras.gov.rs/uploads/2019/01/uredba-o-utvrdivanju-jedinstvene-liste-razvijenosti-regiona-i-jedinica-l-2.pdf>

Demography and economy

Table 4. Demographic and economic data for the WB6 countries from the country reports prepared by the experts

	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia
Population (natural increase)	-1%	-7%	+1%	-3%	-5%	-22%
Census (year)	2011	2013	2011	2011	2021	2022
GDP main drivers	Agriculture and forestry, construction and industry	Trade, transport, tourism and industry	Trade, transport, tourism and industry	Trade, transport, tourism and industry	Trade, transport, tourism and industry	Industry and trade, transport, tourism
Number of tourists	13,009,619	960,383	109,085	2,183,975	702,463	3,462,532
Number of nights spent per room	93	129	NA	595	77	NA
SME in % of total	98.3	99.0	NA	99.9	98.3	99.4
Higher education graduates per 1000 inhabitants	12	4	NA	5	12	9
Researchers as a percent of total employment	NA	0.3	NA	0.2	NA	0.8
Physicians or doctors per 100,000 inhabitants	64	234	NA	273	64	301
Households with broadband access: % of households	78.3	75.5	93.0	NA	78.3	81.4

The countries still need to organise a census, except for North Macedonia and Serbia which respectively held censuses in 2021 and 2022. There are challenges with the data for Kosovo. The countries are experiencing a negative natural population increase with the worse situation seen in Serbia (-22%) and only Kosovo showing a positive natural increase of 1%. These trends will result in a decline in the working-age population and coupled with the young population NEET experience, emigration and the significant departure of young people puts the WB6 countries at risk of being caught in a talent development trap (EU 2023)²⁴.

The main drivers of GDP in the WB6 countries are trade, transport, tourism and industry. Small and medium-sized enterprises (SMEs) are the dominant form of business entities in these countries. The number of tourists in Albania is twice the number of tourists in the other countries but, in terms of number of nights spent per room, Montenegro is the best performer. The highest number of higher education graduate students are in North Macedonia and Albania, albeit the number of researchers in the total number of employees is less than 1% in all WB6 countries (in the EU-27 it is 1.4%). The

²⁴ For more, see: https://eur-lex.europa.eu/resource.html?uri=cellar:3c43b2f5-9690-11ed-b508-01aa75ed71a1.0001.02/DOC_1&format=PDF.

number of doctors in the population is the lowest in North Macedonia and Albania. Broadband Internet access for households is the most common among Kosovo households.

We provide information per country, yet more details are available in the country reports prepared by the experts.

Albania

The demographic profile of Albania has seen considerable changes in recent decades. The population of Albania is estimated at around 2.8 million people (Census 2011), with a relatively young age structure. Migration has also played a significant role in shaping the demography of Albania, with large numbers of Albanians emigrating to other countries in search of better economic opportunities (in particular, in the last decade, there has been a haemorrhage of highly qualified human resources, especially doctors, nurses, engineers and ICT-related professionals).

Albania still faces challenges like high unemployment, an informal economy, corruption, and inadequate infrastructure. The government has implemented reforms to improve the business climate, attract foreign investment, and promote entrepreneurship to address these challenges. Large enterprises (50+ employees) represented only 2% of the total stock of active enterprises, primarily located in Tiranë, Durrës and Fier qarks. These data reveal that the Albanian economy is chiefly driven by SMEs, which are vital for economic growth and development.

Tourism is considered a priority sector in Albania due to its potential contribution to gross value added and employment. Accordingly, the number of tourists has been growing gradually (excluding the period of COVID-19), reaching 13 million in 2022.

Infrastructure and transport services are key elements hindering or fostering economic development. Albania's infrastructure and transportation system has improved significantly in recent years, although there is still room for further development. Rail transport is also available, but the network is relatively limited, and the system is underdeveloped.

