



ANNEX 2
INSTRUMENT FOR PRE-ACCESSION ASSISTANCE
2014-2020



IPA CBC PROGRAMME

**KOSOVO* – THE FORMER YUGOSLAV REPUBLIC
OF MACEDONIA**

ADOPTED ON 10/12/2014

Enlargement

* This designation is without prejudice to positions on the status, and in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

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List of abbreviations

AIR	Annual Implementation Report
CBC	Cross-border Cooperation
CEFTA	Central European Free Trade Agreement
CfP	Call for Proposals
CSO	Civil Society Organisations
EFTA	European Free Trade Association
EPAP	European Partnership Action Plan
EU	European Union
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
JSC	Joint Steering Committee
JTS	Joint Technical Secretariat
LAG	Local Action Group
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
PRAG	Practical Guide to Contract Procedures for EU External Actions
R&D	Research and Development
RDA	Regional Development Agency
SAA	Stabilisation and Association Agreement
SAPD	Stabilisation and Association Process Dialogue
SME	Small and Medium-sized Enterprises
UNDP	United Nations Development Programme
VET	Vocational Education and Training
WTO	World Trade Organisation

Programme synopsis

Programme title	CBC Programme "Kosovo – the former Yugoslav Republic of Macedonia"
Programme area	<p>The eligible area for the IPA Cross-Border Programme between Kosovo and the former Yugoslav Republic of Macedonia includes five regions:</p> <p>In Kosovo:</p> <ul style="list-style-type: none"> - <i>East Economic Region</i> - <i>South Economic Region</i> <p>In the former Yugoslav Republic of Macedonia :</p> <ul style="list-style-type: none"> - <i>Polog Region</i> - <i>Northeast Region</i> - <i>Skopje Region</i>
Programme general objective	To foster co-operation among institutions and organisations in the cross-border region in order to support sustainable economic growth and strengthen social cohesion.
Programme thematic priorities	<p>TP1: Enhancing competitiveness, business and SME development, trade and investment;</p> <p>TP2: Encouraging tourism and cultural and natural heritage;</p> <p>TP3: Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management</p> <p>P4: Technical Assistance</p>
Programme specific objectives	<ul style="list-style-type: none"> - To improve labour market skills and access to the international market; - To enhance tourism potentials and to further promote regional values; - To enhance joint efforts to address environmental pollution issues in the area; - To ensure an effective, efficient, transparent and timely implementation of the programme and awareness raising
Financial allocation 2014-2020	EUR 8 400 000.00
Implementation method	Direct management

Contracting Authority	European Union Office in Kosovo Kosovo Street 1, Prishtinë/Priština Tel. (+381 38) 51 31 200 Fax: (+381 38) 51 31 305
Relevant authorities in the participating IPA II beneficiaries	<p>Kosovo Ministry of Local Government Administration Former Rilindja Building Floors: 11, 12 and 13, 10 000 Prishtinë/Priština Tel: (+381 38) 213 010 Fax: (+381 38) 213 904</p> <p>The former Yugoslav Republic of Macedonia: Ministry for Local Self-Government Street St. Cyril and Methodius no.54, 1000 Skopje, Tel. +389 32 53 921 Fax +389 32 53 920</p>
JTS/Antenna	<p>Kosovo Joint Technical Secretariat in Gjilan/Gnjilane, Kosovo</p> <p>The former Yugoslav Republic of Macedonia Antenna Office in Kumanovo, the former Yugoslav Republic of Macedonia</p>

SECTION 1: SUMMARY OF PROGRAMME

The programme for cross-border cooperation between Kosovo and the former Yugoslav Republic of Macedonia will be implemented under the framework of the Instrument for Pre-accession Assistance (IPA II). IPA II supports cross-border cooperation with a view to promoting good neighbourly relations, fostering union integration and promoting socio-economic development. The legal provisions for its implementation are stipulated in the following pieces of legislation:

The legal provisions for its implementation are stipulated in the following pieces of legislation:

- Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11 March 2014 establishing an Instrument for Pre-accession Assistance (IPA II);
- Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action;
- Commission Implementing Regulation EU no 447/2014 of 2 May 2014 on the specific rules for implementing the IPA II regulation.

1.1 SUMMARY OF THE PROGRAMME

The programme eligible area includes five regions (equivalent to NUTS III): the East and South Economic Regions in Kosovo, and Skopje, Polog and the Northeast Region in the former Yugoslav Republic of Macedonia (including altogether 1 430 settlements) covering an area of 10 852 km², where live a population of 1 800 000 inhabitants. The cross border area is quite homogeneous in terms of geographical features, as well as social and economic development characteristics. The population growth tendency is declining. The young population is composing a large group of the population ranging from 25-30%. Migration has been one of the most concerning issues of the last decade, which has impacted the labour force (in particular in the rural areas¹).

The cross border area is rich in various natural resources which represent an important asset for economic and tourism development. The area is becoming more and more attractive for foreign investors, whose direct investments are playing an important role on the economic development of the border area. Trade relations between both IPA II beneficiaries have shown an increasing trend over the years. The SMEs are dominating the economic activities in almost all sectors, while large enterprises constitute a small number of economic entities. The business sector is developing but suffering from various problems, such as low labour productivity, lack of labour market skills to cope with new technologies and innovation capacities. Although there is a wide range of higher education institutions in the area, the level of research and development (R&D) activity is very limited. Knowledge transfer should take place both locally and across the border, as well as between different sectors. The programme area is rich in natural resources, but deforestation, land and air pollution, and waste management problems are causing environmental problems and impacting the health of the population. Sustainable development, through efficient and effective use of resources, is one of the big challenges for the programme area.

The programme strategy strives to ***foster the co-operation among institutions and organisations in the cross-border region to support sustainable economic growth and strengthen social cohesion***. The programme will better exploit the opportunities offered by the joint development of the border area.

The proposed strategy is centred around **three main priority directions**:

- **Enhancing competitiveness, business and SME development, trade and investment;**
- **Encouraging tourism and cultural and natural heritage; and**
- **Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management.**

¹ According to the statistics 75% of the emigrants in Kosovo are from young groups leaving the rural areas, while in the former Yugoslav Republic of Macedonia migration impacted the loss of one third of the labour force in the rural area.

In addition, there is a **fourth priority** (technical assistance) by which the administrative capacity of the authorities and beneficiary institutions/organisations implementing the programme can be enhanced.

1.2 Preparation of the programme and involvement of the partners

This Cross-Border Programme is the result of joint programming efforts of the relevant authorities in Kosovo and the former Yugoslav Republic of Macedonia, and a broad consultation process with local stakeholders and potential beneficiaries. Specifically, the preparation of the programme was coordinated by the Ministry for Local Government Administration in Kosovo and the Ministry for the Local Self-Government in the former Yugoslav Republic of Macedonia.

The programming exercise started in June 2013, with meetings of the authorities of both IPA II beneficiaries followed by a regional CBC forum. From June onwards, the Operating Structures collected the main planning and strategic documents, as well as statistical information for the preparation of the PESTLE analysis. In parallel, three types of SWOT questionnaires were developed to obtain responses from a broad number of regional stakeholders. The questionnaires were distributed by the Operating Structures with assistance of the staff of the JTS to municipalities, regional development centres, SMEs and a combination of diverse economic operators with different mandates (associations, business centres, public companies and NGOs). A total of 67 completed questionnaires were received and the responses analysed to aid to the preparation of the SWOT analysis. Additional interviews were conducted with the sectoral experts of line ministries to involve the central level policy making institutions in the consultation process.

A workshop on Strategy Development and Formulation was held in both IPA II beneficiaries: on 30 September 2013 in Skopje and 1 October 2013 in Prishtinë/Priština.

Three Joint Task Force meetings were held during the programming period. The first meeting was held in Skopje on 16 October 2013, the second in Kumanovo on 13 November 2013 and the third in Prishtinë/ Priština on 10 March 2014.

A regional forum held in Belgrade on 21-22 November 2013 gave both Operating Structures the possibility to present their programme and receive feedback from their regional colleagues and the representatives of the European Commission.

The draft document was reviewed by the European Commission twice during the programming period, providing suggestions and comments for the finalization of the document.

Public consultation events were held on 21 March in Skopje and 16 May in Gjilan/Gnjilane; over 70 regional stakeholders were consulted towards the preparation of the final programme document.

A table listing the main milestones in the programming process follows below:

Date	
21-22 June 2013	Regional event in Becici, in Montenegro on IPA II CBC at intra Western Balkans borders – programming meeting
19 July 2013	Meeting in Pristina on the SWOT questionnaire
July-September 2013	Consultation with local stakeholders for input to the SWOT analysis
18 September	Kick-off meeting in Pristina deployment of experts
September 2013	Establishment of the Joint Task Force
30 September	Training on Strategy Development and Formulation in Skopje
1 October	Training on Strategy Development and Formulation in Pristina
16 October 2013	1 st JTF meeting - presentation of the draft Situation and SWOT analysis
13 November 2013	2 nd JTF meeting – presentation of the Programme Strategy Intervention Logic
21-22- November 2013	Regional Forum
December 2013 - January 2014	Revision of the draft programme by the EC structures

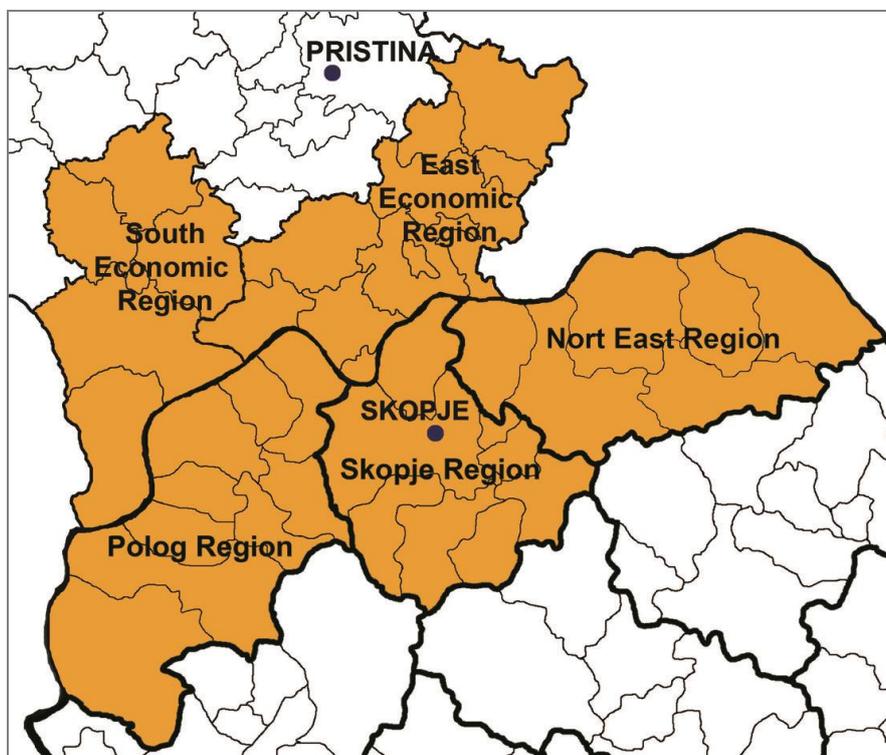
10 March 2014	3rd JTF meeting-presentation of the second draft of the programme document
21 March 2014	Public Consultation Event in Skopje
March - April 2014	Revision of the second draft programme by the EC structures
6 May 2014	Coordination meeting on the implementation of the Public Consultations in Kosovo, Pristina
16 May 2014	Public Consultation Event in Gjilan/Gnjilane
May 2014	Submission of the final draft of the programme document to the European Commission

SECTION 2: PROGRAMME AREA

2.1 SITUATION ANALYSIS

The eligible bordering area for the IPA Cross-Border Programme between Kosovo and the former Yugoslav Republic of Macedonia includes five regions.

