2021-2027 IPA III

Cross-border Cooperation Programme

*Kosovo[[1]](#footnote-1)\* – North Macedonia*

*ADOPTED ON DD/MM/YYYY*

*1st Draft*

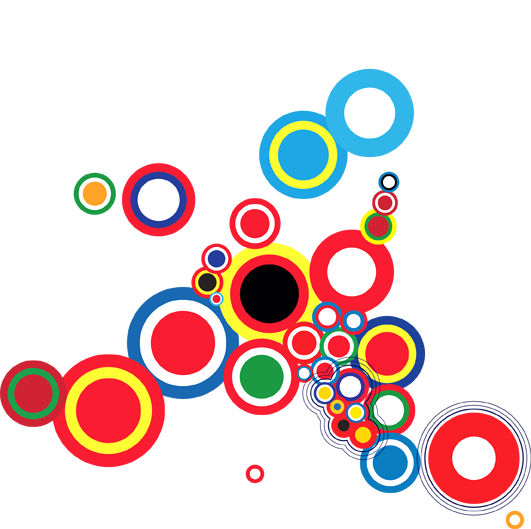


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# Programme synopsis

|  |  |
| --- | --- |
| Programme title | 2021-2027 IPA-III Cross-Border Cooperation Programme between Kosovo and North Macedonia |
| Programme area | Kosovo  *East Economic and South Economic Regions.*  North Macedonia  *Polog Region; Northeast Region; Skopje Region.* |
| Programme overall objective | To foster a sustainable socio-economic development by increasing competitiveness of the private sector and a healthier environment |
| Programme thematic clusters, thematic priorities and specific objectives per thematic priority | **TC 1: Improved business environment and competiveness**  ***TP 1-Competitiveness, business environment and SME development, trade and investment***  Specific Objective 1: To develop the cross-border market by fostering product and service internationalisation  Specific Objective 2: To develop entrepreneurial skills for job creation and new businesses  **TC 2: Greener and Improved resource efficiency**  ***TP 2- Environmental protection, climate change adaptation and mitigation, risk prevention and management***  Specific Objective 1: To promote environmental protection and green economy through the sustainable use of natural resources and renewable energy sources  ***Thematic Priority 0: Technical Assistance***  The specific objective **of the technical assistance** is twofold:   1. to ensure the efficient, effective, transparent and timely implementation of the cross-border cooperation programme; and 2. to raise awareness of the programme amongst national, regional and local communities and, in general, the population in the eligible programme area. |
| Total EU financial allocation 2021-2027 | € <…> |
| Management implementation mode | Direct Management |
| Contracting authority | European Union Office in Kosovo |
| Relevant authorities in the participating beneficiaries | **Kosovo:**  Ministry of Local Government  **North Macedonia:**  National IPA Coordinator (NIPAC) and Operating Structure established under the IPA III legal framework |
| Offices of the joint technical secretariat (JTS) | Main office: Pristina, Kosovo  Antenna office: Kumanovo, North Macedonia |

# List of acronyms

|  |  |
| --- | --- |
| AIR | Annual implementation report |
| CBC | Cross-border cooperation |
| CEFTA | Central European Free Trade Agreement |
| CfP | Call for proposals |
| CSOs | Civil society organisations |
| EFTA | European Free Trade Association |
| EPAP | European Partnership Action Plan |
| EU  EUSAIR | European Union  EU Strategy for Adrian Ionian Region |
| EURED | European Union Regional Economic Development |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| GVA | Gross Value Added |
| HLAD | High Level Accession Dialogue |
| ICT | Information and Communication Technologies |
| IPA | Instrument for Pre-Accession Assistance |
| JMC | Joint Monitoring Committee |
| JTF  JTS | Joint Task Force  Joint Technical Secretariat |
| KS | Kosovo |
| LAG | Local Action Group |
| MK | North Macedonia |
| NATO | North Atlantic Treaty Organization |
| NGO | Non-governmental Organisation |
| NUTS | Nomenclature of Territorial Units for Statistics |
| OS | Operating Structure |
| OSCE | Organization for Security and Co-operation in Europe |
| PAEP | Pre-Accession Economic Programme |
| PESTLE | Political, economic, socio-cultural, technological, legal and environmental |
| PRAG | Practical Guide to Contract Procedures for EU External Actions |
| R&D | Research and Development |
| RDA  RoP | Regional Development Agency  Rules of Procedures for the JTF |
| SAA | Stabilisation and Association Agreement |
| SAPD | Stabilisation and Association Process Dialogue |
| SME | Small and Medium-sized Enterprises |
| SWOT | Strengths, weaknesses, opportunities and threats |
| UNDP | United Nations Development Programme |
| VET  WB | Vocational Education and Training  Western Balkans |
| WTO | World Trade Organisation |

# Section 1: Programme summary

The programme for cross-border cooperation between the Kosovo and North Macedonia will be implemented under the framework of 2021-2027 Instrument for Pre-accession Assistance (IPA III) with a view to promoting good neighbourly relations, fostering Union integration and promoting socio-economic development through joint local and regional initiatives.

The legal basis for the drafting of the cross-border programme.......

TBD

## 1.1 Summary of the programme

The Instrument for Pre-accession Assistance (IPA) is the means by which the EU supports reforms in the 'enlargement countries' with financial and technical help. The IPA funds build up the capacities of the countries throughout the accession process, resulting in progressive, positive developments in the region. For the period 2007-2013 IPA had a budget of some € 11.5 billion; its successor, IPA II, built on the results already achieved by dedicating € 11.7 billion for the period 2014-2020.

Under the third generation of IPA programmes in the Western Balkans, the EU will continue helping to prepare partners for future membership of the European Union and support their accession process. In June 2018, the Commission presented its proposal for a Regulation establishing the Instrument for Pre-accession Assistance (IPA III). The Commission proposal suggested an overall budget for the programme of € 14.5 billion in current prices for the period 2021-2027. It was proposed that this budget would be divided according to five thematic priorities and be allocated based on the actual performance of beneficiaries by annual assessment. In March 2019 the Council agreed its position (partial general approach) on the draft Regulation establishing the Instrument for Pre-accession Assistance (IPA III) for the period 2021–2027.The agreed text does not cover financial and horizontal issues, which will depend on the overall agreement on the next multiannual financial framework.

***Main areas of interventions***

The **overall objective** of this CBC Programme is to foster a sustainable socio-economic development by increasing competitiveness of the private sector and a healthier environment

Based on the situation/PESTLE and SWOT analyses, a joint task force (JTF) overseeing the preparation of this document considered the following thematic priorities and specific objectives as instrumental for the effective implementation of the CBC programme:

**Thematic Priority 1-Competitiveness, business environment and SME development, trade and investment**

Specific Objective 1: To develop the cross-border market by fostering product and service internationalisation

Specific Objective 2: To develop entrepreneurial skills for job creation and new businesses

**Thematic Priority 2- Environmental protection, climate change adaptation and mitigation, risk prevention and management**

Specific Objective 1: To promote environmental protection and green economy through sustainable use of natural resources and renewable energy sources

## 1.2 Preparation of the programme and involvement of the partners

The two operating structures of IPA II CBC Programmes (OSs), notably the Ministry of Local Government of Kosovo and the Ministry of Local Self-government and the NIPAC office from North Macedonia, have jointly worked for the preparation of the programme.

The 2021-2027 IPA CBC programme between Kosovo and North Macedonia is the result of a bilateral programming exercise, carried out by the participating IPA III beneficiaries, including relevant stakeholders from the central and local institutions of the eligible areas of the programme, chambers of commerce and industry, businesses, and local organizations. In addition, a JTF was established with members from both IPA III beneficiaries to supervise and steer the preparation of the programme document, together with the OSs and the joint technical secretariat (JTS).

The programming exercise commenced end April 2020 and in its first and most important phase came to an end beginning of December 2020, resulting thus the 1st draft of the programme document KS-MK. The programme was designed through a large consultation process involving local stakeholders and potential beneficiaries from both sides of the eligible territory. In the course of the process, the JTF, OSs and the JTS were assisted by the EU-funded multi-beneficiary project titled “Cross-border Institution Building – CBC Plus Phase III” (CBIB+3).

To collect inputs from the field, three types of questionnaires were designed by the CBIB+3, discussed with the OSs and disseminated with the support of the JTS to institutions at central and local level and CSOs. The responses collected were used as primary information sources for the situation/PESTLE and SWOT analyses for the programme and provided hints in the identification of joint thematic priorities for the cross-border area. A total of 40 questionnaires filled out by legal entities from both IPA II beneficiaries also served to design the intervention logic. In this process, some clarification interviews were also held, including discussions with relevant actors at the central and local level as well as civil society representatives and local grassroots organisations to ensure a large representation of stances supporting the programme choices. The vast majority of the meetings were held online due to the Covid-19 pandemic situation.

The first draft document of the programme was submitted to the Commission in XXX December 2020, the second revised draft was submitted in xx xx xxxx .

The table 1.1 below illustrates the process of coordination, deliberation and consultation undertaken in the preparation of this document.

**Table 1.1: Table of meetings, important milestones and consultations**

|  |  |
| --- | --- |
| Date | Events and scope |
| 22 April 2020 | A letter from the European Commission (EC) regarding IPA III and starting of programming process received by the NIPAC Office |
| 28 April 2020 | Introductory meeting KS OS, MK OS and CBIB+3 on the coming IPA III CBC programming process |
| 06 May 2020 | Kick off meeting between KS OS and CBIB+3 on the IPA III CBC programming process (required steps and draft working plan) |
| 18 May 2020 | Kick off meeting between MK OS and CBIB+3 on the IPA III CBC programming process (required steps and draft working plan) |
| 26 May 2020 | Coordination meeting with OS, DEU and NIPAC office in North Macedonia with CBIB+3 on IPA III CBC programming |
| July 2020 | The process for the establishment of the Joint Task Force (JTF) was completed, consisting of a representation of stakeholders from Kosovo and North Macedonia for the preparation of the CBC programme 2021 – 2027 |
| 05 August 2020 | Bilateral meeting between KS and MK OSs on programming process |
| 11 August 2020 | JTS KS-MK dispatched the questionnaires to the relevant CBC stakeholders |
| 17 August 2020 | 1st JTF meeting on the adoption of the RoP, Initial discussions related to planning of activities, definition of timeframe and steps in the programming process |
| 01 September 2020 | Mobilisation of the programming expert for the programme KS-MK |
| 03 September 2020 | Bilateral meeting between KS and MK OSs on programming process |
| 19 September.2020 | 2nd deadline for the collection of the completed questionnaires in both countries |
| 20 October 2020 | The aggregated answers from the collected questionnaires were delivered to the programming expert for further elaboration and analysis |
| 15-16 October 2020 | Workshop on strategy development and formulation for the members of the JTF, and OS and JTS, (for Kosovo), one event per country in the WBs |
| 28 October to 9 November 2020 | Consultation with JTF members (Collection of comments on the Situation and SWOT Analysis) |
| 11 November 2020 | 2nd JTF meeting on the Situation SWOT Analysis and preliminary discussion on selection of TCs/TPs |
| 13 – 17 November 2020 | Consultation with JTF members (on selection of TCs/TPs ) |
| 17 November 2020 | Preparatory meeting between two OSs on the selection of TCs/TPs |
| 18 November 2020 | 3rd JTF meeting on the selection of the TCs/TPs |
| 25 November – 30 November 2020 | Consultation with JTF members (Collection of comments on the draft Programme Strategy) |
| 09 December 2020 | 4th JTF meeting on the 1st draft Programme Strategy |
| XX December 2020 | Submission of the first draft of the Programming Document to the European Commission |
| XX December 2020 | Public Consultation |
|  | 8th Regional CBC Consultative Forum |
|  | 5th JTF meeting on the 2nd draft Programme Strategy |
|  | Submission of the 2nd draft version to the European Commission |
|  | Submission of the final version to the European Commission |

**Section 2: Programme area**

2.1 Situation Analysis

The eligible territory of the 2021-2027 IPA III cross-border programme between Kosovo and North Macedonia includes five regions: two in Kosovo and three in North Macedonia.

**2.1.1 General Profile**

*Figure 2.1: Map of the Programme area*

****The **Kosovo part of the programme area** includes 2 economic regions, encompassing 17 municipalities, with a total of 529 settlements, namely:

***East Economic Region,*** including the municipalities of Gjilan/Gnjilane, Kamenicë/Kamenica, Viti/Vitina, Novo Bërdë/Novo Brdo, Ferizaj/Uroševac, Kaçanik/Kačanik, Shtërpcë/Štrpce, Hani i Elezit/Elez Han, Ranillug/Ranilug, Partesh/Parteš and Kllokot/Klokot.

***South Economic Region,*** including the municipalities of Prizren, Suharekë/Suva Reka, Malishevë/Mališevo, Dragash/Dragaš, Rahovec/Orahovac, and Mamusha/Mamuša.

**The eligible area of North Macedonia** includes 3 regions, divided into 32 municipalities plus the city of Skopje, with a total of 518 settlements[[2]](#footnote-2) (six towns and 512 villages), to wit:

***Polog Region,*** including 9 municipalities: Bogovinje, Brvenitsa, Gostivar, Jegunovtse, Mavrovo and Rostusha, Teartse, Tetovo, Vrapchishte and Zhelino.

***Northeast Region,*** including 6 municipalities: Kratovo, Kriva Palanka, Kumanovo, Lipkovo, Rankovtse and Staro Nagorichane.

***Skopje Region,*** including 17 municipalities: Arachinovo, Chucher-Sandevo, Ilinden, Petrovets, Sopishte, Studenichani, and Zelenikovo. The City of Skopje is an administrative unit which gathers 10 municipalities: Aerodrom, Butel, Chair, Centar, Gazi Baba, Gjorche Petrov, Karposh, Kisela Voda, Saraj, and Shuto Orizari.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Table 2.1- Basic territorial and demographic data (2019)** | | | | | |  | |
| **Territories** | | **Area (km²)** | **% of the total territory** | **Population** | **% of the total population** | **Density: population per km²** | |
| **TOTAL Cross-border area** | **10,782** | **29.44%** | **1,864,814** | **48.33%** | | **173.0** |
| **Kosovo** | 10,905 | 100% | 1,782,115 | 100% | | 163.42 |
| **Kosovo - Cross-border area** | **4,244** | **38.92%** | **734,049** | **41.19%** | | **173.0** |
| East Economic region | 2,234 | 20.72% | 326,635 | 18.33% | | 146.2 |
| South Economic Region | 2,010 | 18.64% | 407,414 | 22.86% | | 202.7 |
| **North Macedonia** | **25,713** | **100.00%** | **2,076,255** | **100.00%** | | 80.7 |
| **North Macedonia - Cross-border area** | **6,538** | **26.30%** | **1,130,765** | **54.41%** | | **173.0** |
| Polog Region | 2,416 | 9.70% | 322,605 | 15.50% | | 133.5 |
| Northeast Region | 2,310 | 9.30% | 176,086 | 8.50% | | 76.2 |
| Skopje region | 1,812 | 7.30% | 632,074 | 30.41% | | 348.6 |

Graph No. 2.1: Programme area in km2

The entire programme area has a total surface of 10 782 km², of which 38.92 % of Kosovo and 26.30 % of North Macedonia. The total population of the programme area is 1 864 814 inhabitants, representing 48.33 % of the total population of both countries. Whereas in programme area, the population is divided between 39.36 % and 60.64, respectively living in Kosovo and North Macedonia. The density of the population living in the area is different by regions, but in average there are 173 inhabitants / km2.

The programme area is characterised by differences and similarities in economic and social development. Differences can be seen not only between the two parts of the programme area, but also within regions in each side of the border. The main differences are closely linked with factors such as the size of the region, its level of development, the availability of natural resources, demography, level of education, urbanisation of the regions, etc. The urban areas in Kosovo (Prizren, Ferizaj/Uroševac and Gjilan/Gnjilane) and in North Macedonia (Skopje, Tetovo, Gostivar, Kumanovo and Kriva Palanka) predominately have trade and industrial activities with a more developed industry in the Skopje region and agro-industrial features in other zones.

***In Kosovo,*** the **East Economic Region** has great potentials and very favorable conditions for businesses. The largest number of businesses are individual entities and micro-enterprises with 1-9 employees. The municipalities mostly have an agro-industrial economic character. They live on wholesale trade, production, agriculture, forestry, light industrial processing, construction and services. This region is distinguished for its rare natural, climate and hydrologic beauties. It has a developed winter tourism in Brezovica and revitalised it in Kllokot/Klokot, where there is a high potential for rural tourism development. The presence of agricultural land is significant, and the most developed sector is livestock raising (the fastest growing sector), orchard and fruits and vegetables farming.

The **South Economic Region** features natural resources, water resources and minerals. The National Park 'Sharri/Šar Mountains' is characterized by its unique natural beauty, hydrological, climatic and landscape values. It is one of the most developed agricultural regions, where vineyards and vegetable cultivation are typical. Food processing industry is a field of great potential for development. The cultural heritage, mountainous, urban, rural and recreational tourism are typical for this region. Agro-industrial and economic zones are present in the region. The municipalities of Malisheva/Mališevo and Mamusha/Mamuša are greatly favouring agriculture and food processing.

***In North Macedonia,*** the regions of the programme area have differences in their contribution to the gross domestic product (GDP) in the country. TheSkopje region is economically the most developed region of North Macedonia with a steady growth of the GDP. It contributes around 43.2 % to the national GDP and its GDP per capita was recorded with an index of 141.8 (2019) compared to the average of North Macedonia. The Skopje Region has the highest share in total gross fixed capital formation, amounting to 50.9 %. All industries participate in the generation of added value, except agriculture being the smallest contributor. The trade and services are sectors that employ a high percentage of the active labour force. The holders of economic growth in the Skopje region are large enterprises generating around 51 % of the total production in the non-financial sector, followed by the small and medium enterprises (Centre for Development of the Skopje Region, 2017).

The*Polog region* has a small contribution (7.4 %) to the GDP and the smallest GDP per capita (in 2019)[[3]](#footnote-3). The *Northeast region* has the lowest contribution both to the GDP (only 4.8 %) and employment rate in 2018 which was 33.7 %[[4]](#footnote-4). The natural conditions and resources of the region provide good opportunities for the development of agriculture and meat and dairy processing industry. For both regions, the trade and service sectors contribute to the regional GDP. Agriculture contributes 13.93 % to the regional GDP in the Polog region and only 9 % in the Northeast region.

***2.1.2 Overall economic context***

**Kosovo and North Macedonia** are CEFTA’s (Central European Free Trade Agreement) members. North Macedonia signed a Free Trade Agreement with EFTA countries, whereas Kosovo signed Joint Declarations on Cooperation, as a first step to the negotiation of EFTA[[5]](#footnote-5), which would enable them to benefit more from the globalization of markets.

***Kosovo****’s* government has undertaken important reforms over the past years to strengthen the economy and support the country’s EU candidacy[[6]](#footnote-6). The GDP at current prices in 2019 was € 7 103.8 million, with a real growth rate of 4.94 %. The GDP per capita in 2019 was € 3 986, the second lowest in Europe[[7]](#footnote-7). The informal economy is quite large. There is a need to reduce the high unemployment rate affecting both men and women. Despite sustaining growth, the persistent levels of unemployment remained above 30 % on average between 2013 and 2018[[8]](#footnote-8). There is still a need for considerable reforms in the education system[[9]](#footnote-9).

The COVID-19 pandemic faced the country with a serious situation, both in terms of public health and economy. The containment measures will severely decrease growth, so the projection of GDP growth for 2020 is -5 %[[10]](#footnote-10). Tourism revenues, remittances, exports of goods, production, employment and FDI are dropping due to travel/movement restrictions.

***North Macedonia’s***recent economic developments have demonstrated that in 2019 the GDP grew by 3.6 %[[11]](#footnote-11). The GDP in 2018 was € 10 744 million with a GDP per capita of € 5 175[[12]](#footnote-12). The structure of the GDP in 2018 was dominated by services, industry and construction. Agriculture, forestry and fishing had a share in the structure of GDP of 9.8 %[[13]](#footnote-13). The highest employment rate of 47.3 % was recorded in 2019 with 60 000 new jobs created in two years, with higher wages and historically low unemployment figures, 17.3 %[[14]](#footnote-14) in 2019.

The exports from North Macedonia to Kosovo in 2019[[15]](#footnote-15) reached a volume of 908 278 tons with a value of $ 332.8 million, mainly in petroleum oils, Portland cement, water, flat-rolled products of iron or non-alloy steel, while the imports from Kosovo to North Macedonia entailed $ 33.27 million, mainly in manufacturing goods, chemicals, food and beverages. Due to the COVID-19 pandemic spread in the Western Balkans, early estimates envisage a drop of between 4 and 6 % of the GDP in the region. Thousands of citizens are at risk of losing their jobs.

***2.1.3 Private sector development***

In ***Kosovo,*** the small and medium-sized enterprises (SMEs) constitute 99 %[[16]](#footnote-16) of the enterprises in Kosovo. The SME base has been steadily growing over the past four years. According to their legal status, 79.1 % are individual businesses and 17.7 % are limited companies, employing 156 504 workers (2016 latest figures) with 99 % of these companies giving employment to less than 10 people. The largest industry sector in the Kosovo economy is the retail and wholesale sector, manufacturing and construction[[17]](#footnote-17).

Some of Kosovo’s supporting agencies/institutions are the Kosovo Investment and Enterprise Support Agency (KIESA), the Economic Chamber of Kosovo, the Innovation Centre of Kosovo and the Kosovo Association of Information and Communication Technology (STIKK), etc.

***North Macedonia*** had 75 914 active business entities in 2019, compared to 2018 their number increased by 5 %[[18]](#footnote-18). The highest share of 80.7 % belongs to SMEs with 1-9 workers, while those with 10-19 workers represent 4.2 %. The main important activities are wholesale and retail trade; repair of motor vehicles and motorcycles, manufacturing, professional, scientific and technical activities, transportation, construction, accommodation and food services, etc.

The structure of the private sector in the programme area features the same characteristics. The Skopje region has 27 612 registered businesses (38.2 % of total in the programme area), the Polog region 8 272 (11.5 %), while the Northeast region 4 078 (5.6 %)[[19]](#footnote-19).

Support organisations providing services to business in North Macedonia are the Chamber of Economy of North Macedonia, the North-West Chamber of Economy of North Macedonia and the Export Club. Other agencies are the Agency for Promotion of Entrepreneurship and Invest North Macedonia responsible for attracting foreign investments and supporting international trade.

***2.1.4 Trade and services***

In***Kosovo***the foreign trade of goods and services counts the export volume on € 383.491 million and the import on € 3.496 billion. The balance of goods[[20]](#footnote-20) during 2019 marked an annual increase of 3.7 %, while the balance of services increased by 8.3 %. Exports covered only 11 % of imports in 2019. The trade deficit of goods and services was around € 3.1 billion or 27 % of GDP that year.

During 2019 Kosovo’s exports to North Macedonia[[21]](#footnote-21) reached € 44 million (11.5 % of the total), whereas their imports from North Macedonia amounted to € 240.6 million (6.9 %). The range of goods produced by Kosovar enterprises is still limited. The sectors with the highest potential for export and employment are meant to be the food industry, textile, wood processing, furniture and metal production.

***In North Macedonia****,* the trade volume for 2019 is calculated at $ 16.62 billion, divided by exports for $ 7.18 billion and imports for $ 9.44 billion. Continuing the positive trend of preceding years, exports could cover 76.1 % of imports in trade volume during 2019[[22]](#footnote-22). The most important trade partner is Germany and other Western Balkan countries. Machinery and transport equipment represented the main exports followed by chemicals, manufacturing goods, food and live animals, crude materials, beverages and minerals and fuels.

In 2019, the main import products were manufacturing goods, machinery and transport equipment, chemicals, minerals, fuels, food and live animals, and miscellaneous manufactured articles. Industrial products covered 94.24 % of the exports and 97.48 % of the imports and the rest were agricultural products.

The exports of North Macedonia to Kosovo in 2019[[23]](#footnote-23) represented a volume of 908 278 tons, made of alloy steel and painted, while their imports from Kosovo were basically manufacturing goods, chemicals, food and beverages.

***2.1.5 Industry and investment***

***In Kosovo,*** the share of the processing industry in the GDP for 2019 was over 11.50 %. The share of industrial sectors in total exports for 2019 was 76.06 %, with a dominance of low value-added products. Within the non-food industrial sectors, the metal sector leads with a share of 26.01%, in total exports (in 2019, has increased by 20.17%, compared to 2018); plastics and rubber sector with a share of 17.65% (in 2019, has increased by 10.85%, compared to 2018); wood has a share of 2.63% (2019, marked an increase of 41.94% compared to 2018); textile has a share of 2.69%.

Despite the development of the industrial sectors and their contribution to employment and exports, there are still structural obstacles to industry development related to the lack of knowledge and innovation, insufficient financial reporting, lack of product quality, access to information, lack of networking, followed by low capacity in terms of output and labour, small number of businesses run by women and youth, factors that are important to cope with a relatively large demand.

**In *North Macedonia,*** the most important industries are the food processing industry, the light metal industry, construction, tourism, trade, transport, and business services. In 2019 industrial production increased in comparison with previous years, as well as lead and zinc concentrates, ferro-alloys, milk, wine, medicaments, edible oil and building materials. In recent years, the machine and automotive components sector has enjoyed a dynamic development and growing importance for the country’s economy, supported by a cost-competitive market environment. North Macedonia is an attractive destination for investments, due to the existence of a strong local supplier base that create opportunities for supply chain linkages and local company cooperation.

***2.1.6 Tourism and features of the regions***

In ***Kosovo,*** the archaeological findings prove that Prizren is one of the oldest cities in the*South Economic Region*. It has cultivated a cultural heritage, tourist sites and tourism development. The city lies along the banks of river Lumëbardh, in the picturesque valleys beside the mountains of Sharri/Šar; 2 496 m height which with its glacial lakes makes a potential tourist attraction. *The East Economic Region* has great resources and natural potentials for development of summer and winter tourism. The Sharr/Šar Mountain stands out as it is extremely rich in rivers and mountain lakes, fertile agricultural land, pastures, forests, flora and fauna. Still the region has unexploited resources to use for tourism purposes. Despite the great potential for job creation, tourism is still at an early stage of development. In 2018, the number of local visitors increased by 21.32 % and overnights by 24.96 %, employing about 24 000, which represents about 7 % of all employees in economic activities[[24]](#footnote-24). The total number of tourists visiting Kosovo was 300 804 and overnights were 476 355. The visitors from North Macedonia in Kosovo were 7 842 who spent 12 544 overnights.

But the sector lacks proper institutional coordination, little information on tourist sites, available products and services, lack of development of potential community tourism products and 'tour' operators in rural and mountain areas. The development of tourism requires improvement of infrastructure, increasing the capacity of the sectors, digitalisation of the tourist maps for each municipality. Also, local authorities need to prepare local development plans for tourism, development of tourist products, human capacity, tourist information, tourist guide and construct tourist infrastructure and tourist complexes, and support the development of agricultural production as a complementary measure to diversify the economic development in rural areas.

***In North Macedonia,*** the Polog region has an area of 2 416 km² with a tourist potential in natural beauty, historical and cultural monuments. It covers the Polog valley, Mavrovo plateau, Bistra mountain range and the valley of the river Radika. The highest mountain is [Korab](https://www.macedonia-timeless.com/eng/things_to_do/senses/sight/mountains/korab/) with peaks of 2 500 meters. Shar Planina and Bistra have alpine landscapes, where the ski centres “Mavrovo” and “Popova Shapka” are located.

*The Skopje region*[[25]](#footnote-25) is rich in natural and cultural-historical facilities, as well as several natural reservoirs and natural monuments. The region successfully develops urban, spa, transit and alternative tourism. The thermal and thermal-mineral waters in Katlanovo are of particular mineral importance, which provide an opportunity for the development of spa tourism.*The Northeast region* has many tourist attractions and cultural landmarks that attract many visitors. The Skopje region had most foreign tourists, while the smallest percentage of those tourists visited the Northeast region. 52% of the total tourist expenditures are spent in the programme area.

Despite the tourism development in the area, in some regions, tourism is not sufficiently developed and there are still a lot of unused potential that represents an opportunity for investments. The existing resources in the programme area need to be further explored, tourism infrastructure has to be upgraded, products developed, the regions properly promoted and human resources trained according to the required standards.

***2.1.7 Agriculture***

The agricultural land in the programme area extends over 647 275 ha and is shared between North Macedonia’s 398 087 ha (61 %) and Kosovo’s 249 188 ha (39 %).

***Kosovo*** has defined the agriculture sector of a high priority, even though the share of agriculture in GDP resulted in 8.1 %[[26]](#footnote-26) in 2019. The number of the agribusinesses is 2 942 and the number of employees is 13 156 (2018). The total agricultural land surface in Kosovo is 418 582 ha. Out of this, the programme area covers 249 188 ha, while the arable land and gardens entail 73 462 ha. Most agriculture land in Kosovo is privately owned.

The Government has prepared a programme for sustainable agricultural development and protection of local products. At farm level, support will be given on investment for the production and packaging of products, storage rooms and supportive equipment. Local government will support the establishment of farmers' markets.

***North Macedonia*** has 1 264 578 ha of total agricultural land surface, arable land and gardens are represented in 418 823 ha. Agriculture, forestry and fishing had an 8.5 % share in the structure of GDP in 2018.

The three regions have the same structure of agriculture land: 76 % of pastures and 24 % of cultivated land in 2018. The specific vegetation of the Polog basin and the surrounding mountains create favourable conditions for the development of agriculture, and especially cattle breeding, for which this region is renowned. Exports’ products are vegetables and fruits, wine and food products. The agriculture sector[[27]](#footnote-27) is an important economic sector in the rural areas. Agricultural farms employ part-time farmers and a significant number of informally employed. The potential for agriculture development is limited as the smaller agricultural producers and agri-businesses lack access to inputs, knowledge and skills, access to new technologies and market opportunities, resulting in low productivity and less innovations.

