



NEW PERSPECTIVES ON SOUTH-EAST EUROPE

# Towards Economic Inclusion in the Western Balkans

*Edited by* William Bartlett · Milica Uvalić

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# New Perspectives on South-East Europe

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South-East Europe presents a compelling agenda: a region that has challenged European identities, values and interests like no other at formative periods of modern history, and is now undergoing a set a complex transitions. It is a region made up of new and old European Union member states, as well as aspiring ones; early 'democratising' states and new post-communist regimes; states undergoing liberalising economic reforms, partially inspired by external forces, whilst coping with their own embedded nationalisms; and states obliged to respond to new and recurring issues of security, identity, well-being, social integration, faith and secularisation. This series examines issues of inheritance and adaptation. The disciplinary reach incorporates politics and international relations, modern history, economics and political economy and sociology. It links the study of South East-Europe across a number of social sciences to European issues of democratisation and economic reform in the post-transition age. It addresses ideas as well as institutions; policies as well as processes. It will include studies of the domestic and foreign policies of single states, relations between states and peoples in the region, and between the region and beyond. The EU is an obvious reference point for current research on South-East Europe, but this series also highlights the importance of South-East Europe in its eastern context; the Caucuses; the Black Sea and the Middle East.

William Bartlett • Milica Uvalić  
Editors

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*Editors*

William Bartlett  
European Institute  
London School of Economics &  
Political Science  
London, UK

Milica Uvalić  
Department of Political Science  
University of Perugia  
Perugia, Italy

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## FOREWORD

The Western Balkan region lies at the cross-roads of Europe, with a rich history of people moving in, passing through or moving out. Whilst this difficult geographic location creates many challenges, it also offers huge potential.

This is a region that is very close to my heart, having spent my early—and formative—professional career in Bosnia and Herzegovina, supporting refugee return programmes during the aftermath of the 1990s war. Today we see some parts of the region still emerging from the conflicts of more than two decades ago, but also being affected by wider global trends and shocks, including the impact of digitalisation and shifting regional and global value chains on regional labour markets, the impact of climate change triggering a transition away from fossil fuel intense industries, and of course the Covid-19 crisis. Today, the Western Balkans is a region that struggles to offer opportunities, in particular to young people, and where inclusion gaps and inequalities are rising. Indeed, the EBRD’s Transition Report found that up to 40 percent of income inequality in the region is due to factors outside of people’s control, such as place of birth, parental education, and gender.

In many parts of the Western Balkans, the size of the labour force is effectively shrinking, due to high levels of outward migration, informality and youth unemployment, coupled with above average rates of inactivity of older workers, and low female workforce participation. This creates a perfect storm, which is further compounded by structural shifts in labour markets.

However, the Western Balkans is also a region that continues to hold huge potential, that brims with entrepreneurial spirit, whose infrastructure is increasingly well integrated into the wider European networks, and where financial institutions are getting much more adept at supporting an emerging SME sector.

And it is the private sector that has an important role to play in creating more and better opportunities for the people in the region, and thereby helping close the inequality gaps. In particular, SMEs have the potential to become the economic engine across the region. For example, by investing in targeted credit lines and advisory services for women or young entrepreneurs, the EBRD helps to open up opportunities for innovation and inclusive growth. Investments can also help foster partnerships between employers and education institutions—to shape curricula that reflect the needs of employers, offer high quality work-based learning opportunities, and provide career progression routes. Enhanced regional infrastructure, including ICT connectivity, can facilitate regional integration and open up access to new markets.

At a policy level, the private sector can play an important role in shaping labour market and skills standards, for example through the establishment of Sector Skills Councils (SSCs). These sectoral industry bodies shape human capital policies in key sectors such as tourism or agribusiness. EBRD supports the development of the SSCs in Serbia and Albania in sectors including hospitality and tourism, in order for these to inform the development of sectoral skills strategies standards as well as dual learning programmes. In the infrastructure sector, inclusive public procurement policies can open up access to skills and jobs for populations in underdeveloped regions.