Figure 1: Map of the Programme area



The **Kosovo part of the programme area** includes two economic regions and 17 municipalities with a total of 529 settlements:

- **East Economic Region** (*eligible area*), is composed of the municipalities of Gjilan/Gnjilane, Kamenicë/Kamenica, Viti/Vitina, Novo Bërdë/Novo Brdo, Ferizaj/Uroševac, Kaçanik/Kaçanik, Shtërpçë/Štrpce, Hani i Elezit/Elez Han, Ranillug/Ranilug², Partesh/Parteš³ and Kllokot/Klokot⁴.
- **South Economic Region** (*eligible area*), is composed of the municipalities of Prizren, Suharekë/Suva Reka, Malishevë/Mališevo, Dragash/Dragaš, Rahovec/Orahovac, and Mamusha/Mamuša.

Kosovo has not yet introduced the NUTS system; therefore the eligible areas are based on the "Economic Region" definition, which is equivalent to NUTS level III.

The eligible area of the former Yugoslav Republic of Macedonia includes three Regions: the Polog, Northeast and Skopje Regions. It consists of 32 municipalities plus the city of Skopje including 518 settlements (six towns and 512 villages⁵).

² New Municipality, established on 5 January 2010, based on Article 5 of the Law Nr. 03/L-041 on Administrative Municipal Boundaries

³ New Municipality, established on 19 August 2010, based on Article 5 of the Law Nr. 03/L-041 on Administrative Municipal Boundaries

⁴ New Municipality, established on 8 January 2010, based on Article 5 of the Law Nr. 03/L-041 on Administrative Municipal Boundaries

⁵ Source: Law on the Territorial Organization of the Local Self-government, art. 12.

- **Polog Region** (eligible area) includes 9 municipalities: Bogovinje, Brvenitsa, Gostivar, Jegunovtse, Mavrovo and Rostusha, Teartse, Tetovo, Vrapchishte, and Zhelino.
- **Northeast Region** (eligible area) includes 6 municipalities: Kratovo, Kriva Palanka, Kumanovo, Lipkovo, Rankovtse and Staro Nagorichane.
- **Skopje Region** (eligible area) includes 17 municipalities: Arachinovo, Chucher-Sandev, Ilinden, Petrovets, Sopishte, Studenichani, and Zelenikovo. The City of Skopje is an administrative unit and also includes 10 municipalities: Aerodrom, Butel, Chair, Centar, Gazi Baba, Gjorche Petrov, Karposh, Kisela Voda, Saraj, and Shuto Orizari.

The three eligible areas in the former Yugoslav Republic of Macedonia are organized based on the NUTS III level regions⁶.

Table 1: Main data on territory and population

	Area (km ²)	% of the total territory	Population	% of the total population
The former Yugoslav Republic of Macedonia	25,713	100%	2,062,294	100%
Cross-border area	6,538	25%	1,103,825	54%
Polog Region	2,416	9%	317,490	15%
Northeastern Region	2,310	9%	175,560	9%
Skopje Region	1,812	7%	610,775	30%
Kosovo	10,908	100%	1,815,606	100%
Cross-border area	4,314	39%	748,140	41%
East Economic Region	2,298	21%	351,449	19%
South Economic Region	2,016	18%	396,691	22%
TOTAL Cross-border area	10,852		1,851,965	

The entire programme area has a total surface of 10,852 km², of which 60.25% represents the area of the former Yugoslav Republic of Macedonia and 39.75% the area of Kosovo. The total population of the programme area is 1,851,965 inhabitants, representing 47.76 % of the total population of both, Kosovo and the former Yugoslav Republic of Macedonia. 40.4% of the programme area population lives in Kosovo and 59.6% lives in the former Yugoslav Republic of Macedonia.

⁶ The Government of the former Yugoslav Republic of Macedonia adopted in 2007 the Nomenclature of Territorial Units for Statistics-NTES (Official Gazette N.158/2007)

Policies

Both governments are pursuing **reform policies** aiming to strengthen the democracy and enhance economic and social development. European Integration is at the center of the reform policies. The Government of the former Yugoslav Republic of Macedonia is implementing the sixth Pre-Accession Economic Programme (PAEP), covering the period 2012-2014⁷. The PAEP 2012-2014 builds on the Government Programme (2011-2015), the National Programme for the Adoption of the *Acquis*, the Stabilisation and Association Agreement and the national and sectoral strategies. The main economic challenges and priorities for the period 2012-2014 are: (i) continuous improvement of the business environment, (ii) support to entrepreneurship and SMEs, (iii) promoting human capital and ensuring a stronger link between supply and demand on the labour market and (iv) increased export support and promotion. Kosovo's economic policies are aimed at a sustainable economic development, as formulated in the Kosovo's Government Programme (2011 – 2014). Private sector development strategy 2013 – 2017 defines the basis for economic policies, which consist of three main pillars: (i) development, support, and promotion of investments and businesses; (ii) improvement of free movement of goods and of the internal market regulation; and (iii) advancement of trade policies. Creating a multi-ethnic and inclusive society, providing opportunities for development, participation and welfare of all individuals, regardless of their ethnicity, religion, gender, age, physical and mental abilities, cultural and ideological orientations, remains a major challenge for Kosovo's society

The relations of Kosovo and the former Yugoslav Republic of Macedonia with the **European Union (EU)** are at a different stage. This is a reflection of different historical, economic and social developments of each of them. The former Yugoslav Republic of Macedonia has the status of Candidate Country, a status granted by the European Council in December 2005. Kosovo has the status of Potential Candidate.. For both, the Stabilisation and Association process remains at the core of their relationship with the EU.

Main economic features of the eligible areas

Both IPA II beneficiaries are members of CEFTA.⁸ The former Yugoslav Republic of Macedonia is also part of the WTO⁹ and EFTA¹⁰. Several agreements and protocols of cooperation have been signed between the IPA II beneficiaries in the area of border control, customs, culture, road and railway transport, etc. The **foreign trade** balance is significantly dominated by the imports in both IPA II beneficiaries. Trade relations between both IPA II beneficiaries have shown an increasing trend over the years. The former Yugoslav Republic of Macedonia is the third largest exporter, after Italy and Albania, to Kosovo, while Kosovo is the second trade partner on the export exchange for the former Yugoslav Republic of Macedonia. The contribution of Foreign Direct Investments (FDIs) to economic growth remains high, despite slight retrocession in the last year due to the overall global crisis. The area continues to be attractive for FDIs.

The **industry sector** is providing an important contribution in the economy of the region, particularly in the territory of the former Yugoslav Republic of Macedonia. The role of the SMEs is substantial for the economic activity of the bordering area.

The possibilities for short term development of **tourism** in the programme area are real, but remain moderate. The area has a great potential for tourism development with hundreds of meters of skiing areas, and mountains with potential for hiking and hunting. The East Economic Region has Brezovica, the biggest ski resort in Kosovo. Spa centres exist in all regions, such as the thermo-mineral spa in Klllokot/Klokot (Kosovo) and the Katlanovo and Proevska Spa in the former Yugoslav Republic of

⁷ This programme is the predecessor of the Convergence Programmes the Member States prepare within the Stability and Growth Pact.

⁸ Central European Free Trade Agreement

⁹ World Trade Organisation

¹⁰ European Free Trade Association

Macedonia. There are accommodation capacities in the programme area, with hotels situated on both sides of the borders. The programme area has rich historical and cultural heritage, authentic ethnographic villages as well as valuable environmental resources and remarkable natural sites in each region. There are opportunities to develop rural tourism, eco-tourism, mountain tourism, cultural tourism, etc. However, investments on improving road infrastructure for accessing in particular the rural touristic areas and investments on tourism management and human resource capacities are highly needed. Development of joint touristic offers is at an idea stage, rather than being further developed and implemented.

Agriculture is an important sector of the economy of both IPA II beneficiaries. Its contribution to the GDP counts for 14% in Kosovo and 8% in the former Yugoslav Republic of Macedonia. Livestock sector is very important for this area and for the whole rural area, with breeding and organic production being considered the most promising agricultural activities. Viniculture is also typical for these regions. Cooperation in the sector of agriculture is being intensified through initiatives undertaken by the farmer unions and also through the Local Action Groups (LAGs) established in Kosovo and in the former Yugoslav Republic of Macedonia in 2009. The size of the farms in the programme area is small, with an average of 1.5- 1.6 ha of agricultural land.

Main features on human development and resources

Education in the regions of the programme area is provided at three levels: primary, secondary and university. Primary and secondary levels of education are mandatory in the former Yugoslav Republic of Macedonia, while in Kosovo only primary education is obligatory. The total number of schools in the *primary education* for the area is 858, out of which 459 in Kosovo and 399 in the former Yugoslav Republic of Macedonia. Education is provided in the mother tongue of the pupils in primary and secondary education level. In terms of *secondary education* the cross-border area in the former Yugoslav Republic of Macedonia is well covered by educational infrastructure, while in Kosovo, there is a disproportion between the number of schools and population concentrated in a particular area. Children in some rural areas of the former Yugoslav Republic of Macedonia do not receive primary education and the early school-leaving rate remains high, particularly among Roma. In Kosovo illiteracy rate is high compared to other countries.