***2.1.8 Labour market***

The situation on the **labour market** presents large gender disparities between regions in the programme area, which is closely related to the urbanisation of the area, economic activities, the business development, cultural mentality and other factors.

***In Kosovo,*** in 2019, 66.4 % of the population are in working age, out of them 59.5 % were not economically active. This rate was much higher for women (79.6 %), as they were not active in seeking employment. As a result, 40.5 % (488 485) of the population were economically active, but 25.7 % (125 305) of them were unemployed.

**Unemployment** is higher among women than men. The very low unemployment rate for women is related to the very low active population of women participating in the labour market. Youth unemployment is a main issue for Kosovo. Unemployment was higher among young women (60.3 %) than among young men (44.1 %).

**The employment rate** was 30.1 %, or about 363 180 employed workers. Only 21.1 % of women are active in the labour market, compared to 59.7 % of men. The employment rate among women was only 13.9 %, compared to 46.2 % among men. Women are mainly employed in the education, retail and health sectors (53 % of employed women). Men are mainly employed in the retail, construction, and manufacturing sectors (46.3 %). The economic sectors with higher employment percentage of the active working force in 2019 were trade (17 %), construction (12.6 %) and manufacturing (11.9 %).

***In North Macedonia,*** the situation of the labour market has improved over the last ten years culminating in 2019 when the **employment rate** was 57.2 %. A higher employment rate is observed for men (56.6 %) compared to female (38.1 %)[[28]](#footnote-28). One of the positive influencing factors was the entering into the labour market of more women, surpassing the decline in the male workforce. The total number of employed was 797 651. The sectors that generated most jobs in 2019 were manufacturing, trade, agriculture, construction and public administration.

**The unemployment rate** declined to 17.3 % in 2019, but the total number of unemployed persons (166 363) was dominated by long-term unemployed during one and more years. Women’s labour market participation also slightly increased. Women are less likely to be employed fulltime than men. In the programme area, the employment and unemployment rates showed fluctuations in relation to the total rates at country level.

***2.1.9 Social Protection***

**In Kosovo**, the percentage of Kosovo’s population living in general poverty was estimated to be about 18 %, out of whom a 5.1 % would live in extreme poverty (2017). The level of poverty in the rural areas was higher than in urban areas and higher for male householders than female. Poverty is highly depending on family size and education level.

The number of beneficiaries in the social assistance scheme (SAS) declined to 24 352 families in 2019 with a total of 98 756 members. The number of families and individuals receiving social assistance was higher in the East Economic Region. Other families (2 276) benefited from the scheme for material support for families with children with special needs. Kosovo has no separate child and family benefit scheme. Other benefit packages include electricity bills, healthcare service, etc. Approximately 1 000 victims of domestic violence are assisted yearly and in more than 80 % of the cases, the victims are women, followed by children and elderly men[[29]](#footnote-29).

**In North Macedonia,** increasing the minimum wage and lowering the poverty ratehave been the major development prioritiesfor a better social protection. There has been a trend of continuous reduction in poverty and inequality. However, despite these positive trends, poverty and inequality are high when compared with other countries with similar levels of development in the region and there are concerns about the sustainability of the recent gains in poverty reduction. In 2018, the total number of householder-recipients of social financial assistance in North Macedonia was 23 562. The programme area has the highest percentage of beneficiaries 13 %, compared to the whole country. Regarding Romainclusion, an increased attention is shown from national and local authorities, though many continue to live in poverty and face unemployment and substandard living conditions.

***2.1.10 Health services***

***In Kosovo,*** the municipal health care faces difficulties of poor infrastructure, lack of investments and insufficient budget resources for offering appropriate health services. Kosovo does not provide universal health insurance but spending on health remains high. In the access of the population to the health system, the scale of poverty influences on health inequalities. Around one fifth of the population have very limited access to healthcare and it is estimated that 18 % of the population do not seek medical services in the event of illness for economic reasons. In the same situation, the RAE[[30]](#footnote-30) communities have difficulties in accessing healthcare.

**In North Macedonia,** the health system is based on statutory health insurance. Resources are raised mainly through compulsory wage-based contributions and a substantial share of individual spending. Primary care doctors have a relatively high number of patients registered at their practice. A closer look at the medical demography in primary health care proves that the situation is relatively not alarming.

***2.1.11 Education***

Education remains one of the major priorities in the programming area. It is provided at all levels: primary, secondary and tertiary. In ***North Macedonia*** education is compulsory until the end of upper secondary school and predominantly publicly provided, while ***in Kosovo*** it is obligatory until the end of primary education.

There are 798 schools of *primary and lower secondary education level***,** attended by 201 735 pupils in the programme area. Out of the total, 401 schools are in Kosovo and 397 in North Macedonia, respectively 50.3 % and 49.7 %. The ratio pupil-teacher is 14 in Kosovo (2019/20), while in North Macedonia the highest is in the Skopje Region (14), and the lowest in the Polog and the Northeast region (9)[[31]](#footnote-31) (2018/2019).

There are 120 schools in *secondary education*in the programme area, out of which 56 in the Kosovo area, enrolling 29 964 pupils and 64 in the North Macedonia area, enrolling 42 285 pupils, who are taught by 56 % of the total number of teachers in the latter country.

The phenomenon of less pupils enrolled in the schools is evident in the secondary education level. In Kosovo this number decreased (-5.35 %) and in North Macedonia there was equally a decrease of -17.1%.

In **Kosovo**, 97.4 % of pupils concluding secondary education enrol in higher education, but half of all upper secondary students (almost 53 % in 2018/2019)[[32]](#footnote-32) chose vocational education(VET) programmes. Teachers in VET centres need adequate professional development opportunities, teaching materials and textbooks. There is still a discrepancy between the needs of the labour market and education outcomes.

In **North Macedonia,** in the secondary education the lessons were taught in Macedonian language in 76.9 % of the centres during the school year 2017-2018[[33]](#footnote-33).The ratio of pupils enrolled in secondary schools in North Macedonia divided into general secondary schools and vocational education schools was 38.18 % to 61.82 % respectively, (2017-2018).

***In Kosovo,*** there are institutions of **tertiary education**in the area. The universities in the programme area are in the larger urban areas. In all levels of education, the number of female pupils/students attending the school is lower than males’, excepting the tertiary education where for many years the number of females exceeds males’.

The proportion of students in higher education remains high, but the quality of education remains poor[[34]](#footnote-34). In Kosovo, the public expenditures for education reached 4.2 % of the GDP in the school year 2018-2019[[35]](#footnote-35).

The 2020 EC Progress Report for Kosovo recommended that the quality of education needed to be improved considerably at all education levels.

***In North Macedonia,*** during 2018-2019, 4 037 students graduated in the programme area (55.6 % of the country).

The top universities in the programme area are in Skopje and Tetovo. North Macedonia should boost human capital to address skills shortages and mismatches, including through vocational education and training and more use of skill-enhancing active labour market policies[[36]](#footnote-36).

***2.1.12 Culture***

The programme area has its own specific traditions and culture, which is rich on tangible and non-tangible cultural heritage. **In Kosovo,** the East Economic Region has 252 cultural heritage sites (97 archaeological and 155 architectural) and the South Economic Regions 308 cultural heritage sites, all included in the Ministry of Culture Youth and Sport list of sites under permanent/temporary protection.

**North Macedonia** has confirmed the key role of cultural heritage in enhancing the sense of belonging and of sharing common values and traditions. They will take measures on establishing a list of monuments of national interest and the increase the professional staff. Also, support will be given to the amateur folklore organisations to encourage the cultural and creative industries related to products of traditional culture.

***2.1.13 Civil Society***

**In Kosovo,** there are more than 9 545 civil society organizations (2017) registered and in **North Macedonia** 15 476[[37]](#footnote-37) and 69 CSOs networks (2019). **A National Resource Centre for CSOs have offices in Kosovo and North Macedonia. Both countries participate in other regional organisations such as the Balkan Civil Society Development Network and the Regional Youth Cooperation Office (RYCO). These organisations are supporting the CSOs by developing cooperation links with a regional dimension.**

***2.1.14 Roads and Railways***

**Kosovo** territory has a suitable road infrastructure for the development of different business activities. In the *East Economic Region* regional and local roads have significantly improved. Route 6 is constructed as a highway of European standard, which includes the section Pristina–Hani i Elezit/Elez Han at the border with Macedonia, with a length of 65.6 km long. The *East Economic Region* has access to railway infrastructure, which is an old one.

The South Economic Region is one of the most developed networks of local and regional streets, one railway line as well as highways. In overall, the transport system still faces several challenges such as road safety, inadequate road maintenance, and weak administrative capacity of regulatory institutions.

**North Macedonian’s** government has planned the construction of new highways, rehabilitation of local roads and the investment in construction of bridges. *Polog Region* has decent roads and one highway: [Skopje](https://www.macedonia-timeless.com/eng/cities_and_regions/cities/skopje/)–Tetovo–Gostivar, one railway line Skopje-Tetovo-Gostivar-[Kicevo](https://www.macedonia-timeless.com/eng/cities_and_regions/cities/kicevo), several cable cars and ski lifts at the ski resorts Popova Shapka and Mavrovo. In the *Skopje region*, the road infrastructure consists of about 935 km of local road, 67 km of high roads, 324 km of regional roads and 86 km of highways. Two pan-European Corridors (8 and 10) pass through this region thus contributing to the improvement of the situation. In the *Northeast region*, the European corridors 7 and 10 pass through the region. The Skopje region is a central railway knot with 37.3 km out of the 94.78 km total length.

***2.1.15 Energy***

**Kosovo** produced6 036.6 GWh in thermo centrals in 2019. It is rich in coal, but this is considered an unreliable and health-hazardous energy supply[[38]](#footnote-38).Although Kosovo is relying on coal for energy production, at the end of 2019, Kosovo produced energy from the renewable sources, 326.5 GWh by hydropower’s central, 34 MW of wind and 10 MW of solar, marking a 6 % annual increase in renewables’ capacities. Electricity produced from renewables accounts for 5.5 % of the total production.

The country has significant potential to improve energy efficiency and to integrate renewable sources into its energy supply mix. However, based on energy demand projected to increase by about 4.6 % per year, the need to improve energy efficiency is increasingly urgent[[39]](#footnote-39). Regarding the gas supply, Kosovo continued to explore options to connect to gas pipelines with Albania and North Macedonia.

**North Macedonia** producedover 4 607 GWh (2018) and 1 400 GWh of renewable electricity. The final electricity consumption is 6 105 GWh[[40]](#footnote-40). The share of electricity from renewable sources was 35.1 %. The country has limited range of options for energy supply and is highly dependent on energy imports. For 2018, the domestic generation of electricity was 69.02 %, while imports accounted for 30.98 %. The real liberalisation of the electricity market is 47.26 %. The Government has an ambitious plan to reach over 50 % of the total installed power from renewable energy sources by 2024. Also, the regional landfills will encourage the construction of municipal waste selection stations and the use of waste to produce electricity and 100 000 households over a period of four years will be supported by solar thermal collectors. The gas line system located on Corridor 8 is of special importance for the Skopje region.

***2.1.15 Environment***

***Kosovo*** features a rich biodiversity. The important ecosystems are forests and other wooded land, covering 47.4 % of the country’s land surface.

Regarding air, various polluting factors have influenced the deterioration of its quality. In 2019, the most polluted was Hani i Elezit/Elez Han[[41]](#footnote-41) and its urban area. Air monitoring devices are installed in 4 places within the programme area.

Regarding*water****,*** theresources are considered to be insufficient. In *the South Economic Region*[[42]](#footnote-42) a good percentage of settlements are connected to the potable water treatment system. Whereas, the *East Economic Region* has a high percentage of settlements connected to the water supply and wastewater treatment systems. The landfills in the programme area are found in Prizren, Gjilan/Gnjilane, Ferizaj/Uroševac and Dragash/Dragaš. Most of the waste is dumped in landfills. A small amount of waste is recycled. Kosovo still lacks a proper hazardous waste management system. In overall, Kosovo faces high levels of environmental contamination from a variety of sources, including electricity production, mining and industry, leaded gas vehicles, and unregulated or illegal solid waste removal.

**North Macedonia** confirms that will follow the EU policies on environment. A few changes are foreseen on encouraging “environment friendly” vehicles and friendly fuel gas, increasing bicycle traffic, helping SMEs to adapt to new environment standards and promoting energy efficiency in public buildings. Air pollution is mainly associated with emissions from industrial facilities, combustion of fossil fuels, heating systems and traffic. Soil is a very important natural and economic resource, often neglected and this leads to its pollution. Polluted soils are the most direct source of pollution of surface and ground waters, as well as air pollution.

The quality of waters in Macedonia is rather low due to various sources of pollution, particularly affecting surface waters. This situation results from discharges of untreated wastewaters, mostly from populated places, but also from industry and agriculture. North Macedonia has a problem with the rational use and protection of ground waters.

The largest amount of collected municipal waste in 2019 was observed in the Skopje region (26.1 %), whereas 6.2 % was registered in the Northeast region. The total amount of generated municipal waste was 916 thousand tons, almost all landfilled. There were 44 active landfills.

## 2.2 Main findings

The programme area consists of five regions with common features in nature, climate, resources, demographic development, human capital, economy, social policy, environment, rivers, roads, ethnicities, culture and tradition. The differences are linked to the size of regions, urban and rural, business and technology development, economic reforms, political commitment. Overall, the programme area has a lot to share, great opportunities for cooperation and synergies that would increase the social and economic development of all its regions.

**Both countries have demonstrated political commitment on the road to EU integration**, by undertaken economic and political reforms to fulfil the list of priorities set forth. The countries are totally engaged to cater for their citizens’ health safety and the economic recovery measures to overcome the impact that the COVID-19 pandemic has caused.

**The countries have demonstrated an increasing growth on the macroeconomic indicators (GDP), relatively stable inflations, an increase of exports, a decrease of unemployment, an increase of the number of business entities and in other social and education indicators.** But the impact of the pandemic and the recovery measures have increased the need for external financing. The negative influence will be evident in all macroeconomic indicators due to the continuation of the COVID -19 pandemic spread.

**Trends are positive on the increase of trade volumes and the import volumes covered by export, but the list of exporting goods is very short.** The economy exports low value-added industrial products, as metal bases and non-processing food, and as such, cannot provide a diversity of products and services due to low productivity and technology, stemming by incompliance with the regulation, certification, level of quality of the products and services. These concerns should be addressed through cross-border cooperation, exchanging of know-how and best practice in companies, business services providers, regional agencies and training providers. Cooperation between all stakeholder can achieve results.

**The economic structure of the programme area has an agro-industrial character, while** some regions have typical agricultural features. The urban areas have developed trade and industrial activities, above all the Skopje region with a strong industrial economic character. Other regions have more agro-industrial features with potential for the development of agriculture and agro-processing.

**The structure of the private sector is typically characterised by micro and small-sized companies, running from one person companies to units with less than 9 employees**. These organisational structures do not have the capacity to introduce innovation and technology and increase productivity. The wholesale and retail trade, services and agriculture are the main economic activities in most of the regions. Therefore, there is a strong need for the cross-border area to diversify the products and services and upgrade the manufacturing activities to enter into the regional and international market with the higher value-added products.

**Agriculture is the most important sector, especially for the regions with most of the population living in rural areas and with the extensive rural activities’ profiles**. Despite that, the percentage of agricultural products in a total of export and the GDP contribution is relatively low. The potential for agriculture development is limited, due to smaller farms, land fragmentation and the absence of irrigation infrastructure, storage capacities, access to inputs, knowledge and skills, access to new technologies and market opportunities. This results in low productivity and fewer possibilities to introduce innovations. Therefore, discovering possibilities to increase the productivity through support their initiatives on the value chain, introducing new methods of cooperation through cooperatives or social businesses, assisting in access to market, introducing new technologies or increasing food safety are some of the important directions to intervene in this sector. The exploitation of forest products is also a possibility that could be encouraged.

**Tourism is an important sector due to the availability of tourism supply resources in the area**. With a positive image of the winter tourism on both sides, the area is rich in natural resources, landscapes of mountain, rivers, lakes and waterfalls. A rich cultural and historical and artistic heritage linked to different ethnic groups living in the area creates a potential that needs to be preserved, appreciated and promoted. The availability of all these potentials increases possibilities for diverse types of tourism such as rural tourism, winter and nature tourism, agro-tourism, cultural tourism and business tourism. Previous cooperation of the stakeholders through CBC projects in tourism development and the commitment of government and other donors to invest in tourism are un-explored opportunities to unlock. Continuing support in the whole tourism value chain, creation of joint tourist products and offers, upgrading skills and create a marketing image throughout the programme area are possibilities to intervene and contribute in this regard.

**Knowledge, innovation, quality and productivity are relatively low in the programme area compared to the EU countries.** Investments, introduction of innovation and technology through know-how and financing can contribute to the level of productivity and increase the competitiveness of the area, both domestically and internationally. There is an increase in support of innovation infrastructure, incubators, accelerators and business sites, as industrial parks, agro-industrial zone and condition for the attraction of FDIs. Food processing and metal industries are the most developed industries that contribute to the economic growth of the programme area, but the quality and standards of the products and access to market need support.

**The unemployment rate has decreased, especially in the North Macedonian side, but still, it remains a problem for both countries**. High unemployment affects the young and women, more acutely in rural area. Internal migrations from rural to urban areas are phenomena that reveal the lack of job opportunities. The outflow of skilled and educated people to work abroad decreases the availability of people with suitable competences in the market. A higher employment rate is evident for men compared to female. Women participate less in the labour market and are less likely to be fulltime employed than men. The pandemic has deteriorated the employment perspectives. Since March 2020, the governments have adopted temporary socio-economic measures to mitigate the impact of the COVID-19 pandemic on employment. The programme area has a relatively young population, which is positive for the labour supply, but it should be matched by the labour demand. The skills gap requires the improvement of education for better serving the labour-market, focusing on the young population.

**Although there is a trend of continuous reduction in poverty and inequality, both countries have a high percentage of the population living below the poverty line and in extreme poverty**. The poverty is highly depending on family size, education level and the rural/urban divide. The available income sources for families are business activities, wages, pensions and, in high percentage, remittances. A high number of households depends on social assistance. Still, poverty and inequality are high when compared with other countries with similar levels of development in the region and there are concerns about the sustainability of the recent gains in poverty reduction. The worst is the situation with the RAE communities. They continue to live in poverty and face unemployment and substandard living conditions. Their access to education, housing, health, employment and justice remains a concern. Regarding the health system, North Macedonia has a statutory health system, but Kosovo does not provide statutory health insurance, which makes that fewer people have access to healthcare. In this situation, the programme would intervene in those sectors with possibilities for development in those regions hit by low living standards.

**The phenomenon of fewer pupils enrolled in schooling is evident in all education levels and demonstrates the continuous movement of population**. In the secondary education level, in both countries, the enrolment of students is nearly equally divided between the general secondary schools (gymnasiums) and the vocational education schools. A small percentage of students are directly entering the labour market, because the vast majority of VET students attend the four-year track and aim at attending higher education.

The education system must update curricula, training the teachers, preparation of textbooks and teaching materials. Quality management in pre-university education should be strengthened. The universities in the programme area are available in larger urban areas. They are an asset for the programme area and cooperation among them, along with research agencies and private sector, to boost innovation is greatly needed.

**Cultural heritage plays a valuable role in enhancing the sense of belonging and sharing common values and traditions.** Both countries are rich in cultural and historical heritage linked to a diversify history and the presence of several religions. The programme area has a specific tradition and culture. The culture is enriched as well by different ethnicities living together in the same area. There are numerous historical sites, religious buildings, museums, archaeological sites that need to be reconstructed, renovated to be ready to receive visitors. Governments aim to support the cultural economy as a source of income to reduce the outflow of people from local communities to the capital and abroad. Support will be given to the amateur folklore organisations to encourage the cultural and creative industries related to products of traditional culture, the opening of movable cinemas, invest in cultural infrastructure. The cross-border cooperation in culture was rather successful during the implementation of the previous IPA programmes. Some successful projects supported the valorisation of the craft traditions in the programme area. The programmes should encourage the continuation of such initiatives to strengthen these ties between populations living in the programme area. Joint tourist offers, including the cultural heritage and cultural activities, shall be the focus of the new IPA III Programme.

**The CSOs have played a suitable role in the implementation of the IPA programmes.** The sector is relatively small, but they demonstrate capacities in project application and implementation. CSOs of both countries participate in network and regional organisations supporting the CSOs by developing cooperation links of regional dimension.

**ICT in the industry is still limited as many firms lack awareness about its competitive benefits, whereas the majority of households have access to the internet** both via fixed and mobile broadband connections. The distribution of ICT infrastructure is relatively unbalanced, resulting in a lack of access to broadband infrastructure. The proportion of enterprises that use e-commerce increases with the company size. Governments aim to expand the broadband infrastructure towards non-covered areas and support the extension of 5G mobile infrastructure, creating conditions for ICT research and development, strengthening of human capital and support of digital businesses, as well as digitalisation of other businesses. The Western Balkan countries agreed to end roaming charges by July 2021, which is a sign for better communication between the businesspeople and the population in general.

**The programme area has access to the regional road network through the development of the roads 6 and 7, 8 and 10 through the pan-European corridors.** Countries have a suitable road infrastructure potential for the facilitation and promotion of different business activities and exchanging between business operators in the cross-border. Both countries are working on a feasibility study to conclude an economically justified solution for the Tetovo-Prizren road. Other new roads and highways are planned to be constructed. The good connectivity between countries in the programme area can contribute to economic development.

**The countries have a limited range of options for energy supply and a low percentage of energy is produced from renewable sources**. North Macedonia progresses faster than Kosovo, but the countries should still explore other possibilities to diversify the sources of energy production from renewable sources. North Macedonia has the ambitious plan to reach over 50 % of the total installed power from renewable energy sources. The potential sectors to support on this direction are agriculture, livestock waste, forestry and the wood industry which are sectors with unused potentials to explore and a possibility to engage in economic activities that could benefit the youth and households in rural areas. Although these sectors require high investment, the programme should contribute to the renewable energy sector.

**Environment protection has received attention at policy level and is highly important for the sustainable development of the programme area.** The area is rich in natural resources and biodiversity. Therefore, the environmental protection and preservation of these resources are crucial. Some key challenges relate to the low level of awareness of the population on environmental protection, the poverty that brings the uncontrolled exploitation of natural resources in the programming area and the low level of enforcement of environmental regulations and standards. The high level of air pollution, water and soil, although their monitoring system has improved, continues to be serious. The forests and land management in the programme area also need better attention to prevent environmental degradation. The infrastructure for water and municipal waste is improved, but waste management is still one of the challenges to be addressed by governmental and local development plans. The programme should address and contribute to the sustainable use of natural resources and valorise them in view of economic development as a critical issue for the development of the cross-border area.

Briefly, the situation/PESTLE and SWOT analyses reveal that in the programming area there are under-exploited potentialities for economic development in different sectors. Specific attention should be given to business environment and SME development, trade and investment, environmental protection, climate change adaptation and mitigation, risk prevention and management.

# Section 3: Programme strategy

## 3.1 Rationale - Justification for the selected intervention strategy

The programme strategy aims to encourage the cooperation among citizens in general, businesses, local authorities and civil society organisations for enhancement the social and economic development of the eligible cross-border territory. This strategy's formulation stemmed from a comprehensive analytical screening of the political, economic, social, technological, legal and environmental situation of the two countries and specifically of the programme area. Such analysis has indicated that the cross-border area is featuring similarities and differences in factors such as the size of the region, level of development, the availability of natural resources, demography, level of education, urbanisation, technological development, the preparedness for environment protection as well as with the political commitment of the national and local authorities.

The programme area has a suitable geographic position, a beautiful natural landscape and an agro-industrial economic profile. This naturally, ethnically and culturally rich area has higher potential to develop the value chains of tourism, agriculture and agro-processing sectors. The programme area has the following preconditions and advantages to address its needs and challenges: a positive trend in business development, industry, technology development, export, digitalisation and penetration of the internet, good connectivity with regional and pan-European road network, and an increase of awareness and measures in monitoring environmental protection.

The key challenge this programme will try to cope with is business development, along with an increasing competitiveness of the region to better compete in the regional and global markets, while taking care of environmental concerns to ensure a healthier life of the population of the cross-border area.

The programme area is characterised by small business companies hardly able to produce competitive products and generate jobs. Unemployment is higher, especially between youth and women. The availability of tourism products and services in connection with natural resources and man-made attractions, infrastructure, tourist superstructure, transport, human and cultural resources has to become apparent and make the CBC area known as a tourist destination. Tourism, agricultural and forest resources need to be further explored to develop the whole value chain of products that can enter the export market as value-added products, while creating new jobs in a labour market with a reduced gap between demand and supply.

To achieve these challenges, the programme strategy has defined the overall objective:

**To foster a sustainable socio-economic development by increasing competitiveness of the private sector and a healthier environment**

In the framework of this programme, the following thematic priorities (TPs) have been identified for the 2021-2027 period:

**Thematic Priority 1-Competitiveness, business environment and SME development, trade and investment**

Specific Objective 1: To develop the cross-border market by fostering product and service internationalisation

Specific Objective 2: To develop entrepreneurial skills for job creation and new businesses

**Thematic Priority 2- Environmental protection, climate change adaptation and mitigation, risk prevention and management**

Specific Objective 1: To promote environmental protection and green economy through sustainable use of natural resources and renewable energy sources

**Thematic Priority 0: Technical Assistance**

**The specific objective of the technical assistance** is twofold: (i) to ensure the efficient, effective, transparent and timely implementation of the cross-border cooperation programme; and (ii) to raise awareness of the programme amongst national, regional and local communities and, in general, the population in the eligible programme area.

***Table 3.1: - Synthetic overview of the justification for selection of thematic priorities***

|  |  |
| --- | --- |
| **Selected thematic priorities (TPs)** | **Justification for selection** |
| **TP1-Competitiveness, business environment and SME development, trade and investment** | * The business structure in the programme area is characterised by small companies, concentrated on trade/services rather than on production that are not competitive due to low value added and productivity; * The availability of tourism products and services in winter tourism, agro and rural tourism, nature and adventure tourism, cultural tourism, etc., is incipient and needs to be further developed to create new joint tourism businesses, products and offers to make the programme area known as a tourist destination; * Arable land, forests, know-how and agricultural skills are prerequisites for diversifying and improving agro-products to be exported at cross-border level and internationally; * Support to social businesses will address unemployment and reinforce social inclusion, by revitalising traditional production method, valorising the cultural heritage and fostering cooperation; * A small market hinders company growth and local products often do not find their way to the market, therefore there is a need to support local products by creating physical and virtual marketplaces; * Always a support for small infrastructure investments is needed to underpinning local production and local cultural heritage; * Agro-processing products and tourism services require a joint marketing campaign to be promoted within both countries and internationally; * High unemployment level among youth and women, especially in rural areas, a large scale emigration of highly skilled workers, displacement from the rural area, lack of measures to bring people back to the labour market or undertake entrepreneurial activities have to combated with support to the most economically promising sectors in the programme area; * There is a need to encourage entrepreneurship to increase the number of new businesses, especially those led by women, by proposing different supportive measures and schemes; * Most of the time the business environment hinders market competition due to the weak enforcement of competition policy, therefore the administrative capacity in this area needs improvement and exchanging of good practices; * An increased number of programmes and projects available to apply and implement require addressing the lack of skills by the local beneficiaries. |
| **TP2-Environmental protection, climate change adaptation and mitigation, risk prevention and management** | * The programme area has a variety of natural resources, terrain agriculture lands, minerals and picturesque landscapes, rich in mountains, forests, rivers, lakes, waterfalls, fauna and flora. * The programme area is facing severe problems with air pollution caused by energy consumption from non-renewable sources; there is therefore a need to decrease the use of traditional energy fuels and start exploiting renewable energy from friendly environmental resources; * The development of agriculture and forest exploitation, dependent on natural resources, has an important role to play in the creation of green skills and jobs on green activities focusing on improving energy efficiency; * There is a need to raise awareness of the population on the importance of the environmental protection and the need to promote joint initiatives to control and promote the sustainable use of natural resources; * Natural disasters entail the same risk at cross-border level and thus there is a need to develop joint and harmonised management plans to foster environmental protection and prevent natural disasters; * Strong emphasis on environmental issues along the EU approximation process. |

**Financial allocation** of the programme funds is as follows:

* Approximately **45%** shall be allocated to Thematic priority 1 - It is expected that this thematic priority to contribute in encouraging entrepreneurship and creation of new business, and diversify the market with new products and offers already find to commercialisation to new markets in the regions and EU.
* Approximately **45%** shall be allocated to Thematic priority 2 - It is expected that this thematic priority to have impact on the improvement of air quality by introduction of the possibilities for use of renewable resources for the production of energy and implement the environmental measures that cover a considerable part of the programme area.
* A maximum of **10%** of the programme allocation shall be used for technical assistance.

## 3.2 Description of programme priorities

**Thematic Priority 1: Competitiveness, business environment and SME development, trade and investment**

Business is one of the most important sectors to address in the programme area. Its development still lags in its capacity to create value-added products and services, ready to compete in the international market. Thus, the creation and strengthening of the cross-border market through sustainable usage of local resources will help SMEs to be able to compete in the markets, regionally and internationally.

Specifically, the SME sector in the programme area is highly dominant by one-person businesses and small-sized companies of less than nine employees. They have low capacities to develop innovation, introduce and upgrade technology that could create value-added products and diversify the product portfolios. The situation is more difficult on market development and penetration due to the lack of professional marketing skills among entrepreneurs. This situation is evident when analysing the sectoral economic structure, which is mostly based on wholesale and retail markets and services and less in manufacturing of foods or industrial products. This economic business model does not support new jobs in the labour market. There is a high unemployment rate among the youth and women with a labour supply which does not match the labour demand. All the above hinders SME development and job creation.