The transition towards a green and digital economy creates challenges but also offers new opportunities for people and regions, to pivot towards emerging sectors and green and digital jobs. This ranges from renewables and green infrastructure solutions all the way to agritech or digital platforms that open up access to broader regional and indeed global markets.

Gaps in gender equality in the region remain significant; enhancing the opportunities for women to fully participate in social and economic life requires a broad and holistic policy approach, from shaping education decisions of girls and women, especially towards STEM fields, to enhancing the share of women in non-traditional sectors, management positions and as part of political decision-making processes. Gender considerations need to be fully embedded into policy design across all areas, for example

to ensure that investment climate reforms create enhanced environments for economic prosperity and growth for everyone. The EBRD is supporting the first of such programmes in Montenegro. Finally, tackling gender-based violence and harassment in all its forms has to underpin all policies and activities.

This book is an important contribution towards creating a better understanding of the opportunities and challenges to create more inclusive societies and economies across the Western Balkans. It offers not only analyses of the issues, but also sets out evidence-based policy solutions. These range from policies to tackle informality and the low wage—high tax trap, to closing the persistent skills mismatch, creating a more effective school to work transition for young people, promoting entrepreneurship opportunities for women, to tackling the brain drain and the depopulation of rural parts of the region, as well as the integration of returning migrants.

London, UK

Barbara Rambousek



## PREFACE

This book is a product of the activity of the LSEE Research Network on Social Cohesion set up in 2011 with the aim to promote independent research into issues of socio-economic development in the SEE region. A large focus of the work of the research network has been on the economic and social problems of the “Western Balkans”, a group of European countries that have been seeking to join the EU over several decades with as yet little success except Croatia which became an EU member state in 2013. The Western Balkans countries—Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia—are in various stages of EU integration. All experience economic and social problems ranging from high level of unemployment, much informal economic activity, weak social protection systems and high levels of poverty and inequality, to a far greater extent than most other parts of Europe. The region has also been hit by the heavy impact of the COVID-19 pandemic with ‘excess deaths’ from the pandemic amongst the highest in the world.<sup>1</sup> Five of these countries were component parts of the former Yugoslavia and as such have much in common. A major thrust of economic policy in recent years has been to promote regional cooperation and several international initiatives have been devoted to this purpose including the work of the Regional Cooperation Council, based in Sarajevo, and the CEFTA regional trade

<sup>1</sup> Excess deaths are defined as the difference between the actual number of deaths in a given period (month, year) less the expected number based on comparable previous periods. See: Economist Intelligence Unit: <https://www.economist.com/graphic-detail/coronavirus-excess-deaths-tracker>.

agreement which also includes Moldova. The promotion of regional cooperation in research activity and the investigation of the benefits of regional cooperation in policy proposals is a key motivation of the LSEE Research Network.

The Research Network covers policy themes such as employment and job creation, skill mismatches, education and vocational training, health reforms, pension reforms, poverty and social protection, social entrepreneurship, ethnic minorities and Roma inclusion, decentralisation and regional development, all with a focus on providing original and relevant research evidence to support effective policy responses to the difficult social situation in the region. The network has held four conferences between 2011 and 2017 and several focused workshops, leading to the production of a number of books, papers and reports.<sup>2</sup> This book results from a selection of papers presented at the 5th Conference of the LSEE Research Network on Social Cohesion in South East Europe, held at the University of Belgrade in November 2019 with the support of the European Bank for Reconstruction and Development (EBRD). The conference covered the theme of economic inclusion, addressing the ways in which economic development can be designed to contribute to the creation of quality jobs, improved vocational training, support for female entrepreneurship and the integration of migrants.