There are several public universities and accredited private institutions for higher education in the cross-border area, and cooperation between them has already started. The higher education system is facing big challenges in the region: despite efforts made to increase the quality of the university education system it still does not address the market demands. The level of GDP allocated to *Research and Development (R&D)* in both IPA II beneficiaries is far below the EU average, but recently the R&D and innovation is starting to be considered as an element of economic growth, and governments' attention is being turned to this area. Business incubators, clusters and business centres are operating in both IPA II beneficiaries, but recent analyses indicate that they face serious sustainability problems once donor funding comes to an end. There are no tax incentives for companies that invest in R&D and innovative activities. In addition, most private companies do not have the capacities to engage in collaborative research projects or to absorb funding from research institutions.

The **labour market** presents an unfavourable situation and a clear picture of region imbalances. Employment rate for Kosovo in 2012 was 29.5 % and in the former Yugoslav Republic of Macedonia 39 %. The average unemployment rate in 2012 in the whole programme area is approximately 37%. There is not a big discrepancy in the activity rate of the two IPA II beneficiaries, being 56.9 % in Kosovo and 56.5 % in the former Yugoslav Republic of Macedonia. The female employment rate is low, in Kosovo, only 10.7 % of women are employed. The female unemployment rate is 40%, while the unemployment rate among young people (age 15-24) is extremely high 55.3 %. In the former Yugoslav Republic of Macedonia this rate in 2011 was 30.8%, (6.4 point % lower than 2006). Female unemployment is higher in rural areas. The labour market structure differs between the regions. The service sector (14.46%) followed by manufacturing (10.23%) has the biggest share in Kosovo, while in the former Yugoslav Republic of Macedonia the manufacturing sector (19.5 %) has the greatest share, followed by the agriculture sector (17%). SMEs represent more than 98% of the business

entities in Kosovo. Specific measures need to be taken to support the organic growth and progressive transformation of the micro-enterprise sector into high-value adding entities.

Poverty indicators in Kosovo have deteriorated instead of improving over the years. Official statistical data in 2012 estimate that about 34.5% of the population live in general poverty and about 12.1% live in extreme poverty¹¹. The level of poverty in the rural areas is higher than in urban areas, while between males and females the poverty level in 2011 was almost the same. The number of families and individuals receiving social welfare assistance is higher in the East Economic Region. In the former Yugoslav Republic of Macedonia the poverty rate reached 30.9 % in 2010, having a very slight decline by 0.2 % compared to 2009. The most vulnerable groups are multi-member households (47.3% of the poor people live in households with 5 and more members). The poverty rate for the unemployed is 41.8%. The Roma, Ashkali and Egyptian (RAE) community is particularly affected by poverty and social exclusion, as well as by a range of other factors such as lack of education and unemployment. Consequently, the rate of poverty among the RAE community population is approximately three times higher than at the national level (approximately 88%).

Main characteristics of demography and social development

Demography: The total population living in the programme area is 1,851,965 inhabitants. The average density of population in the cross border area is 179 inh/km². The South Economic Region and the Skopje Region have the highest density of population, while the North-eastern Region has a density of 75.9 inh /km². Since 2010, the number of inhabitants in the cross border area has declined by 16 % as a result of migration¹². The area is known for its ethnic diversity. The programme area continues to be characterized by a low urbanisation level and a predominance of rural population (61% on the Kosovo side). In the former Yugoslav Republic of Macedonia, almost 70% of the population in the Polog Region and 44 % in the North-eastern region live in rural areas. In Kosovo's eligible area, the population living in rural areas has a relatively young age structure, with children (under 14 years old) accounting for nearly 1/3 of the total rural population , and the youth group (15-29 years old) composing 24% of the total population. In the former Yugoslav Republic of Macedonia, the Polog region has a relatively similar structure, with 31% of its population under the age of twenty. The situation in other regions is closer to the national average (25.6%). The population growth tendency is declining, while life expectancy and infant mortality, although improving, are significantly below the EU averages.

The Health care system in the former Yugoslav Republic of Macedonia is relatively easily accessible for the population, because it is delivered within a widespread network of health care institutions, but there is a big contrast with big centres well covered with health services and facilities, while the remote areas have an underdeveloped system. There are too many hospitals per patient, and productivity is low. In the Kosovo bordering area, municipal health care faces difficulties of poor infrastructure, lack of investments and insufficient budget resources for offering appropriate health services. There are several regional and municipal hospitals situated in the area. Public Health Houses and Family Health Centres are established in all towns.

Social services: There are a total of 311 kindergartens and pre-school institutions situated in the programme area, the majority of them situated in the Kosovo regions. The ratio between the number of children and teachers is high in particular in the South Economic Region of Kosovo. In the former Yugoslav Republic of Macedonia, an innovative and well-targeted social safety net is being established. Ongoing reform in social financial assistance is helping to reduce the inter-generational

¹¹ The Household Based Survey for 2011 estimated that the 29.7 percent of Kosovo's population lived below the poverty line, with 10.2 percent of the population living below the extreme poverty line (Kosovo Agency of Statistics).

¹² Kosovo Agency of Statistics: People on the move: an analysis of international, national and local mobility of Kosovo people, 2011 and GVG on behalf of EC: Social Impact of Emigration and Rural-Urban Migration in Central and Eastern Europe; Final Country Report : The Former Yugoslav Republic of Macedonia, 2012

transmission of poverty by linking benefits to the fulfilment of standards for secondary school enrolment and attendance.

The number of **Civil Society Organisations** (CSOs) in both IPA II beneficiaries is increasing and the institutional and legal framework has recently improved. The number of registered CSOs in the former Yugoslav Republic of Macedonia in 2010 was 11,350. The ratio of urban to rural CSOs is 10:1. In Kosovo there are currently 6,815 registered local NGOs, but according to the authorities only 10% of them are active. The institutional framework regarding motivating civic activism and promoting voluntarism is established in both IPA II beneficiaries, but there are different characteristics of civil society. In the former Yugoslav Republic of Macedonia is characteristic the voluntarism participation in the CSOs, in Kosovo only registered CSOs operate.

The **historical and cultural heritage** is one of the most important assets for the development prospects of the programme. Numerous cultural events and festivals are organized, and there are diversified traditions and handicrafts, which play an important role in the promotion of tourism. There are very strong bonds between the populations of the two sides, such as a common language for the Albanian speaking population and a common history of cultural exchanges that have linked the inhabitants for centuries. There are several attractive and diversified cultural-historical heritage centres in the area and a number of amateur cultural and artistic associations. The cinemas, the regional libraries, regional museums, all play an important role for cultural and artistic life for all communities in the whole bordering area. There are several institutions in charge of protection, cultivation and presentation of cultural heritage that are active in the bordering area. Both IPA II beneficiaries participate in the Lisbon programme in the area of promotion and protection of cultural heritage.

Main features of transport and communications infrastructure development

Road Network: The programme area is at the crossroads of the pan-European Corridor 8, as well as Corridor 10. Both IPA II beneficiaries are investing substantially in the road network infrastructure. There are projects aiming to improve both corridors by completing the highway connection between Bulgaria and Durres in Albania and between Skopje and Vranje in Serbia. The road R6 (Prishtinë/Priština - Skopje) and the highway Vermice-Vardar will be constructed soon. Improvement of the road infrastructure and connection to wider European networks will have a positive impact for the economic development of the programme area. Kosovo's transport system is inadequate and incompatible with European standards in many respects, and the cost of goods transported between Kosovo and key trading partners is among the highest in the region. In the former Yugoslav Republic of Macedonia, the national road network is in a relatively good condition and meets European standards and many investments and continuing efforts are being made to lower transport and freight costs. The local road network is suffering from improper maintenance, especially during the winter.

Border crossings: The border line includes two operating border-crossing points. The main point is located between Blace and Hani i Elezit/Elez Han and the second one is between Jazhince/ Jažince and Gllboqica/Globočica. In addition there are two seasonal spot checks for pedestrian and livestock, located in the Skopje region and open only from April to November.

Railway network: In the former Yugoslav Republic of Macedonia, there is a main railway line in Corridor 10 linking Skopje and Thessaloniki and Skopje and Belgrade through Kumanovo. Another railway line, a non-electrified line, links Skopje to Kichevo through Polog Region on Corridor 8. Finally, a non-electrified railway line, re-opened in 2006, connects Skopje to Prishtinë/Priština and potentially to Fushë Kosovë/Kosovo Polje, the border crossing point being Volkovo, which is also the only operational railway in the programme area in Kosovo. Despite the existing network, a downward tendency is noted in the transport of both goods and passengers. A joint agreement is signed recently by both governments for the development and modernization of the railway transport.

Airports: There is one international airport in the bordering area, located in Skopje. The international airport of Skopje has been recently reconstructed fulfilling international standards.

Telecommunication and use of ICT has increased over the recent years. Statistical data indicate that in the former Yugoslav Republic of Macedonia 60 % of households have internet access and are using computers. The situation is less favourable in Kosovo where only 28.7 % of the population has access to the public telephone network. Mobile operators already offer various services to its customers covering almost 90 % of the territory of Kosovo, including GPRS wireless communication or internet services through a mobile phone.

Main features of environment and nature

Nature: The whole programme area is extremely rich in environmental resources and biodiversity. Both governments are engaged with programmes for protecting the environment and natural resources. Several natural sites are protected under the specific status of 'Strict Nature Reserves'. The extension of protected areas, as well as measures to protect biodiversity are important.

Environmental protection: Industrial and transport pollution are impacting air quality and inter-alia the life quality of citizens. Air pollution is a critical environmental problem in particular in Polog and Hani i Elezit/ Elez Han. Respiratory diseases and allergies indicate the impact of pollution on the health of the population. Poor water and sewage management, uncontrolled waste disposal, unregulated urbanization and industrial pollution, cause critical environmental damages. There is a risk of de-forestation due to illegal wood cutting; badly managed pastures; rivers and lakes risk pollution from illegal landfills and poor industrial and urban waste management, as well as from the intensive use of pesticides in agriculture.

Water supply, waste water, and waste disposal: In the cross border area of the former Yugoslav Republic of Macedonia, 96.5% of households have access to public water supply and sewage systems. The water quality is a concern, particularly, in many rural areas. Improving waste water treatment and solid waste management is considered to be a priority in all regions. Only 21% of the rural population in the Kosovo bordering regions is covered by the public sewage network and only 30.6% has direct access to the public water supply network.