From the analysis, tourism and agriculture are defined as the main sectors with high potential and unused capacities to explore and further develop with higher possibilities to provide results for economic growth, social cohesion and welfare in a CBC dimension. Therefore, the programme will intervene in the value chain of both sectors.

The programme area can offer a wide variety of tourism products and services when considering its natural resources, climate and landscape, travel, tourism facilities, hospitality, cultural and entertainment traditions, which makes it attractive for domestic and foreign tourists, but need to be further explored.

Agriculture is also relatively developed, although several obstacles related to the small size of farms, land divided into small allotments and the interferences between the producers and the market are evident and cannot give impetus for entering the EU market.

Therefore, the interventions in the tourism and agriculture sectors will focus in the achievement of two specific objectives, which are closely linked to each other addressing four directions: Product, marketing, human resource and new business entities, with a focus on youth and women.

***Specific Objective 1: To develop the cross-border market by fostering product and service internationalisation***

**Firstly,** this objective aims at creating new joint products and services and upgrade the existing products and services along all the value chain of the sectors. Specifically, in tourism, the interventions will create new joint tourist products/services, tourist offers and the new itineraries. Thus, the intervention will include in the tourism offer other unused or underexplored resources and components included in the value chain of this industry. Support will go to interventions that would generate the creation of joint tourist products/services, which could present the whole programme area as a tourist destination.

In agriculture, the focus will be put on new and existing products but through support on product development, quality and safety, certification, etc., as well as the introduction of the best practices and methods to increase productivity. The linkage of agriculture, tourism and the agro-processing industry will be favoured. For both sectors, the construction or renovation of small-scale infrastructure that gives support to the sector's interventions will be encouraged.

***Secondly***, the programme will strive to enable the new or upgraded products and services to find their way, to be commercialised in the local cross-market and beyond. These will require joint branding of tourism products or offers or destinations and promote the agricultural product image to be recognised in the market. Support through trade promotional activities, participation on trade fairs and business advisory services will be the way to increase the production and the benefits for the area.

Other supportive measures on market development using digital means, platforms, business to business meetings, etc. will boost the export capacities of the programme area.

***Specific Objective 2: To develop entrepreneurial skills for job creation and new businesses***

This specific objective is complementary to the first specific objective, focusing in two directions:

**Firstly**, it aims at the development of the human capital targeting the intervention in the same sectors (tourism and agriculture). The programme area still must cope with challenges of unemployment among the youth and women and emigration towards the large cities or abroad. A relatively young population in the labour market area suffers from a lack of employment opportunities and an insufficient offer of the education system to match the vocational and managerial skills required in the market. Although a high percentage of youngers are attending VET schools in the programme area, the profiles and curricula offered by the schools cannot close the market skills’ gap. There is an imperative need to develop new curricula, provide teacher training and teaching materials, as well as foster internships in productive units.

The provision of training, through non-formal learning methods, should be considered through closer links with businesses. The encouraging of entrepreneurial competence in the school and the entrepreneurship and managerial skills on the tourism and agriculture sectors will be addressed through joint initiatives and exchanging experience among the regions in the programme are. The programme will support the creation of those skills missing in the labour market and, at the same time, add value and increase the quality of services provided in agriculture and tourism. Creating and improving skills in the tourism area, hospitality skills, agriculture skills in production and agro-processing and other abilities on the preparation of traditional products and revitalisation of the cultural heritage traditional will be addressed.

**Secondly,** the programme will encourage job creation by supporting an entrepreneurial culture that could create new businesses in tourism and agriculture, including rural tourism, nature tourism, cultural tourism, health and sports tourism, etc. These are some of the types of tourism to be promoted as a family or community-based service.

The capacity of the population living in rural areas and devoted to agriculture will be developed through the introduction of methods that bring larger production, while taking care of the sustainable use of natural products and orienting the farmers to deal with agro-processing products. Initiatives of social businesses and cooperatives creation will be promoted and supported. Specific supportive schemes including training, business planning preparations and other coaching activities, as well as sub-grants, could be some of the forms of encouraging self-employment and creation of the new businesses.

**Thematic Priority 2: Environmental protection, climate change adaptation and mitigation, risk prevention and management**

***Specific Objective 1: To promote environmental protection and green economy through sustainable use of natural resources and renewable energy sources***

Environment protection is an important issue at EU level and especially important for the programme area. Climate, entwined biodiversity and landscape, high mountains and forests, lakes and rivers, a rich flora and fauna are valuable environmental resources. This priority will finance operations preserving, conserving, protecting and valorising the sustainable use of natural resources.

The programme area is facing severe problems with air pollution caused by energy consumption from non-renewable sources. The transition to the use of renewable sources of energy must be made. The countries are ambitious in increasing the use of environmentally friendly energy and the programme area will tend to give its contribution on that; for instance, the exploitation of the biomass from farm livestock or the residue of forest wood.

There is a need to raise awareness of the population on the importance of environmental protection and to promote joint initiatives, partnerships and networking actions that could control and popularise the sustainable use of natural resources from both local authorities and organisations engaged in environmental protection.

The increasing importance of environmental protection should be accompanied by fostering green skills in agriculture and forestry jobs, as well as in other sectors where green jobs are possible. The programme will support operations devoted to green skills development and those businesses associated to them.

Natural and manmade disasters entail a common risk for the cross-border area. Therefore, joint and harmonised risk management and prevention plans to protect natural resources and economic interests must be supported under this specific objective.

**Thematic Priority 0: Technical Assistance**

***The specific objective of the technical assistance*** is twofold: (i) to ensure the efficient, effective, transparent and timely implementation of the cross-border cooperation programme; and (ii) to raise awareness of the programme amongst national, regional and local communities and, in general, the population in the eligible programme area.

It also supports awareness-raising activities at country level in order to inform citizens in both IPA III beneficiaries. This priority will also reinforce the administrative capacity of the authorities and beneficiaries implementing the programme with a view to improve ownership and suitability of the programme and projects’ results.

The technical assistance allocation will be used to support the work of the national Operating Structures (OS) and of the Joint Monitoring Committee (JMC) in ensuring the efficient set-up, implementation, monitoring and evaluation of the programmes as well as an optimal use of resources. This will be achieved through the operation of a Joint Technical Secretariat (JTS) whose main office is based in the territory of Kosovo (Pristina) and its antenna office in North Macedonia (Kumanovo). The JTS will oversee the day-to-day management of the programme and will be reporting to the OS and JMC.

**Expected results:**

* 1. Enhanced administrative support to the operating structures and the joint monitoring committee
  2. Increased technical and administrative capacity for programme management and implementation
  3. Guaranteed visibility and publicity of the CBC programmes and their outcomes

**Target groups and final beneficiaries** (non-exhaustive list)

* Programme management structures
* Potential applicants
* Grant beneficiaries
* Final project beneficiaries
* Wider public

**Main beneficiaries:**

* Operating Structures
* Joint Monitoring Committee

***Table 3.2: Overview of the intervention logic of the programme strategy***

| **BUSINESS ENVIRONMENT AND COMPETITIVENESS-TC4** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **Thematic Priority 1: Competitiveness, business environment and SME development, trade and investment- (TP8)** | | | **Indicators** | **Baseline**  **value (year)** | **Target value (year)** | **Data source** |
| **Specific objective(s)** | **Results** | **Types of activities** | Impact |  |  |  |
| * Number of new services/products/offers available in the market one year after project ends * Number of businesses still active after 2 years of their establishment | 0  2020    3701 (MK-2018  3121  (KS-2019) | 15 new products  2028  10% more established and 90% stay active | State Statistic Office-North Macedonia  Regional Statistical Report  Kosovo Statistic Agency  AIR, project reports Monitoring system |
| Outcome |  |  |  |
| 1.1 To develop the cross-border market by fostering product and service internationalisation | 1.1.1. Products and services in value chains of tourism, agriculture and agro-processing are upgraded | * Creating sustainable value chains in agriculture and tourism resulting by development of local products, joint tourism offers and new tourist itineraries * Initiatives dealing with the improvement of products and services of export-oriented businesses and tourism providers, through joint initiatives, exchanging know-how and training on standards, product and service certification, etc. * Small-scale infrastructure improvements in agriculture and tourism, including local marketplaces, tourism facilities, restoration and/or preservation of cultural and historical sites | * Percentage of tourism offers/products generated by the CBC initiatives adopted by tourist providers active in the area; * Number of new destinations integrated in the tourism offer; * No of certificates received (ISO, conformity, export, etc.); * Number of new products commercialised; * Number of new offers commercialised * Number of companies that develop new partnerships within the cross-border initiatives or at the regional and/or international market | 0  2020  0  2020  0  2020  0  2020  0  2020  0  2020  0  2020 | 80% new products/offers  2028  5 new destinations  2028  20 SMEs receive certificates  2028  15 products in tourism/agriculture/agro-processing are commercialised -2028  5 new offers in tourism are commercialised 2028  5 new partnerships in CBC till 2028 | Project Reports Studies  Annual Reports of respective Ministries  Reports of municipalities  Regional Statistical Report  Kosovo Statistic Agency  AIR, project reports Monitoring system |
| Output |  |  |  |
| * No of SMEs exporting for the first time goods and/or services within the WB; * No of SMEs exporting for the first time goods and/or services to the EU; * Number of new joint tourism offers developed/introduced in the programme area; * Number of local value chains built; * Number of new products and services developed; * Number of small-scale investments in tourist infrastructure * Number of companies in which operations, products and/or processes were improved through joint initiatives; | 0  2020  0  2020  0  2020  0  2020  0  2020  0  2020  0  2020 | 5 SMEs exporting to WB  2028  3 SMEs exporting to EU  2028  5 new joint tourist offers  2028  5 value chain built  15 products/services developed  2028  8 small-scale investments in tourist office and cultural sites  2028  5 companies improved through joint initiatives  2028 | AIR, project reports Monitoring system  Regional Statistical Report  Reports of municipalities |
| 1.1.2. Promotion and commercialization of products and services is increased | * Supporting the joint branding and promotional activities for the products and services in tourism and agriculture sectors, locally and internationally * Using and creating virtual marketplaces and/or digital services to facilitate the promotion of local products, tourism, culture heritage and commercialized them internationally * Capacity building for institutions and organisation dealing with international trade | Outcome |  |  |  |
| * Percentage of enterprises that manage to develop new markets or new distribution channels; * Number of cross-border partnerships between trade promotion institutions formalized; * Number of new brands recognized by the market in the region; * Number of enterprises selling online at least more than 5% of their turnover;      * Number of businesses using new digital platforms developed | 0  2020  0  2020  0  2020  0  2020  e-sales  3.6% for SME with 10+ employees (MK)  2019  0  2020 | 8 companies  2028  3 partnership  2028  2 new brands  2028  5 companies selling 5% online  2028  10 companies  2028 | AIR, project reports Monitoring system  Reports on ICT sector and e-commerce |
| Output |  |  |  |
| * Number of enterprises that manage to develop a new market or a new distribution channel; * Number of professionals from institutions/organisations dealing with international trade promotion trained; * Number of participants in visibility and communication events organised in the programme area to promote the new tourism products and services developed; * No of business using e-commerce; * Number of products promoted * Number of businesses/enterprises participating at trade fairs, exhibitions for products and services at local, regional and international level as result of programme activities; | 0  2020  0  2020  0  2020  0  2020  0  2020  0  2020  0  2020 | 8 companies  2028  30 persons trained  2028  200 persons  2028  5 companies  2028  10 products  2028  30 business participate in trade fairs  2028 | AIR, project reports Monitoring system |
| 1.2. **To develop entrepreneurial skills for job creation and new businesses** | 1.2.1. The entrepreneurial culture and initiatives of the cross-border area are enhanced. | * Capacity building, transfer knowledge and other joint initiatives, targeting in particular women-led businesses * Joint training activities for women to promote entrepreneurship * Formal and non-formal entrepreneurial learning programmes in agriculture/agro-processing, tourism and hospitality targeting the youth * Supporting social entrepreneurship activities and business activities in relation to local products, rural tourism, agro-tourism, culture and cultural heritage and creative industries that encourage employment and self-employment, focused on youth and women * Schemes for self-employment and new business creation in tourism and agriculture/agro-processing | **Outcome:**   * Number of new businesses established as a result of the operation * Number of economic operators participating in capacity building for upgrading the skills according to market needs * Number of participants with increased employability and employment competences; * No of jobs created in assisted SMEs * Number of private and/or public sector operators developing possibilities and conditions for practical training of unemployed | No. of new entities  3701 (MK-2018  3121  (KS-2019)  0  2020  0  2020  0  2020  0  2020  0  2020 | 15%  (2028)  400 persons  2028  120 persons  2028  80 jobs created  2028  6 operators  2028 | North Macedonia in figures  Statistical Yearbook –Kosovo  Regional Statistics of North Macedonia  AIR, project reports Monitoring system |
| **Output**   * Number of trainees receiving trainings in profiles of tourism and agricultural sectors * Number of people trained in rural areas with the aim of increasing their employability * Number of tourism employees who participated in capacity building events for business opportunities in the tourism sector; * Number of people trained on entrepreneurship for establish their own business; * No of business plans and strategies prepared; * Number of business start-up packs (equipment and supplies) provided; | 0  (2020)  0  (2020)  0  (2020)  0  (2020)  0  (2020)  0  (2020)  0  (2020) | 400 persons received training  2028  150 persons from rural area  2028  250 persons trained  2028  70 persons  2028  20 business plan prepared  2028  50 start-up packs provided  2028 | AIR, project reports Monitoring system |

| **GREENER AND IMPROVED RESOURCE EFFICIENCY-TC2** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **Thematic Priority 2: Environmental protection, climate change adaptation and mitigation, risk prevention and management - (TP 6)** | | | **Indicators** | **Baseline (year)** | **Target (year)** | **Sources of data** |
| **Specific objective(s)** | **Results** | **Types of activities** | **Impact** |  |  |  |
| Percentage of increase in the number of days without air pollution problems in urban cross border areas;    Percentage of the programme area benefiting from better enforcement of environmental protection standards; | No. of days with exceedance of PM10**(2019**) in Prizren 59 days, Hani I Elezit (42) Gjilan (65)  Annual average ambient PM2.5 (80 µg /m3 Tetovo, 40 µg /m3 Skopje (2019) | 10%  decrease  2028  30% of  Programme area  2028 | Annual Environment Reports  AIR, project reports Monitoring system  Annual Report on State of Air |
| 2.1. To promote environmental protection and green economy through sustainable use of natural resources and renewable energy sources | 2.1.1. Environmental protection and risk prevention and management are strengthened | * Awareness raising on environmental protection and preventing natural disasters * Capacity building activities, through training, exchanging good practices and networking activities in relation to management of environment protection * Capacity building activities to public administration to manage emergency situation * Development of joint management plans to foster environmental protection * Development of joint management plans to prevent natural disasters * Implementation of the joint management measures for environmental protection | **Outcome**   * Percentage of the population of the programme area has been target of environment awareness raising activities; * Number of organisations/institutions participating on increased capacity in relation to environmental and nature protection * Number of local communities being beneficiaries of capacity building activities on prevention and mitigation of manmade hazards and natural disasters * Number of strategies and action plans adopted on prevention and mitigation of manmade hazards and natural disasters; * Percentage of Area covered by joint management measures for environmental protection   **Output**   * No of organisations and companies taking part in awareness raising activities in relation to environmental and nature protection * Number of people in the CBC area made aware of sustainable use of environment in key sectors; * Number of NGOs participating in capacity building and networking activities in relation to environmental and nature protection; * No of training events organized for those bodies of the public administration responsible to manage emergency situations; * Number of joint and harmonised management plans to foster environmental protection developed * Number of joint and harmonised management plans to prevent natural disasters developed | 0  2020  0  2020  0  2020  0  2020  0  2020  0  2020  0  2020  0  2020  0  2020  0  2020  0  2020 | 30% of population  2028  50 organisations  2028  30 local communities  2028  2 plans and strategies adopted 2028  30% of eligible area  2028  50 companies  2028  300 people  2028  30 NGOs  2028  80training events  2028  2 plans developed  2028  2 plan developed  2028 | AIR, project reports Monitoring system  AIR, project reports Monitoring system  Report of Municipalities |
| 2.1.2. Green economy practices are fostered | * Activities on awareness raising on green economy, sustainable use of natural resources and renewable energy resources * Development of circular and green skills, targeting especially youth * Experience exchanges of good business models on environment protection and green economy * Encouraging sustainable use of natural resources and renewable energy sources (as biomass and biogas, residues from agriculture and wood processing industry, etc.) | **Outcome**   * Percentage (%) of population of the area targeted by the projects in CBC area made aware of sustainable use of natural resources and renewable energy resources green and circular economy; * Number of CSOs and businesses of the programme area became aware of sustainable use of natural resources and renewable energy resources green and circular economy; * Percentage of persons trained on circular and green skills are employed in the relevant area * Number of representatives of CSOs and   businesses benefitted from exchanging, networking and sharing of international experiences on sustainable utilisation and management of green economy;   * Number of additional capacities of renewable energy production as a result of the programme intervention (in MW); | 0  2020  0  2020  0  2020  0  2020  0  2020  0  2020 | 30% of population  2028  300 CSOs and business  2028  30% are employed  2028  100 CSOs and businesses  2028  50 MW  2028 | AIR, project reports Monitoring system  Monitoring reports on environment of respective Ministries  Reports of municipalities |
|  |  |  | **Outputs**   * Number of representatives of rural households taking part in awareness raising activities on green economy, circular economy, efficiency use of natural resources and source for renewable energy; * Number of organisations and companies taking part in awareness raising activities on green economy, circular economy, efficiency use of natural resources and source for renewable energy; * Number of participants benefitting from strengthened capacities in diversification, preservation and sustainable use and management of natural resources; * Number of on capacity building activities to obtaining circular and green skills; * Number of joint green actions on sustainable use of natural resources and/or renewable energy sources implemented; * No of activities implemented promoting renewable energy use in SMEs. | 0  2020  0  2020  0  2020  0  2020  0  2020  0  2020  0  2020 | 800 persons  2028  300 participated 2028  500 participants  2028  10 activities  2028  At least 1  2028  At least 1  2028 | AIR, project reports Monitoring system  Environment Reports  Reports of municipalities |

|  | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **Technical assistance** | | | **Indicators** | **Baseline**  **value (year)** | **Target value (year)** | **Data source** |
| **Specific objective(s)** | **Results** | **Types of activities**  (examples) | Impact |  |  |  |
| Percentage of funds available under the programme that are contracted | 0 | 100 | AIR, Monitoring system |
| 0.1**.** To ensure the efficient, effective, transparent and timely implementation of the cross-border cooperation programme as well as to raise awareness of the programme amongst national, regional and local communities and, in general, the population in the eligible programme area | 0.1.1The administrative capacity for CBC reinforced | * Establishment and functioning of the Joint Technical Secretariat and its Antenna * Organisation of JMS and OS meetings * Support to the work of the Joint Task Force in charge of preparing the programme cycle 2028-2034 * Monitoring of project and programme implementation, including the establishment of a monitoring system and related reporting * Organisation of evaluation activities, analyses, surveys and/or background studies | Outcome |  |  |  |
| Percentage of JMC and OSs decisions implemented in a timely manner (as prescribed in the minutes of meetings) | 0 | 90 | AIR, MoM, Monitoring system |
| Percentage of projects covered by monitoring visits |  |  | AIR, project reports Monitoring system |
| Output |  |  |  |
| Number of JTS/antenna offices newly equipped and functional | 0 | 2 | AIR |
| Number of events organized in relation to programme management | 0 | …. | AIR, Monitoring system |
| Number of project monitoring missions implemented |  |  | AIR, project reports, Monitoring system |
|  |  |  |  |
| 0.1.2. Potential applicants and grant beneficiaries supported | * Organisation of events, meetings, training sessions, study tours or exchange visits to learn from best practice of other territorial development initiatives * Preparation of internal and/or external manuals/handbooks * Assistance to potential applicants in partnership and project development (partners search forums etc.) * Advice to grant beneficiaries on project implementation issues | Outcome |  |  |  |
| Average share of potential applicants, applicants, grant beneficiaries and other target groups satisfied with programme implementation support | 0 | 60% | AIR, project reports, monitoring system |
| Output |  |  |  |
| Number of capacity building events for potential applicants, grant beneficiaries and programme structures’ employees | 0 | …. | AIR, project reports Monitoring system |
| Number of internal/external manuals or handbooks prepared | 0 | … | AIR and other reports |
| Number of queries of grant beneficiaries resolved | 0 | … | AIR and other reports R |
| 0.1.3 The visibility of the programme and its outcomes is guaranteed | * Information and publicity, including the preparation, adoption and regular revision of a visibility and communication plan, dissemination (info-days, lessons learnt, best case studies, press articles and releases), promotional events and printed items, development of communication tools, maintenance, updating and upgrading of the programme website, etc. | Outcome |  |  |  |
| Number of people reached by information/promotion campaigns | 0 | … | AIR and other reports |
| Output |  |  |  |
| Number of information/promotion campaigns implemented | 0 | …. | AIR and other reports |
| Number of promotional and visibility events organized | 0 | …. | AIR and other reports |
| Number of publications produced and disseminated | 0 | … | AIR and other reports |

## 3.3 Horizontal and cross-cutting issues

The programme stresses the importance that the EU gives to the horizontal and cross-cutting issues. It will integrate and incorporate horizontal and cross-cutting issues in compliance with EU objectives and policies.

Such issues are, to start with, reflected in the priorities selected for the programme, such as environmental protection, promotion of equal opportunities, prevention of discrimination and promotion of equality between men and women.

Improving ***environment*** and contributing to improving people's health is part of the programme strategy, mirrored directly through the second thematic priority – "**Environmental protection, climate change adaptation and mitigation, risk prevention and management** ". It includes specific activities to promote environmental protection and green economy through sustainable use of natural resources and renewable energy sources. The stakeholders' consultations indicate a low awareness among population and in particular among the business community across the borders on sustainable environmental development issues. Therefore, the strategy includes joint activities for increasing awareness on environmental standards, which will lead towards increasing attractiveness of the cross-border areas and provide a long-term competitive advantage of the region.

***Promotion of equal opportunities*** for all social groups, and the ***gender perspective*** is part of the programme strategy. The situation analysis indicates a certain disparity between male and female occupational segregation and activity rates, and among some vulnerable groups such as the Roma community. Women’s ability to fully participate in the labour market is limited compared to men. CBC operations will contribute towards increasing the opportunities for disadvantaged groups (youth, in particular in the rural areas, women, minorities and vulnerable groups) to fully participate in the economy and social life of the border regions. In the framework of the activities foreseen under the programme priorities extra efforts will be made to involve women, minority groups as well as disadvantaged groups, as much as possible in capacity building, participation in trade fairs and exhibitions, as well as provide support to these groups in starting up business initiatives.

Equal opportunities and ***non-discrimination*** are promoted throughout the entire programme cycle. These principles have been fully respected in the partnership process of the preparation of the programme. They are also reflected in the design of the indicators for monitoring and evaluation, and will be further reflected in the eligibility and project selection criteria by means of call for proposals.

Additionally, during the information and publicity events, and the project selection process, it will be ensured that people living in the border area have access to the opportunities offered by the programme, without any discrimination on the basis of gender, race, ethnic origin, religion or belief, disability, age or sexual orientation.

**The mainstreaming of TC5**

The thematic cluster 5 ‘improved capacity of regional and local authorities to tackle local challenges’ should be a mainstreamed by the IPA III beneficiaries in this cross-border cooperation programme. For this purpose, the programme management structures could adopt the following measures (one or combination of them):

* Measures having a general character
* Measures under the Technical assistance thematic priority, and
* Measures within the CBC operations following the different calls targeting the selected thematic priorities

The following table is providing the details on how to tackle with local and regional challenges by using the proposed measures, several examples are also included.

## *Table 3.3 Overview of the proposed measures while developing the mainstream Thematic Cluster on local and regional authorities to tackle local challenges*

|  |  |
| --- | --- |
| **General character** | 1. **To review the specific needs and interests** of the regional and local authorities to increase their participation in CBC operations |
| 1. **To launch targeted awareness campaigns,** especially prior to the publication of calls of proposals and during the application time; these campaigns should go in parallel with, and be reinforced by, the trainings organised for potential applicants, in which civil society organisations should also be included |
| **Under the thematic priority Technical Assistance** | 1. **To deliver capacity building or articulate separate channels tailored for regional and local authorities** when they would    1. provide training for potential applicants on preparation of CBC applications and project management,    2. organise “clinics” for unsuccessful applications, and    3. hold helpdesks, on the base of the needs’ assessment mentioned above (see point 1).   This should allow regional and local authorities to prepare and/or participate in good quality applications with peer legal entities or in partnerships with civil society organisations, as well as efficiently manage those projects in which they take part. A full-time expert could be hired to **cater for the capacity building of the regional and local authorities across the border, preparing and implementing CBC projects.** Furthermore, this expert will also be behind the foregoing clinics and helpdesk, as well as the needs’ assessment.  The provision of this capacity building could adopt different forms such as training, study visits of technical character to EU Member States and from them (i.e. experts’ visits), mentoring, participation in technical events of national or international character, etc.[[43]](#footnote-43) Whatever the form might be, it shall be thematically related to the nature of the operation (e.g.: tourism, environment, social services, etc.). |
| 1. **To provide capacity building** **on good governance** as to increasing the participation of citizens’ associations in planning applications and decision making; as well as anything related to strategic planning, ethics, anti-corruption, etc. One of the possible delivery methods could be **knowledge transfer and peer support** among experienced and less experienced municipalities across the border (or among stronger and weaker municipalities). |
| 1. **To encourage the establishment of partnerships**, in case of strategic projects, with associations of regional and local authorities, as well as **to organize a systemic approach to capacity building and animation** of these authorities to build and maintain their capacity throughout the implementation of these projects. |
| **Within CBC operations** | 1. Every application and strategic project should **demonstrate that regional and local authorities have been involved** in their development and their future implementation. Every operation should describe how it has been developed, how it is aligned to and contributes to local development plans or how its implementation will be monitored and evaluated. |
| 1. If so agreed, in some calls for proposals or within a specific lot of a call for proposals, **to include regional and local authorities in every CBC partnership of applicants**. For regions eligible to different CBC programmes, attention should be paid to avoid saturation. Such calls for proposals or lots within a call could receive, for example applications that have several local authorities as implementing partners (inter municipal cooperation), and most importantly, it should encourage partnerships with smaller, weaker, rural local authorities, by which, for instance, the main applicant (a larger municipality) will assist a smaller one, seconding staff to it, or receiving staffers for training purposes from those less developed municipalities (share of resources)   **NB**: If so decided, Actions fully relying on staff of the regional and local authorities should be privileged, while reducing to a minimum[[44]](#footnote-44) the presence of external managers among the human resources of the project. |

## 3.4 Coherence with other programmes and macro-regional strategies

The OSs have to complete this sub-section with a description of the coherence of the programme with interventions under way under IPA II or planned under any window of IPA III.

The CBC programme is conceived to foster the cooperation between various stakeholders in the cross border-area, aiming at enhancing the competitiveness of the region, for the social and economic development of its people, while demonstrating continuous attention in creating a clean environment, through sustainable use of the natural resources and less pollution.

In achieving this overall objective, the programme is focused on the development of the cross-border market by fostering product and service internationalisation and development new skills and businesses, targeting the most important sectors in the regions: tourism and agriculture, considering that agriculture is part of the supply chain of the tourism sector. To achieve its specific objectives, the programme follows a proven methodology by which economic sectors should equally enhance products and markets. Concretely, the programme will support product/service development, upgrading the existing product/service and commercialising them in the market. On the other side, the programme supports market creation, by encouraging new entrepreneurs and new businesses by the necessary skills. Thus, the possible outputs will impact at the cross-border level to consolidate the programme area as a region that shares prosperity through sustainability and inclusive growth, which would prove to be aligned with **the EU macro-strategy for the Adriatic and Ionian Region (EUSAIR)**. The recent (April 2020) inclusion of North Macedonia into this strategy strengthens the EU role in helping the region further into its EU accession path. In EUSAIR cooperation takes place on an equal footing between EU Member States and non-EU countries and thus contributes to mutual learning, planning of common actions and trust building. Thus, the participation of North Macedonia will reinforce the political dimension of the strategy and strengthen regional cooperation also in connection with the enlargement of the EU to Western Balkan countries.

The programme is consistent with the overall objective of EUSAIR and contributes to achieving its fourth specific objective: sustainable tourism.

The second priority of the programme tends to promote environmental protection and green economy, through sustainable use of natural resources and renewable energy sources. It is mostly focused on awareness-raising on environment protection by the population and encouraging the business to undertake green business ideas that sustainably exploit the natural resources. The intervention will be on the most valuable resources in the regions, the protection of water, soil, proper use of agricultural land, protection of forest by degradation, etc. Another severe problem to address is the air quality, but this links to the decreasing to the use of production of energy from non-renewable resources towards the friendlier renewable resources.

The participating countries of the EUSAIR agreed on areas of mutual interest with high relevance for the Adriatic-Ionian countries, being it common challenges or opportunities. The countries are aiming to create synergies and foster coordination among all territories in the Adriatic-Ionian Region in the following four thematic areas/pillars:

1. Blue growth

2. Connecting the region

3. Environmental quality

4. Sustainable tourism

The EUSAIR aspires to mobilise and align many existing EU funding instruments around the topics of the four pillars. Although Kosovo is not a participant in the EUSAIR, it will indirectly contribute to furthering the macro-regional strategy via the CBC programme with North Macedonia. The selected thematic priorities and thus the entire programme document are coherent with two of **the EUSAIR’s pillars** (tourism and environment).