We are deeply grateful to the European Bank for Reconstruction and Development (EBRD), the Embassy of Japan in Serbia, and the Faculty of Economics at the University of Belgrade, who were co-organisers of the conference along with the Research Unit on South Eastern Europe at the London School of Economics and Political Science (LSEE) and without whose support the conference could not have taken place. In particular, we thank Barbara Rambousek, Biljana Ker-Lindsay, Dragan Marjanovic from EBRD; Vassilis Monastiriotis and Areti Chatzistergou from LSEE; and the administrative and catering services at the Belgrade Faculty of Economics for their hands-on involvement in the organisation of the event. The conference was opened by Borislav Boričić, Dean of the Faculty of Economics; Maruyama Junichi, Ambassador, Embassy of Japan in Republic of Serbia; Mattia Romani, Managing Director for Economics, Policy and Governance, EBRD; and Vassilis Monastiriotis, Director of LSEE. We are also grateful to Ivana Prica, Saša Randjelović, Mihail

<sup>2</sup>For more details see: <https://www.lse.ac.uk/LSEE-Research-on-South-Eastern-Europe/Research/Research-Network/Research-Network-on-SEE>.

Arandarenko, Jelena Žarković Rakić, Irena Janković, Mladen Stamenković, and Dejan Molnar from the Faculty of Economics who chaired individual sessions. A policy round table benefitted from the wide experience of Biljana Ker-Lindsay (EBRD), Cristina Mereuta from the European Training Foundation (ETF), Cristian Raileanu from the Employment Policies Unit, Ministry of Labour and Social Justice, Romania, and Slobodan Anić from Dunkermotoren Serbia. Most of all, we are grateful to all the participants at the conference who presented papers and contributed to a lively discussion of the issues.

London, UK  
Perugia, Italy

William Bartlett  
Milica Uvalić

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## NOTES ON CONTRIBUTORS

**Dragan Aleksić** is an Assistant Professor at the Faculty of Economics at the University of Belgrade. His primary fields of interests are employment policy, labour market policy, minimum wage and vulnerable groups in the labour market. He has written numerous papers and been involved in many projects related to this area.

**Mihail Arandarenko** is a professor of labour economics at the Faculty of Economics of the University of Belgrade, Serbia. He was a visiting scholar at the City University of New York, at the London School of Economics and Political Science (LSE) and at Collegium Budapest, Institute for Advanced Study. He has published on issues of labour markets, employment programmes, political economy and social policy, especially in the context of difficult socio-economic transformation in South Eastern Europe.

**Mehmet Bağış** received his PhD from Sakarya University Business Institute in 2018. Since 2020 he has been Assistant Professor at Sakarya University of Applied Sciences, Faculty of Applied Sciences, Department of International Trade and Finance. His professional interests include strategic management, entrepreneurship, resource-based view, dynamic capabilities, behavioural strategy, and competitive strategy.

**Ružica Šimić Banović** is an Associate Professor in the Department of Economics, Faculty of Law, University of Zagreb. She holds a PhD degree from the School of Economics and Business, University of Ljubljana. As a Chevening scholar she received her MA in Public Policy from King's College London, University of London. She has completed a fellowship in

the Department of Economics at The George Washington University as a part of the Junior Faculty Development Program funded by the U.S. Department of State. Before joining the academic community, Ružica was an advisor in the Croatian National Competitiveness Council and had worked in the private sector as well. Her research interests include institutional interaction in the post socialist business environment (with an emphasis on the reform implementation and ‘economy of favours’), immigrant entrepreneurship and recent migration trends in Eastern Europe.

**William Bartlett** is Deputy Director of the Research Unit on Southeastern Europe (LSEE) at the European Institute, London School of Economics and Political Science (LSE). He is also Editor-in-Chief of the peer reviewed journal *Economic Annals*, published by the Faculty of Economics at the University of Belgrade. His research has focused on the socio-economic development of the successor states of former Yugoslavia through the perspective of political economy, publishing papers analysing economic assistance to the Western Balkans, the digital economy and skill gaps, education systems and youth labour markets, regional and local economic development, international trade in the Western Balkans, and barriers to private sector development in the region. He has acted as a consultant for the European Commission, European Training Foundation, the Regional Cooperation Council, UNDP, UNICEF, and various bilateral donor organisations.