Energy: Different resources of energy generation are used in the area. In Kosovo, thermal energy is the source of energy production. In the border area of the former Yugoslav Republic of Macedonia, energy is produced from different sources, mainly from hydro power plants (HPP), but also from biomass (33%), bio-fuels, and geothermal sources. The programme area is rich in hydro potentials and renewable energy resources and is dedicating increasing attention to energy efficiency and conservation measures. In both IPA II beneficiaries, environmental protection and monitoring structures are established, but their capacities are weak. Transposition of the *acquis* (the former Yugoslav Republic of Macedonia) and alignment to the *acquis* (Kosovo) into domestic legislation is progressing, but not at the required speed. A more detailed analysis of the situation in the programme area is presented in an Annex to this document.

2.2 Main findings

The five regions in the programme area have many common characteristics (geography, demographic trends, agricultural production system, etc.). Such common characteristics have to be seen as an opportunity for building or strengthening synergies between them. These synergies are particularly important for the development of tourism in the mountain areas, agriculture and trade exchange and in overall economic development and improving citizens life.

- ❖ **Both IPA II beneficiaries are becoming attractive for foreign investors**, but the situation regarding the creation of an enabling environment for FDIs to operate differs. Kosovo government and business community could learn by the good results achieved in the former Yugoslav Republic of Macedonia in terms of creating a proper business climate. Production of renewable energy is an important sector which could be a source for attracting more FDI.
- ❖ **Positive trends in trade exchange are important, but it is also important that the economy of the area becomes more competitive and the quality of products and services is improved through use of more innovative technologies.** Strengthening of SME networks and service connections existing in the bordering areas is crucial to grow and become more competitive. Investment on know-how transfer in particular on the use of new technologies and development of the human capital will be equally important for the area. Promotion of *e-business* will be instrumental.
- ❖ **Agriculture is another major economic potential in the programme area**, with agriculture products being a large share of exports for both IPA II beneficiaries, which must invest further on supporting farmers for the modernisation of outdated production technologies, through economic incentive schemes. The legal and institutional framework (laws on organic products, law on traditional specialties, certification body, etc.) in the former Yugoslav Republic of Macedonia provides the adequate tools for promoting agricultural products. Strengthening the food security system and inspection bodies will be important for increasing agriculture sector competitiveness.
- ❖ **There is an unfavourable structure of the labour market, coupled with high unemployment rates among youth, and especially women.** There is great number of young people who completed secondary education seeking employment. Unemployment in rural areas is high. The same is also among vulnerable groups such as the RAE community. The labour market is predominated by service and trade sectors, with less jobs in industrial production. Investing more on capacity building activities for self-employment and raising human professional capacities and entrepreneurship skills, combined with more specific active employment/ labour programmes and joint actions towards supporting business development initiatives from specific groups such as youth, women and RAE community must be explored and supported.
- ❖ **The living standard levels have deteriorated** during the last years for the whole community in the bordering area, most particularly in the remote and mountain areas. Together with the **labour market crisis the phenomena of marginalization, social hardships and youth emigration have increased.** The presence of strong migration flows has impacted the labour force and resulted in loss of the skilled and educated workers in lower urbanised areas. The continuous depopulation of some regions in favour of the central area is a real threat as the development of tourism and in particular agriculture depends largely on the presence of an active and relatively dense rural population. Increasing the presence of VET programmes in the lower urbanised areas will contribute to improving market skills and education of the labour force of these areas. These efforts must be combined with more support programmes to SMEs development, exploring more on existing opportunities on agribusiness, creative industries and tourism development.
- ❖ **The presence of important private and public universities and business research centres in the programme area is an asset** for the CBC programme. Joint actions should be undertaken to establish a network of higher education institutions and well-known research agencies and organisations. This could be considered as an important asset, which could be exploited to more active cooperation and coordinated actions, both in the area of higher education and research.

Strengthening the links between private sector and universities and research centres, as well as cross border initiatives should be promoted. A common feature of the young generation in the area is the use of an international language such as English language. This would be a good opportunity in undertaking joint actions for exchange of teachers and students, without having language barriers. More coordinated actions must be taken to promote education of minority and vulnerable groups.

- ❖ **Natural resources are extremely rich and diverse, and are considered as a main asset for the whole region.** A significant part of the border area is covered by either national parks or landscape protection areas on both sides of the border. The presence of the National Park of Sharr/Šar in the programme area, situated at the border between the two IPA II beneficiaries will certainly be a specificity of this cross-border programme. Further protection of natural resources and sustainable exploitation is therefore a key issue for the economic development of the region. It is important that a more integrated approach is taken: establishment of joint areas, design of joint management procedures and common actions instead of local actions focusing only in an individual side of the area.
- ❖ **Environmental issues remain a big concern in the programme area:** The abundance of rivers carries the risk of floods, and river pollution is also an issue. It is important to co-ordinate civil emergency systems, development and complement flood prevention facilities with properly functioning joint warning systems as well. River pollution is also an issue that requires common actions in controlling industrial waste. Waste management is another matter of concern requiring actions to be taken in both IPA II beneficiaries. Air pollution is high, particularly in Kosovo, affecting the health of citizens. Strong actions are required to improve the infrastructure in energy in support of the industrial sector and in order to reduce gas emissions to the atmosphere.
- ❖ **Improved connection, road and railways infrastructure** in the programme area and making the cross border points functional are **seen as a potential for facilitating and promoting economic and social exchanges** between the communities living on both sides of the border. Poor road infrastructure is considered as the main obstacle to economic development of the area in particular in Kosovo. Development of infrastructure and the diffusion of networks and services to support business development and innovation, could contribute to a general increase of wealth and economy in the area. Construction of the R6 road in Kosovo will further facilitate movement of citizens and business between the regions of both IPA II beneficiaries.
- ❖ **Further valorisation of historical and cultural heritage will contribute to strengthening the identity of the area.** The area has a multi-ethnic population, and consequently, there are multicultural traditions. The cooperation among cultural institutions has started but it should be strengthened. Participation in joint EU initiatives is a strong point for strengthening also bilateral cooperation. Kosovo could benefit a lot from the experience gained in the former Yugoslav Republic of Macedonia in protection of culture heritage, its valorisation and its use for tourism and economic development. There is a rich historic-cultural-artistic heritage in the bordering area that needs to be preserved. Joint activities for strengthening capacities of business operators would be important, similar to investing in human resources, accommodation capacities and quality.
- ❖ **Institutional infrastructure for fostering an integrated regional development concept is available in the programme area.** Development of the regions through integrated approaches is considered important in the programme areas. Regional development programmes and strategies are being implemented, while operation of the Regional Development Agencies in Kosovo and the Regional Development Centres in the former Yugoslav Republic of Macedonia is a great administrative asset for the development of regional strategic programmes. Integration into the respective development strategies of an overall integrated approach to regional and/or cross-regional strategic priorities might be beneficial.

SECTION 3: PROGRAMME STRATEGY

The cross-border area between Kosovo and the former Yugoslav Republic of Macedonia has a favourable geographical position with main roads connecting the region with other neighbouring countries. Wealth of natural and cultural heritage, human resources and cultural diversity characterise the area, which draws its strength from the multi-ethnic cooperation among diverse communities. The area has a great potential for tourism development, which coupled with the rich natural and cultural heritage, provides a good base for cooperation.

The main challenges of the cross-border area are: catching up the step with globalisation and its impact on regional economies, competitiveness and development of new technologies; preservation and protection of its rich natural and cultural heritage and the environment as well as nurturing the social and cultural connections. These challenges will be addressed through the strategic orientation of this cross-border programme.

The overall objective of the programme is: ***Co-operation among institutions and organisations within the cross-border region is fostered to support sustainable economic growth and strengthen social cohesion.***

Taking into account both strengths and weaknesses of the eligible areas, the strategic framework of the programme is structured into three **major thematic priority interventions** that will contribute to:

Nr	Priority
Thematic Priority I	Enhancing competitiveness, business and SME development, trade and investment
Thematic Priority II	Encouraging tourism, culture and natural heritage
Thematic Priority III	Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management
Priority IV	Technical Assistance

3.1 RATIONALE - JUSTIFICATION FOR THE SELECTED INTERVENTION STRATEGY

The **rationale** behind selecting these priorities is based on identification of existing potentials of the bordering areas, the main challenges and shortcomings that are impacting sustainable and social economic development of the area. In addition, the selected thematic priorities encompass subject matters and types of interventions of common interest, benefiting a broad spectrum of institutions and organisations located on both sides of the border.

The **first thematic priority** will promote joint cross border initiatives and actions aiming to enhance competitiveness and improve regional economy. The **second thematic priority** will promote joint initiatives and integrated actions contributing to the sustainable use of natural and cultural heritage resources, and fostering tourism development as one of the most important economic sectors furthering economic growth and better living conditions of the community. The **third thematic priority** will promote joint, integrated and harmonised interventions underpinning the sustainable use of natural resources. Interventions under this thematic priority will improve the health conditions of the population in the area. The **fourth priority** will ensure effective management and implementation of the whole programme through technical assistance support.

The programme covers a variety of issues which are interconnected and have effects on several fields of activities. The most important issues are:

- Reduction of cross border socio-economic disparities;
- Improvement of living conditions in the cross-border area;

- Increasing competitiveness of the cross border enterprises to contribute to sustainable economic development;
- Strengthening networking and co-operation structures; and
- Enhancing cooperation among communities living in the bordering areas while strengthening social cohesion.

In terms of financial allocations, priority is given to interventions enhancing tourism development and promotion and protection of cultural heritage receiving 34% of the total funding, while the allocation to other two thematic priorities: priority 1 and 3, are equally distributed with 28% each. The fourth priority shares 10% of total funds allocated for the programme.

This financial allocation scheme reflects the vision and the choice of joint structures on the importance that tourism sector has in economic growth and social development of the cross border area.

Coherence with EU and domestic reform policies

The cross-border programme between Kosovo and the former Yugoslav Republic of Macedonia is designed taking into consideration the overall priorities as currently defined in the Common Strategic Framework 2014-2020, with specific focus on (i) protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management; (ii) encouraging tourism and cultural and natural heritage; (iii) enhancing competitiveness, business and SME development, trade and investment. The cross-cutting principles of equal opportunities and sustainable development are reflected in all the selected priorities and interventions.