The following table illustrates how the objectives of pillars 3 and 4 of the EUSAIR match with the thematic priorities and specific objectives of this CBC programme:

| **EUSAIR Pillar** | **Pillar’s objectives** | **IPA III CBC AL-KS thematic priority** | **TP’s specific objectives and results** |
| --- | --- | --- | --- |
| 3. Environmental quality | To ensure a good environmental and ecological status of the marine and coastal environment by 2020 in line with the relevant EU acquis and the ecosystem approach of the Barcelona Convention | **TP2**: protecting the **environment** and promoting climate change adaptation and mitigation, risk prevention and management | N/A |
| To contribute to the goal of the EU Biodiversity Strategy to halt the loss of biodiversity and the degradation of ecosystem services in the EU by 2020, and restore them in so far as feasible, by addressing threats to marine and terrestrial biodiversity  (topic of special focus: transnational terrestrial habitats and biodiversity) | To promote environmental protection and green economy through sustainable use of natural resources and renewable energy sources |
| To improve waste management by reducing waste flows to the sea and, to reduce nutrient flows and other pollutants to the rivers and the sea. | N/A |
| 4. Sustainable Tourism | Diversification of the macro-region’s tourism products and services along with tackling seasonality of inland, coastal and maritime tourism demand. | **TP5**: encouraging **tourism** and cultural and natural heritage | Products and services in value chains of tourism,  are upgraded |
| Improving the quality and innovation of tourism offer and enhancing the sustainable and responsible tourism capacities of the tourism actors across the macro-region  (topic of special focus: sustainable and responsible tourism management – innovation and quality) | The entrepreneurial culture and initiatives of the cross-border area are enhanced  Promotion and commercialization of products and services is increased |

In addition, both Kosovo and North Macedonia are part of other IPA/IPA CBC programmes and the priorities selected through one programme in the same eligible area will be carefully considered in order to avoid overlapping and create synergies to make best use of the joint programme.

# Section 4: Financial plan

<A table specifying programme allocations in maximum figures and percentages per year by thematic priority for the entire period. A single 7-year Commission financing decision with a suspensive clause will be adopted.>

**Table 3: Indicative financial allocations per year for the period 2021-2027**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **IPA II CBC PROGRAMME BENEFICIARY X- BENEFICIARY Z** | | | | | | | **Total (EUR)** |
| **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** | **2021-2017** |
| **CBC operations (all thematic priorities)** |  |  |  |  |  |  |  |  |
| **Technical assistance** |  |  |  |  |  |  |  |  |
| **Total (EUR)** |  |  |  |  |  |  |  |  |

**Table 4: Indicative financial allocation per priority and rate of Union contribution**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Clusters | Priorities | **IPA II CBC PROGRAMME BENEFICIARY X- BENEFICIARY Z** | | | |
| European Union funding | Co-financing | Total funding | Rate of Community contribution |
| (a) | (b) | (c)=(a)+(b) | (d)=(a)/(c) |
| Thematic cluster X | 1 Thematic priority X |  |  |  |  |
| Thematic cluster Y | 2 Thematic priority Y |  |  |  |  |
| Thematic cluster Z | 3. Thematic priority Z |  |  |  |  |
| 4. Technical assistance | |  |  |  |  |
| GRAND TOTAL | |  |  |  |  |

The European Union contribution has been calculated in relation to the eligible expenditure, which is based on the total expenditure, as agreed by the participating beneficiaries and laid down in the cross–border programme. The European Union contribution at the level of [thematic priority shall not exceed the ceiling of 85%] of the eligible expenditure. The co-financing under thematic priorities 1-4 will be provided by the final grant beneficiaries and it can be from public and private funds. Final grant beneficiaries should contribute with a minimum of 15% of the total eligible cost of the project, both for investment and institution building projects. The co-financing under the priority ‘technical assistance’ will be provided by the national authorities

# Section 5: Implementing provisions

This section will be updated following the discussions on the implementation provisions for CBC under IPA III. The implementing provisions should provide only the information on the method for the selection of operations (e.g. call for proposals vs strategic projects). All other issues such as programme management structures, payment and controls, reporting, monitoring and evaluation, as well as information and publicity have been presented under Framework and/or Financing Agreements. .

## 5.1 Financing agreement

In order to implement this programme, it is foreseen to conclude a financing agreement between the European Commission, [beneficiary X and beneficiary Z].

## 5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is <number> months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission’s responsible authorising officer by amending this Decision and the relevant contracts and agreements.

## 5.3 Implementation method

Choose between a) or b)

***(a) Indirect management with <Beneficiary X>***

***(b) Direct management***

See responsibilities and tasks under section 5.4 below

**Delivery methods**

[Grey shading indicates an option, blue is guidance and yellow needs to be filled in.]

**[Procurement[** *(where relevant only in case of Strategic Projects)*

*Specify which objective/result in section 3 the procurement will contribute to achieving.* Do not mention the procurement procedure; its choice is the responsibility of the authorising officer, not the College.

<…>

*In case it is necessary to launch a call for tenders with a suspension clause before the adoption of this financing decision, the launch date must be mentioned and the nature of the exceptional circumstances hindering the possibility to launch the call after the financing decision is adopted must be explained. Moreover, the internal NEAR prior approval procedure must be followed* [This call has been launched on <date> under a suspensive clause prior to the adoption of this decision. This is justified because <explain the exceptional circumstances> .]

Theglobal budgetary envelope reserved for procurement:EUR <…>

*Give the total envelope available for procurement out of the overall Union contribution to the programme. Do not specify any amount per contract or amount per type of contract.*

***[Grants]***

*It is not necessary to specify the award procedure (call for proposals or direct award), unless the situation is as described in point c) below. Note that a direct award is always possible if the reasons for the exception from a call are applicable (Article 195 FR).*

1. Purpose of the grants: *Specify which objective/result in section 3 the call will contribute to achieving.* <…>

*In case it is necessary to launch a call for proposals with a suspension clause before the adoption of this financing decision, the launch date must be mentioned and the nature of the exceptional circumstances hindering the possibility to launch the call after the financing decision is adopted must be explained. Moreover, the internal NEAR prior approval procedure must be followed* [This call has been launched on <date> under a suspensive clause prior to the adoption of this decision. This is justified because <explain the exceptional circumstances> .]

1. Type of applicants targeted:

*Define the type of eligible applicant with regard to their type – for example: legal entities, natural persons or groupings without legal personality, local authorities, public bodies, international organisations, NGOs, economic actors such as SMEs, profit, or non profit organisations.* *See section 2.1.1. of the PRAG guidelines for grant applicants (annex E3a). In the case of Twinning grants, applicants must be EU Member State administrations or their mandated bodies.*

*The beneficiaries shall be legal entities and be established in an IPA II beneficiary participating in the CBC programme.*

*Potential beneficiaries could be: local authorities, legal entities managed by local authorities, associations of municipalities, development agencies, local business support organisations, economic factors such as SMEs, tourism and cultural organisations, NGOs, public and private bodies supporting the workforce, vocational and technical training institutions, bodies and organisation for nature protection, public bodies responsible for water management, fire/emergency services, schools, colleges, universities and research canters including vocations and technical training institutions.*

*Other essential characteristics of the potential applicants, such as their place of establishment shall be specified in the guidelines for applicants of the call for proposals. The default scope of potential beneficiaries given above may be narrowed down in terms of nationality, geographical location or nature of the applicant where it is required because of the specific nature and the objectives of the action and where it is necessary for its effective implementation.*

1. Direct grant award: (where relevant, i.e. in the case of technical assistance)

Direct grant award for technical assistance to the Operating Structure:

A grant will be awarded for the implementation of the thematic priority technical assistance under this programme. Under the responsibility of the Commission’s authorising officer responsible, this grant may be awarded without a call for proposals to *<name of the direct grant beneficiary, i.e. the name of the operating structure in the beneficiary where the contracting authority of the programme for operations is located>.*

The recourse to the award of this grant without a call for proposals is justified to bodies with de jure or de facto monopoly in managing this cross-border cooperation programme, pursuant to Article 195(c) of Regulation (EU, Euratom) 2018/1046. As stipulated under the Section VIII ‘Provisions on cross-border cooperation programmes’, Title V ‘Programme structures and authorities and their responsibilities’ of the Framework Agreement for the IPA III programme, operating structures are the bodies that enjoy this monopoly.

1. *Other* direct grant award: *(where relevant)*

*If you are 100% certain of the grant beneficiary then you may specify it here and delete point (b) above, or you could have points (a) and (b). Moreover, specify the relevant provision of Article 195 FR providing the basis for the direct award and outline briefly the actual circumstances which explain why this entity is best placed to be awarded the grant.*

[Under the responsibility of the Commission’s authorising officer responsible, the grant may be awarded without a call for proposals to <name of the direct grant beneficiary>]. Where this is filled in, you have to submit the direct award for a prior approval in parallel.

[The recourse to an award of a grant without a call for proposals is justified because <provide factual circumstances justifying any of the circumstances listed in Article 195 FR>.]

1. Exception to the non-retroactivity of costs:

*If it is required to accept costs made before the adoption of this financing decision, add:* [The Commission authorises that the costs incurred may be recognised as eligible as of <a date prior to the adoption of this Financing Decision> because <add justification>.] *If this phrase is not included, the costs incurred shall be eligible as of the date of entry into force of the grant agreement. The eligibility date may be set prior to the entry into force of the grant agreement but not before the date of adoption of this Financing Decision.*

The **global** budgetary envelope reserved for grants: EUR <……>

Give the total envelope available for grants out of the overall Union contribution to the Programme. The responsible structures may decide to publish more than one call for proposals. Every call for proposals will have the same objectives, results, essential eligibility, selection and award criteria as described above. Each grant contract will be funded from one budgetary commitment. The responsible structures may decide to merge the yearly budget allocations.

## 5.4 Programme management structure

<Description of the programme management structures with the list of their main responsibilities and tasks in programme preparation, implementation and management (Joint Monitoring Committee, Operating Structures/relevant CBC body (ies), Contracting Authority, Joint Technical Secretariat/Antenna, the audit authority, the role of the European Commission, Audit Authority).>

## 5.5 Project development and selection and implementation

<Description of project development and generation, modalities for project selection (e.g. CfP, tenders, etc.). If one or more strategic projects are mature enough for being funded, this is the section where they need to be depicted in detail. Description of the contracting process and the project implementation (e.g. role of the lead beneficiary).>

## 5.6 Payments and financial control

<Description of payment modalities and financial control system established in order to ensure sound, efficient and effective implementation of programmes, including:

- A summary description of the management and control arrangements between the countries participating in the programme.

- Financial flows and procedures from project to programme level>

## 5.7 Reporting, monitoring and evaluation

<Description of the reporting, monitoring and evaluation requirements and modalities>

## 5.8 Information and visibility

<Description of measures to be taken in order to ensure the popularity, recognition and public dimension of the cross-border programme (e.g. website, publications in local newspapers, information sessions, workshops, etc.). Communication and visibility activities shall be implemented in accordance with the EU communication and visibility requirements in force

# LIST OF ANNEXES

## 

## ANNEX 1: Description and analyses of the programme area

### Situation and SWOT/PESTLE analysis

1. **POLITICAL AND ECONOMIC REFORM**

The people of Kosovo**\*** and North Macedonia aspire to become members of the European Union. In this road, the countries have different membership status. Kosovo holds still the status of a potential candidate country and North Macedonia the status of candidate country. Such different courses originated from a diverse historical, political and socio-economic development. A list of priorities has been set for the countries to fulfil, related to the implementation of the rule of law, functioning of democratic institutions, public administration, economic governance and competitiveness, fundamental rights, etc.

The relations between Kosovo and North Macedonia can be characterised as good. They have been going on since October 2009, after signing the agreement to re-adjust the border by exchanging some lands and the establishment of official diplomatic relations on 17 October 2009. Since then, North Macedonia and Kosovo share a similar objective in their foreign policy, namely, the full membership in the EU[[45]](#footnote-45).

In the last two years a series of memorandums, agreements and initiatives have been signed or expected to be signed between both countries regarding the “readmission of persons residing without authorization and its implementing protocol”, “the fight against trafficking in human beings”, “mutual recognition of driving licences”, the “establishment of the Regional Youth Cooperation Office” and a protocol for joint facilities and for the way of carrying out border controls at the joint border crossing point for international road traffic Bellanoc-Stançiç/Stančić[[46]](#footnote-46).

Regarding NATO membership, North Macedonia became NATO’s latest member[[47]](#footnote-47) on 27 March 2020. For Kosovo, given that four NATO members (Spain, Greece, Slovakia and Romania) do not recognize Kosovo as an independent state, a decision to launch formal membership talks is unrealistic, if not impossible for the time being[[48]](#footnote-48).

**Kosovo**

The EU-Kosovo Stabilisation and Association Agreement (SAA) has been in force since April 2016, followed by the establishment of the joint Kosovo-EU bodies for overseeing its implementation. The European Reform Agenda (ERA) that started in November 2016 has continued to serve as a useful tool to guide the implementation of EU-related reforms in the SAA context.

In 2008, the EU reiterated its willingness to assist the economic and political development of Kosovo and in July 2018, the Commission confirmed that Kosovo had fulfilled all visa liberalisation benchmarks endorsed by the Council. In March 2019, the European Parliament supported the Commission’s proposal for visa liberalisation. The proposal is pending approval at the Council[[49]](#footnote-49).

Kosovo continues to be financially supported by the EU in the integration process. The EU financial assistance under 2014-2020 IPA II amounts to € 573 million, contributing to achieving progress in priority sectors such as democracy & governance; rule of law & fundamental rights; energy, competitiveness & innovation; education, employment & social policies; agriculture & rural development; and regional and territorial cooperation.

According to the EC 2020 Progress Report, regarding the implementation of key EU-related reforms during 2019, Kosovo made progress in the areas of rule of law and public administration, the ratification of the demarcation agreement with Montenegro and the adoption of EU-related legislative reforms[[50]](#footnote-50). However, some particularly challenging reforms on public administration, regarding recruitment of civil servants, and the implementation of the action plan for the rationalisation of agencies still remain at the beginning. The implementation of the rule of law, reforms in the judicial system, and fight against corruption and organised crime continues to be key priorities for Kosovo. Fundamental rights at local level, through a coordination mechanism, the safeguard of rights among Roma and Ashkali, child protection and culture heritage represent other open issues where progress has to be ensured[[51]](#footnote-51).

In 2020, due to the volatile political context and the necessary focus on the pandemic response, there was overall limited progress on EU-related economic reforms in relation to developing a functioning market economy in terms of capacity to cope with competitive pressures and market forces in the EU, labour market situation and the lack of economic diversification[[52]](#footnote-52).

Regarding the business environment there were some limited improvements, but Kosovo needs to address business climate reform to accelerate the growth of the private sector, problems in state-owned enterprises, the labour market situation through quality of education and skills gaps, informal economy through the implementation of the 2019-2023 Strategy and Action Plan for fighting informality, corruption and economic diversification of economic sectors and products.

The 2020 Progress Report highlights some progress in improving road infrastructure, investments in renewable energy sources and the digitalisation of the economy. But, Kosovo needs also to address large gaps identified in railway and serious challenge in energy sector through diversification, away from using lignite as a source of electricity and improving energy efficiency at the residential, private sector and municipal level and the construction of new wastewater treatment plants[[53]](#footnote-53).

Regarding trade, Kosovo is based on the domestic trade sector and lacks product diversification hindering the growth of goods exports, although exports of services to the diaspora have grown.

Following the recommendations of the Progress Report, the 2020-2023 Government Programme[[54]](#footnote-54) has decided as its immediate objective to defeat the pandemic situation caused by the COVID-19 and revitalise the economy. But key political reforms have to be prioritised, including strengthening the state, advancing democracy, combating negative phenomena, especially crime and corruption, fostering economic reforms to create a market economy, increasing employment, investment and competitiveness of local businesses and products. In regional and international cooperation, the Government has defined as strategic priorities the stability in the region and creating good neighbourly relations with all countries in the region and the integration into the European Union and NATO. Kosovo takes responsibility for advancing dialogue with Serbia, advancing the European and Euro-Atlantic integration process and full implementation of the European Reform Agenda.

In the frame of the foregoing Government Programme, in July 2020, Kosovo modified the 2020 – 2024 National Programme for Implementation of the Stabilisation and Association Agreement (NPISAA). The programme addresses the (2020-2024) concrete short-term reforms and priority medium-term objectives for implementation of the SAA through the approximation of national legislation towards the EU acquis and its implementation[[55]](#footnote-55).

In regional cooperation and international obligations[[56]](#footnote-56),Kosovokeeps promoting good neighbourly and constructive relations with all countries. It continues political dialogue aiming to consolidate the approximation between the EU and Kosovo, develops regional cooperation in respecting human rights, particularly those of minorities, and promotes regional cooperation regarding the movement of persons, goods and services and capital.

With neighbouring countries, after revoking the 100 % tariff on goods from Serbia and Bosnia-Herzegovina, trade was normalised with these two countries and the way was paved for the resumption of the Belgrade-Pristina EU-facilitated dialogue in July 2020. Kosovo remains committed to full normalization of interstate relations with Serbia and the continuation of dialogue, and it aims to finalize it with mutual recognition. Kosovo has become a fully-fledged member of the Regional Cooperation Council (RCC).

***North Macedonia***

The Stabilisation and Association Agreement has been implemented since April 2004 and the European Council awarded North Macedonia the candidate status in December 2005. The main priorities set for North Macedonia over 2014-2020 included the areas of democracy & governance; rule of law & fundamental rights; environment & climate action; transport, competitiveness & innovation; social development; agriculture & rural development; and regional and territorial cooperation.

Since 2005, the Commission has continuously recommended to open accession negotiations. North Macedonia has continued to deepen the reform momentum, delivering tangible results in the key areas, as identified in the June 2018 Council Conclusions[[57]](#footnote-57). Good neighbourly relations have also been significantly strengthened after the resolution of the “Prespa Agreement’ which triggered a renewed recommendation to open accession negotiations in May 2019.

North Macedonia has maintained a steady pace of implementation of EU reforms[[58]](#footnote-58). The country has continued to deliver tangible results in key areas identified in the Council Conclusions such as the judiciary, fight against corruption and organised crime, intelligence services reform and public administration. The Commission recognised the reforms undertaken by North Macedonia and in March 2020, the European Council endorsed the decision to open accession negotiations. After that, on 1 July 2020, the Commission announced the presentation of a draft negotiating framework[[59]](#footnote-59) for North Macedonia (together with Albania) divided into three parts: (1) principles governing theaccession negotiations, (2) substance of the negotiations and (3) negotiations procedure.

North Macedonia’s credibility must be proved through an even stronger focus on fundamental reforms, starting with the rule of law, the functioning of democratic institutions and public administration as well as the economy. The draft negotiating framework is presented to the EU Member States and once the Member States will adopt it, the rotating Presidency of the Council of the European Union will present the agreed General EU Position in the first inter-governmental conference with the country, marking the formal start of the accession negotiations[[60]](#footnote-60).

Good progress was marked by the improvement in Parliament performance and constructive political dialogue, the acceptance of the inter-ethnic character of the society, the climate in which civil society operates and the intelligence service reform[[61]](#footnote-61).

But North Macedonia’s further efforts need to enhance the accountability of the administration and prevent its politisation. The judicial system has made moderate progress but all judicial institutions need to restore public trust on them. Regarding the fight against corruption and organised crime, the country has some level of preparation and the legal framework for protection of fundamental rights is largely in line with the EU standards[[62]](#footnote-62).

On economic criteria, North Macedonia is developing a functioning market economy. Measures were undertaken to improve public finance management and transparency, but it still needs to consolidate its fiscal situation[[63]](#footnote-63). Further measures are required to improve the business climate and reduce its informal economy. The labour market has to become more competitive[[64]](#footnote-64) by addressing skills gaps and aligning better vocational education and training with business needs. Exports should be further diversified and investment gaps in infrastructure remain.

With regards to EU legislation, the country is moderately prepared in areas such competition, public procurement, transport and energy, company law, custom union, trans-European network and science and research. Further efforts have to be taken on movement of workers and financial and budgetary provision, administrative capacity and effective implementation[[65]](#footnote-65). Furthermore, in regional cooperation, the country maintains good relations with all countries in the region and actively participates in regional initiatives.

1. **ECONOMIC CONTEXT IN PROGRAMME AREA**

***2.1 Overall economic context***

**Kosovo and North Macedonia** are members of **international economic organizations.** They are part CEFTA’s[[66]](#footnote-66) (Central European Free Trade Agreement) membership. North Macedonia signed a Free Trade Agreement with EFTA countries, whereas Kosovo signed Joint Declarations on Cooperation, as a first step to the negotiation of EFTA[[67]](#footnote-67), which would enable them to benefit more from the globalization of markets. Although Kosovo is member of 40 regional initiatives, cooperating in trade, security, education, technology and environment[[68]](#footnote-68), its priority is focused on WTO and other international economic organizations[[69]](#footnote-69) membership.

***Kosovo***

Kosovo’s growth is solid, with a strong domestic demand and resilient exports despite the slowdown in global trade. The government has undertaken important reforms over the past years to strengthen the economy and support the country’s EU candidacy[[70]](#footnote-70).

Kosovo’s **Gross Domestic Product** (GDP) at current prices in 2019 was € 7 103.8 million, with a real growth rate of 4.94 % compare to 2018 and an expansion of up to 35.8 % (2008-2017). The **GDP per capita** in 2019 was € 3 986, the second lowest in Europe[[71]](#footnote-71). However, it increased by 89 %[[72]](#footnote-72) within the 2009-2017 period, but it is still 8.3 times lower than EU-28’s.

Real GDP growth rates by economic activities in 2019 are presented in the graphic below[[73]](#footnote-73):

*Sources: Kosovo Agency of Statistics*

Kosovo’s economy is open to foreign direct investment (FDI), which represented only 4.2 % of the GDP from 2013-18 and was primarily driven by diaspora remittances. The latter amounts to € 1.5 billion annually, which is equivalent to around 70 % of the state revenue (GITOC report August 2020).

Kosovo remains reliant on imported inputs for industrial production. Its informal economy is quite large, with 30-40 % of all employees working without contracts or social security, and nearly 20 % of all registered businesses do not pay taxes[[74]](#footnote-74). Kosovo needs to fight the informal economy as an obstacle for economic development and address the legal and institutional factors to give businesses access to finance and advancement of fiscal stability.

Kosovo needs to reduce the high rate of unemployment affecting both men and women. Despite sustaining growth, the persistent levels of unemployment remained above 30 % on average between 2013 and 2018[[75]](#footnote-75). There is still a need for considerable reforms in the education system[[76]](#footnote-76).

The key policy framework for Kosovo is the 2016-2021 National Development Strategy, whereas the **Economic** Reform Programme (ERP) prepared for 2020-2022[[77]](#footnote-77) provides a clear framework in implementing reforms. Based on the recommendations provided in the latest EC Progress Report, Kosovo needs to improve the functioning of market economy, pay attention that the budget is in line with existing fiscal rules, in particular the wage rule, to improve the accountability of publicly owned enterprises and advance their privatization and further improve access to finance for SMEs.

Kosovo, after the outbreak of the COVID-19 pandemic, faces a serious situation, both in terms of public health and economy. The containment measures will severely decrease growth. The projection of **GDP growth for 2020 is -5%**[[78]](#footnote-78). Tourism revenues, remittances, exports of goods, production, employment and FDI are dropping due to travel/movement restrictions. The effects of the crisis will be more evident in the second half of 2020, when multiplier effects emerge, through declining investment and remittances[[79]](#footnote-79). Specifically, a large impact is foreseen in Kosovo’s manufacturing sector, which represents 11 % of the economy’s GDP[[80]](#footnote-80). FDI in Kosovo which roughly represented 4 % of its GDP in 2018 and the volume of remittances’ flowing which accounted for 15 % of the overall GDP are likely to fall.

The impact of the pandemic and the fiscal measures have created urgent fiscal and external financing needs. Thus, the budget deficit is expected to widen and the debt likely to increase. The government, however, remains committed to macroeconomic stability, as long as these measures are temporary, it is expected that the public debt will remain sustainable[[81]](#footnote-81).

In August 2020, a special programme named “Economic Recovery Programme after the Covid-19 Pandemic” was approved, encompassing measures for economic recovery at the amount of € 365 million[[82]](#footnote-82). The government approved 15 measures for economic support to private and public enterprises, employment, especially in the manufacturing, processing and services industries, agriculture, supporting the expansion of exports and social support to overcome the consequences of the pandemic.

The EU has agreed on macro-financial assistance (MFA) with countries experiencing severe balance-of-payments problems. For **Kosovo**, the conditions for its € 100 million MFA programme are related to strengthening public finance and financial stability, addressing youth unemployment and improving good governance, and the fight against corruption[[83]](#footnote-83).

***North Macedonia***

The Recent Economic Developments of North Macedonia (2017-2019) have demonstrated that growth accelerated in 2019. The GDP grew by 3.6 %[[84]](#footnote-84), while in 2018 this growth had been 2.9 %. The GDP in 2018 was € 10 744 million. The GDP per capita was € 5 175[[85]](#footnote-85), which had increased during the 2009-2017 years by 60 %[[86]](#footnote-86).

Due to the COVID-19 pandemic spread in the Western Balkans, the early estimates foresee a drop of between 4 and 6 % of the GDP in the region. Thousands of citizens are at risk of losing their jobs, and temporary government support measures (unemployment benefits, deferrals/waivers to tax and social security contributions, etc.) have an important fiscal impact.

General government debt stood at 41.9 % of GDP[[87]](#footnote-87). External debt was relatively stable at 74 % of the GDP[[88]](#footnote-88). Remittances from abroad dropped slightly to 16.2 %. However, the deficit was covered by net inflows of FDI, which amounted to € 624 mil (2018) or 2.9 % of GDP, although this fell from the 5.4 % reached in 2018[[89]](#footnote-89). In 2019 the banking sector supported growth, whereas the fiscal deficit widened as spending increased more than revenues[[90]](#footnote-90).

The structure of the GDP in 2018 was dominated by services with 62.6 %, industry 21.4 % and construction 6.2 %. Agriculture, forestry and fishing had a share in the structure of GDP of 9.8 %[[91]](#footnote-91). The volume of exports of goods and services represents 60.6 % of GDP, while the imports reached 73.2 %.

*Sources: State Statistical Office, October 2020*

In the period from 2009 to 2019, employment and unemployment rates have varied from year to year, in terms of increase and/or decrease. The highest employment rate of 47.3 % was recorded in 2019. 60 000 new jobs were created in two years, with higher wages and historically low unemployment figures (17.3 %)[[92]](#footnote-92) in 2019.

The inflation in the last ten years has remained relatively stable, ranging from 3.9 % in 2011 to -0.8 % (deflation) in 2009. The inflation rate was 1.5 %[[93]](#footnote-93) in 2017 and the industrial production index was 109.2[[94]](#footnote-94).

The trade volume for 2019 was calculated at $ 16.62 billion, divided by exports of $ 7.18 billion and imports at $ 9.44 billion. The positive tendency of increasing import coverage by export is reflected from 2009 as a result of the continued growth of the share of export in trade volume, which covered 76.1 % in 2019[[95]](#footnote-95). The main important trade partner is Germany that provides 80 % of import and nearly 47 % of export, followed by other countries as Great Britain, Greece, Serbia and Bulgaria. The main export according to sectors are machinery and transport equipment for a value of nearly $ 2.4 billion, chemicals, manufacturing goods, food and live animals, crude materials, beverage and minerals and fuels. In 2019 the main import products by sectors were manufacturing goods (around $ 3.5 billion), machinery and transport equipment ($ 2.1 billion), chemicals, mineral, fuels, food and live animals, miscellaneous manufactured articles. Industrial products covered 94.24 % of the exports and 97.48 % of imports and the rest were agricultural products in 2019.

The exports from North Macedonia to Kosovo in 2019[[96]](#footnote-96) reached a volume of 908 278 tons with a value of $ 332.8 million, mainly in petroleum oils, Portland cement, water, flat-rolled products of iron or non-alloy steel, while the imports from Kosovo to North Macedonia entailed $ 33.27 million, mainly in manufacturing goods, chemicals, food and beverages.

On the assessment made by the Commission on the 2020-2022 ERP (April 2020), it is concluded that the economic growth strengthened in North Macedonia in 2019 and the ERP was expected to remain positive and fiscal consolidation needs to be more ambitious to create buffers while safeguarding the sustainability of public finances.

North Macedonia needs to address fiscal consolidation, boosting public investment, decreasing the size of the informal sector to stop unfair competition from unregistered companies. Domestic companies should enhance their productivity to increase competitiveness and integrate in global value chains. It is also crucial to improve the performance of the labour market by increasing the quality of education at all levels.

The economy of North Macedonia continued to expand in 2019 before COVID-19 interrupted the upturn economic cycle. In April 2020, GDP growth was estimated at -4 %[[97]](#footnote-97).Overall, the IMF forecasted that the economy would shrink by almost 5.5 % in 2020 (by 3.5 % according to the forecast of the National Bank of the Republic of North Macedonia). In 2020, overall public debt is estimated to represent 40.93 % of the GDP[[98]](#footnote-98).

The Covid-19 pandemic is expected to lead to a notable slowdown in the economy, which is heavily reliant on trade with and investments from the EU. Within the domestic markets, SMEs in manufacturing and tourism sectors will be among the most affected. Unemployment rates may rise again and labour market conditions deteriorate, given that a notable share of the workforce lives abroad (around 20 % of the population)[[99]](#footnote-99). On the one hand, the pandemic is pushing down commodity prices; while, on the other, it is disrupting global and regional supply chains, reducing travel and tourist arrivals, decreasing demand for exports, and reducing household demand as containment measures and job losses change household incomes and behaviour[[100]](#footnote-100).

The government of North Macedonia quickly responded to the situation. On 27 September 2020, it announced the launch of the 4th package of measures aimed at mitigating the negative impact of the pandemic on the economy. In total North Macedonia's aid reached up to € 1 billion[[101]](#footnote-101), consisting of 31 measures on aid for the payment of wages, support to loans and local consumption, measures on taxes, tourism, agriculture, etc. Through its Economic Growth Plan, the government will keep increasing the scope of financial support for domestic companies by 25 % year on year[[102]](#footnote-102).