**Azra Bičo** is a Senior Assistant and PhD Candidate at the Department of Economics and Management at the International University of Sarajevo. She has authored/co-authored several journal articles, book chapters and conference papers. She lectures and assists on courses in Macroeconomics, Microeconomics, Labour Economics, International Economics, and Growth and Development. Her research interests include Labour Economics, Macroeconomics, Gender studies related to Labour Economics, and Entrepreneurship.

**Nina Branković** is a PhD candidate, University of Paris-Saclay, Doctoral school of Law, Economics, Management, France. She holds an MSc in Public Policy from Kings College London, UK. She has a long experience in research and evaluation in the Western Balkan region. She is author of *Development of Entrepreneurial Universities in a Post Communist Country*, (World Scientific Reference in Entrepreneurship, 2017), and “*From VET*



*school to the labour market in Bosnia and Herzegovina: expected versus actual wages*" (European Journal of Education, 2016)

**Azra Branković** is Assistant Professor at the International University of Sarajevo at the Department of International Business and Finance. She teaches Business Communication, International Marketing, International Business, Business Ethics, Entrepreneurship and Small Business Development, and Human Resource Management. She has worked at the Athens University of Economics and Business, Athens; the University Bocconi, Milan; the Academy of Economics, Krakow. She has worked with the Parliamentary Assembly of Bosnia and Herzegovina as Head of the Research Section and for the Council of Ministers as Expert Advisor for public administration reforms.

**Fiona Carmichael** is a Professor of Labour Economics in the Department of Management, University of Birmingham. Her research centres on the employment of marginalised workers with particular emphasis on inequalities and vulnerabilities including those relating to gender, caregiving, ageing, disability and poverty. This research has included investigations of trade-offs between paid work and unpaid caregiving, barriers to work faced by women and older workers, retirement decisions, disability and work, work and wellbeing of young people in low and middle-income countries.

**Erka Çaro** is a Researcher and Lecturer at the Department of Geography, University of Tirana. She holds a PhD in Population Studies from the University of Groningen in the Netherlands. She is a member of the executive board of the Western Balkans Migration Network. She has been a lead coordinator and researcher in several international projects. She has published articles in the Journal of Ethnic and Migration Studies among others. She has been awarded research grants by the Regional Research Promotion Programme (RRPP), the Regional Research Association (RSA), and the Scientific Academia of Finland. Her research interests include migration, labour mobility, trade union relationships with migrants, gender studies, and the Western Balkans.

**Elvisa Drishti** is a full-time lecturer and researcher at the Department of Business Administration, University of Shkodra. She was awarded her PhD from the Birmingham Business School in July 2019 under the supervision of Professor Fiona Carmichael. She is also CERGE-EI Graduate Teaching Fellow. Her research area is largely concerned with

labour economics/employment studies and focuses on the prevalence and consequences of insecure employment in Albania and other countries in Europe.

**Agon Dula** holds an MSc in Economics for Business Analysis at Staffordshire University, UK. He is currently pursuing a PhD in Business Administration at the South-East European University in North Macedonia. He has worked in the private, government and NGO sectors as a business development specialist. As Strategic Advisor to the Minister of Economic Development he was involved in projects in the energy sector and on the Digital Agenda for the Western Balkans. He is currently involved in an EU-funded project focusing on aligning education and training with labour market needs.

**Vesna Fabian** is a Senior Advisor in the Ministry of Education, Science and Technological Development of the Republic of Serbia. Previously she worked in National Employment Service Head Office as Head of the Centre for Further Education and Training and Director of the Sector for Job Placement and Career Planning Services. She holds a PhD from the Faculty of Philosophy, Department of Andragogy, at the University of Belgrade 2019 with the thesis “Vocational training and the position of the individual in the labour market”.