The document builds upon and takes into consideration also the current policy framework. It complies with the **Programme of the Government of the former Yugoslav Republic of Macedonia 2011 - 2015**. It emphasizes sectors that are compatible with cross-border approach and that have already been identified as priorities in the government programme at the midterm. The cross border programme is also in line and supports the vision of the **Programme of the Kosovo Government 2011-2014** which emphasizes that future of Kosovo lies in the EU and its development will be achieved through: (i) sustainable economic development; (ii) good governance and strengthening the rule of law; (iii) human and capital development and (iv) social welfare. In addition, the programme is linked with, and is relevant to several sector strategic documents as listed in Annex 2.

The ongoing EU initiatives and those of other donors active in the region, such as OSCE, UNDP, Sida and the World Bank, have also been taken in consideration while drafting this document.

A synthetic overview justifying the selection of thematic priorities is presented in the table below.

Table 2: Synthetic overview of the justification for the selection of thematic priorities

Thematic priorities	Justification for selection
<p>1. Enhancing competitiveness, business and SME development, trade and investment</p>	<p>The economies have a negative trade balance. Despite having high potential in the agriculture sectors, the export volume is lower compared to the volume of import. The area is dominated by SMEs. The quality of products must be improved through the use of more innovative technologies. There is a discrepancy between the emerging demand for market development and the introduction of new modern technologies and existing labour market skills. Investments on increasing business capacities, innovation and know how transfer, strengthening the capacities of an education system closer oriented to the market demands, will be equally important for the area. Promotion and marketing of cross-border regional branding becomes highly relevant.</p>
<p>2. Encouraging tourism, culture and natural heritage</p>	<p>The area has a multiethnic population, and consequently, there are multicultural traditions. The level of coordination and cooperation among institutions is low in particular in the area of cultural heritage. The area is rich in historic-cultural-artistic heritage that needs to be preserved and restored. Tourism infrastructure and human capacities remain low compared to European standards and other countries of the region where tourism is an important branch of economy. Initiatives for developing common touristic products and offering alternative forms of tourism such as eco-tourism which could seize new business opportunities and increase the competitiveness of the sector are still at a very earlier stage.</p>
<p>3. Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management</p>	<p>Environmental issues remain a big concern in the programme area, in particular air and land pollution from industrial activity. Waste collection and processing is underdeveloped due to the use of old-fashion processes and the lack of investments in infrastructure and new equipment. Air pollution due to gas emission in the atmosphere from the industry, energy and transport sector is high and affects the health of the population. Further improvement of the quality of environment and environmental infrastructure is key for the economic development of the region.</p>

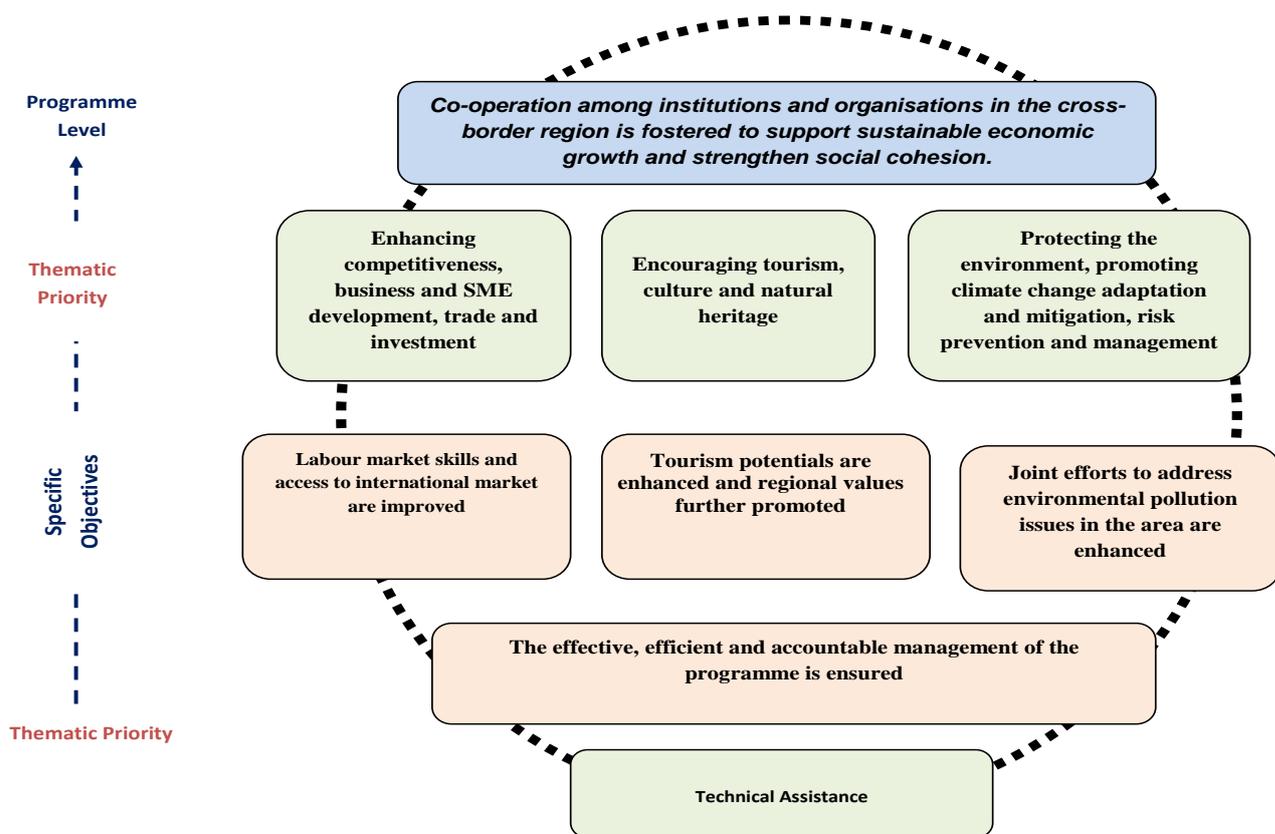
3.2 DESCRIPTION OF PROGRAMME PRIORITIES

The global objective of the programme is:

To foster co-operation among institutions and organisations in the cross-border region to support sustainable economic growth and strengthen social cohesion.

The strategic framework of the IPA CBC Programme between Kosovo and the former Yugoslav Republic of Macedonia 2014-2020 is presented below:

Figure 2: The Programme Strategic Framework



Specific objectives

The following are the specific objectives of the programme underpinning the four selected priorities:

- *Labour market skills and access to international market are improved;*
- *Tourism potentials are enhanced and regional values further promoted;*
- *Joint efforts to address environmental pollution issues in the area are enhanced; and*
- *The effective, efficient and accountable management of the programme is ensured.*

In addition, the programme will aim to build capacities of local stakeholders, municipal and regional institutions and the civil society to participate in cross-border initiatives.

All these development objectives are reflected in the structure and the content of the programme, and materialised through the implementation of the four selected thematic priorities.

Thematic Priority I: Enhancing competitiveness, business and SME development, trade and investment

A heterogeneous economic structure with a relatively high domination of the service sector, a high share of SMEs and a low share of innovation are the main characteristics of the cross-border area. Labour productivity in the area is low and labour force skills are underdeveloped in specific areas and particularly related to the use of new and innovative technologies. Structural changes are required in the vocational education and training system and overall education system in order to orient the education system towards emerging demands of a competitive market. Human capacities in different sectors are weak and do not meet the required level for ensuring high quality service delivery, including the tourism sector.

The region has to secure its competitive position in the long run in comparison to other regions. This will require more investments in building new skills of the labour force and establishment of conditions and incentives for further development of more innovative activities and know-how transfer.

The SMEs constitute the backbone of the cross border region economy and are a key driver for growth, job creation and social cohesion, but their capacities remain limited and labour force skills weak, impacting the overall competitiveness and domestic market capacities to compete with regional and international market. The cross-border area is characterised by a negative trade balance, with the volume of imports dominating the trade balance. It is often difficult for business organisations to sell their products outside their territory, due to the lack of marketing capacities and limited access to regional and international markets. The activities of the programme aspire to increase the access of businesses into the regional and international markets, and promote the cross-border goods and products.

Specific objective under this thematic priority will be met through support for implementation of the following indicative initiatives (activities):

Specific objective: Labour market skills and access to international market are improved

- Actions to identify labour skills becoming a bottleneck for further businesses development and competitiveness;
- Development and delivery of advanced training programmes for sectors where lack of particular skills is identified, targeting in particular youth and women groups;
- Joint actions targeting to strengthen the co-operation in field of education and VET qualifications
- Actions to contribute to increasing access to employment of youth people and women, with a particular focus on marginalized areas;

- Actions that foster entrepreneurship thinking and promote entrepreneurship skills among young and women;
- Actions to promote and encourage social entrepreneurship ;
- Development of e-business and e-marketing of products and services with an international perspective ;
- Upgrading entrepreneurial skills and development of information services for international commercialisation;
- Support joint activities for the organisation of and participation at trade fairs, exhibitions for products and services at local, regional and international level;
- Support to SMEs and start-ups in accessing new markets;
- Actions for development of cross border regional branding and promotion, aiming to strengthen cross border region identity in specific sectors and increase the quality of regional products;
- Actions for development of cross-border markets, regionalisation and internationalisation (including fresh produce markets);
- Application of advanced international marketing models.

The intended results are:

Result 1.1 Employment opportunities enhanced among young and marginalised groups

<i>Indicator</i>	<i>Unit</i>	<i>Baseline (2014)</i>	<i>Target 2022</i>	<i>Source</i>
1.1.1 VET programmes introduced in the curricula based on CBC assessment for addressing market skills needs	number	0	5	Project reports , AIR
1.1.2 Share of unemployed women, youth and RAE population included in the targeted group employed	percentage	0	10%	National (labour market) statistics
1.1.3 Share of the new SMEs established in the cross border areas that are owned by young people and members of marginalised groups	percentage	0	10%	National business registry records
1.1.4 Share of the new SMEs established in the cross border area are owned by women	percentage	0	5%	National business registry records

Result 1.2 Opportunities to intensify cross-border trade are grasped, while upgrading services for access to regional and international markets.

<i>Indicator</i>	<i>Unit</i>	<i>Baseline</i>	<i>Target 2022</i>	<i>Source</i>
1.2.1 Share of participating business organisations introduced new e-business and e-marketing applications	percentage	0	20%	Project reports, AIR
1.2.2 Share of export to regional markets for the companies participating in the programme supported activities	percentage	No data	+ 5%	Project reports, AIR
1.2.3 Products produced in the CBC area under the CBC regional logo	number	0	5	Project reports, AIR

The target groups will be (i) small business enterprises (ii) public organisations (iii) business support organizations and business associations; (iii) local and regional government units; (iv) individuals living in the bordering regions. Potential applicants under this thematic priority should be:

- ✓ Business Support Centres;
- ✓ Chambers of Commerce;
- ✓ Vocational Education and Training Centres;
- ✓ Local Government Units (Regions, Municipalities and other Settlements);
- ✓ Public Entities; and
- ✓ NGOs.