The four main ports in Albania are located in Durrës, Shëngjin, Vlorë and Sarandë, with the port of Durrës being the biggest one. The Albanian government adopted an ambitious strategy for maritime transport in 2020²⁵, including a solid investment plan to consolidate and improve port infrastructure across the country. The strategy envisages moving cargo processing out of urban areas and redeveloping the city's port into a port for cruises/yachts and high-standard tourist services. The Durrës Port Authority will be managing two ports, the port of Porto Romano for cargo processing, and Durrës Marina for tourism-related services.²⁶ The same is valid for the Port of Vlora, which is in the investment phase of its transformation into a luxury marina for tourism purposes.²⁷

Bosnia and Herzegovina

BiH has a population of 3.5 million according to the last census held in 2013 (no agreement on a new census thus far). Around 62% of BiH's population lives in the Federation entity (2.2 million), while 35% live in the Republika Srpska entity (1.2 million). In the third NUTS 2 unit, the Breko District, just 3% of the population lives (85,000). With EUR 5,949 per capita, the Federation is doing slightly

²⁵ Source: <https://planifikimi.gov.al/index.php?id=1120>

²⁶ The concept can be found here: <https://www.youtube.com/watch?v=7lFCdZYLFpc> and here <https://www.youtube.com/watch?v=8x8nK93Tbm8>

²⁷ The concept can be found here: <https://balfinrealestate.al/sq/vlora-marina-2/>

better than the Brcko District (EUR 5,794) and Republika Srpska (EUR 5,665). The same goes for GDP per capita as a percentage of the EU-27, where the three regions have an average of 16.8%.

Over 70% of newly registered business entities in BiH are found in the NUTS 2 unit of the Federation. The Federation also has three times more active enterprises, including two times more large active enterprises. Among the three NUTS 2 units, Republika Srpska is focused on domestic tourists while the Federation is more on foreign tourism. The Brcko District, compared to the other two regions, has a less developed tourism sector. Taking the similar size of territory between the Federation and Republika Srpska into account, the length of the roads and rail network seems to be approximately the same. At the same time, however, the Federation carries two times more passengers in road transport and three times more in railway transport. In the Federation, compared to Republika Srpska, almost two times more goods are carried in railway transport. This reflects the differences in population and economic output.

Kosovo

Based on census data from 2011, Kosovo has a population of 1,798,188, of whom 92% are Albanians, 1.5% are Serbian and 5.6% belong to other ethnic groups (i.e., Bosnians, Roma, Ashkali, Gorani, Turkish etc)²⁸. Demographic trends in Kosovo mirror the rest of the Western Balkans, with an estimated decrease of the population from 1.8 million people in 2011 to an estimated 1.6 million, or around an 11.11% decrease. The Kosovo Prime Minister stated that Kosovars are leaving the country because their diplomas are not compatible with what is demanded in the labour market²⁹. Internal migration in Kosovo, like in the rest of the Western Balkans, is concentrated in the capital city of Prishtina. Demographic data show that around 27% of the overall population of Kosovo resides in Prishtina.

Kosovo's GDP per capita is estimated at around USD 5,269, gross wage at EUR 484, while the unemployment rate is estimated at 20%. Kosovo's public spending on education amounts to 4.7% of GDP, but the country has the lowest number of higher education graduates per 1,000 inhabitants (3) compared to the rest of the Western Balkans. The national minimum wage is EUR 130 for employees under 35 years of age and EUR 170 for employees above that age. Services are the primary employment sector in Kosovo with 67% of all employees, followed by industry with 16%, construction 11%, and agriculture 4%. Remittances constitute over 14% of the GDP of Kosovo. SMEs make up 99% of business companies. The countries of CEFTA represent the main destination for goods exported from Kosovo while member states of the European Union (EU) are the primary source of goods imported into Kosovo.

In 2021, according to the EU Country Report for Kosovo exports to the CEFTA area amounted to EUR 276.7 million and imports to EUR 886.9 million. Basic raw materials and mineral products are the main goods re exported from Kosovo. According to the World Bank, "GDP growth is expected to pick up modestly, reaching 3.7 percent in 2023. The sizable impulse on private consumption and service exports from diaspora flows over 2021 and 2022 is expected to fade against an expected slowdown in

²⁸ The Serbian community from the north of Kosovo (municipalities of: Leposavic, Zubin Potok, Zvecan and North Mitrovica) did not participate in the 2011 population census in Kosovo, and therefore the data are not entirely accurate with respect to the Serbian population in Kosovo.

²⁹ See the news article from Gazeta Express from 30 March 2023, quoting PM Kurti, available at: <https://www.gazetaexpress.com/sipas-kurtit-kjo-eshte-nje-nga-arsyet-pse-kosovaret-po-ikin-nga-vendi/>

EU growth”.³⁰ Although tourism is not highly developed in Kosovo, some cultural events like the annual International Documentary and Short Film Festival “DokuFest”³¹, which takes place in Prizren, attracts an estimated 60,000 visitors³². The road infrastructure in Kosovo has improved considerably since 1999 with two high quality highways now connecting Kosovo with Albania and North Macedonia. Still, when compared to the region, Kosovo has the shortest length of roads expressed in kilometres.