**Maja Jandrić** is Associate Professor at the University of Belgrade, Faculty of Economics. Her research covers economic policy and labour market analysis, with focus on flexibility and security in the labour market. She has published in international academic journals including *Applied Economics Letters* and the *European Journal of Operational Research*.

**Ermira Kalaj** is a Professor of Public Economics at the University of Shkodra. She received her Ph.D. degree in “Economics and Management” from the University of Trento, Italy and her M.A in “Management of Development” from the University of Turin. She is a holder of CERGE-EI Foundation Teaching Fellows Career Integration Fellowship, (2017–2020, 2020–2023). Ermira joined the University of Shkodra in 2015. She previously held faculty positions at the University of Durrës, where she was Chair of the Economics Department from 2009 to 2015. Her current research interests include public sector economics; the effects of immigration; income distribution; and econometric methods for program and policy evaluation.

**Bresena Kopliku** is a Researcher and Lecturer at the Department of Geography University of Shkodra, Albania where she is currently the Head of Department. She holds a doctoral degree in Human Geography from the Department of Geography, University of Tirana. She has been a visiting scholar at St Hilda's College, Oxford University. She has also collaborated as external expert of migration issues and local consultant with international organizations in Albania such as GIZ and USAID. Her research interests relate to migration and its diverse typologies, return migration, transnationalism, and diaspora.

**Dželila Kramer** is an independent fiscal policy consultant working with the World Bank, GIZ, USAID, Center of Excellence in Finance (CEF) and the Centre for Development and Social Science Research, Sarajevo. Her expertise relates to reforms and microsimulation modelling in the areas of taxes, social security contributions and social benefits, as well as financial impact assessment in general. Her research interests include microsimulation modelling, revenue forecasting, budget analysis and tax reforms.

**Besnik Krasniqi**, a Fulbright Scholar, holds an MA and a PhD in Economics from Staffordshire University, UK. He is Professor of Small Business and Entrepreneurship at the University of Prishtina. His career spans teaching and research in entrepreneurship at Maastricht School of Management, Indiana University, University of Michigan, Tuck Business School at Dartmouth, Vytautas Magnus University, and Université Nice Sophia Antipolis. His research has appeared in international journals such as *Entrepreneurship Theory and Practice*, *Small Business Economics*, *International Entrepreneurship and Management Journal*, and *Economic Systems* among others. He is founding director of the Business Support Centre in Kosovo.

**Liridon Kryeziu** obtained a PhD in Business Administration at Sakarya University, Turkey. He currently teaches, and holds a position as research coordinator, at Heimerer College. His research interests are family firms, institutions, firm internationalization, social networks, SMEs, behavioral strategy, and strategic management.

**Amela Kurta** is a Senior Research Analyst at the Centre for Development Evaluation and Social Science Research, Sarajevo. She is Head of BiH Data Archive for Social Sciences and a member of the national tax-benefit microsimulation model (BiHMOD) team. Her research interests are in

social policy and microsimulation models. Amela co-authored several publications related to the tax-benefit system in Bosnia and Herzegovina.

**Maja Marković** is Director of the Research and Advocacy Programme at NGO Juventas in Montenegro and a current Hubert Humphrey Fellow at the University of Minnesota, where she is specialising in the field of public policies focusing on social policies and human services design. She holds a Master's degree in Public Administration obtained from the University of Birmingham. She has more than ten years of experience in implementing projects and programmes related to policy research and analysis, as well as advocacy in the areas of human rights and civil society development. She is the author of several reports and research publications in areas of civil society development, human rights and good governance.