North Macedonia has already approached both domestic and international financial institutions. IMF Rapid Financing Instrument disbursed € 176.7 million and the World Bank approved a package for emergency response of about € 140 million[[103]](#footnote-103). The EU under its macro-financial assistance programme has also announced the provision of € 160 million, strengthening fiscal governance and transparency, the fight against corruption, enhancing financial sector supervision, improving the business environment and tackling youth unemployment[[104]](#footnote-104).

***2.2 Characteristic features of the programme area***

The programme area is characterised by differences and similarities in economic and social development. Differences can be seen not only between the two parts of the programme area, but also within regions in each side of the border. The main differences are closely linked with factors such as the size of the region, its level of development, the availability of natural resources, demography, level education, urbanisation of the regions, etc. The urban areas in Kosovo (Prizren, Ferizaj/Uroševac and Gjilan/Gnjilane) and in North Macedonia (Skopje, Tetovo, Gostivar, Kumanovo and Kriva Palanka) predominately have trade and industrial activities with a more developed industry in the Skopje region and agro-industrial features in other zones.

***Kosovo***

The **East Economic Region** has great potentials and very favourable conditions for businesses. The largest number of businesses are individual entities, followed by limited liability companies (ltd) and common partnerships. This demonstrates that the economy is based on micro enterprises with 1-9 employees. The municipalities have mostly agro-industrial economic character. They live on wholesale trade, production, agriculture, forestry, light industrial processing, construction and services industries. This region is distinguished for its rare natural, climate and hydrologic beauties. It has developed winter tourism in Brezovica and revitalised it in Kllokot, where there is a high potential for rural tourism development. The presence of agricultural land is significant, and the most developed sector is livestock raising (the fastest growing sector), orchard and fruits and vegetables farming.

The **South Economic Region** is characterised by natural resources, water resources and minerals. The National Park 'Sharri/Šar Mountains' is characterized by its unique natural beauty, hydrological, climatic and landscape values. It is one of the most developed agricultural regions, where vineyards and vegetable cultivation are typical. Food processing industry is a field of great potential for development. The cultural heritage, mountainous, urban, rural and recreational tourism are typical for this region. Agro-Industrial and economic zones are present in the region. The municipalities of Malisheva/Mališevo and Mamusha/Mamuša are very favourable for agriculture and food processing.

***North Macedonia***

The regions of programme area in North Macedonia have differences between them towards their contribution to the gross domestic product (GDP) in the country. The **Skopje region** is economically the most developed region of North Macedonia with a steady growth of the GDP. It contributes around 43.2 % to the national GDP and its GDP per capita was recorded with an index of 141.8 (2019) compared to the average of North Macedonia. The Skopje Region has the highest share in total gross fixed capital formation, amounting to 50.9 %. All industries participate in the generation of added value (construction, mining, manufacturing, water supply, wholesale and retailed, transportation, accommodation), except agriculture being the smallest contributor. The trade and services (IT, finance, real estate, professional and public administration) are sectors that employ a high percentage of the active labour force. The holders of economic growth in the Skopje region are large enterprises generating around 51 % of the total production in the non-financial sector, followed by the small and medium enterprises with a participation of 36 % and 13 % respectively (Centre for Development of the Skopje Region, 2017).

The **Polog region** has a small contribution (7.4 %) to the GDP and the smallest GDP per capita compared to the average of the country with an index of 47.7 (in 2019)[[105]](#footnote-105). The contribution on gross fixed capital formation is 5 %. The **Northeast region** has the lowest contribution both to the GDP (only 4.8 %) and the gross fixed capital formation (GFCF) (4.6 %). Its employment rate in 2018 was 33.7 %[[106]](#footnote-106). The natural conditions and resources of the region provide good opportunities for the development of agriculture and meat and dairy processing industry. For both regions, the trade and service sectors contribute to the regional GDP. Agriculture contributes 13.93 % to the regional GDP in the Polog region and only 9 % in the Northeast region.

***2.3 Private sector development***

***Kosovo***

Small and medium-sized enterprises (SMEs) constitute 99 %[[107]](#footnote-107) of the enterprises in Kosovo. The SME base has been steadily growing over the past four years. The number of registered businesses from 2000- 2019 was 198 896 and out of them 19 035 closed[[108]](#footnote-108). According to their legal status, 157 370 (79.1 %) are individual businesses and 35 269 (17.7 %) are limited companies (ltd) in Kosovo, employing 156 504 workers (2016 latest figures) with 99% of these companies giving employment to less than 10 people. Other businesses, 4 338 (2.2 %) of them, are general partnerships[[109]](#footnote-109). The figures obviously demonstrate that the economy is characterised by micro and small businesses.

The largest industry sector in the Kosovo economy is the retail and wholesale sector (47 % of total business volume), followed by manufacturing (13.6 %) and construction (7.6 %)[[110]](#footnote-110) in 2017.

The private sector in Kosovo is supported by governmental, public and private agencies/institutions, such as the Kosovo Investment and Enterprise Support Agency (KIESA), which is a state agency mandated to promote and provide services in supporting and promotiing investments, encouraging and promoting exports and tourism, development of SMEs, and special economic zones in Kosovo. Another business organisation is the Economic Chamber of Kosovo, with its regional units operating in Prizren, Ferizaj/Uroševac and Gjilan/Gnjilane.

The Innovation Centre Kosovo is a centre that aims to connect scientific research and development with the business sector for jobs creation. It works with start-ups and existing companies. The Kosovo Association of Information and Communication Technology (STIKK) which represents 90 % of the whole ICT market of Kosovo, counting with over 200 members. Recently, Kosovo is becoming part of the Enterprise Europe Network (EEN-Kosovo) that supports business internationalisation. For the first-time Kosovo has a contact point under the Programme Erasmus for Young Entrepreneurs.

Some of the challenges that are hindering Kosovo's economic development include the relatively high rate of informal economy, unskilled labour, lack of access to finance, low labour force participation rate (especially young people and women) and assumption of relatively high level of corruption.

***North Macedonia***

The active business entities in North Macedonia in 2019 were 75 914 and compared to 2018 their number increased by 5 % (72 315)[[111]](#footnote-111). According to the number of persons employed, the highest share of 80.7 % belongs to business entities with 1-9 workers, while those with 10-19 workers represent 4.2 %. By activity sector, business entities dealing with wholesale and retail trade; repair of motor vehicles and motorcycles amounted to 23 140 or 30.5 %, manufacturing 8 362 entities or 11 %, professional, scientific and technical activities 10.1 %, transportation 7.6 %, construction 6.9 %, accommodation and food services 6.3 %, human health and social work activities 4.3 %, agriculture 3.4 %, information and communication 2.7 %, administrative and support service activities 2.6 %, art 2.3 % and other sections covered 12.3 %.

The structure of the private sector in the regions of the programme area features the same characteristics. The **Skopje region** has 27 612 registered businesses (38.2 % of total in the programme area), the **Polog region** 8 272 (11.5 %), while the **Northeast region** 4 078 (5.6 %)[[112]](#footnote-112). The Skopje region is dominated by SMEs, with micro-sized enterprises (1-9 employees) being over 73 %[[113]](#footnote-113). This percentage is higher (82.3 %) in the Polog region and 88 % in the Northeast region, demonstrating micro-enterprises prevail as companies in the private sector.

The 2016-2018 period marks an increasing trend on the number of small-sized enterprises (more than 10 workers) in the Skopje and Polog regions, along with a slight increase of the number of large enterprises. This trend shows the beginning of a change in the structure of the private sector in the Skopje region, towards SMEs and large enterprises, which are more efficient in the use of available resources compared to micro-enterprises[[114]](#footnote-114). The Northeast region shows a regressive trend as the number of enterprises remain the same or lower within the 2016-2018 period.

Support organisations providing services to the businesses in general and to companies in specific sectors are very active in North Macedonia. **The Chamber of Economy of North Macedonia** supports businesses by covering all the territory of the country. Within the Chamber there are structures on the basis of industry associations and geographic areas. The North-West Chamber of Economy of North Macedonia operates in the specific geographic region, including the programme area and the Regional Chambers provide direct services to businesses operating in Gostivar, Kumanovo, Skopje and Tetovo.

**The Export Club** is another special form of organization, within the Chamber, assisting its members in foreign trade and increasing their exporting possibilities.

**The Agency for Promotion of Entrepreneurship** of North Macedonia is another central state institution supporting entrepreneurship and small business development and **Invest North Macedonia** is a government investment and export promotion agency, responsible for attracting foreign investments and supporting international trade.

***2.4 Trade and services***

***Kosovo***

The **foreign trade of goods** and services counts the export volume on € 383.491 million and the import on € 3.496 billion. The balance of goods[[115]](#footnote-115) during 2019 marked an annual increase of 3.7 %, while the balance of services increased by 8.3 %. Exports covered only 11 % of imports in 2019. The trade deficit of goods and services was around € 3.1 billion or 27 % of GDP that year.

**The exports of goods and services** marked an annual increase of 6.8 %, whereas the **imports** had an annual increase of 4.3 %[[116]](#footnote-116). The service sector has grown to become the largest sector of the economy, contributing to the country's added value for employment and trade. It accounted for 72.63 % of GDP in 2018 when its contribution was increased by 3.12 % compared to 2017. Moreover, in 2018 the service sector accounted for about 85.3 % of the employment in Kosovo, although it expanded through low-productivity services activities. Travel services have the highest share of about 78.8 % of total exported services and about 43.7 % of total imported services. Trade in telecommunications services with the world predominates, constituting 72.9 % of total exports and almost 80 % of total imports of these services.

The **export structure** currently focuses on base metals which account for 45.3 % of the total exports (especially nickel), processed goods (32 %), unprocessed goods (18.7 %) and food (8 %). The main EU export partners of goods are Germany (8.9 %), Great Britain (5.6 %), The Netherlands (4 %) and Sweden (4 %). To CEFTA countries, Kosovo’s exports amounted to € 16.2 million (or 49.7 % of their total exports), an increase of 3.9 % in relation to 2018’s. During 2019 **Kosovo’s exports to North Macedonia**[[117]](#footnote-117) reached € 44 million (11.5 % of the total), whereas their imports from North Macedonia amounted to € 240.6 million (6.9%).

However, the range of goods produced by Kosovar enterprises is still limited and for many years has been almost the same, excepting the plastics sector. The sectors with the highest potential for export and employment are meant to be the food industry, textile, wood processing, furniture and metal production.

In 2019 most **imports** consisted of machinery and transport means (21.1 %), food (16.29 %), beverages and tobacco (4.3 %), processed products (20.6 %), chemicals (11.1 %), fuels (13 %), machinery, mechanical and electrical equipment (13 %) and base metals and articles thereof (7.5 %). Most of them were coming from the EU-28 (50 %) and Turkey (12.6 %).

***North Macedonia***

The **trade volume** for 2019 is calculated at $ 16.62 billion, divided by exports for $ 7.18 billion and imports for $ 9.44 billion. Continuing the positive trend of preceding years, exports could cover 76.1 % of imports in trade volume during 2019[[118]](#footnote-118). Exports to the EU counted for 86 % of the total exports, marking a 12 % increase, while imports from the EU were higher by 9 %. The most important trade partner is Germany that covers 80 % of imports and nearly 47 % of exports. Trade volumes with other Western Balkan countries continued to increase as well. Machinery and transport equipment represented the main exports at nearly $ 2.4 billion, followed by chemicals, manufacturing goods, food and live animals, crude materials, beverages and minerals and fuels.

In 2019, the main import products were manufacturing goods (around $ 3.5 billion), machinery and transport equipment ($ 2.1 billion), chemicals, minerals, fuels, food and live animals, and miscellaneous manufactured articles. Industrial products covered 94.24 % of the exports and 97.48 % of the imports and the rest were agricultural products.

Like in the entire country, in the ***Skopje region*** the trade balance in the 2014-2018 period had a negative growth. The companies in this region generated more than half of the national exports and more than half of the national imports. Specifically, the volume of export registered in the Skopje region in 2018 was the biggest ($ 3 880 million) and also for imports ($ 6 031 million). It covered more than 56.2 %[[119]](#footnote-119) (2018) of the total exports of the country. The 2014-2018 period marked a trend in which exports were increasingly reducing the gap with imports, reaching 52.31 % of the total import volume.

Due to its population size, the Skopje region absorbs most of the imported commodities in the country and manufactures and exports most products and services. The two other regions (Polog and Northeast) had the lowest contribution on foreign trade volume of the country, respectively 2.3 % and 1 % on exports and 3 % and 1.8 % on imports.

The exports of North Macedonia to Kosovo in 2019[[120]](#footnote-120) represented a volume of 908 278 tons, made of alloy steel and painted, while their imports from Kosovo were basically manufacturing goods, chemicals, food and beverages.

***2.5 Industry and investment***

***Kosovo***

The share of the processing industry in the GDP for 2018 was relatively similar to 2017’s, around 11 %. The share of industrial sectors in total exports for 2018 was 64.45 %, with a dominance of low value added products. Within the non-food industrial sectors, the plastics sector accounted for 12.64 % and the metal sector for 5.84 %; while other sectors (wood, textile and leather) declined in 2018 compared with 2017 rates.

Foreign Direct Investments (FDI) during 2019 reached a value of about € 271.8 million, showing a slight annual decline of 0.1 %. The investments were coming from Switzerland (22.8 %), Germany (26.8 %), U.S.A (7.9 %) and Albania (7.2 %), at the sectors of real estate, renting and business activities (87.1 %), energy (9.1 %) and financial services (5.8 %), with a decrease in the construction sector (-7.3 %), commercial services (-2.7 %) and transport and communications (-2.3 %)[[121]](#footnote-121). The most developed industries in Kosovo produce metals, textile, wood, chemicals and furniture.

Despite the development of the industrial sectors and their contribution to employment and exports, there are still structural obstacles to industry development related to the lack of knowledge and innovation, insufficient financial reporting, lack of product quality, access to information, lack of networking, followed by low capacity in terms of output and labour, factors that are important to cope with relatively large demand. Kosovo needs to invest in the processing industry and advanced technology.

***North Macedonia***

The most important industries in the region are the food processing industry, the light metal industry, construction, tourism, trade, transport, and business services. In 2019 industrial production increased in comparison with previous years, mostly in all groups of products, including lead and zinc concentrates, ferro-alloys, milk, wine, medicaments, edible oil and building materials.

In recent years the machine and automotive components sector has enjoyed a dynamic development and growing importance for the country’s economy. North Macedonia is experiencing a surge in its automotive component sector, supported by a cost-competitive market environment. In parallel to the nascent automotive components market, it has renovated its bus assembly capabilities through investment. However, the economy’s structural transformation remains driven by foreign investors active in higher value-added production.

North Macedonia is an attractive destination for investments, due to the existence of a strong local supplier base that create opportunities for supply chain linkages and local company cooperation.

The Polog region is rich in mineral resources: the ore deposits of grey marble in Gostivar and dolomites in Jegunovce and Chajle. Other ores and minerals are manganese, molybdenum, copper, arsenic, lead, chrome and marble.

***2.6 Tourism and features of the regions***

***Kosovo***

***The South Economic Region*** with 2 016 km² has Prizren as an ancient historic city. Archaeological findings prove that Prizren is one of the oldest cities in Southeast Europe and even broader. It has cultivated a cultural heritage, tourist sites and tourism development. The city lies along the banks of river Lumëbardh, in the picturesque valleys beside the mountains of Sharri/Šar; which at a height of 2 496 m and with its glacial lakes makes a potential tourist attraction. The Mirusha/Miruša Gorge with its 13 lakes and 12 waterfalls is one of the four natural resources of the region. Other municipalities like Dragash/Dragaš are rich in pasture, meadows, mountains, and agriculture fields.

***The East Economic Region*** has great resources and natural potentials for the development of summer and winter tourism. From the natural resources stand out the Sharr/Šar Mountain which is extremely rich in water (rivers and mountain lakes), fertile agricultural land, pastures, forests, flora and fauna. The National Park Sharri/Šar Mountains and the Brezovica ski center, one of the best known areas for the winter sports, with FIS trails with a length of over 3 000 m and 5 cable cars, have a preserved environment, medieval cultural and historical heritage, and unique Orthodox monuments from the XVI century. These are just some of the attractions with great tourist potential. Still the region has unexploited resources, because only 0.12 % of the total area of the municipality is currently used for tourism purposes. The Kaçanik/Kačanik Mountains are attractive for holidays, providing great opportunities for the development of mountain tourism.

Despite the great potential for job creation, tourism in Kosovo is still at an early stage of development. The number of local visitors increased by 21.32 % and the number of those who stayed overnight increased by 24.96 % in 2018 compared to 2017. Outbound visitors increased by 18.82 %, while the number of these visitors who stayed overnight in Kosovo increased by 17.53 % compared to 2017. The number of employees in tourism in 2018 reached about 24 000, which represents about 7 % of all employees in economic activities[[122]](#footnote-122).

Accommodation and food service activities counted for 6.4 %[[123]](#footnote-123) in the GDP contribution. In 2018, the total number of tourists visiting Kosovo was 300 804 (35.9 % of them were domestic and 64.1 % were foreign tourists) and the number of overnights in hotels in 2018 was 476 355 (155 047 of them were carried out by domestic visitors and 321 308 by foreigners).

The number of overnight stays in 2019 was 1.58 persons in Kosovo and in the cities of the programme area the average was 1.41 overnight stays. The county of origin of most tourists is Albania with 37 141 visitors making 53 669 overnights, followed by Germany, Turkey, Switzerland and US. The number of visitors from North Macedonia in Kosovo during 2018 was 7 842 who spent 12 544 overnights, with an average of 1.6 overnight stays.

Despite the existence of tourist potential in the programme area for the development of all tourism forms and the positive developments of recent years, the main constraints in this sector remain the lack of adequate legal framework, proper institutional coordination, little information on tourist sites, attractions, available products and service, lack of development of potential community tourism products and 'tour' operators in rural and mountain areas.

Tourist potential still needs to be re-valorised and enhanced and its development capacities based on international standards[[124]](#footnote-124). This will require the improvement of infrastructure, the regulation of river beds and of tourist trails, tourism information, increasing the capacity of the sectors, digitalisation of the tourist maps for each municipality. On the other side, local authorities need to prepare local development plans for tourism development, development of tourist products, human capacity, tourist information and tourist guide and construct tourist infrastructure and tourist complexes.

So far, The Government has planned measures to develop tourism products in cultural heritage zones (Lipjan/Lipljan, Gračanica, Prizren) for activities, such as traditional craft, horticulture, rural transport and diverse tourist products, in particular for those products in danger of disappearing. The development of agricultural production will also be promoted as a complementary measure to diversify the economic development in rural areas, such as rural tourism, handicraft activities, hostelry and traditional foods in rural and mountainous areas.

***North Macedonia***

**The Polog region** is situated in the northwest part of North Macedonia, with an area of 2 416 km² with a tourist potential in natural beauty, historical and cultural monuments. It covers the Polog valley, Mavrovo plateau, Bistra mountain range and the valley of the river Radika.

The highest mountain is [Korab](https://www.macedonia-timeless.com/eng/things_to_do/senses/sight/mountains/korab/) with peaks of 2 500 meters. Shar Planina and Bistra have alpine landscapes, where the ski centres “Mavrovo” and “Popova Shapka” are located. At both centres several tourism sports and recreational activities can be actively practiced. The largest national park in North Macedonia (73 088 ha) is Mavrovo on the southern shore of Mavrovo Lake. This mountainous region contains North Macedonia's highest peak, with permanent glacial lakes, with deep and attractive river valleys, canyons, waves and waterfalls ([Korab Waterfall](https://www.macedonia-timeless.com/eng/things_to_do/senses/sight/waterfalls/korab-waterfall/), 136m high), with rich vegetation and suitable trekking and ski trails, etc., which makes it the most popular winter resorts region. Furthermore, on the river Radika the most attractive canyon in the country lies. The flora is very diverse, represented by beech, oak, birch, chestnut, hornbeam, pine and grass vegetation. Various types of game lives in this area, for instance: bear, wolf, deer, wild goat, wild boar and several species of birds and reptiles.

The administrative centre of the region is Tetovo with 53 000 inhabitants, followed by Gostivar, beneath the Šar Mountain range. The Polog region is rich with cultural-historical monuments, for example the monasteries in Tetovo and Gostivar, and the cathedral churches in Tekhe.

**The Skopje region**[[125]](#footnote-125) is rich in natural and cultural-historical facilities, mainly the archaeological site Skupi, the fortress Kale, the aqueduct, the Old Town Bazaar and numerous churches and monasteries, as well as several natural reservoirs and natural monuments, from which the Vodno, Treska Lake, Katlanovsko Blato, Matka Canyon, Jasen Nature Reserve and other smaller facilities have the biggest tourist potential. The region successfully develops urban, spa, transit and alternative tourism. The thermal and thermal-mineral waters in Katlanovo are of particular mineral importance, which provide an opportunity for the development of spa tourism in this area.

The Skopje region is well-known for its museums, memorials and cultural institutions, such as the Archaeological Museum, the Museum of the Macedonian Struggle, the Natural Science Museum and Zoo, the Ethnological Museum, the Archaeological Museum, the Memorial House of Mother Teresa, the Museum of the Holocaust, the Museum of the City of Skopje, the Museum of Contemporary Art, the Macedonian National Theatre, the Macedonian Opera and Ballet, the University Library, the Universal Hall, several universities and a dozen other national institutions.

**The Northeast region** has many tourist attractions and cultural landmarks that attract a large number of visitors. The most important are the locations of Kuklica, Kokino, Cocev Kamen and the monastery of [St. Joakim Osogovski](https://www.macedonia-timeless.com/eng/things_to_do/senses/touch/culture-history/monasteries/osogovski/) and other churches, medieval towers and bridges, the museum, etc.

Statistical data on tourism reflect the development of tourism in the programme area. The number of visitors in 2018 was 415 508 or 36.9 % of the total number of tourists visiting the country. The accommodation capacity of the region is 12 302 beds or 16.1 % of the whole country. The average number of overnights in Polog is 1.9, whereas in the Skopje region this number is 1.79. While in Polog we have seasonal tourism in Skopje most of it is businesses and conventional tourism. The Northeast region has a low capacity for tourism development and lacks adequate tourist infrastructure.

The Skopje region had most foreign tourists (45.44 %), while the smallest percentage of those tourists visited the Northeast region (1.2 %). In fact, 52 % of the total tourist expenditures are spent in the programme area. The average expenditure per visitor MKD 16 060 and per day this is MKD 8 966. The 2019 Travel & Tourism Competitiveness Report ranked North Macedonia at the 101st place (12 places lower than in 2017)[[126]](#footnote-126).

Despite the tourism development in the area, in some regions, tourism as an industry is not sufficiently developed and there are still a lot of unused potential that represents an opportunity for investments. The existing resources in the programme area need to be further explored, tourism infrastructure has to upgraded, products developed, the regions properly promoted and human resources trained according to the required standards.

The Government of North Macedonia during the implementation of the 2020-2024 operational programme has addressed the growing demand for profiled mountain tourism[[127]](#footnote-127). A special office for mountain tourism and sites will be focused on the development of Shar Mountain, Mavrovo, Matka, Pelister and Galichitsa. The preparation will start for the development of tourism on Tsarev Vrv on the Osogovo Mountains, as a central point for winter and mountain tourism. In the case of Popova Shapka, the Government will consider different models for its development as a regional tourist centre. The construction of a cable car from Tetovo to Popova Shapka is planned. At the same time, the Government will start the re-construction of the existing mountain lodges and the construction of new ones by defining a management model and promoting official mountaineering trails.

The Government will support the development of iOS and Android applications for tourism in North Macedonia, divided into sectors and incentives for the introduction of innovative models in the concept of "health" and "retirement" tourism for domestic and foreign retirees.

Some of statistical data on tourism on 2018

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Statistical data on tourism 2018** | **North Macedonia** | **Cross-border area** | **Polog Region** | **Northeast Region** | **Skopje region** | **Programme area/Total (%)** |
| Number of rooms | 29 702 | 5 300 | 1 267 | 380 | 3 653 | 18% |
| Number of beds | 76 558 | 12 302 | 3 806 | 763 | 7 733 | 16% |
| Total No. of Tourists | 1 126 935 | 415 508 | 37 091 | 10 820 | 367 597 | 37% |
| Domestic Tourist | 419 590 | 65 269 | 16 802 | 2 312 | 46 155 | 16% |
| Foreign Tourists | 707 345 | 350 239 | 20 289 | 8 508 | 321 442 | 50% |
| Total nights spent | 3 176 808 | 744 231 | 71 929 | 14 185 | 658 117 | 23% |
| Domestic nights spent | 1 685 273 | 154 006 | 32 464 | 3 280 | 118 262 | 9% |
| Foreign nights spent | 1 491 535 | 590 225 | 39 465 | 10 905 | 539 855 | 40% |
| Expenditure in MKD thousands | 12 934 972 | 6 673 149 | 558 993 | 596 670 | 5 517 486 | 52% |

*Source: Regions of North Macedonia 2019*

***2.7 Agriculture***

***Kosovo***

The agricultural land in the programme area extends over 647 275 ha and is shared between North Macedonia’s 398 087 ha (61 %) and Kosovo’s 249 188 ha (39 %).

The agricultural sector is a high priority for the Government of Kosovo. Even though the share of agriculture in GDP resulted in 8.1 %[[128]](#footnote-128) in 2019, it still remains significant. The total volume of exports reached € 63.9 million, but the imports amounted to € 712.3 million. The number of the agribusinesses is 2 942 and the number of employees is 13 156 (2018). The total agricultural land surface in Kosovo is 418 582 ha. Out of this, the programme area covers 249 188 ha, while the arable land and gardens entail 73 462 ha (29.5 % of the total). The majority of agriculture land in Kosovo is privately owned (88.6 %).

Meadows and pastures represent more than 52 %, 45 % is arable land, trees 1.84 %, vineyards 0.78 % and gardens 2.24 %. The size of most farms in Kosovo is 2-5 ha. The crop production is divided between wheat 65 % and corn 31 %. The production of vegetables includes potatoes in 20 %, pepper 17 %, beans 16 % and pumpkins 13 %. The fruit trees most cultivated are apple 32 %, plums 23 % and raspberry 19 %. Kosovo has cultivated grapes varieties, out of which a 25 % is for table consumption and 75 % for the wine industry. The milk production is the most important agricultural product. The forest surface of Kosovo is 481 thousand ha, out of which 295 thousand ha are publicly owned and 180.8 thousand ha are private property.

The data above reflects the existence of structural obstacles that hinder the development of the agricultural sector. These obstacles are related to small-sized farms, land fragmentation, irrigation infrastructure, storage capacities, dysfunction and inefficiency of the land market, weak or dysfunctional links between the primary producer and processor and between the producer and market, the lack of specialization, etc.

The Government of Kosovo has prepared a programme for sustainable agricultural development and protection of local products. To improve the structure of the farm, grant schemes and subsidies will provide farmers and agribusinesses with investment opportunities. Cultivation of small fruits (raspberries, blueberries, strawberries, blackberries, etc.), aromatic medicinal plants, grapes and wines and vegetables will be supported, as well. Investments will be made in the irrigation systems and in the value chain, by supporting collection centres and processing centres. At farm level, support will be given on investment for the production and packaging of products, storage rooms and supportive equipment. Local government will support the establishment of farmers' markets.

***North Macedonia***

The total agricultural land surface in North Macedonia is 1 264 578 ha, arable land and gardens are represented in 418,823 ha, which cover 33 % out of the total agricultural land. Agriculture, forestry and fishing had a share in the structure of GDP of 7.9 % in 2017 and 8.5 % in 2018.

The agricultural contribution of the programme area to the GDP accounted for MKD 12 169[[129]](#footnote-129) million (2016) or 2.3% of the GDP formation of the country and only the Polog region contributed from agriculture to 42 % of the GDP in programme area. Agriculture products covered only 4.22 % of the export volume and 1.6 % of overall imports in 2019[[130]](#footnote-130) and follow a decreasing trend. Crop production dominates the agricultural production with an average share of 75 % in the total value and 25 % originates from livestock production.

More than 40 % of the total area of arable land (approximately 240 000 ha) and 80 % of the pasture land (approximately 570 000 ha) is owned by the State. Nearly one third of the total arable land is either abandoned or not utilized for agricultural production. The farm structure is dominated by small family farms with an average farm size of less than 2 ha. As such, the state-owned agricultural land is a valuable asset and provides the opportunity to develop more competitive and productive family farms.

The three regions in North Macedonia have the same structure of agriculture land: 76 % of pastures and 24 % of cultivated land in 2018. The specific vegetation of the Polog basin and the surrounding mountains create favourable conditions for the development of agriculture, and especially cattle breeding, for which this region is renowned.

Crop production in the period between 2009 and 2019 was characterised by a decrease in the area under wheat, tobacco and tomatoes, whereas an increase was registered in the number of fruit-bearing vines. In 2019, the number of livestock (cattle, sheep, pigs and poultry) decreased in comparison with 2014’s. Wheat and potatoes are dominant products in the programme area. The Northeast region is the highest producer of wheat and Polog of potatoes and apples. Regarding vineyards and grapes, the harvested area is moderate, compared to other regions. Production of pork increased in 2019 compared to the previous years, while the production of other types of meat has decreased. In the three regions grape harvesting land counted for 15% of the total but wine production in tons counted for 6.8 % of the country’s in 2018.

The total surface of forest is 1 019 253 ha, out of them the broad-leaved forests are 130 000 ha. The programme area is characterised by a lower number of ha covered by forests.

The urbanisation of the Skopje region and great fragmentation of the agricultural land limit the development of intensive agricultural production. Corns and to a certain extend vine growing are mainly presented in this region, while other products such as market gardening, stockbreeding although the big potential and demand exist, still are not developed[[131]](#footnote-131). North Macedonia exports vegetables and fruits, tobacco and beverages (mostly wine), sheep (mutton) and food products. The country’s main markets for primary agricultural exports are the Western Balkans, the EU, and Russia.