Montenegro

As concerns the demography of Montenegro, it should be noted that internal migrations, which are recorded statistically, chiefly refer to moving from other parts of Montenegro to Podgorica, as an administrative centre, and Budva, as a tourism centre. Further, although there are no official data on the number of people who migrate externally, the Montenegrin diaspora is estimated at around 400,000 people temporarily working or staying in another country. Another important characteristic of Montenegro is that a considerable share of real estate in Montenegro is owned by people who are not from Montenegro, but also that now due to the war in Ukraine about 30,000 people from Ukraine and Russia are living in Montenegro. This was a characteristic of Montenegro in previous periods as well when it received a large number of displaced persons from Bosnia and Herzegovina and Kosovo due to war events in those countries. A considerable number of those people continue to live in Montenegro.

It is known that the Montenegrin economy is mainly based on tourism. Almost one-third of the country's income comes from tourism. Moreover, one of the key characteristics of the Montenegrin economy is the large imports, especially of food, worth around EUR 450 million annually, which is somewhat logical given the large number of tourists in the country and the insufficiently developed agricultural production.

It should be emphasised that the construction industry in Montenegro also plays a significant role in the economy, as shown by data on its participation in the country's GDP. A huge number of residential buildings have been built and are being built. The largest number of buildings of this type were built in Podgorica and along the coast, especially in Budva. While considering the traffic infrastructure of Montenegro, special attention should be paid to the port of Bar, which offers a particularly important infrastructural advantage when it comes to goods traffic. Also note the construction of the highway section which should connect Serbia with the Port of Bar, and for which a connection already exists by rail for transporting passengers and goods.

On the issue of education, a large number of school and education reforms have been initiated. These are implemented through numerous strategies ranging from those for pre-school education to those for lifelong learning. However, the biggest problem related to the lack of personnel in the field of professional education has not been solved. There is still a lack of staff to meet the demand of the labour market, which is especially prominent in the tourist season when, for example, cooks, waiters, bartenders etc. are needed.

³⁰ See the World Bank article, available at:

<https://www.worldbank.org/en/country/kosovo/overview#:~:text=Economic%20Outlook,expected%20slowdown%20in%20EU%20growth>.

³¹ For more, see: <https://dokufest.com/>

³² Xhorxhina Bami and Antigone Isufi (2022, August 12). *Against Bleak Global Backdrop, Kosovo's Dokufest Ponders 'How to Survive?'*, Available at: <https://balkaninsight.com/2022/08/12/against-bleak-global-backdrop-kosovos-dokufest-ponders-how-to-survive/>

North Macedonia

Comparative analysis of census data from 2021 and 2002 suggest worrying demographic trends. First, the population of North Macedonia has shrunk by 9.18% in two decades, from 2,022,547 in 2002 to 1,836,713 in 2021. Family reasons (45%) and employment (28%) are the most common reasons for emigration.³³ Internal migration, on the other hand, is characterised by emigration to the capital city Skopje. The emigration trend is coupled with negative population growth.

In the last several years, the COVID-19 and energy crises has seen the Macedonian economy have a low growth rate. SMEs represent 99.9% of all companies in Macedonia, while accounting for around three-quarters of employment in the country and two-thirds of total value added. This suggests that SMEs play an important role in providing an income for the majority of workers in the country. In contrast, given the relatively small turnover and value of assets particularly of micro and small companies, these companies tend to have limited opportunities to grow and internationalise, and tend to provide lower salaries.

Tourism in North Macedonia is concentrated in three main regions: the Southwest region, bordering Albania and Greece, the Skopje region bordering Kosovo, and the Southwest region bordering Greece and Bulgaria. The Ohrid region recognised by UNESCO for its natural and cultural features includes Lake Ohrid and its surroundings as the most attractive destination in the Southwest region. The Southeast region hosts 40.03% of tourists coming to the country. The region is most attractive to domestic tourists who account for 72% of all tourists in the region, who stay for 60.67% of the total nights spent in accommodation capacities in the whole of the country.

In general, the country's trade and transport-related infrastructure is poor in quality and ranked 106th out of 160 countries on the WB Logistics Performance Index scores. The lack of secondary infrastructure results in inadequate connections across the country for business operations and higher transport costs.

Serbia

Serbia is not in a favourable position when it comes to its demographic structure. The share of working-age population has been declining rapidly for decades due to both much lower birth rates and emigration. While the capital city of Belgrade is not in danger of losing people (on the contrary, some of its municipalities like Vračar, with 20,000 people per km², are chronically overpopulated) due to the constant influx of people from Serbia and the region; the other side of the coin is that smaller and less developed municipalities, especially in Southern and Eastern Serbia, are literally 'bleeding' in terms of population loss.