**Nermin Oruč** is Director of Research at the Centre for Development Evaluation and Social Science Research, Sarajevo. He is Leader of the national team for development of BiHMOD. His research interests include migration, labour market analysis, poverty and inequality. He published several books and journal articles in the areas of labour market analysis, migration and social policy. Nermin was a Teaching Fellow at CERGE-EI and Atlantic Visiting Fellow at the International Inequalities Institute, LSE.

**Sanja Popović-Pantić** is a Senior Research Associate at the Science and Technology Policy Research Centre in the “Mihajlo Pupin” Institute in Belgrade, Serbia. She obtained a PhD in female entrepreneurship in 2013 at the Faculty of Economics, University of Belgrade. She has chaired the Women's Entrepreneurship Sector Group of the Enterprise Europe Network (EEN) and is a leader of the Association of Business Women in Serbia. She has been engaged in many international projects on female entrepreneurship and has published research papers in international journals mostly related to different gender aspects of entrepreneurship.

**Duška Semencenko**, is a Senior Scientific Associate in the “Mihajlo Pupin” Institute in Belgrade, Serbia, and a Lecturer at the postgraduate doctoral studies at the Rectorate of the University of Belgrade teaching a course in Technology and Transition; she holds a PhD. Her research has covered the National Innovation System of Serbia with particular emphasis on the historical and cultural conditions of technological development and the role of government in the design of science-technology-innovation policies. She has published more than 100 scientific and professional papers and four books.

**Martina Basarac Sertić** is a senior research associate at the Economic Research Division of the Croatian Academy of Sciences and Arts, where she became an associate member in 2020. She is Assistant Professor teaching courses Croatian Economy, Economic Policy, Economics of Education, and Statistics at the Faculty of Economic & Business, University of Zagreb. She also teaches a course on Sustainable Development and Natural Resources. She has published about 50 scientific and professional articles. Her research focuses on macroeconomics, sectoral competitiveness, and sustainable development.

**Vlatka Škokić** is an Associate Professor of Entrepreneurship at University of Split, Faculty of Economics, Business and Tourism, Croatia. She was previously a Lecturer at the University of Surrey, School of Hospitality and Tourism Management, UK. Vlatka holds a PhD from the University of Strathclyde, Scotland. Her research is focused on entrepreneurship, innovation and networks. Vlatka's research is published in the leading management and social science journals including *Annals of Tourism Research* and *European Management Journal*. Vlatka is experienced at teaching a range of subjects including entrepreneurship, family business and research methods (qualitative) at postgraduate and doctoral level. She is a Fellow of the Higher Education Academy (HEA).

**Milica Uvalić** is Professor in Economics at the Political Science Department of the University of Perugia (Italy), where she has worked since 1992 teaching courses on Macroeconomics, International Economics, European Economic Integration, Transition Economics, Economic Development and Global Governance. She was member of the UN Committee for Development Policy (2008–2012) and Assistant Minister in the first post-Milošević government in FR Yugoslavia (2001). She is an expert on the Western Balkans and wider East European region and has published extensively on Western Balkan economic development, regional cooperation, privatization, trade, foreign direct investment, higher education, labour markets and EU enlargement. She has been consultant to the Bertelsmann Foundation, Friedrich Ebert Foundation, the European Commission, the European Investment Bank, OECD, Regional Cooperation Council, ILO, UNDP and UNESCO.

**Nikola Vasilić** is a Junior Researcher at the “Mihajlo Pupin” Institute in Belgrade, Serbia, within the Science and Technology Policy Research Centre. He is a PhD candidate at the Faculty of Economics, University of

Kragujevac. His research covers science, technology and innovation development, applied econometrics, female entrepreneurship, and SMEs. He is currently involved in the Enterprise Europe Network project financed by the European Commission, which helps SMEs to innovate and grow on an international scale.