Thematic Priority II: Encouraging tourism, culture and natural heritage

The cross border area has a wealth of natural resources and cultural heritage, which are common potentials for tourism development. Tourism is a very important sector for the central and local economies in the cross-border area. Although the tourism sector has a high potential for job generation; additional opportunities need to be exploited, along with efforts to improve service quality.

Further development of tourism and related branches connected with the tourism sector, is very important for increasing the dynamics of social and economic development of the entire cross-border area. Tourism infrastructure and capacities of the border area must be further developed to make the area competitive compared with other regions and neighbouring countries. Tourism related labour force skills and management capacities must be improved and further enhanced.

While individual programmes are implemented on each side of the border to develop tourism economy, implementation of joint actions, development of joint touristic offers and products will contribute to increasing the attractiveness of the cross border area and a more efficient use of the existing resources and capacities.

As in all other sectors, sustainable development principles need to be considered and pursued for this sector. Development of tourism infrastructure should be harmonised with the protection, promotion and valorisation of natural and cultural heritage and all other resources that represent the fundamental wealth of the cross-border area. Together with improved services, this should provide a solid base for future tourism development in the region.

The following will be the specific objective to be met under this thematic priority, through support for implementation of specific indicative initiatives (activities):

Specific objective: Tourism potentials are enhanced and regional values further promoted

- Design and development of joint tourism offers, products and services;
- Actions to encourage entrepreneurship and competitiveness in tourism sector;
- Actions seeking for synergies between recreation tourism, nature tourism, business and rural tourism;
- Exchange of best models and practices in the hospitality industry, in particular actions aiming at introducing new management models and improving service quality;
- Small scale improvements of tourism, transport infrastructure, restoration and/or preservation of cultural and historical sites and procurement of equipment;
- Capacity building, VET programmes and extracurricular activities in schools dealing with the hospitality industry;
- Know-how transfer on entrepreneurship, new technologies, marketing and promotion through involvement of third parties from countries with advanced developed hospitality industry sector;
- Reinforcement of the existing networks amongst cultural institutions (i.e. museums, historical centers, theatres, libraries, etc.) and/or establishment of new ones;

- Development of joint programmes for protection, promotion and management of cultural assets, and for safeguarding the most valuable cultural heritage monuments and sites;
- Youth initiatives on cultural exchange for promotion of cultural heritage with a particular focus on youth living in rural areas, minorities and vulnerable groups;
- Support to the commercialisation of new artists' and artisans' products; and
- Promotion of creative industries with particular focus on youth and women related initiatives.

Intended results to be reached under this specific objective are as follows:

Result 2.1: New tourism opportunities exploited and tourism sector capacities increased

<i>Indicator</i>	<i>Unit</i>	<i>Baseline 2014</i>	<i>Target 2022</i>	<i>Source</i>
2.1.1 New joint tourism offers, products and/or services introduced in the programme area	number	0	5	Project reports, AIR
2.1.2 Target groups (disaggregated by gender and age) establishing new business initiatives in tourism and hospitality	percentage	0	10%	Project reports, AIR

Result 2.2: Tourism products' and services' quality improved

<i>Indicator</i>	<i>Unit</i>	<i>Baseline 2014*</i>	<i>Target 2022**</i>	<i>Source***</i>
2.2.1 Tourists in the programme region	Number	KS=14808 (2011) MK=198407 (2012)	+ 5%	National statistic reports
2.2.2 Students from the eligible areas participating in supported VET programmes related to tourism	Number	No data	50	Project reports, AIR

*The data is of 2011 and 2012 as available at the time of programming. New data should be obtained for 2014 from the same sources once published. A common baseline is suggested not to be feasible, due to the large difference in numbers.

**The target applies for each side of the border.

*** Kosovo Agency of Statistics (2012) Series 3.Economic Statistics. Hotel Statistics Q4-2011, and State Statistical Office 1012 (MK)

Result 2.3: The identity of the programme area is strengthened through the enhancement of cultural and natural heritage values

Indicator	Unit	Baseline 2014	Target 2022	Source
2.3.1 Visitors (disaggregated by gender and age) visiting supported natural and cultural heritage sites	number	0 No data	+ 5%	Project reports, AIR
2.3.2 Share of young people (disaggregated by gender) in the eligible areas participate in the cultural events	percentage	0	5%	Project reports, AIR
2.3.3 Supported new products commercialised by the handicraft sector	units	0	10	Project reports, AIR
2.3.4 Young people and women participating in new creative industries	percentage	No data	+ 5%	National labour market statistics

The target groups will be (i) individuals and households; (ii) small business enterprises working in the hospitality sector; (iii) NGOs and (iv) public organisations. The potential applicants under this thematic priority should be:

- ✓ Local Government Units (Regions, Municipalities and other Settlements);
- ✓ Professional tourism associations;
- ✓ Professional cultural associations;
- ✓ Chambers of Commerce;
- ✓ Central and local historic and cultural institutions/agencies;
- ✓ Vocational Education and Training Centres;
- ✓ SMEs;
- ✓ Schools and other youth education and supporting organisations ;
- ✓ NGOs.

Thematic Priority III: Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management

Environmental issues remain a big concern in the programme area, in particular air and land pollution from industrial activity. Waste collection and processing is suffering due to lack of investments and insufficient use of new technologies. There is a need for co-ordination between local government units, public utilities and other actors to ensure that proper actions are taken to ensure efficient use of water resources and more important proper management of water and waste waters, in order to contribute to protection of natural resources, environment and improve citizens health and life.

This could be achieved by increasing cross border co-operation in terms of promoting initiatives that support joint and harmonised actions addressing soil & water pollution and improving water and waste water management systems and infrastructure, as well as soil protection.

The specific objective to be met under this thematic priority is as follows:

Specific Objective: Joint efforts to address environmental pollution issues in the area are enhanced

For this purpose, the following non-exhaustive list of indicative activities is foreseen:

- Development of harmonised plans of actions to address soil contamination in a sustainable way;

- Development of joint design of plans and measures for improvement the quality of water flows through protection of water from different sources of contamination; Support preparation of feasibility studies for future investments in solid waste, water and sewage systems;
- Small infrastructure works and procurement of equipment in the fields of solid waste and wastewater, sewage systems;
- Exchange of good international practices between local authorities on management of solid waste, water and sewage systems; and
- Awareness measures on implementation of environmental standards in solid and wastewater, sewage and water protection.

Expected results to be reached under this specific objective are as follows:

Result 3.1: Future interventions to address environmental pollution are well coordinated and harmonised

<i>Indicator</i>	<i>Unit</i>	<i>Baseline 2014</i>	<i>Target 2022</i>	<i>Source</i>
3.1.1 Areas/ sites at risk of soil contamination covered by joint harmonised plans/studies .	percentage	0	30%	Annual environmental reports
3.1.2 New initiatives that introduce good practices/ new international practices in the area of solid waste and/or wastewater/sewage systems management	units	0	3	Project reports, AIR

Result 3.2: The management of solid waste and wastewater as well as sewage systems is improved

<i>Indicator</i>	<i>Unit</i>	<i>Baseline 2014</i>	<i>Target 2022</i>	<i>Source</i>
3.2.1 Dwellings/households served in the collection of solid waste in the cbc area as a result of programme intervention	number	0	500	Project reports, AIR
3.2.2 New initiatives that introduce good practices/ new international practices in the area of solid waste and/or wastewater/sewage systems management	number	0	3	Project reports, AIR

The target groups will be: (i) individuals; (ii) business organisations; (iii) NGOs; and (iv) public organisations. The potential applicants under this thematic priority should be:

- ✓ Local Government Units (Regions, Municipalities and other Settlements)
- ✓ Chambers of Commerce;
- ✓ Water and waste management authorities;
- ✓ Central and local spatial planning institutions;
- ✓ Public Utility Entities;
- ✓ Natural Parks administration;
- ✓ Environmental sector related institutions;

- ✓ NGOs; Etc.

Priority IV: Technical Assistance

In addition to the 3 thematic priorities, the programme will provide technical assistance aiming at, amongst other purposes, reinforcing the administrative capacity of the authorities and beneficiary institutions/organisations implementing the programme. The following represents the specific objective to be met under this thematic priority:

Specific Objective:

The specific objective of the technical assistance is 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. It also supports awareness-raising activities at domestic level in order to inform citizens in both IPA II beneficiaries. Moreover, as experience has shown under the programming cycle 2007-2013, 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 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 establishment and operation of a Joint Technical Secretariat (JTS) based on the territory of Kosovo and possibly an Antenna Office in the former Yugoslav Republic of Macedonia. The JTS will be in charge of the day-to-day management of the programme and will be reporting to the OS and JMC.

Intended results:

4.1. The administrative support to the Operating Structures (OS) and Joint Monitoring Committee (JMC) of the programme is enhanced

This priority will secure a smooth programme implementation during all its phases. It includes the availability of the financial means and the deployment of qualified staff in charge of assisting the Operating Structures and the Joint Monitoring Committee, as well as establishing and enforcing management, monitoring and control mechanisms and procedures. If required, it will also contribute to the preparation of the successive financial cycle (2021-2027).

Result indicators:

Indicator	Unit	Baseline 2014	Target 2022	Source
4.1.1 Average share of beneficiaries satisfied with the programme implementation support ^{13**}	Percentage	0	60 %	Survey

4.2. The technical and administrative capacity for programme management and implementation is increased

This priority will also provide opportunities for improving the competences and skills of the management structures of the programmes, as well as of the potential applicants and grant beneficiaries. Specific capacity building activities will be planned and executed on the basis of identified needs in the course of the implementation of the programme. As part of the lessons learned

¹³ Requires a regular and simple survey using a standard questionnaire with closed types of questions.

from the programme cycle 2007-2013, (i) an increased participation of the JMC members in the tasks stipulated under the IPA II legal framework will be expected; (ii) the capacity of potential applicants to develop sustainable cross-border partnerships will be enhanced; and (iii) the capacity of grant beneficiaries to satisfactorily meet the obligations of their contracts will be reinforced.