The agriculture sector[[132]](#footnote-132) is an important economic sector in the rural areas of North Macedonia. The agricultural farms in large number employs part-time farmers and a significant number of informally employed. The potential for agriculture development is limited as the smaller agricultural producers and agri-businesses lack access to inputs, knowledge and skills, access to new technologies and market opportunities. This results in low productivity and less possibilities to introduce innovations.

The current agricultural support measures are not considered effective in overcoming sector constraints but for the government the agricultural sector is important to maintain the rural areas in vital condition. It will focus to increase the production, to raise the quality by modernisation of products, to construct and reconstruct production facilities, supply of equipment for wineries, fruit, vegetables and milk processing and production of dairy products[[133]](#footnote-133). The policy will be directed towards increasing industrial processing facilities through direct agricultural subsidies, consolidation of smaller pieces of agricultural land per farm[[134]](#footnote-134).

***2.8 Labour market***

The situation on the **labour market** presents large gender disparities between regions in the programme area, which is closely related to the urbanisation of the area, economic activities, the business development, cultural mentality and other indicators.

***Kosovo***

In 2019, 66.4 % of Kosovo's working age population (15-64 years old) were in the labour market[[135]](#footnote-135). Out of them, 59.5 % were not economically active. This rate was much higher for women (79.6 %), as they were not active in seeking employment. As a result, 40.5 % (488 485) of the population were economically active, but 25.7 % (125 305) of them were unemployed.

**Unemployment** is higher among women than men (34.4 % compared to 22.6 %). The very low unemployment rate for women is related to the very low active population of women participating in the labour market.

Youth unemployment is a main issue for Kosovo. In 2019, the youth in Kosovo were twice as likely to be unemployed compared to the adults. Among persons aged 15-24, 49.4 % or 43 300 were unemployed. Unemployment was higher among young women (60.3 %) than among young men (44.1 %). The higher unemployment in this range is related to the number of youth attending schools, as one third (32.7 %) of people aged 15-24 are not in education, being employed or receiving training in Kosovo. 70 790 people were jobseekers in 2019, but the announced vacancies that year were just 15 647. In the South Economic Region, the jobseekers were 18.2 % (Prizren) and in the Northeast Region 20.8 % (Ferizaj/Uroševac and Gjilan/Gnjilane).

**The employment rate** was 30.1 %, or about 363 180 employed workers. Only 21.1 % of women are active in the labour market, compared to 59.7 % of men. The employment rate among women was only 13.9 %, compared to 46.2 % among men. Women are mainly employed in the education, retail and health sectors (53 % of employed women). Men are mainly employed in the retail, construction, and manufacturing sectors (46.3 %). The economic sectors with higher employment percentage of the active working force in 2019 were trade (17 %), construction (12.6 %) and manufacturing (11.9 %).

***The South Economic Region*** is the second region in terms of population in Kosovo, where there is a young population with different education levels. Vocational training centres in this region provide training in various fields. The region has sufficient potential of human resources for the labour market, but the labour supply exceeds the demand.

***The East Economic Region*** is characterized by a young population, where over 49 % of the population are under the age of 19. The level of education is well organized and provides conditions in various fields of professional education for students in this region who are mostly focused on electrical technology, machinery and metal processing. The labour supply is significantly lower than the demand. Orienting economic policies in the development of the region’s potentials would significantly affect the creation of new jobs.

Regarding employment policy, Kosovo adopted the 2018-2022 Employment and Social Welfare Strategy and its action plan to tackle youth unemployment, but the budget earmarked for active labour market measures remains insufficient[[136]](#footnote-136).

***North Macedonia***

The situation of the labour market in North Macedonia has improved over the last ten years culminating in 2019 when the **employment rate** augmented from 47.3 % to 57.2 %. A higher employment rate is observed for men (56.6 %) compared to female (38.1 %)[[137]](#footnote-137). One of the positive influencing factors was the entering into the labour market of more women, surpassing the decline in the male workforce. The total number of employed was 797 651. The sectors that generated most jobs in 2019 were manufacturing (19.78 %), trade (14.12 %), agriculture (13.91 %), construction (7 %) and public administration (6.7 %).

**The unemployment rate** declined to 17.3 % in 2019, but the total number of unemployed persons (166 363) was dominated by long-term unemployed during one and more years (75.94 % or 126 349). Women’s labour market participation also slightly increased (55.5 % of the 15-64 years-old). Women are less likely to be employed fulltime than men.

The pandemic has deteriorated the employment perspectives. Since March 2020, the government has adopted a number of temporary socio-economic measures to mitigate the impact of the COVID-19 pandemic on employment.

In the **programme area**, the employment and unemployment rates showed fluctuations in relation to the total rates at country level. The employment rate in the Skopje region in 2018 was 43.7 % and the lowest was observed in the Northeast region (33.7 %). Out of 964 014 economically active people, **26.43 % (**254 788) of them were unemployed. The unemployment rate in urban areas was lower than in rural areas. The highest unemployment rate in 2018 was registered in the rural area of the Northeast region (35.9 %) and the lowest (19.3 %) was recorded in the urban area of the Skopje region[[138]](#footnote-138).

1. **SOCIAL SITUATION**

***3.1 Demography***

The entire programme area has a total surface of 10 782 km², of which 38.92 % of Kosovo and 26.30 % of North Macedonia. The total population of the programme area is 1 864 814 inhabitants, representing 48.33 % of the total population of both countries. Whereas in programme area, the population is divided between 39.36 % and 60.64, respectively living in Kosovo and North Macedonia. The density of the population living in the area is different by regions, but in average there are 173 inhabitants / km2. The number of inhabitants in the cross-border area has increased by 0.51 % with respect to the figure in 2013 when the preceding programme document was drafted. This could be attributed to an immigration flow.

Programme area in cross-border and in total (km2)

The average density of population in the cross-border area is 173 inhabitants/km2**.** Regional demographic indicators show differences that point to a disproportion in the territorial distribution of the population.

The highest density is measured in the South Economic Region in Kosovo (202.7 inh./km²), notably in the municipalities of Prizren, Ferizaj/Uroševac and Mamushë/Mamuša. In North Macedonia, the Skopje region has a density of 348.6 inh./km², while the Northeast Region has the lowest density (76.2 inh./km²).

Several municipalities in the Kosovo side, especially Prizren, has registered an increase of population between 2013 and 2019 by 4.62 %, while other municipalities reported a decrease of their population in the same period.

The programme area continues to be characterized by a low urbanisationlevel and a predominance of rural population. In the eligible regions of Kosovo, 66.5 % of the population is classified as rural, particularly in the East Economic Region with 69.1%. The degree of urbanization and the population density is very high in the Skopje region (80 %).

**Kosovo**

In terms of the age structure of Kosovo’s population, in 2019 children (under 14 years old) accounted for nearly 24 % of the total population, and the active population (15-65 years old) reached 67 % of the total population. The average life expectancy in Kosovo was 76.7 and the mean age of the population was 30.2 years (2011). The dependency rate was 49.25 %.

The rate of natural increase in Kosovo’s programme area was 8.64/1000 inhabitants, because in all 17 municipalities the number of births amply exceeded the number of deaths. The natality rate was 14.75 and mortality’s 6.11. In these 17 municipalities the infant mortality rate was only 0.13. Kosovo in 2019 had a vitality rate of 2.41.

The programme area is known for its **ethnic diversity**. The majority of the population 571 695 or (88.6 %) was composed by Kosovo Albanians (East Economic Region 92 % or 236,620 and 86.6 % in the South Economic Region or 335 075) according to the 2011 census. Other ethnic minorities included Bosniaks up to 3.3 % and Serbs and Turks with 2.4 %, respectively.

Regarding regular migration and mixed **migration** flows[[139]](#footnote-139), Kosovo made progress in managing them both, activating its contingency plan due to the influx of asylum seekers and irregular migrants.

**North Macedonia**

In North Macedonia, the population is increasingly ageing. In the period 2009- 2019, the presence of children (age group 0-14) in the total population dropped by 16.2 %, while the share of the old population (65+) grew to 14.5 %[[140]](#footnote-140). The number of live births decreased by 3 839 or 16.2 %. The changes in the age structure were reflected in the number of deaths in the country, which caused an increase in the mortality rate to 9.8 ‰ in 2019. In the same period, the number of marriages decreased by 7.4 %, while the number of divorces increased by 54.6 %.

Based on 2019[[141]](#footnote-141) data, in North Macedonia’s programme area, the age structure was as follows: 16.3 % of children (0-14) and 14.3 % of elderly (65+). But there were regional differences in the age structure of the population. The highest share of young population (0-14) was registered in the Skopje region (18.5 %), whereas the lowest was present in the Northeast region. The highest proportion of old population (65+) was observed in the Skopje region (15.2 %), while the lowest in the Polog region (9.9 %).

Differences were also visible in the number of births and deaths. In 2018, the rate of natural increase in North Macedonia was 0.8/1000 inhabitants. In the three regions of the programme area, the number of births exceeded the number of deaths. Skopje had a natural increase 3.8/1000 inhabitants, Polog 2.6 and the Northeast 0.5. But in 2019 data showed a negative natural increase of the population in North Macedonia (-0.2).

The average fertility rate in North Macedonia was 1.42, while Skopje had the highest rate of 1.84, followed by the Northeast region (1.33). The mean age of the population in the eligible area was lower than the country’s average (39.2). Hence, this mean was in Polog 36.8, the Northeast 38.5 and Skopje 38.9. This was also reflected in the dependency rate. The highest dependency rate reflecting a growth in the non-productive population was registered in the Skopje region (49.6) and the lowest in Polog (34.9), while the country’s average was 45.5. The infant mortality rate was the highest in Polog (8.7) compared with the country’s average (5.7).

North Macedonia continued to play an active and constructive role in the management of mixed migration flows[[142]](#footnote-142). Between 2009 and 2019, there was a continuous inflow of foreign migrants. The country stayed on one of the main transit routes for mixed movement. Considerable efforts will be necessary to continue ensuring basic living conditions and services for all migrants passing through or remaining in the country.

***3.2 Social Protection***

**Kosovo**

In 2017, the percentage of Kosovo’s population living in general poverty was estimated to be about 18 %, out of whom a 5.1 % would live in extreme poverty. The level of poverty in the rural areas was higher (19.4 %) than in urban areas (15.9 %), and higher for male householders (16.5 %) than female (14.8 %). Poverty is highly depending on family size and education level. Thus, larger households, in which the head has not completed secondary education, are more likely to suffer from poverty.

The main income for Kosovar families are wages. The distribution of the income sources is shared between contributors such as the public sector (23 %), the private sector (29 %), other businesses (13 %), pensions (12 %) remittances (8 %) and social assistance and others (7 %).

In 2018, the average gross wage in all economic sectors was € 378, with a gradual annualincrease from 2009. In 2017, the annual family expenditure was € 7 803 and per capita €1511, being this higher in urban areas than in rural. Households consumed their overall incomes mainly on food (40 %) and housing (29 %)[[143]](#footnote-143).

Kosovo’s social protection programme has five elements[[144]](#footnote-144), namely: basic pension schemes, pensions for war veterans; non-contributory disability pensions for adults, social assistance scheme (SAS) and labour market programmes. The latter is small (less than 0.1 % of GDP) and chiefly consists of employment services, including active labour market programs (ALMPs).

The largest social protection programme is the basic pensions, which had 47 486 beneficiaries in 2017. After that it is ranked the SAS, which absorbed around 88 % of the budget for social assistance that year. It is the only poverty-targeted social benefit in the protection system that provides three main types of services for people in need: direct social care, counselling, and cash or in-kind assistance. In the presence of a coverage gap, there is no other instrument capable to reach a significant portion of the poor. Although the SAS is an important source of livelihood for the poor, its design discourages the employment of beneficiaries, as it is not effectively linked to employment and social care services. There are no explicit legal regulations for integrated social service provision or for complementing the SAS cash assistance with other care services.

The number of beneficiaries in SAS declined from 26 117 families in 2017 to 24 352 families in 2019 with a total of 98 756 members. The number of families and individuals receiving social assistance was higher in the East Economic Region. The SAS is implemented by the Centres for Social Welfare at municipal level. Other families (2 276) benefited from the scheme for material support for families with children with special needs. Kosovo has no separate child and family benefit scheme. Other benefit package includes electricity bills, healthcare service, etc.

Regarding housing, especially for the Roma, Ashkali and Egyptian (RAE) community the conditions remain particularly inadequate. There are still approximately 100 informal settlements with overcrowded conditions, inadequate access to water, electricity, waste collection, etc. Women and children facing domestic violence are also extremely vulnerable to homelessness and housing exclusion. Approximately 1 000 victims of domestic violence are assisted yearly and in more than 80 % of the cases, the victims are women, followed by children and elderly men[[145]](#footnote-145). The responsibility for addressing housing issues and homelessness in Kosovo is split between different ministries and agencies at central and local level.

The number of persons secluded in prisons in Kosovo are 20 407 (91.7 % men, 4.95 % female and 3.36 % children).

In fact, Kosovo has several national strategies addressing poor populations, in conjunction with other social inclusion measures, including housing needs such as the 2018-2022 National Strategy for Sustainable Reintegration of Repatriated Persons in Kosovo, the 2017-2021 Strategy for Inclusion of Roma and Ashkali Communities in Kosovo, the 2014-2018 National Strategy for Communities and Returnees and the 2016-2020 National Strategy for Protection from Domestic Violence.

**North Macedonia**

Increasing the minimum wage and lowering the poverty ratehave been the major development prioritiesfor a better social protectionin North Macedonia. The index of the average monthly net wage paid per employee in 2018, compared to 2017, was 105.9. The highest ratio was observed in the Skopje region (15.9 %), compared to country average, while the lowest average was recorded in the Northeast region (23.2 %)[[146]](#footnote-146). An estimation by the World Bank has ascertained that the largest impact would be felt in 2020 and the continued trend of wage growth, coupled with a decline in labour productivity in most sectors, would make the economy less competitive[[147]](#footnote-147).

The average household in North Macedonia spent about 63.4 % of its consumption expenditures to satisfy basic needs such as food, clothing, housing and household equipment.

The structure of incomes in 2019 was dominated by revenues from regular and irregular work with 66.1 %, pensions 19 %, revenues from agriculture 5.8 %, social benefits 1.7 % and revenues from abroad 2.3 %.

In North Macedonia there has been a trend of continuous reduction in poverty and inequality. In 2017 those living below the poverty line represented 21.8 % when the year before they were the 22.2 %[[148]](#footnote-148), while the Gini coefficient (measure of inequality of income distribution) was 32.5. However, despite these positive trends, the poverty rate is still high compared to EU average (16.9 % in 2017, while the Gini coefficient was 30.3[[149]](#footnote-149)). Still, poverty and inequality are high when compared with other countries with similar levels of development in the region and there are concerns about the sustainability of the recent gains in poverty reduction.

In 2018 the total number of householder-recipients of social financial assistance in North Macedonia was 23 562. The programme area has the highest percentage of beneficiaries 13 %, compared to the whole country. The highest number of beneficiaries of financial assistance aged 18 years and more in 2018 was recorded in the Northeast Region (30.1/000 inhabitants) and Polog (15.7), while the lowest was in Skopje (10.8)[[150]](#footnote-150). The share of children from 0-18 years of age recipients of the childcare allowance in the programme area was less than the country average (2.1).

Significant reforms are necessary, among other things, in redesigning the types and adequacy of social welfare cash benefits as assistance and support to the most vulnerable categories for dealing with poverty. A social pension scheme was included in the new Law on Social Protection, providing assistance to people above 64 years of age. Whereas the 2018-2027 National Strategy on De-institutionalisationhas already contributed to the inclusion of children with disabilities in the society, for adults with disabilities the conditions in residential institutions remain very poor.

**Roma** inclusion is receiving increased attention from both the national and the local authorities, though many still continue to live in poverty, and face unemployment and substandard living conditions. Their access to education, housing, health, employment and justice remains a concern. Roma children are especially at risk, as poverty and discrimination act as further barriers to receiving education[[151]](#footnote-151).

The social reform will require that the local communities will provide citizens with high-quality social services. Thus, the so-called "municipality care" concept will create new services, following the example of Skopje[[152]](#footnote-152). The government should address the ID for disability persons to have free access to services, care for children with disabilities, family care and improve the life for the elderly.

On the other hand, the government raised the share of current expenditure by bolstering social spending, including pensions, public sector wages, and firm-level support. In 2019, social transfers, including pensions, rose by 7.6 % in annual terms, which is over half of total expenditure[[153]](#footnote-153)

***3.3 Health services***

***Kosovo***

in 2019 the total number of public sector health workers was 13 518, out of whom 3 555 were specialist doctors; 8 386 nurses and 1 577 non-medical staff. In the programme area 38.32 % of them were serving. The municipal health care faces difficulties of poor infrastructure, lack of investments and insufficient budget resources for offering appropriate health services.

**The East Economic Region** hospitals are based in Gjilan/Gnjilane (1), and Ferizaj/Uroševac (1). In addition, there are also 2 main municipal health centres providing primary and secondary service, a network of 13 municipal family health centres, 14 health centres and 14 clinics in the region. The Gjilan/Gnjilane municipality also hosts two psychiatric institutions. The medical staff are 1 064 (19.85 % of total)

There is one regional hospital in Prizren that is the main hospital centre for the **South Economic Region** offering medical services to the population in the area. There are also one main municipal family centre, 17 other municipal family centres and 52 health houses in the region. The number of medical staff are 989 (18.45 % of total).

The 2020 overall budget for the health sector has been increased by 6 % compared to 2019. The increase includes higher allocations for essential pharmaceuticals and for capital expenditures. Kosovo does not provide universal health insurance but spending on health remains high. It has not started to collect health premiums and the growing emigration of health workers has a detrimental impact on the health system. Regarding the access of the population to the health system the scale of poverty influences on health inequalities. Around one fifth of the population have very limited access to healthcare and it is estimated that 18 % of the population do not seek medical services in the event of illness for economic reasons. In the same situation, the RAE communities have particular difficulties in accessing healthcare due to their difficult socio-economic conditions.

**North Macedonia**

The health system in North Macedonia is based on statutory health insurance, with a purchaser–provider structure split into public and private providers of care. Resources are raised mainly through compulsory wage-based contributions and a substantial share of individual spending. Primary care doctors have a relatively high number of patients registered at their practice, usually 2 000–4 000 per practice, although with regional differences, compared to an average in rural areas of 500 registered patients.

A closer look at the medical demography in primary health care proves that the situation is relatively not alarming. A total of 1 533 primary care physicians, including family doctors (11 %), general practitioners (79 %) and paediatricians (9 %) were active in 2018. Their average age is 46.4 years[[154]](#footnote-154).

The total number of medical staff in North Macedonia in 2018 increased to 6 364[[155]](#footnote-155) compared to 2013’s, whereas the number of beds decreased to 8 754 (4.6 %) compared to 2013’s, but the number of physicians increased: 3.1 per 1000 inhabitants.

The most common causes of death in 2019 were circulatory system diseases with 51.8 % of the total number of deaths, followed by neoplasms with 18.6 %, symptoms, signs and abnormal clinical findings, not elsewhere classified with 10.7 %, and endocrine, nutritional and metabolic diseases with 4.6 %.

***3.4 Education***

**3.4.1 Pre-education level**

**Kosovo**

In 2020, there are only 44 public ***kindergartens***, spread over 23 out of the 38 municipalities. But measures have been taken to invest more in the construction of new public childcare facilities. Thus, two kindergartens were completed in 2019, 5 kindergartens are expected to be completed in 2020 and 9 more in 2021. During 2019, 14 kindergartens were licensed for the first time and 42 kindergartens were re-licensed[[156]](#footnote-156).

The total number of children attending pre-school was 32 526 (2018/2019) and 22 353 in ISCED 0 (pre-primary).

In total there are 548 female educators and this number is progressing very slowly. A higher percentage of children above 5 years old (92.5 %) attend early childhood education and care (until compulsory primary education)[[157]](#footnote-157).

The number of kindergartens in the **Kosovo programme** area is 14, where 2 098[[158]](#footnote-158) children are accommodated and served by 111 educators. The average number of children per educator is 19.

***North Macedonia***

The share of children aged 0-5 attending the kindergarten is 26.3 %.The country improved the pre-school enrolment to 35 % in 2017, but it is far behind the EU target rate of 95 %. Too many children are missing out the opportunity to develop skills to fulfil their potential. But the government of North Macedonia aims to provideservices for 60 % of the children aged 3-6.

Poverty facing children are particularly at high risk since only one out of 300[[159]](#footnote-159) children attends any form of pre-school education.Children with disabilities are also at greater risk of missing out early childhood education. Currently, less than five percent of children with disabilities are enjoying the benefits of attending some form of pre-school.

**3.4.2 Primary and lower secondary education level**

Education remains one of the major priorities in the programming area. It is provided at all levels primary, secondary and tertiary (university). In North Macedonia education is compulsory until the end of upper secondary school and predominantly publicly provided, while in Kosovo it is obligatory untill the end of primary education.

There are 798 schools of ***primary and lower secondary education level*,** attended by 201 735 pupils

in the total programming area. Out of the total, 401 schools are in Kosovo and 397 in North Macedonia, respectively 50.3 % and 49.7 %. The ratio pupil-teacher is 14 in Kosovo (2019/20), while in North Macedonia this ratio was the highest in the Skopje Region (14), and the lowest in the Polog and the Northeast region (9)[[160]](#footnote-160) (2018/2019).

In **Kosovo**, the phenomenon of continuous emigration of population is reflected on a decrease on the number of pupils enrolled in the schools. The decrease reached at (-13,04 %)[[161]](#footnote-161) on the regular schools and the number of pupils on ***special schools*** decreased from 307 to 170 (2019/20 compared to 2014/15). More efforts are needed to give children with disabilities access to quality education, while by donor support some learning centres have addressed and managed to decrease the high dropout rate among the RAE children.

In **North Macedonia**, during the school year 2018-2019, the programme area had 40.22 % of all schools and enrolled 58.6 % of the pupils and 53 % of the total number of teachers in the country. The highest number of pupils per school in primary and lower secondary education (416) was registered in the Skopje region, and fewer pupils per school were registered in the Polog region (197) and the Northeast (171).

The language of instruction in all levels of education is provided on the native language based on the ethnic minorities concentration. In the 2017-2018 school year, the Macedonian language of instruction was practiced in 73.68 % of the schools. The rest (26.32 %) mainly consisted of schools practicing teaching in Albanian language and a few in Turkish, Serbian and Bosnian. Some schools are bilingual or trilingual. Children and students from the RAE communities continue to face barriers to regular and quality education and training. The new Law on Primary Education considerably strengthens the legal requirements for inclusive education.

**3.4.3Secondary education**

There are 120 schools in ***secondary education*** in the programme area, out of which 56 in the Kosovo area, enrolling 29 964 pupils and 64 in the North Macedonia area, enrolling 42 285 pupils, who are taught by 56 % of the total number of teachers in the latter country.

In Kosovo, for the school year 2018-2019, the pupil-teacher ratio was 15 and in North Macedonia this ratio in the upper secondary education was the highest in the Northeast and the Skopje regions (11), and the lowest in the Polog region (8)[[162]](#footnote-162).

The same phenomenon of less pupils enrolled in the schools is evident also in the secondary education level. In Kosovo, this number decreased (-5.35 %) and the number of pupils in special schools passed from 138 to 111, where comparing the school years 2019-2020 with 2014-2015. In North Macedonia there was equally a decrease of -17.1% between the school years 2013-2014 and 2018-2019.

In **Kosovo**, 97.4 % of pupils concluding secondary education enrol in higher education, but half of all upper secondary students (almost 53 % in 2018/2019)[[163]](#footnote-163) chose **vocational education** (VET) programmes. The VET system lacks practical and applied courses in most programmes. Teachers in VET centres need adequate professional development opportunities, teaching materials and textbooks. There is still a discrepancy between the needs of the labour market and education outcomes.

Vocational education schools belong to the municipalities, but in addition to them, 4 centres of competence have been established. The VET schools in the East Economic Region provide teaching in 12 different profiles and in more profiles at the two Vocational Training Centres of Gjilan/Gnjilane and Ferizaj/Uroševac.

In order to advance the quality management in pre-university education, the efforts are focused on increasing the internal quality, implementation of mechanisms for the external evaluation of quality and the capacity building of the Education Inspectorate[[164]](#footnote-164).

In **North Macedonia,** as a country with the diverse ethnicity, the students from the main minority groups have the right to education in their mother tongue. In the secondary education, the lessons were taught in only 76.9 % in Macedonia language during the school year 2017-2018[[165]](#footnote-165). The rest were taught in Albanian, Turkish and English. For Albanian and Turkish students, the university access exams can be takenin their mother tongue.

For the school year 2017-2018, the ratio of pupils enrolled in secondary schools in North Macedonia divided into general secondary schools (**gymnasiums)** and **vocational education schools** was 38.18 % to 61.82 % respectively. The VET system has three different tracks, of two, three or four years. The vast majority of VET students attend the four-year track. In contrast, a very small minority attend the two (2 %) and three-year tracks (4 %). This is a small percentage of pupils directly entering the labour market[[166]](#footnote-166). There will be a structural organisational change affecting municipal VET schools in the programme area, as Kumanovo and Tetovo will function as regional VET centres.

**3.4.4 Tertiary education**

***Kosovo***

There are institutions of tertiary educationin the area. The universities in the programme area are located in the larger urban areas. The second most important university in Kosovo is the University of Prizren. Other public universities are the Applied Science University in Ferizaj/Uroševac, and “Kadri Zeka” in Gjilan/Gnjilane. In all levels of education, the number of female pupils/students attending the school is lower than males’, excepting the tertiary education where for many years the number of female exceeds the number of males.

The proportion of students in higher education remains high (double the EU average), but the graduation rate is still low[[167]](#footnote-167). Many students study law and economics, but skills shortage are identified in the areas of IT and engineering.Teacher/student ratios remain unfavourable to students (1:41 in public and 1:60 in the private universities).The quality of education remains poor[[168]](#footnote-168). In Kosovo, the public expenditures for education reached 4.2% of the GDP in the school year 2018-2019[[169]](#footnote-169).

The 2020 EC Progress Report for Kosovo concluded that the country is at an early stageof preparation in the field of education and culture and recommended that the quality of education need to be improved considerably at all education levels and that access to quality education at pre-school level and for disadvantaged groups had to be improved. The new curricular framework for basic education should continue its implementation, supported by quality textbooks and sustainable training to teachers. For the VET system, Kosovo should increase the provision of quality vocational education and training for professions in demand and, for higher education, the government should improve institutions’ autonomy, quality assurance and academic integrity.

***North Macedonia***

On the academic year 2018-2019, 4 037 students graduated in the North Macedonia programme area (55.6 % of the country). The number of graduated per 1 000 inhabitants: 3 in Polog and 3.3 in the Northeast is lower than the average of the country (3.5). Only Skopje with 4/1000 remains above.

The top universities in the programme area are Univerzitet Sv. Kiril i Metódij in Skopje, the South East European University in Tetovo, the International Balkan University - Skopje, Universiteti i Tetovës-Tetovo, FON Univerzitet and the European University in Skopje. There is greater diversity of providers in tertiary education, where 15 % of students attend private institutions, reflecting an expansion of private universities in recent years[[170]](#footnote-170).

Different studies conclude that tertiary programmes do not reflect labour market needs*.* Recent graduates from tertiary education in North Macedonia are far less likely to beemployed (55.4 %) (Eurostat, 2017). The reasons are linked to the low skills or skills mismatch with the labour market (World Bank, 2017). On the other side, a part of the graduates is over-educated for their job (ETF, 2017). North Macedonia should boost human capital to address skills shortages and mismatches, including through vocational education and training and more use of skill-enhancing active labour market policies[[171]](#footnote-171). In North Macedonia, the absence of transparency and accountability mechanisms in the use of education expenditures are also a major reason for the system’s inefficiencies.

Overall, the Government of North Macedonia is currently designing a national strategy for human capital, aimed at improving the education system and reducing skill shortages and mismatches, but the 2020 EC Progress Report for North Macedonia estimated that reforms in the education system were at an early stage. Public expenditure on education reached 3.7 % of GDP on average over the last 5 years, below the OECD average. The budget allocation for active labour market policies increased, with a focus on internship and training programs as well as self-employment grants[[172]](#footnote-172).

In its 2020-2024 Operational Programme, the education is prioritised as a better investment for the young generation. Strong emphasis will be given on continuous professional development of teachers, carrier development and promotion. The main focus will be the improvement of PISA test results and capacities for dual education. The education reform will focus on logical thinking and analysis-based logical problems solving.

***3.5 Culture***

**Kosovo**

The *East Economic Region* has in total 182[[173]](#footnote-173) mosques 66 Orthodox churches, 7 Catholic churches. There are a total of 252 cultural heritage sites (97 archaeological and 155 architectural) are included in the Ministry of Culture Youth and Sport list of sites under permanent/temporary protection.

The *South Economic Regions* has 144 mosques, 43 Orthodox churches, 7 Catholic churches, 10Tekkes and 6 Protestant. A total of 308 cultural heritage sites are included in the Ministry of Culture Youth and Sport list of sites under permanent/temporary protection Some of the religious sites are damaged or are not in use, but some are renovated.

**North Macedonia**

The government of North Macedonia has confirmed the key role of culture heritage in enhancing the sense of belonging and of sharing common values and traditions. The number of measures on establishing a list of monuments of national interest and the increase the professional staff for conservation centres is foreseen. Also, support will be given to the amateur folklore organisations to encourage the cultural and creative industries related to products of traditional culture, opening of movable cinemas, invest in cultural infrastructure, etc. The government aims to support cultural economy as a source of income to reduce outflow of people from local communities to the capital and abroad. The programme area has its own specific traditional and culture.