**Valentina Vučković** is an Assistant Professor at the Department of Economic Theory, Faculty of Economics & Business, Zagreb. She obtained her PhD in 2014 with thesis “Political economy aspects of business environment reforms as competitiveness factor”. From 2008 to 2014 she worked as a Research Assistant at the Institute for Development and International Relations (IRMO), Zagreb, at the Department for International Economic and Political Relations. She has authored or co-authored around 40 scientific and professional papers and participated in 11 research projects. Her research interests include the political economy of reforms, competitiveness analysis, entrepreneurship, and innovation.

**Merita Xhumari** (University of Tirana, Albania) is Professor of Social and Public Policy, with 35 years’ experience at the University of Tirana. She has 25 years’ experience as a researcher in various national/international projects in Albania and Western Balkans. She is the author of the university textbook *Process and Institutions of Social Policy* (in Albanian), of the monograph *Pension Trajectories in Western Balkans 1990–2010*, and co-author of many published studies.

**Megi Xhumari** (University of Tirana, Albania) is a part-time assistant lecturer at the Department of Social Work and Social Policy, and a psycho-social programme coordinator at Bethany Social Services, a civil society organization in Albania. She has 10 years’ experience as a researcher, social worker, and psychotherapist in various national/international organizations in Albania, Western Balkans and USA. She is the co-author of some published studies.

**Genc Zhushi** has a Master’s degree from the University of Pristina, Faculty of Economics, where he continues his doctoral studies, and at University Cote D’Azur for one semester, specialising in econometric models. He is Assistant Professor at the University of Pristina and has worked at BKT Bank as a profitability specialist and at KEDS as a statistical reporting specialist.

## ABBREVIATIONS

AQF	Albanian Qualification Framework
BiH	Bosnia and Herzegovina
CEO	Chief Executive Officer
CME	Coordinated market economy
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EIB	The European Investment Bank
EQF	European Qualification Framework
ES	Enterprise Surveys
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
GEM	Global Entrepreneurship monitor
HBS	Household Budget Survey
INSTAT	Institute of Statistic in Albania
IPA	Instrument for Pre-Accession Assistance
LMEs	Liberal market economies
LMR	Labour market regulation
MSMEs	Micro, small and medium sized firms
NEET	Neither in employment, education or training
NESA	National Employment and Skills Agency in Albania
NGO	Non-governmental Organisations
OJT	On the job training
PAYG	Pay-As-You-Go
RS	Republic of Srpska
SAFE	Survey on the Access to Finance of Enterprises
SBA	Small Business Act

SILC	Survey on Income and Living Conditions
SME	Small and Medium Enterprise
SSC	Social security contributions
STVT	Short-term vocational training
TWS	Typologies of welfare states
USA	United States of America
USAID	The United States Agency for International Development
VET	Vocational education and training
VoC	Varieties of capitalism
WB	Western Balkans
WBG	World Bank Group
WBT	Western Balkans and Turkey
WiiW	Vienna Institute for International Economic Studies



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# Introduction: Key Challenges for Economic Inclusion in the Western Balkans

*William Bartlett and Milica Uvalić*

The countries in the Western Balkans have been severely affected by the wars and conflicts that accompanied the breakup of former Yugoslavia, by political instability and the effort of creating new states, resulting in weak economies and high levels of unemployment, poverty, social exclusion and inequality. As revealed by recent surveys, such as EBRD's Life in Transition Survey and Eurofound's European Quality of Life Survey, life satisfaction in the region is far below that elsewhere in Europe. This is not just a social issue but has implications for the prospects for inclusive economic growth in the future. In this respect, the issue of job creation, labour market integration and skill formation are paramount, as exclusion from good quality

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W. Bartlett (✉)

European Institute, London School of Economics & Political Science,  
London, UK

e-mail: [w.j.bartlett@lse.ac.uk](mailto:w.j.bartlett@lse.ac.uk)

M. Uvalić

Department of Political Science, University of Perugia, Perugia, Italy

e-mail: [milica.uvalic@unipg.it](mailto:milica.uvalic@unipg.it)

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