When it comes to the economy, there are huge regional inequalities in GDP per capita and the overall structure of the economy. For instance, the Belgrade region is the only one with GDP per capita above the national average with services, like in other advanced economies, dominating its gross value added. On the other hand, Vojvodina is known for its large share of agriculture because of its favourable climate, fertile land, plains and long tradition of agricultural production. Finally, the mining and industry are primarily located in the Southern and Eastern Serbia region with cities like Bor practically living from the exploitation of mines owned by Chinese investors. SMEs in Serbia, like in any other country, form the backbone of the economy. Yet, they are not recognised as such by the government, which is still largely focused on bringing in large foreign investors without much concern for their productivity, employment multiplier effects and environmental impacts.

³³ <https://www.flickr.com/photos/140581571@N07/52777504144/>

Serbia is not a country with a particularly developed tourism sector. Although the number of arrivals and overnight stays is growing every year, it is still significantly below the surrounding countries like Hungary, Romania, Bulgaria and Croatia. In the international market, Serbia is mostly associated with urban and transit tourism. The growth of tourism in the past two decades in Serbia is mainly based on city tourism, and visits to Belgrade and other major cities. All major cities in Serbia enjoy a favourable geographical position due to being located between the central part of Europe with Southeast and Asia Minor, such that foreign tourists can ‘stop by’ even while going in other destinations. Despite several important highways and the Belgrade-Novı Sad high-speed railway having been completed in recent years, the condition of the road and railway infrastructure in Serbia remains very poor.

Conclusions

The WB6 countries are classified as upper middle-income economies. The unemployment rate is still two-digit and relatively high. Moreover, the youth unemployment rates are even higher and approaching one-third, except for Serbia that is a little lower. The youth NEET is also relatively high. These countries thus did not succeed in the transition to create an environment that allows them to employ human capital to its full potential.

There is internal migration to the urban centres that attracts population. The concentration of the population in the WB6 countries is found in municipalities with a population of up to 30,000, e.g., in 69% of total population of all 491 municipalities. Albania and Kosovo do not have such population concentration in municipalities with a population of up to 40,000. Namely, in Albania half the population live in 7 cities with a population of more than 100,000 and in Kosovo, similar to Albania, half the population lives in 8 of the 38 municipalities. In Montenegro, 23 of the 25 municipalities have a population of up to 50,000 (half the population lives in 4 of the 25 municipalities). In B&H, half the population lives in 84% of the municipalities.

Regional development is organised on the NUTS 3 level for planning purposes in North Macedonia, Albania and Kosovo where disparities have persisted for a decade. In Serbia, NUTS 3 is used for the purpose of administrative deconcentration, while for development purposes there are four regions. In the last 5 years, the least-developed region improved its performance and overtook its peer. There is a clear disparity between the de facto coastal region vs. the northern rural region in Montenegro.

The WB6 countries are experiencing a demographic decline range from a negative natural increase of -22% in Serbia to a -1% natural increase in Albania. The only positive natural increase (+1%) is shown by Kosovo. North Macedonia and Serbia organised censuses in 2021 and 2022, respectively. The other countries have yet to organise censuses. Migration (both internal and emigration) has played a vital role in shaping the demographic profile of the WB6 countries.

Even though agriculture, construction and industry are the main GDP drivers in Albania, the number of tourists in Albania is almost double the total of the other five countries and reflects that tourism is a priority sector for Albania and has yet to be developed to its full potential. On the other hand, the number of nights spent per room is the highest in Montenegro. Even Bosnia and Herzegovina perform better (129 nights spent per room) with nights spent per room than Albania (93 nights spent per room). The highest number of higher education graduates per 1,000 population is shown by Albania and North Macedonia, although the biggest share of researchers as a percentage of total employment and the highest number of doctors and physicians per 100,000 inhabitants is revealed by Serbia. The situation with doctors and physicians is dire in Albania and North Macedonia (almost 5 times less so than in Serbia).

The four main ports in Albania are located in Durrës, Shëngjin, Vlorë and Sarandë, with the port of Durrës being the biggest one. The port of Vlora is in the investment phase of its transformation into a luxury marina for tourism purposes. The port of Bar in Montenegro is already connected by rail for transporting passengers and goods to/from Serbia and a highway section that should connect Serbia with the port of Bar by road is also under construction.