The cultural and historical heritage in the Polog region, according to its tourist importance is presented by cultural-historical monuments in Tetovo, the monastery St. Athanasij or the Lesok Monastery (1335), Sharena Dzamija (the Painted Mosque) (1495), the Arababati Baba Tekhe (XVIII), the Tetovo Kale, the cathedral church of St. Cyril and Methodius, the church Bogorodica (Holy Mother of God), the monastery St. Naum on Popova Shapka, the church of St. Nikola.

Famous cultural and historical monuments in Gostivar are the: Clock Tower, Church of St. Nikola, the church Uspenie na Bogorodica, etc. In the valley of the river Radika is the famous monastery St. Jovan Bigorski (XVI). Sharena-Painted Pasha Mosque is located in the old part of Tetovo, originaly built back to 1495.

In the region, throughout the year, several cultural, sports, entertainment and other events are organized. The most famous are the "Galichnik Wedding" (12 July on Petrovden), "Snowy City" (Children's resort "Bunec" - Mavrovo), "Shar Planina Ski Cup", Tetovo Festival, Lesok Folk Fest, Tetovo Choir Echos, Days of Naim, "Mavrovo Memorial", “Traditional Korab Mountain Climbing”, “Traditional Titov Vrv Mountain Climbing," “Sheep and Goat Breeders Day" and so on.

The Polog has 1 museum with a flux of visitors of 1.93 per/000 inhabitants and 1 professional theatre, with the no. of attendance 10.8 inhabitants and no cinema[[174]](#footnote-174). (2019)

Natural and cultural-historical heritage in the Skopje region[[175]](#footnote-175), with tourist potential are: archaeological locality Skupi, Kale Fortress, aqua ducts, the Old City Bazaar of the City of Skopje, numerous churches and monasteries, as well as several natural reservoirs and natural monuments, from which the Canon Matka and Treska Lake have the biggest tourist potential. The City of Skopje has a history of several millennia from the Neolithic era, through the antique period and the Middle Ages to the present, over 7,000 years of being a continuous settlement.

The region has numerous museums, memorials and national cultural institutions: Archaeological Museum, Museum of the Macedonian Struggle, Natural Science Museum and Zoo, Ethnological Museum, Archaeological Museum, Macedonian Ethno Village, Memorial House of Mother Teresa, Museum of the Holocaust, the Museum of the City of Skopje, the Museum of Contemporary Art, the Macedonian National Theater, the Macedonian Opera and Ballet, the University Library, the Universal Hall, several universities and a dozen other national institutions

In total, the Skopje region has 4 cinemas (2019), 8 museums with a number of visitors 298.7 persons/000 inhabitants and 9 professional theatres with nr of attendance 244.7 persons/000 inhabitants. (2019).

Other cultural and sports facilities include: National Sport Arena "Philip II Macedonian", Boris Trajkovski Sports Centre, Jane Sandanski Sports Centre, Aqua Park, Hippodrome, etc.

In Skopje, during the year a variety of cultural, music, dramatic, art, literary, sports, entertainment, scientific events are organised. The most important are: "Skopsko Leto (Skopje Summer)", "Skopje Jazz Festival", "May Opera Evenings", "White Night", "Baskerfest", "Youth Open Theatre", "Pivoland", "Vinoskop" and many other.

Several manifestations are organized in the region, among which are: "Tumba Fest", "Days of comedy" and "International Jazz Festival" in Kumanovo, "Golden Days" in Kratovo, Folk Festival "St. Joakim Osogovski" in Kriva Palanka, etc.

***3.6 Civil Society***

**Kosovo**

There are more than 9 545 civil society organizations (December 2017) registered in Kosovo, out of which 1 943 are sport clubs or sport federations. Over 95 % of them are registered as associations and the rest as foundations. Civil society also operates through informal organisations. Most of the sector consists of small CSOs, both in terms of budget and staff. Regarding the geographic location of CSOs, the vast majority of them are concentrated in Kosovo’s main urban areas (69.55 %). Prishtinë/Priština is the city with the largest number of registered CSOs (36.8 %), followed by Prizren (7.7 %) and in Gjilan/Gnjilane (4.6 %).

CSOs have a balanced gender composition, unlike other sectors in Kosovo where women do not reach 1/3 of the number of employees. The number of CSOs being active during 2017 was estimated to be around 1 000[[176]](#footnote-176). However, official data on civil society organizations keep being non-systematic, including the number of active organizations, their field of engagement or other characteristics.

CSOs activities are funded through public funds and donors. Most public funds come from the central level (61.8 %) and about 38.2 % from municipalities. Other sources of funding are donations from private companies, the sale of goods and services, or revenues from membership fees.

The legal framework for CSOs in April 2019 was aligned to the best international standards and practices. The 2019-2023 strategic framework for cooperation between Kosovo’s government and civil society was approved in February 2019 following extensive consultations with CSOs and the general public. Based on this strategic framework, a new Government Council for Cooperation with Civil Society was set up and started work in July 2019.

***North Macedonia***

**In North Macedonia**, the number of CSOs increased to 15 476[[177]](#footnote-177) registered legal entities as of June 2019 and 69 CSO’s networks were active in North Macedonia.

The level of inter sectoral partnerships also improved somewhat during the year, with civil society proactively engaging in the business sector.

**A National Resource Centre for CSOs have offices in Kosovo and North Macedonia. Both countries participate in other regional organisations such as the Balkan Civil Society Development Network, registered in Skopje, and the Regional Youth Cooperation Office (RYCO). These organisations are supporting the CSOs by developing cooperation links with a regional dimension.**

**IV TECHNOLOGICAL SITUATION**

***4.1 Research, Development and Innovation***

***Kosovo***

The research, development and innovation system lacks sufficient budget allocation. The government, according to the Law on Research and Scientific Activities, should allocate 0.7 % or € 14 million per year for science and innovation, but due to lack of funds, the budget allocated in 2019 amounted to € 1.6 million, lower than planned. The funding and efforts of the Ministry of Education are geared to providing full or partial scholarships for students to study abroad, mostly for master’s courses and only very few opportunities for PhD/postgraduate research.

The scope of scientific research remains limited and the research support consists of financial support through the mobility scheme, and scientific publications. Private and public higher education institutions apply very uneven criteria for promotion based on scientific research and publications. The quality of programmes preparing postgraduates for research careers is poor. Research is not a priority for universities, with most of the funding allocated to teaching. The exclusion of the Kosovo Accreditation Agency from both the European Association for Quality Assurance in Higher Education and the European Quality Assurance Register for Higher Education is a setback.

Kosovo’s research and innovation policyremains underdeveloped. The legal basis consists of a law on scientific research activities and a law on scientific innovation, transfer of knowledge and technology. The 2019 governmental action plan defined as specific objective the support of new businesses and enterprises with focus on promotion of innovation and development of technology. The 2019-2023 National Strategy for Innovation and Entrepreneurship reported that no statistical data were available to estimate the innovation capacities in Kosovo. But it confirmed that the capacity of Kosovo for research development and innovation remained underdeveloped.

In both cases, many key provisions remain unimplemented, including the requirement to develop a Kosovo-wide research programme. As a result, there is no strategic approach to the development, prioritisation and promotion of research activities.

With the new government in place, a restructuring of governmental institutions took place with innovation being included in the portfolio of the Ministry of Education, Science, Technology and Innovation since February 2020.

Considering research infrastructures, it is only based on the laboratories of the scientific institutions. The Universities do not have activities for creation of incubators and start-ups.

Kosovo recently started to establish closer links to GÉANT (Europe’s leading collaboration on network and e-infrastructure services), and a support project is ongoing that aims to integrate Kosovo better in the activities of this research infrastructure.

A Smart Specialisation Strategy is being developed but it is still at an early drafting stage. Innovation efforts, mainly driven by the private sector, are advancing and are well coordinated with similar efforts in other countries.

Overall, the 2020 EC Progress Report for Kosovo concluded that Kosovo was at an early stage of preparation for science and research. It should address the development of a strategic approach to the development, prioritisation and promotion of scientific research and innovation. It recommended that the government should ensure higher government spending on research and seek to stimulate investment from the private sector by completing a Smart Specialisation Strategy.

Regarding the registration of patents, they are limited in number due to the low level of innovation. Based on 2016 data from the Department of Science and Technology, the number of employees in R&D was only 833, 3 employees per million inhabitants. However, Kosovo has started working on an R&D infrastructure map to collect country-level data on laboratories and researchers. The Patent Office at the Ministry of Trade and Industry (MTI) has approved 32 patents since 2016, but no one has been approved by the European Patent Office.

Regarding the participation of Kosovo in EU programmes, the main international cooperation programme for Kosovo allowing multi-country cooperation with EU Member States and beyond is Horizon 2020. Kosovo entities have participated 20 times in 18 collaborative actions, Marie Skłodowska-Curie actions and European Research Council actions of Horizon 2020, receiving € 2.5 million. Despite 2019 being by far Kosovo’s best year of participation with a success rate of 20.4 % above the 12 % overall Horizon 2020 average, its performance could still improve.

The 2020 EC Progress Report recommended that actions should be taken, in particular, with the national contact points network becoming fully operational, engagement through more training, better linking of researchers, exchanges of best practice and mentoring with other countries.

Kosovo participates in the European Cooperation in Science and Technology (COST), which enables researchers to participate easily in research and innovation meetings all over Europe. Kosovo since 2019 is part of the Enterprise Europe Network and has a contact point of Erasmus for Young Entrepreneurs supported by the COSME programme.

Regarding the technological infrastructure in the programme area, the *South Economic Region* has a favourable infrastructure for developing business conditions. This region has developed an Agro-Industrial Zone in Suhareka/Suva Reka with a surface area of 28 ha. The Industrial Zone in Shiroka of Suhareka/Suva Reka has 90 parcels and 53 businesses. According to current data in the Industrial Zone, there are approximately 700 employees. The agricultural zone in Samadrexha comprises of 35 hectares and is located near the Suhareka/Suva Reka-Rahovec/Orahovac road. The municipality of Dragash/Dragaš, although small, possesses an Economic Zone in Mejdan. Also, the municipalitz of Malisheva/Mališevo is constructing a business incubator which is expected to be completed in 2020. The municipality of Prizren has decided developing a business park, but it is in its initial stages.

*The East Economic Region* has great potentials and very favourable conditions for businesses. Its economy depends on wholesale trade, production, construction and services. Functional industrial zones are located near Ferizaj/Uroševac, with a surface area of 128 888 m2, where fourteen businesses operate. An industrial park was developed in Vitia/Vitina in 2017, with a surface area of 15.50 ha, aiming at attracting the investors in this region. The city of Gjilan/Gnjilane has a business Incubator with a capacity of 1 000 m² for businesses and 18 working premises. One Regional Centre for Innovation and Entrepreneurship is fully operational in Ferizaj/Uroševac.

***North Macedonia***

The economy’s expenditure on research and innovation reached 0.4 % of GDP in 2019 and has not increased over recent years, remaining significantly below the EU average. Only a fourth of total R&D expenditure is accounted for by private companies, which are generally slow in adopting new technologies or taking advantage of public innovation support.

To support innovation, the government of North Macedonia has dedicated state aid schemes through the Fund for Innovation and Technological Development. More than € 3 million have been allocated to high-growth innovative SMEs since the fund’s establishment in 2013. It has contributed to scale up and further boost the innovation ecosystem. Other financial instruments have supported and strengthened the innovation infrastructure, such as incubators and accelerators[[178]](#footnote-178).

Thus, to establish the innovation, technological and development structure, the government of North Macedonia through a public private partnership scheme has developed in the programme area two Technological Industrial Development Zones, one in Skopje and another one in Tetovo.

The Skopje region has higher innovation capacity because higher shares of educated people and SMEs involved high tech are concentrated there. The country is ambitious in becoming a regional start-up accelerator, thus turning into a centre for development of new businesses of young entrepreneurs with the potential for rapid growth. Investment in the science and technology park has started, hoping to be fully operational in 2025. In the programme area, there are 3 functioning 3 Regional Centres for Development, one in each region. Regarding clusters, there is no specific model for the formation and operation of clusters[[179]](#footnote-179), as they are functioning as associations, but some of them became recognized leaders in the sectors (MASIT in ICT, MAP in food processing, and Agro Helix and MAC bee in tourism). For supporting the innovation-based accelerated growth[[180]](#footnote-180) a significant role will be given to higher education institutions through a research grants system to urge the process.

However, according to the 2020 European Innovation Scoreboard, North Macedonia is a modest innovator. Over time, performance has increased due to foreign doctorate students, medium- and high-tech product exports, tertiary education, and broadband penetration. The performance reached in the innovation index **i**s(44.5), measured relative to that of the EU in 2019 (100). This report states that the country has performed better in FDI net inflows, employment share in manufacturing and turnover share SMEs, whereas the biggest negative difference is in top R&D spending enterprises, GDP per capita and employment share in high and medium high-tech manufacturing[[181]](#footnote-181).

***4.2 Telecommunication***

**Kosovo**

The fixed telecommunications networks are widespread in urban areas but not in all rural areas. Fixed line penetration is 3.5% compared to the EU average of 24 %.

The mobile connections as a percentage of total population is 97%. Total number of mobile connection (Mobile Broadband) via 3G and 4G networks is 1.86 million users. Internet users are 1.68 million or 88% of the population. Active mobile internet users are 1.49 million or 78% of population. Active Social Media users is 870 thousand or 45% (2019). In 2018 the contribution of the ICT Industry to the GDP was 1.9% and the turnover for the year 2017 represents 3.8% of the total turnover.

The telecom sector in Kosovo is provided by the Kosovo Telecom that provides services of fixed phone, postal and internet services. Mobile telephony market is covered by two operators Kosovo Telekom J.S.C./Vala and Ipko Telecomunication. Access to internet from home has reached 93.2%. The user of internet between male and female is respectively 55.8% and the female 38.7%.

Postal office in use are 133. Kosovo is covered with 600 public payphones and 470 in post offices.

Regarding the postal services, the POE Post of Kosovo J.S.C covers the overall postal services market, with 86.90%, while private operators’ share is 13.10% of the overall market.

Investments in telecommunications infrastructure have declined since 2015, when they were close to 52 mil. In 2018 they were around 30 mil. Eur (close to 0.5% of Kosovo's total GDP). The overall use of ICT in the industry is still limited and many firms have lack of awareness about the competitive benefits. Despite the majority of households having access to the internet both via fixed and mobile broadband connections, 38.7 per cent of the country’s population still has no access to any type of electronic computer device. The distribution of ICT infrastructure is relatively unbalanced, resulting in a lack of access to broadband infrastructure.

The latest available data for the number of employees in the ICT sector is from 2017 and it is 9,597[[182]](#footnote-182) employees. The total number of companies registered in the ICT sector in Kosovo is 982. In 2019 alone, 621 new companies were registered.

The government aims to expand the Broadband Infrastructure to non-covered areas and support the extension of 5G mobile infrastructure, creating conditions for ICT research and development, strengthening of human capital and support of digital businesses, as well as digitalisation of other businesses.

**North Macedonia**

The contribution of the ICT Industry to the GDP was 3.4% (2019) and total turnover of the ICT sector for the year 2018 amounts EUR 668million.

The total number of ICT companies for Macedonia in 2018 is 1.919, while the region of Skopje is leading in attracting new ICT companies with 68%. The ICT sector employs around 12657 (2019) employees or 1.6% of the total number of employees compared to 3.7% at EU level.

The proportion of enterprises that use e-commerce increases with company size. The majority of companies with more than 10 employees use social media in 55.20%. This proportion of companies that use social media increases with company size.

Macedonia’s mobile market is served by only two mobile network operators, MakTel and A1 Macedonia. The number of households with Internet access (81.8%[[183]](#footnote-183)) is increasing every year (2019) and with broadband Internet connectivity is 70% (fix and mobile) and via mobile broadband connection 57.5%. The number of active mobile subscribers is 1.944.870[[184]](#footnote-184) (2019).

The Government has adopted the National Operational Broadband Plan -NOBP (2019 -2022) aiming to reach speed and utilization of broadband that are in place in EU member-states.

North Macedonia and other Balkan countries agree to end roaming charges by July 2021.

***4.3 Transport***

**4.3.1 Roads**

**Kosovo**

The Government of Kosovo aims to integrate Kosovo in regional road network through the development of the roads 6 and 7 through the pan-European corridors, decrease the transport expenses, and traffic loads increase safety and maintain and improve existing roads.

So far, the territory of Kosovo has a suitable road infrastructure for the development of different business activities. The road network comprises 2311.7[[185]](#footnote-185) km, 137.2 km are international, 665.2 are national and 1509.4 km are regional. The Ministry of Transport and Post Telecommunication is responsible for maintaining the highways and regional roads whereas Municipalities are responsible for local roads.

In *East Economic Region*, the existing roads lay along the traffic lines Albania – Kosovo – Serbia – North Macedonia. The infrastructure has been significantly improved in the last years, both in regional and local roads. “Route 6” is constructed as a highway of European standard, which includes the section Pristina– Hani i Elezit at the border with Macedonia, with a length of 65.6 km long. It has 13 bridges, including the longest in the region, 5.7 km long kilometres. This highway is a bridge connecting to the main transport network in Southeast Europe. Also, in 11 municipalities of the Region are completed very important investments for improving the local infrastructure. According to the statistics of 2017 Municipal Performance Report published by MLGA, the municipalities with the highest percentage of asphalted local roads are: Municipality of Hani i Elezit with 84.43%, followed by the Municipality of Ferizaj with 81.91%, then Municipality of Gjilan with 73.58%. Municipality of Vitia with lowest percentage of paved local roads, namely 38.68%.

Regarding the public lighting the Municipality of Kllokot has completed 73.33%, followed by the Municipality of Gjilan with 69.47% and Municipality of Ranillug with 53.66%. Municipalities with the lowest percentage are the Municipality of Kacanik 5.15%.

The South economic Region is characterized as the region with one of the most developed networks of local and regional streets, as well as highways. The highway Pristina-Tirana highway, passes along the Region South. The highway connects regions of Kosovo with port of Durrës, a segment of great importance for the Kosovo’s economy.

Municipalities with the most developed local infrastructure in the Region South are: Municipality of Malisheva with 90%, Municipality of Prizren with 83.52%, Municipality of Dragash with 80%, municipality of Suhareka with 70.35%

Regarding the percentage of the length of the local roads with public lighting, the Municipality of Prizren leads with 70.05%, Mamusha 44.22, Rahovec with 19.69%, and the municipality with the lowest percentage is the municipality of Malisheva with 4.44%.

In overall, the transport system still faces a number of challenges such as road safety, inadequate road maintenance, and weak administrative capacity of regulatory institutions.

**North Macedonia**

The government has planned the construction of new highways, rehabilitation of local roads and the investment in construction of bridges. Also, the infrastructure for monitoring and improvement of road safety system is foreseen.

The government of North Macedonia in cooperation with Kosovo, based on a feasibility study will conduct an analysis to options for an economically justified solution for the Tetovo-Prizren road.

The situation in specific region on road is as described below:

*Polog Region* has decent roads and one highway: [Skopje](https://www.macedonia-timeless.com/eng/cities_and_regions/cities/skopje/)–Tetovo–Gostivar, one railway line Skopje-Tetovo-Gostivar-[Kicevo](https://www.macedonia-timeless.com/eng/cities_and_regions/cities/kicevo), several cable cars and ski lifts at the ski resorts Popova Shapka and Mavrovo. From this region the roads lead towards the Mavrovo - Debar region and towards Kosovo. There are a number of local routes throughout the region. Under construction and is highway Skopje-Blatse and in extension of the existing one Gostivar-Kichevo and Tetovo-Gostivar.

In *Skopje region*, the existing road infrastructure consists of about 935 km local road, 67km high roads, 324km regional roads and 86km highways. The road network in this region is well developed, however the existing condition of part of the regional roads are not in good conditions. Two pan-European Corridors 8 and 10 pass through this region thus contributing for improvement of the situation. The construction of the ring road around Skopje, as part of Corridor 8, is fully completed and put into function

There are several traffic routes in the Skopje region: one from Belgrade to Thessaloniki (road E-75), the second from the Adriatic Sea to Thessaloniki, the third from Kriva Palanka and Kumanovo and the fourth from Ohrid and Debar to Skopje.

The road infrastructure in the *Northeast region* consists of a local, regional and A road network. European corridors 7 and 10 pass through the region. The existing road infrastructure in the Northeast region consists of 888 km of local roads, 99 km of A state roads and 370 km of regional roads. The main road routes that connect this region with other regions are the state road A1 (Skopje - Kumanovo- Border with Macedonia) and the state road A2 (Kumanovo - Kriva Palanka - Border with Bulgaria.

North Macedonia will open new border crossing at the border point Strezimir-Restelitsa with Kosovo.

**4.3.2 Railways**

**Kosovo**

Investment in the roads and railway network, important for facilitating trade flows and labour mobility, continued during 2017 and 2018[[186]](#footnote-186).

Kosovo possesses a railway system of 333[[187]](#footnote-187) km covering all the territory of Kosovo by connecting the north with south and east with west. Besides the transportation of passengers for private and official purposes the Railway System provides transportation of different goods for business purposes Kosovo Railways enable the construction of private industrial rails from the railway lines to the destination of clients.

The Railways of Kosovo and Commercial Division of Kosovo Railways are responsible for transportation of goods. During 2019 the number of passengers using the trains was 121 thousand. And the amount of goods’ transport was 550 thousand Tone. Due to lack of investment, the railways infrastructure is old and very poor to support the economic development of the regions.

The *East Economic Region* has access to railway infrastructure, which is an old one, but operational. Railway line, which is part of the international railway line, includes two cities of the Region: Ferizaj and Hani i Elezit.

In the *South Economic Region*, there is only one railway line in Kosovo's rail network. This is the line that passes from Prizren to Xërxë and Klina to Fushë Kosova.

**North Macedonia**

Skopje region, more precisely the city of Skopje is central railway knot. The total length of the railway network is 94.78 m 37.3 km, of which are part of Skopje railway knot, 31.68 km is length of the Skopje-Volkovo – border with Serbia line, 18.8 km part of railway line Tabanovce-border with Serbia and 7km part of the line Skopje-Kichevo.

In the Northeast region there are two railway lines located, in the corridor no. 8 is the route of the railway line from Kumanovo with connection to the railway line from the corridor no. 10, through Kriva Palanka, which continues to Bulgaria. In the corridor 10 is the route of the railway line border with Serbia - Kumanovo - [Skopje](https://www.macedonia-timeless.com/eng/cities_and_regions/cities/skopje/) - border with Greece.

**4.3.3 Airports**

**Kosovo**

Kosovo has only one airport in Pristina, which is one of the most frequented airports in the region. The airport has a terminal of 44,000 m2 with the capacity for reception of 4 million passengers in year. This airport provides flights to main European destinations for passengers and goods. Prishtina. The distance from Prizren to airport is 70 km. The number of flights in 2019 counts of 8675, with 2.37[[188]](#footnote-188) million passengers.

North Macedonia

In terms of air transport, one of the two national airports"Skopje International Airport" is located in the Skopje region, which is of great importance for the functioning of the region as a commercial and administrative centre of the country. Another sports A class airport, is located in the vicinity of Skopje. One road and one railway crossing with Serbia, as well as a border crossing located at the airport "International Airport Skopje".

***4.4 Energy***

**Kosovo**

The total energy production for 2019 was 6.036,6 GWh in Thermo centrals. Kosovo has the energy network of 220V and the outlets are according to German standards. The price of electricity is increased in 2019 compare to 2015. Kosovo is rich with coal, which is the backbone of the development of energy resources. These resources are found in ideal conditions of use, but this is considered an unreliable and health-hazardous energy supply[[189]](#footnote-189).A major development towards Kosovo’s integration in regional energy networks was reached after the approval of the connection agreement between the European Network of Transmission Systems Operators of electricity (Entso-e) and Kosovo’s mission system operator (KOSTT). This agreement allows Kosovo to connect with Albania’s electricity grid through the 400kV transmission line.

Although Kosovo is relying on coal for energy production, at the end of 2019, Kosovo produced energy from the renewables sources, 326.5 GWh by Hydropower’s Central, 34 MW of wind and 10 MW of solar, marking a 6% annual increase in renewables’ capacities. Electricity produced from renewables accounts for 5.5% of total production.

Progress on energy efficiency in the residential, public and private sectors has been limited and energy tariffs are not yet cost reflective. Electricity prices for households remain regulated and subsidised by public and commercial consumers.

The government is planning measures for reduction of energy consumption through energy efficiency measures by reduction of technical and commercial losses and saved from energy efficiency in households. Also other measures for increasing the diversity of energy sources is foreseen through energy generated by hydro power plants and level of CO2 emissions.

The country has significant potential to improve energy efficiency and to integrate renewable sources into its energy supply mix. However, with energy demand projected to increase by about 4.6% per year through 2020, the need to improve energy efficiency is increasingly urgent[[190]](#footnote-190)

Regarding regions, the energy system is distributed in almost all over the East Economic Region, and the region has potential for three renewable energy sources on wind, solar and biomass energy.

Regarding the gas supply, Kosovo continued to explore options to connect to gas pipelines with Albania and North Macedonia.

**North Macedonia**

The total production of electricity was over 4.607 GWh (2018) and 1.400 GWh of renewable electricity. The final electricity consumption is 6105 GWh[[191]](#footnote-191). Share of electricity from renewable sources in total electricity production was 35.1%. Share of renewable energy in gross final energy consumption is 18%. The country has limited range of options for energy supply and is highly dependent on energy imports as demand has outpaced domestic supply. In the total amount of electricity for consumer needs for 2018, domestic generation accounts for 69.02%, while imports account for 30.98%. The total installed capacity of the power plants from all installed generators is 2,076 MW. Total number of final consumers of electricity for year 2018 is 741,867, out of which 83,180 are non-household consumers. Number of consumers eligible to choose supplier, according to the legislation in force, i.e. those that have exercised eligibility is 301, and the number of consumers supplied under market conditions is 1,226. According to this information, real liberalisation of electricity market is 47.26%. In 2018 there is an increase in the percentage of liberalisation for 39.75%. There are 24 active traders on the free electricity market and the electricity flow is increased for 49.6%[[192]](#footnote-192)comparing with year 2017

In this situation, the Government on the Operation Programme has an ambitious plan by 2024, to reach over 50% of the total installed power from renewable energy sources.

Specifically, some of the planed project are the new 400 MW photovoltaic power plants at a level of about 560 GWh (or about 10% of the total domestic production), which will reduce CO2 emissions into the environment, a wind power with capacity of 160 MW, construction of new 30 MW biogas power plants for those investors that will open livestock holdings or get organized in cooperatives.

In addition, within the regional landfills will encourage the construction of municipal waste selection stations and use of waste for the production of electricity and 100,000 households over a period of four years will be supported to be solar thermal collectors.

The highest consumption of electricity in the industry sectors in 2018 was recorded in the Skopje Region 579 GWh, 46 GWh in Polog and 23 GWh in Northeast Region.

Apart from the electrical power, this region is the biggest consumer of other types of energy raw materials – coal, oil derivatives and gas.

Regarding the energy possibilities, hydro potential of Treska River through Hydropower plant Kozjak is with installed capacity of 82 MW and annual generation of 130 GWh., HEC St. Petka) and HEC Matka is of importance.

The gas line system located on Corridor 8 is of special importance for Skopje region. The total length of the gas line is 98km, 18km of which pass though the Skopje region. As well as part of the pipeline Thessaloniki – Skopje passes through this region.

Moreover, the construction of gas power station TE-To Skopje is important for the region having combined production of electric and heat energy, as well as the planned enlargement of the high way gas line system from the south side thus providing gas for industrial capacities and households thus meaning ecologically better solution for the industrial development in the region and providing cleaner environment.

**V ENVIRONMENTAL SITUATION**

**Kosovo**

**5.1 Biodiversity**

Kosovo lies at the centre of the Balkan Peninsula, where three climatic zones, continental, sub-Mediterranean and alpine meet. This combined with its relief and geomorphologic and hydrologic factors, results in a rich biodiversity. The main and most important ecosystems in Kosovo are forests and other wooded land, covering 47.4 % of the country’s land surface. The most important forest ecosystems are located in Kosovo’s high mountains in the national parks, in the Malet e Sharrit/Šar Planine (in the south) and in the Bjeshkët e Nemuna/Prokletije mountain range (in the west). Due to their high diversity of plants, these forests have been designated as Important Plant Areas (IPAs). The Herbarium of the Faculty of Natural Species (University of Pristina) has confirmed 1,800 plant species (while a total of 2,500 are predicted to occur), representing 20% of European flora in an area that is less than 2% of the Balkan territory. More than 200 endemic plant species (10% of Balkan endemics) have been recorded in Kosovo and eight steno-endemic species (only found in Kosovo) make the country one of the six centres of European floristic endemism[[193]](#footnote-193).

Kosovo’s faunal diversity consists of 130 species of insects (significant data gaps exist on insect diversity of Kosovo), 30 fish species, 14 species of amphibians, 14 species of reptiles, 180 bird species, and 45 mammals. In Kosovo’s higher mountain, populations of mammals of international importance have been recorded, such as the brown bear (Ursus arctos), Balkan lynx (Lynx lynx balcanicus), roe deer (Capreolus capreolus), and chamois (Rupicapra rupicapra), as well as many important species of birds.Kosovo’s grasslands, especially those at high altitude, are important for rare and endangered plant species, and they are very rich in butterfly species.

Kosovo has limited water resources. The country is divided into four river basins: Drini i Bardhe/Beli Drim, Ibri/Ibar, Morava e Binçës, and Lepenci/Lepenac. The main rivers in the country are the Drini i Bardhe/Beli Drim, which flows toward the Adriatic Sea. Kosovo’s aquatic ecosystems consist of glacial lakes, wet meadows, springs, streams, rivers, artificial water reservoirs, fish ponds, and temporary ponds

**5.2 Air**

Pursuant to the Law on Environmental Protection, the Law for Air Protection from Pollution, and the Hydro-Meteorological Activities, Kosovo Environment Protection Agency is obliged to monitor the air quality across the territory of Kosovo.