Result indicators:

<i>Indicator</i>	<i>Unit</i>	<i>Baseline 2014</i>	<i>Target 2022</i>	<i>Source</i>
4.2.1 Average increase in the number of proposals received within each consecutive call ¹⁴	percentage	90 *	+ 45%	AIR
4.2.2 Average increase in the number of concept notes that would qualify for further assessment	percentage	50*	10 %	AIR

* No of proposals received under the first Call for Proposals for the 2010 – 2012 allocation

4.3 The visibility of the programme and its outcomes is guaranteed.

The CBC programmes have been very popular in the eligible areas thanks, amongst other things, to the visibility actions undertaken during the 2007-2013 programme cycle. Looking at the number of applicants in subsequent calls, it has been noted that there is an increasing interest for cooperation initiatives. These achievements should be maintained and even improved during the implementation of the financial perspective 2014-2020. A variety of communication channels and publicity tools should be developed to ensure regular information between programme stakeholders and a wider audience.

Result indicators:

<i>Indicator</i>	<i>Unit</i>	<i>Baseline 2014</i>	<i>Target 2022</i>	<i>Source</i>
4.3.1 People participating in promotional events	Number	98*	300	AIR
4.3.2 Visits to the programme website	Number	0**	15000	AIR

* AIR 2013

** The current programme website is under construction and for the time being has no tool to measure the visitors

Type of activities:

A non-exhaustive list of potential activities covered by the technical assistance allocation would

¹⁴ Please note that in the financial perspective 2014-2020 possible tailored/strategic Calls for Proposals are envisaged with clear focus and/or certain requirements regarding potential beneficiaries. Also, Calls for Proposals might use the rotating principle for the selection of thematic priorities (TP) and their specific objectives and in that respect the number of proposals might not necessarily be increased. For these reasons, the potential expected increase in the number of applications received could be calculated for each consecutive call individually and will be affected by a factor that could be calculated based on: 1) Total financial envelope available, 2) Thematic priorities, specific objectives and results included in the Call for Proposals, 3) Minimum and maximum amounts of grants allowed, 4) Number of applications and grants allowed per applicant/co-applicant/affiliated entity and 5) Any other special provisions influencing various eligibility criteria applicable for a specific call for proposals.

include:

- Establishment and functioning of the Joint Technical Secretariat and its Antenna.
- Organisation of events, meetings, training sessions, study tours or exchange visits to learn from best practice of other territorial development initiatives
- Participation of staff of the management structures in Western Balkans or EU forums
- 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
- 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
- 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.
- Support to the work of the Joint Task Force in charge of preparing the programme cycle 2021-2026

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

- Programme management structures, including the contracting authorities
- Potential applicants
- Grant beneficiaries
- Final project beneficiaries
- General audience

An overview of the programme strategy and monitoring indicators is presented in the table below.

OVERVIEW OF THE PROGRAMME STRATEGY AND MONITORING INDICATORS

Specific Objective	Results	Indicators*	Types of Activities (indicative)
Priority I: Enhancing competitiveness, business and SME development, trade and investment			
<p><u>Specific Objective 1</u></p> <p><i>Labour market skills and access to international market are improved</i></p>	<p>1.1 Employment opportunities enhanced among young and marginalised groups</p>	<p>1.1.1 VET programmes introduced in the curricula based on CBC assessment for addressing market skills needs</p> <p>1.1.2 Share of unemployed women, youth and RAE population included in the targeted group employed</p> <p>1.1.3 Share of the new SMEs established in the cross border areas that are owned by young people and members of marginalised groups</p> <p>1.1.4 Share of the new SMEs established in the cross border area are owned by women</p>	<ul style="list-style-type: none"> • Actions to identify labour skills becoming a bottleneck for further businesses development and competitiveness • Development and delivery of advanced training programmes for sectors where lack of particular skills is identified, targeting in particular youth and women groups • Joint actions targeting to strengthen the co-operation in field of education and VET qualifications • Actions to contribute to increasing access to employment of youth people and women, with a particular focus on marginalized areas • Actions that foster entrepreneurship thinking and promote entrepreneurship skills among young and women • Actions to promote and encourage social entrepreneurship
	<p>1.2 Opportunities to intensify cross-border trade are grasped while upgrading services for access to regional and international markets</p>	<p>1.2.1 Share of participating business organisations introduced new e-business and e-marketing applications</p> <p>1.2.2 Share of export to regional markets for the companies participating in the programme supported activities</p> <p>1.2.3 Products produced in the CBC area under the CBC regional logo</p>	<ul style="list-style-type: none"> • Development of e-business and e-marketing of products and services with an international perspective • Upgrading entrepreneurial skills and development of information services for international commercialisation • Support joint activities for the organisation of and participation at trade fairs, exhibitions for products and services at local, regional and international level • Support to SMEs and start-ups in accessing new markets • Actions for development of cross border regional branding and promotion, aiming to strengthen cross border region identity in specific sectors and increase the quality of regional products • Actions for development of cross-border markets, regionalisation and internationalisation (including fresh produce markets) • Application of advanced international marketing models

* All indicators are based on and refer to programme support interventions.

Specific Objective	Results	Indicators	Types of Activities (indicative)
Thematic Priority II: Encouraging tourism, culture and natural heritage			
<p>Specific objective 2</p> <p><i>Tourism potentials are enhanced and regional values further promoted</i></p>	<p>2.1 New tourism opportunities exploited and tourism sector capacities increased</p>	<p>2.1.1 Number of new joint tourism offers, products and/or services introduced in the programme area</p> <p>2.1.2 Target groups (disaggregated by gender and age) establishing new business initiatives in tourism and hospitality</p>	<ul style="list-style-type: none"> • Design and development of joint tourism offers, products and services • Actions to encourage entrepreneurship in tourism sector • Actions seeking for synergies between recreation tourism, nature tourism and business and rural tourism
	<p>2.2 Tourism products' and services' quality is improved</p>	<p>2.2.1 Tourists in the programme region</p> <p>2.2.2 Students from the eligible areas participating in supported VET programmes related to tourism</p>	<ul style="list-style-type: none"> • Exchange of best models and practices in the hospitality industry, in particular actions aiming at introducing new management models and improving service quality • Small scale improvements of tourism, transport infrastructure, restoration and/or preservation of cultural, natural and historical sites and procurement of equipment • VET programmes and extracurricular activities in schools dealing with the hospitality industry • Know-how transfer on entrepreneurship, new technologies, marketing and promotion through involvement of third parties from countries with advanced developed hospitality industry sector
	<p>2.3 The identity of the programme area is strengthened through the enhancement of cultural and natural heritage values</p>	<p>2.3.1 Visitors (disaggregated by gender and age) visiting supported natural and cultural heritage sites</p> <p>2.3.2 Share of young people (disaggregated by gender) in the eligible areas participate in the cultural events</p> <p>2.3.3 Supported new products commercialised by the handicraft sector</p> <p>2.3.4 Young people and women participating in new creative industries</p>	<ul style="list-style-type: none"> • Reinforcement of the existing networks amongst cultural institutions (i.e. museums, historical centers, theatres, libraries, etc.) and/or establishment of new ones • Development of joint programmes for protection, promotion and management of cultural assets, and for safeguarding the most valuable cultural heritage monuments and sites • Youth initiatives on cultural exchange for promotion of cultural heritage with a particular focus of youth living in rural areas, minorities and vulnerable groups • Support to the commercialisation of new artists' and artisans' products • Promotion of creative industries with particular focus on youth and women related initiatives

Specific Objective	Results	Indicators	Types of Activities (indicative)
Priority III: Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management			
Specific Objective 3 <i>Enhance joint actions to address environmental pollution issues in the area</i>	3.1 Future interventions to address environmental pollution are well coordinated and harmonised	3.1.1 Areas/ sites at risk of soil contamination covered by joint harmonised plans/studies . 3.1.2 Number of new initiatives that introduce good practices/ new international practices in the area of solid waste and/or wastewater/sewage systems management	<ul style="list-style-type: none"> • Development of harmonised plans of actions to address soil contamination in a sustainable way; • Development of joint plans and measures for improvement of the quality of water flows through protection of water from different sources of contamination; • Support preparation of feasibility studies for future investments in solid waste, water and sewage systems;
	3.2 The management of solid waste and wastewater as well as sewage systems is improved	3.2.1 Dwellings/households served in the collection of solid waste in the cbc area as a result of programme intervention 3.2.2 New initiatives that introduce good practices/ new international practices in the area of solid waste and/or wastewater/sewage systems management	<ul style="list-style-type: none"> • Small infrastructure works and procurement of equipment in the fields of solid waste and wastewater, sewage systems • Exchange of good international practices between local authorities on management of solid waste, water and sewage systems • Awareness measures on implementation of environmental standards in solid and wastewater, sewage and water protection.

Specific Objective	Results	Indicators	Types of Activities (indicative)
Priority IV – Technical Assistance			
<p>Specific objective 4</p> <p><i>The administration and implementation of the CBC programme is efficient and effective</i></p>	<p>4.1 The administrative support to the Operating Structures (OS) and Joint Monitoring Committee (JMC) of the programme is enhanced</p> <p>4.2 The technical and administrative capacity for programme management and implementation is increased</p> <p>4.3 The visibility of the programme and its outcomes is guaranteed</p>	<p>4.1.1 Average share of beneficiaries satisfied with the programme implementation support</p> <p>4.2.1 Average increase in the number of proposals received within each consecutive call</p> <p>4.2.2 Average increase in the number of concept notes that would qualify for further assessment</p> <p>4.3.1 People participating in promotional events</p> <p>4.3.2 Visits to the programme website</p>	<ul style="list-style-type: none"> • Establishment and functioning of the Joint Technical Secretariat and its Antenna. • Organisation of events, meetings, training sessions, study tours or exchange visits to learn from best practice of other territorial development initiatives • Participation of staff of the management structures in Western Balkans or EU forums • 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 • 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 • 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. • Support to the work of the Joint Task Force in charge of preparing the programme cycle 2021-2026 • Other

3.3 HORIZONTAL AND CROSS-CUTTING ISSUES

The underlying aim of EU environmental policy is to enhance natural capital, promote efficient economy and safeguard people's health. The programme puts an emphasis on protection of the nature and landscape, defining interventions that promote environmentally sustainable development in the longer term.

Improving **environment** and contributing to improving people's health is part of the programme strategy, mirrored directly through the second thematic priority – "Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management". This priority includes specific activities focused on environmental protection and sustainable use of resources. Development of joint programmes on reducing environmental pollution, establishment and harmonisation of effective solid and water waste collection and processing systems, as well as activities that will contribute to future improvements on public solid and water waste management systems and facilities, aimed at ensuring a better and clean environment.