A monitoring system consisted of 12 fix stations and a mobile station. The monitoring stations are located in various cities in Kosovo. Monitoring stations monitor particulate matter (PM10, PM2.5), NO/NO2, SO2, O3 and CO.

The air monitoring is installed in 4 places within the programme area: Prizren, Hani i Elezit, Gjilan and the ski resort in Brezovica. Various polluting factors have influenced in deterioration of air quality in different periods of time during 2019. The autumn-winter season marks an increase in air pollution every year. In 2019, the most polluted was urban areas, but in programme area Hani i Elezit[[194]](#footnote-194), has very high values of particles in the form of PM10 and PM2.5**,** except in Brezovica

Regarding the parameters of SO2, CO and Ozone, there was no exceeding values, but there were exceedances of NO2 values such as in Hani i Elezit, Gjilan and Prizren.

**5.3 Water and Municipal waste**

The Kosovo Water Strategy 2017 - 2036 confirms that much to be done in all parts of the sector including water supply, wastewater collection, wastewater treatment, irrigation, drainage, flood risk management, erosion prevention and hydroelectric power generation. However, water resources are considered to be insufficient.

The South Economic Region[[195]](#footnote-195) is characterized by a fairly good percentage of settlements connected to the potable water treatment system, where the municipality of Mamusha leads with 100%, then the municipality of Prizren with 97.30%, and the municipality of Rahovec with 83.33%, while municipalities with the lowest percentage are: Dragash with 16%, Suhareka with 34% and Malisheva with 40.91%.

Regarding the settlements included in the potable water system of the municipalities in this region, leads the municipality of Prizren with 62.11%, then the municipality of Mamusha with 44.22 %, while municipalities with the lowest percentage are: Malisheva with 4.44%, Suhareka with 7.05%, Dragash with 10.83% and Rahovec with 19.69%. In the percentage of settlements in the sewage treatment system, the municipality of Dragash leads with 100% and the municipality of Suhareka with 73.81%. The municipality with lowest percentage is the municipality of Prizren with 1.35%.

East Economic Region is a region that is considered to have a high percentage of settlements connected to the water supply system and waste water treatment system. Municipalities with the highest percentage of connection to the water supply system are: Municipality of Shterpce with 100 %, Municipality of Ferizaj with 95.56, Municipality of Ranillug with 75 %, Municipality of Gjilan with 66.67%, Municipality of Vitia with 64.10%, whereas municipalities with lowest percentage of connection of settlements in the water supply system are Municipality of Kamenica with 6.90 %, Kacanik with 25.81 % and Partesh with 33.33%.

The first municipality with 100% connection to the waste water treatment system is the Municipality of Partesh, Municipality of Ferizaj with 95.56%, Municipality of Kllokot with 75%. In Region East, the municipality with the lowest percentage is the Municipality of Gjilan with 9.52%.

The communal waste produced in Kosovo during 2018 were 407 thousand Tone, at the average of 227 kg per capita. The amount of waste produced by the companies of different sectors with more than 10 employees were 2,55 million Ton (2018). The number of landfills in the programme area is: Prizren 96, Gjilan 44, Ferizaj 22, Dragash 6. Most of the waste are dumping in landfills A small amount of waste are recycled.

Kosovo still lacks a proper hazardous waste management system. Despite continuous monitoring and control of industrial hazardous wastes, they pose a permanent risk to the environment and to the ecosystem as a whole until their final disposal. Despite many studies conducted by monitoring institutions, there is still no precise information regarding the

composition and type of these hazardous wastes, on the risk level for the environment, and its impact on health, water, soil or air. There are still no detailed studies on all types of wastes, except for only few of them. The number of dangerous substances sites has been reduced to 17.[[196]](#footnote-196) (2017)

In general, Kosovo faces high levels of environmental contamination from a variety of sources, including electricity production, mining and industry, leaded gas vehicles, and unregulated or illegal solid waste removal. Therefore, the environmental services have been recognized as an emerging constraint. Environmental externalities certainly affect the citizens’ health and quality of life, but their negative impact on competitiveness may become more pronounced in future.

Nevertheless, measures included in this ERP also address some of the environmental issues (through increased energy efficiency, renewable energy sources or a cleaner coal-generation technology, and waste-water treatment investment prioritized under the investment clause).

**North Macedonia**

The Operational Programme of the government of North Macedonia confirms that will follow the EU policies on environment components through the implementation of the EU Green Deal. A number of changes are foreseen on the public transport, encouraging the “environment friendly” vehicles and the friendly fuel gas, increasing the bicycles traffic, help SME to adapt new environment standards, energy efficiency for the public buildings

**5.4 Air**

Presence of pollutants in the air is due mainly to their emission from industrial facilities, combustion of fossil fuels, heating systems and traffic. The concentrations of SO2, NO2 and CO are most frequently below the maximum permissible concentrations for ambient air. The concentrations of SO2 at certain measuring points (Skopje) during winter period partially exceed the maximum permissible concentrations[[197]](#footnote-197), primarily due to emissions from heating facilities and combustion of fossil fuels in households. Problem are the high values in the air of PM10 and PM 2.5, during winter time, especially in Tetovo and Skopje regions.

Soil is very important natural and economic resource, often neglected and this leads to its pollution. Polluted soils are the most direct source of pollution of surface and ground waters, as well as air pollution.

**5.5 Water and Municipal waste**

The quality of waters in Macedonia is rather low due to various sources of their pollution. This refers particularly to surface waters, but there are also indications for contamination of ground waters. It has been indicated that water resources in Macedonia are relatively clean in upper courses, but the status of their quality deteriorates along their middle and lower courses. This situation results from discharges of untreated waste waters, mostly from populated places, but also from industry and agriculture. the Republic of Macedonia has problem with rational use and protection of ground waters. Certain studies indicate impacts of municipal and industrial landfills on ground waters contamination

In Skopje region the communal infrastructure covers 1120 km of water supply network, mainly located in the urban centres of the municipalities. On the basis of the data from the Census 2002 97.2% of the households in this region are supplied with drinking water. The coverage of the population with sewage network in the urban areas is 85% in Skopje, while in the rural areas from 0% (septic tanks or direct drains) to 80%.

The largest amount of water for technological purposes (64.07%) in 2019 was used in the Skopje Region, and the least amount (0.02%) in the Northeast Region. Of the total amount of water used for technological purposes in 2019, only 15.60% was purified.

The largest amount of collected municipal waste in 2019 was observed in the Skopje Region - 165 thousand tonnes or 26.1%, whereas the lowest amount of collected municipal waste in the same period - 39 thousand tonnes or 6.2%, was registered in the Northeast Region. The total amount of generated municipal waste in the Republic of North Macedonia in 2019 was 916 thousand tonnes. Almost the entire amount of collected municipal waste in the Republic of North Macedonia in 2019 (632 thousand tonnes) was landfilled. There were 44 active landfills in the Republic of North Macedonia in 2019.

The deposit of solid communal waste in Skopje region is done in the unique sanitary rubbish dump Drisla, which at least minimally meets the basic sanitary and technical standard for safety waste deposit. Apart from Drisla, several municipal rubbish dumps exist in Skopje region which are not registered pursuant to the National Plan for Waste Management

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| --- | --- | --- | --- | --- |
| **TC/**  **TP** | **STRENGTHS** | **WEAKNESSES** | **OPPORTUNITIES** | **THREATS** |
| **TC 1** | **EMPLOYMENT LABOUR SOCIAL AND CULTURAL INCLUSION** | | | | |
| **TP1** | **Employment, labour mobility and social and cultural inclusion**  (promoting the integration of cross-border labour markets, including cross-border mobility; joint local employment initiatives; information and advisory services and joint training; gender equality; equal opportunities; integration of immigrants' communities and vulnerable groups; investment in public employment services; and supporting investment in public health and social services | | | | |
|  | * Provision of primary and secondary health services * Positive trends in population growth * Abundance of labour force, particularly youth * Increased presence of women in the labour market * Socio-economic measures to mitigate the impact of COVID-19 on employment. * Assistance scheme to support the long-term and low-skilled unemployed persons to reduce poverty * A positive trend in wage increased * Policies and measures for social inclusion and integration of communities are in place * Introduction of the “Municipality care” concept for a high-quality social services (MK) | * Absence of specialised health care provision for people in rural area. * Mismatching between the required labour skill and the skills supply * A high number of people not economically active, especially women with low labour force participation and high unemployment * High percentage of unemployment rate, especially in rural areas * Higher unemployment rates among disadvantaged persons, persons with disabilities and marginalised groups from RAE communities. * Insufficient active labour market measures to tackle the very high level of youth unemployment (KS) * The social assistance scheme is not effectively linked to employment and social care services, inhibiting effectiveness of service (KS) * The housing and living standard conditions of the RAE communities remain inadequate * Municipal health care faces difficulties of poor infrastructure, * Lack of investments and insufficient budget resources for offering appropriate health services (KS) * No separate child and family benefit scheme * The conditions in residential institutions for adults with disabilities remain very poor * Large number of households are dependent from remittances * Lack the introduction of a universal health coverage scheme (KS) * Statutory health insurance split between public and private providers of care (MK) | * Education, labour, health care and social infrastructure * Workforce employability across borders * Labour market mobility * Social inclusion of marginalized groups * Capacity building activities for self-employment * Raising human professional capacity * Young population with high potential for creating a qualified and dynamic work force * Improvement of the business management and entrepreneurship skills * Curricula based on the market requirement skills * Improvement of the health and other social services * Investment in sports and recreation activities to promote good health * Establish and foster active labour market measures * Incentives or subsidies for employers (demand-side measures) * Direct employment/job-creation schemes * Job-search training, counselling services * Small scale local or community-based/cross border programmes aimed at generating employment in the labour market * Introduction of a universal health coverage scheme (KS) | * Immigration and large-scale emigration of high-skilled labour * Displacement of young people from country * The labour supply fails to meet the demands of an expanding labour market * High level of poverty and unemployment reduces domestic demand * Dependence on the assistance package discourages unemployment * Lack of health facilities for patients with special needs. * Lack of sufficient facilities for preschool (kindergarten). * Lack of sufficient sport - recreational centres. * The skills gap remains sizeable and need integrated approach. * The fail of social inclusion measures increasing the poverty * Children in poverty and with disabilities are also at greater risk of missing out on early childhood education * Influence of the pandemic situation COVID-19 in increasing unemployment |
| **TP6** | **Youth, education and skills**  (developing and implementing joint education, life-long learning, vocational training, training schemes and infrastructure supporting joint youth activities, including festivals, sports tournaments and cultural events) | | | | |
|  | * Existence of educational, sports and youth services * Equitable access to education for all citizens * Existence of a developed primary and secondary education system * Presence of local vocational education schools at municipal level * Transformation of 2 local VET schools, into regional VET schools in the programme area (MK) * Presence of Universities in the eligible programme area * There is greater diversity of providers in tertiary education, public and private universities colleges in the eligible programme area * Good incentives for the private sector to participate in the education sector * Young generation eager to learn foreign languages * Many students have studied profiles in law and economics * Strategies and action plans for education, quality assurance for pre-University education, improvement of professional practice and action plan and incentive for increasing youth employment are in place | * Existence of educational, sports and youth services * Not sufficient leisure, sport and culture as social service for the youth * The phenomenon of continuous emigration of population is reflected on a decrease on the number of pupils enrolled in the primary and secondary as well as in the tertiary education schools and/or institutions * Inadequate entrepreneurship learning in the education system * New curricula for different branches and/or specialisations must be developed * Education not fully oriented toward market demands due to the lack of links between education and business sector * Teaching quality not satisfactory at all levels * Unbalanced distribution of infrastructure facilities between regions and between urban and rural areas * The VET system lacks practical and applied courses in most programmes * Teachers in VET centres need adequate professional development opportunities, teaching materials and textbooks * Discrepancy between the needs of the labour market and education outcomes * Higher education programmes do not cover all professions needed in the market * Skills shortages in the areas of IT and engineering | * The new curricular framework for basic education should continue its implementation, supported by quality textbooks and sustainable training to teachers * Networking of universities, research institutions and other educational bodies * Ensure good quality of curricula and continuing training of teaching staff * Develop lifelong learning programme * Opportunity to boost human capital to address skills shortages and mismatches, including vocational education and training schemes * Designing a national strategy for human capital, aimed at improving the education system * Higher education considered as driving force for social and economic development * Establish the Skills Observatory as a department within the Ministry of Education and Science (MK) * Establish a web platform with information on education programmes * High-quality education through investing in motivated teachers * Two of the municipal VET schools in Kumanovo and Tetovo will function as regional VET centres * International knowledge exchange, opportunities to use different education programmes such as ERAMUS+ * Develop e-learning by taking advantage of the existing ITC infrastructure * Introduce contemporary teaching and learning methods | * Lack of qualified human resources, due to emigration in general but particularly large-scale emigration of youth, high-skilled labour and educated people * Migration of youth due to lack of opportunities * Missing support scheme for youth employment, self-employment or incentives for young entrepreneurs * No provision of quality vocational education and training for professions in demand and for higher education * Limited access of vulnerable groups, rural and RAE population to the formal educational system due to no interest, discrimination or poverty |
| **TC2** | **GREENER AND IMPROVED RESOURCE EFFICIENCY** | | | | |
| **TP2** | **Environmental protection, climate change adaptation and mitigation, risk prevention and management**  (promoting joint actions for environmental protection; promoting sustainable use of natural resources, coordinated maritime spatial planning, resource efficiency and circular economy, renewable energy sources and the shift towards a safe and sustainable low-carbon, green economy; promoting investment to address specific risks, ensuring disaster resilience and disaster prevention, preparedness and response) | | | | |
|  | * Quality of the environment, including green economy initiatives, disaster resilience and disaster prevention, preparedness and response * An increase in the water supply system and wastewater treatment system * Participation in the Green Deal Agenda * Policy efforts on renewable air quality, waste management, biodiversity, emission reduction plan, disaster risk reduction are in place. * Previous cooperation between organisations and local authorities within/outside CBC programme areas in issues such as: alternative sources of energy, management/protection of natural resources, water, wind, solar energy, earth, forests and air | * Quality of the environment, including green economy initiatives, disaster resilience and disaster prevention, preparedness and response * Inadequate waste management (dumps/landfills, separation, recycling) and refuse collection * Insufficient modern infrastructure in wastewater treatment * Inadequate sewerage system * Obsolete infrastructure for irrigation * Both thermal and hydro power plants are scheduled to close in the next 15 years (MK) * The country is vulnerable to climate change and is at a high risk of natural disasters, which will shift from floods to heat wave and wildfires (MK) | * Efficient and sustainable use of natural resources * Development of alternative sources of energy, especially on wind and solar * Disaster management systems and emergency preparedness * Improved solid waste collection and disposal systems, including recycling and green agenda principles * Enhanced wastewater treatments in process * Commitments to deliver a green economy transition (MK) * Advantages of the new actions related to the Green Agenda for the Western Balkans in 5 pillars * Build on previous cooperation initiatives in preservation and environment protection * A green economy with focus on energy efficiency and exploring the other renewables’ energy sources, hydro and solar, for the future | * Degradation of the environment * Permanent danger of various natural disasters * Insufficient financial resources from the public budget for addressing the infrastructure shortages (transport, water, energy and other environmental issues) * Deepening the policy response to air quality and climate change adaptation (MK) |
| **TC3** | **PUBLIC INFRASTRUCTURES/CONNECTIVITY** | | | | |
| **TP3** | **Sustainable transport and public infrastructure**  (reducing isolation through improved access to transport, digital networks and services and investing in cross-border water, waste and energy systems and facilities) | | | | |
|  | * Stable electricity supply (MK) * Continuing improvement in road infrastructure * There is progress in improving roads, paved and regulated * Policy on energy is in place * The number of settlements connected to the potable water supply system and wastewater treatment system is increasing * Connection of settlements with the sewage treatment system has increased * Gas transmission system operators have made some progress * Participation to the Corridor 8 and 10 important for commuting with other regions/countries * Existence of international airports in the cross-border area * Easy connections by road and railway networks * Infrastructure sector receives high priority in terms of public investments * Programmes and plans for improving road and rail networks in both beneficiaries are ongoing * Strong commitment by the GoMK for construction of highways, road bridges and reconstruction of roads * Construction of a joint railway border crossing | * Limited gas supply network (MK) * Unstable electricity supply (KS) * Rural road infrastructure needs improvement * Large gaps in the railway and energy infrastructure * Still remain a high percentage of settlements not connected with the potable water supply systems, wastewater system and sewage treatment system (KS) * Water supply and wastewater infrastructure are aged and in poor condition and need urgent reconstruction and replacement (MK). * A small fraction of renewables is used in energy mix, despite the large potential of solar and wind (MK) | * Commitment to establish a structure for monitoring and improvement the roads * Commitment to expand the railway network in the programme area from Kumanovo and Kriva Palanka * Commitment to reconstruct the railway from Skopje to Kichevo as part of Corridor 8 * Construction of an intelligent transport system on Corridor 10 * A regional road is planned between Tetovo and Prizren * Reconstruction of existing communal network * Commitment to build a country-wide natural gas distribution network and a new interconnection to alternative sources of natural gas (MK) * Plan to Improve the utility services infrastructure of water supply, and sewage, treatment plants | * Insufficient financial resources from the public budget for addressing the infrastructure shortages (transport, water, energy and other environmental issues) * High costs of infrastructure maintenance * Challenge in securing a stable energy supply and energy efficiency * Very high losses in the electricity sector (KS) * Public water and sanitation service providers are a serious issue (KS) * Cross-border energy integration is slowly improving. * Quality of trade and transport-related infrastructure is poor * Further improvements in waste management practices are needed |
| **TP4** | **Digital economy and society**  (deployment of digital connectivity, the development of e-Government services, digital trust and security as well as digital skills and entrepreneurship) | | | | |
|  | * Penetration of telecommunications / internet access is high * Policy on the electronic communication sector, digital agenda and IT strategy are in place * Some progress on the digitalisation of the economy is evident. * Increase in the number of Internet mobile services users * Relatively high level of ICT infrastructure as well as a fully competitive market for retail Internet access services (MK) * Skopje region is a leading economic performer and innovator at national level * Use of digital skills in marketing | * Development of digital economy and society * the fixed broadband connection is relatively weak | * Access and quality of ITC * Provision of ITC services from specialised businesses/organisations beyond the local market * Support on the development of iOS and Android applications for tourism, divided into sectors and incentives for the introduction of innovative models in the concept of "health" and "retirement" tourism for domestic and foreign retirees (MK) | * Low knowledge outputs of innovation and human capital & research |
| **TC4** | **BUSINESS ENVIRONMENT AND COMPETITIVENESS** | | | | |
| **TP5** | **Tourism and cultural and natural heritage**  (developing collaboration, capacity and joint use of infrastructures in the tourism sector, encouraging entrepreneurship, cultural cooperation, protection and enhancement of cultural and natural heritage for tourism purposes) | | | | |
|  | * Strong tourism, cultural and natural heritage in the area * Geographical strategic positioning * Availability of all tourism supply components enabling the development of all types of tourism in the programme area * Attractive tourist potential and favourable development * Climate enabling diverse types of tourism throughout the programme area * Rich and diverse nature for development of different forms of outdoor leisure and activities * Presence of rich cultural and historical heritage sites * Multicultural diversity, ethnicity and tradition in cultural exchanges * Existence of experience in the field of protection of culture heritage * Presence of business tourism in large urban areas * Contribution from different organisations to develop diversified tourist offers, tourist trails, etc. * Commitment by governments to improve and develop tourism infrastructure and services * Previous partnerships between organisations and local authorities within the programme area and other CBC programmes in leisure, tourism and cultural heritage, including sport, preservation and development of tourist destinations | * The hospitality and tourism services, capacities and infrastructure do not meet the international standards * Limited international recognition of the region as attractive touristic destination * Lack of tourist information in local areas * Limited skills in different profiles of hospitality, tourism and tourist guides * Insufficient funding for the protection and preservation of natural, historical and archaeological heritage * Low level of development of rural tourism * Predominance of a short seasonal tourism * Inequality between different regions in tourism development | * Development of tourism offer connected with the promotion of culture/natural heritage * Specific new tourism trends * Interest of donor community and IFIs to cooperate with local authorities drafting the tourism development plan and investment in tourism * Existence of attractive natural and historical sites unused, as an opportunity for investment * Provision of measures for development of tourism products in cultural heritage zones (Lipjan, Gracanica, Prizren) (KS) * Diversification of products/ activities, such as: traditional craft, horticulture, rural transport and diverse tourist products, in particular products in danger of disappearing * Advantages of developing in agro-tourism, mountain and adventure tourism, winter sports, etc. * Advantages of increasing attractions of natural and cultural tourism * Diversify other complementary measures in rural areas, such as rural tourism, handicraft activities, hostelry and traditional foods in rural and mountainous areas, * Commitment of government investing in mountain tourism development and support with local institutions * The commitment to start the reconstruction of cable car for ski centres * Investment in increasing the carrying capacities of the tourism destination * Development of tourism offer connected with the promotion of cultural heritage/natural resources * Culinary tradition and agro-food products contribute to strengthening the identity and tourist experience of the region * Cooperation between tourist agencies provides integrated tourist packages across the border * Previous cooperation on the area is an advantage. | * The coronavirus pandemic leads to a notable slowdown with higher impact on local tourism and transport * Lack of funds for development of tourism infrastructure and promotion on national and international level * Environmental pollution in areas gives high potential impact for eco-tourism * Lack of understanding of cultural and historical heritage potential of the programme area * Lack of proper protection of cultural and historical monuments and sites, in particular in Kosovo * Lack of integrated efforts and cooperation to develop regional touristic offers * Insufficient investments in road infrastructures and other public service infrastructure in the favour of tourism |
| **TP8** | **Competitiveness, business environment and SME development, trade and investment**  (promotion and support to entrepreneurship, in particular small and medium-sized enterprises, and development of local cross-border markets and internationalisation) | | | | |
|  | * Availability of business sites / premises (industrial zones, incubators) * Policies favouring the implementation of the national strategy and action plan for innovation and entrepreneurship are in place * GDP, FDIs export of goods and services, balance of goods and services have marked positive increase * Improvement in the ease of doing business (17th place) and favourable business climate (MK) * The private sector demonstrates a trend towards SMEs and large enterprises, as more efficient in the use of available resources comparing to microenterprises (Skopje region) * The SME base has been growing steadily over the years * Service sector has emerged as the largest segment of the economy (KS) * Business support structures, public and private are in place * Longer entrepreneurial tradition * Cheap labour force compared to other countries in the Western Balkan region * Attractive tourist potential and favourable development * Richness of natural resources for production of renewable energy with high potential for attracting more FDIs * A developed agriculture sector * Flexibility of production, tailor made and smaller size series * Improved computerization and digitalisation of industry * Previous cooperation on enhancement of competitiveness development, trade, export and investment, business idea development and entrepreneurship, women entrepreneurship and social entrepreneurship, business digitalization and handicraft | * Entrepreneurial support, including access to financing * Not sufficient business sites / premises (industrial zones, incubators) in the programming area * Large informal economy * Business environment that hinders market competition (KS) * Enforcement of competition policy is weak * Administrative capacity in this area needs improvement * Lack of access to finance * The business structure in the programme area is characterised by small companies that are not competitive due to low value added and productivity * Concentration on trade/services rather than on production * Small market hinders the company growth * Most of the regions have agricultural economy orientation * Fewer percentage of businesses are owned by women (KS) * industrial sectors in total exports have a dominance of low value added products (KS) * Entrepreneurial learning and entrepreneurship skills has no progress * Lack of an entrepreneurial culture (insufficient investments in staff training for specific and professional positions) * Periphery to core market * Non-uniform electricity supply and high costs remain a challenge for business development. | * Development of agricultural production and food processing * Development of regional markets and internationalisation * National policy for development of SMEs * Standardisation and certification of local agricultural/agro-food products * The machine and automotive components sector enjoys a dynamic development and growing importance for the economy (MK) * Increasing access to finance to micro and small firms run by entrepreneurs, especially in rural areas (KS) * Advantages of renewing efforts to boost women’s entrepreneurship * Diaspora involvement in exploring/promoting international/global trade * Support from institutions to access the regional and EU market * Participation in international trade fairs * Development in road infrastructure to facilitate mobility (as well as the railway infrastructure, to enable the reduction of freight costs) * Taking advantages of previous joint cooperation within the programme area. * Empowering Enterprise Europe Network in cross-border partnering activities * Improve the participation in the COSME (New Single Market Programme) | * Unresolved property issues * Lack of reforms boosting * competitiveness * SMEs dominate the economy, but the environment for small businesses is often difficult * The coronavirus pandemic leads to a notable slowdown in trade manufacturing, especially durable goods and garments and textiles * Low financial support for local development and insufficient budget to support local and regional development * Grey economy and large informal sector in an unfairly competition with the formal sector * Barriers to access to finance for SMEs * Non-bank financial institutions such as: leasing, factoring and insurance are at early stage * Failure to control bureaucracy and corruption discourages entrepreneurship * Effectiveness of institutions supporting the SME internationalisation * Decreased number of population in rural areas negative impact in mountain tourism and agriculture sector * Small size of farming limits development of intensified agriculture and agro-processing industry * Business skills and standards remain challenging * High rate of “brain-drain” hinders the private sector’s development and growth * Constructions without criteria that damage agricultural areas with income generation capabilities |
| **TP9** | **Research, technological development and innovation and digital technologies**  **(**promoting the sharing of human resources and facilities for research and technology development) | | | | |
|  | * Relatively strong industrial base, with a comparative advantage in sectors such as machinery and equipment. (MK) * Research support consists of financial support through the mobility scheme, and scientific publications * The Fund for Innovation and Technological Development has been scaled up, further boosting the innovation ecosystem to high-growth innovative SMEs * Increase support to strengthening innovation infrastructure, such as incubators and accelerators * Performance in participation in the Horizon 2020 is improved * Innovation efforts by the private sector are advancing and are well coordinated with similar efforts in other countries * The Skopje region is a leading economic performer and innovator at national level * Digital technology is introduced by SMEs | * Ischemic research and technological development * The quality of programmes preparing postgraduates for research careers is poor * The scope of scientific research remains limited * No strategic approach to the development, prioritisation and promotion of research activities (KS). * Insufficient skills to apply under European Innovation Council (EIC) programme and H2020 * A Smart Specialisation Strategy is being at the early drafting stage * Private companies are slow in adopting new technologies or taking advantage of public innovation support | * Presence of a network of institutions dealing with research, technological development and innovation * Availability of business sites / premises (industrial parks, agro-industrial zone, economic zone and business incubators in the programme area * Increased maintenance / development of the existing infrastructure * Proposal to establish a research grants system that will entail higher education institutions to engage in the support of innovation-based accelerated growth * Investments in the science and technology park * Regional start-up accelerators turned into centres for development of new businesses of young entrepreneurs with the potential for rapid growth * Continuing participation in the Horizon 2020 (Horizon Europe) * Better integration of Kosovo in the activities of this research infrastructure through GÉANT (Europe’s leading collaboration on network and e-infrastructure services). * A Smart Specialisation Strategy starts being implemented * Full engagement of national contact points to network training, linking of researchers, exchanges of best practice and mentoring with other countries.. | * Limited government research spending to R&D * Research is not a priority for universities * Less interest from the private companies to invest in R&D initiatives * Lack of financial incentive schemes for increasing the investment in R&D from the private sector * Lack of re-orienting government funds to innovative enterprises |
| **TC5** | **CAPACITY OF LOCAL AND REGIONAL AUTHORITIES TO TACKLE LOCAL CHALLENGES** | | | | |
| **TP7** | **Governance, planning and administrative capacity of local and regional authorities**  **(**promoting local and regional governance and enhancing the planning and administrative capacity of local and regional authorities) | | | | |
|  | * Governance, planning and administrative capacity * Developed skills for project management * Increased capacities of the municipal administration, networking and additional perspectives * Mutual recognition of respective institutions in different states * Exchange of experiences * Continuing cooperation between partners * Implementation of joint projects that affect the both sides of the programme area * Experience gained in international cooperation, with EU offices and countries that have passed or are in the process of applying for EU membership | * Lack of a manual / guide on the procedures to be developed for competition in cross-border cooperation funds. * Lack of staff in (small) municipalities * Limited EU funding for strategic projects * Lack of skilled staff for project management | * Existence of donor support for local authorities to prepare local policies and development plans * Existence of technical assistance programmes to support the staff on project management * Previous experience in cooperation/partnerships between organisations and local authorities within the programme area and other CBC programmes in different areas * Advantages of developing and strengthening local institutional capacities related to promotion of tourism, cultural and traditional assets, business and environment protection | * Lack or inappropriate national strategy in the relevant field (e.g. agriculture, environment, energy, education, health, social welfare, etc.) * Corruption in the public sector * Slow process of decentralisation * Challenge on improvement of administrative capacity and coordination, across all sectors (KS) |

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43. The cooperation with EU MS regions and/or municipalities could have any of the following purposes:

    Support regarding issues of EU approximation

    Fight against fraud and corruption, particularly when public utility services are involved

    Enforcement of EU legislation

    Sharing of EU good practices

    As these entities are ineligible as applicants in IPA III CBC between two beneficiaries, they would participate in operations either as service providers or associates. Please note that in some countries the provision of services by these bodies require the approval of the national government of the beneficiary. [↑](#footnote-ref-43)
44. This could be regulated with the enforcement of a maximum percentage for this purpose out of the total eligible costs of the action. [↑](#footnote-ref-44)
45. \*This designation is without prejudice to positions on status, and is in line with UNSCR 1244(1999) and the ICJ Opinion on the Kosovo declaration of independence

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