The stakeholders' consultations indicate a low awareness among population and in particular among the business community across the borders on the 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.

The horizontal objective of **sustainable development** will be an important issue that will be taken into consideration during the joint project selection process, as well as during their implementation.

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. The foreseen actions under thematic priority 1 and 2, 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 economies and social life of the border regions. In the framework of the activities foreseen under these priorities extra efforts will be made to involve women, minority groups as well as disadvantaged groups, as much as possible in the various training programmes, 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.

Projects prepared under the Area Based Development (ABD) approach to facilitate sustainable growth in defined geographical areas in cross-border regions in the Western Balkans, in particular rural areas characterized by specific complex development problems, may be considered for funding under this cross-

border cooperation programme. Account will be taken of the preparatory work for the ABD approach already carried out in the cross-border region covering Kosovo and the former Yugoslav Republic of Macedonia.

SECTION 4: FINANCIAL PLAN

Table 1 shows the indicative annual amount of Union contribution to the cross-border cooperation programme for the period 2014-2020. Table 2 provides an indicative distribution of the allocations per thematic priority as well as an indication on the maximum amount of Union co-financing

Table 1: Indicative financial allocations per year for the 2014-2020 cross-border cooperation programme

Year	IPA II CBC programme Kosovo-the former Yugoslav Republic of Macedonia							Total (EUR)
	2014	2015	2016	2017	2018	2019	2020	2014-2020
CBC operations (all thematic Priorities)	840 000	1 200 000	1 200 000	840 000	1 200 000	1 200 000	1 080 000	7 560 000
Technical Assistance	360 000	0	0	360 000	0	0	120 000	840 000
Total (EUR)	1 200 000	1 200 000	1 200 000	1 200 000	1 200 000	1 200 000	1 200 000	8 400 000

Table 2: Indicative financial allocations per priority over 2014-2020 period and rate of Union contribution

PRIORITIES		IPA II CBC programme–Kosovo - the former Yugoslav Republic of Macedonia			
		Union contribution	Beneficiary/ies co-financing	Total funding	Rate of Union contribution
		(a)	(b)	(c) = (a)+(b)	(d) = (a)/(c)
TP.1	Enhancing competitiveness, business and SME development, trade and investment	2 352 000	415 059	2 767 059	85%
TP.2	Encouraging tourism, culture and natural heritage	2 856 000	504 000	3 360 000	85%
TP.3	Protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management	2 352 000	415 059	2 767 059	85%
P.4	Technical Assistance	840 000	0	840 000	100%
GRAND TOTAL		8 400 000	1 334 118	9 734 118	

The Union contribution has been calculated in relation to the eligible expenditure, which is based on the total eligible expenditure including public and private expenditure. The Union co-financing rate at the level of each thematic priority shall not be less than 20% and not higher than 85% of the eligible expenditure.

The co-financing of the thematic priorities will be provided by the grant beneficiaries. Grant beneficiaries should contribute with a minimum of 15% of the total eligible expenditure.

The amount dedicated to technical assistance shall be limited to 10% of the total amount allocated to the programme. The Union co-financing rate shall be 100%.

Funds for the thematic priorities will be committed through Commission Implementing Decisions covering one to three years allocations, as appropriate. Funds for technical assistance will be committed through a separate Commission Implementing Decision.

SECTION 5: IMPLEMENTING PROVISIONS

The overall aim of the cross border programme is to implement high quality, result oriented projects with a clear added value and of a strategic nature, relevant for the cross border programme area.

As a main rule, this programme will be implemented through calls for proposals (CfP). The Joint Monitoring Committee will be responsible for identifying the thematic priorities, specific objectives, target beneficiaries and specific focus of each call for proposals which shall be endorsed by the European Commission.

Based on the priorities defined for each call for proposals, specific elements in order to achieve operations with high level cross-border impact will be defined. Indicatively, the calls are planned to be organised taking into account these elements (among others):

- a) General calls for proposals (open to all interested operators that are normally eligible for the activity(ies)). In the case of general calls for proposals, the JMC may limit each call for proposals to one or maximum two thematic priorities per call;
- b) Targeted calls for project proposals narrowing the target group of potential project beneficiaries.

For the purpose of increasing efficiency and results of the programme, the intended results will rotate in subsequent calls for proposals following a model similar to the one illustrated in the table below:

Round of CfPs	Specific objectives	Type of CfPs
First	<p>Specific objective 1, result 1.1. Employment opportunities enhanced among young and marginalised groups</p> <p>Specific objective 2, result 2.3. The identity of the programme area is strengthened through the enhancement of cultural and natural heritage values</p>	General CfP
Second	<p>Specific objective 1, result 1.2. Opportunities to intensify cross-border trade are grasped while upgrading services for access to regional and international markets</p> <p>Specific objective 2, result 2.1. New tourism opportunities exploited and tourism sector capacities increased</p> <p>Specific objective 2, result 2.2. Tourism products' and services' quality is improved</p>	Targeted CfP
Third	<p>Specific objective 3, result 3.1. Future interventions to address environmental pollution are well coordinated and harmonised</p> <p>Specific objective 3, result 3.2. The</p>	Targeted CfP

Round of CfPs	Specific objectives	Type of CfPs
	management of solid waste and wastewater as well as sewage systems is improved	

During the preparation of the programme no strategic projects have been identified. However, during the programme implementation period it might be considered to allocate part of the financial allocation of the programme to one or more strategic projects. The identification of strategic projects will depend on whether specific interest is demonstrated by both IPA II beneficiaries to address specific strategic priorities which clearly follow objectives of both sides and prove to have a clear cross-border impact.

Strategic projects can be selected through calls for strategic projects. They can also be selected or outside call for proposals. In the latter case the programme partners will jointly identify and agree on any strategic project(s) that will be approved by the JMC at the appropriate moment along the programme implementation. After the identification and confirmation of the strategic approach by the responsible authorities and the JMC, relevant institutions (lead institutions for strategic projects) will be invited to submit their proposals in the form of terms of reference, technical specifications or bills of quantities. In that event, after being proposed and approved by the JMC and endorsed by the Commission, the CBC programme must be amended to incorporate such a strategic project.

In both cases the received proposals will be evaluated on the basis of pre-defined and non-discriminatory selection criteria. Strategic projects shall deliver clear cross border impacts and benefits to the border area and its people. The strategic project(s) selected should achieve in particular a specific objective foreseen under the programme and will have a mutual strategic importance for both Kosovo and the former Yugoslav Republic of Macedonia. The following shall also be observed: relevance and contribution of the project for the programme specific objectives and expected results, maturity and feasibility of the project sustainability of results.

The selection of strategic projects must be based on the project maturity level. A project may be considered "strategic" because, even though it affects a limited territory in the programme area, it rebuilds or completes networks or deals with matters of general interest to the entire area, thus encouraging overall cooperation among the communities.

The strategic projects produce long-lasting effects and shall produce durable changes and effects that extend beyond the cross border area and beyond current project content.

A strategic project related to building infrastructure has to be selected for financing only if the preconditions are in place i.e. feasibility study, detail design and land expropriation completed. The appropriate procurement procedures will be applied for purchasing works, supplies and/or services.

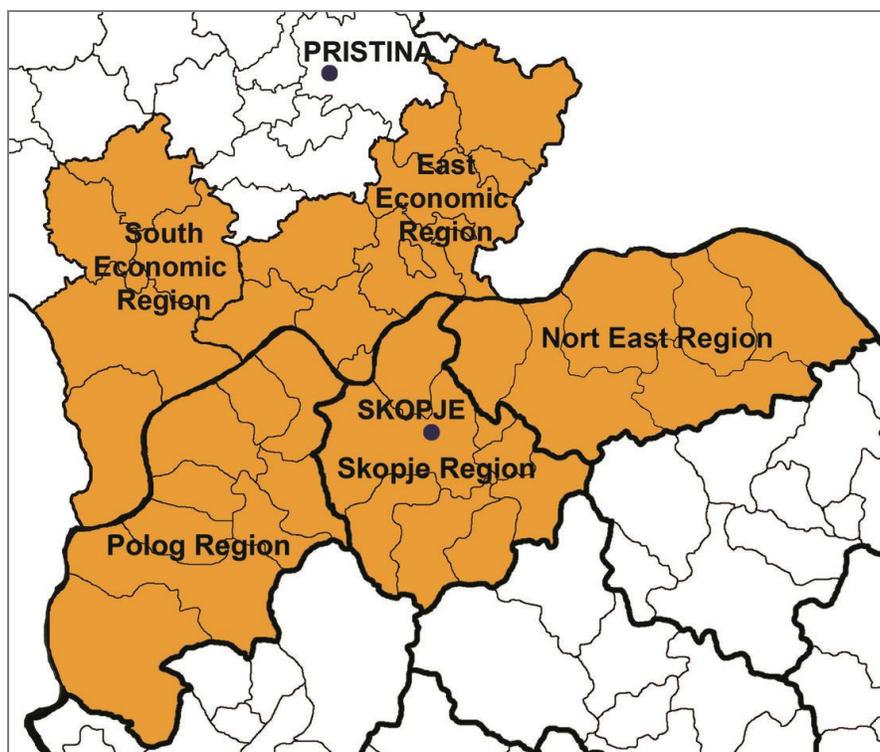
ANNEXES

ANNEX 1: DESCRIPTION AND ANALYSES OF THE PROGRAMME AREA

Description of the programme area

The eligible bordering area for the IPA Cross-Border Programme between Kosovo and the former Yugoslav Republic of Macedonia includes five regions.

Figure 1: Map of the Programme area



The eligible area of the former Yugoslav Republic of Macedonia includes three Regions: the Polog, Northeast and Skopje Regions. It consists of 32 municipalities plus the city of Skopje including 518 settlements (six towns and 512 villages¹⁵).

- **Polog Region** (eligible area) includes nine municipalities: Bogovinje, Brvenitsa, Gostivar, Jegunovtse, Mavrovo and Rostusha, Teartse, Tetovo, Vrapchishte, and Zhelino.
- **Northeast Region** (eligible area) includes six municipalities: Kratovo, Kriva Palanka, Kumanovo, Lipkovo, Rankovtse and Staro Nagorichane.

Skopje Region (eligible area) includes 17 municipalities: Arachinovo, Chucher-Sandev, Ilinden, Petrovets, Sopishte, Studenichani, and Zelenikovo. The City of Skopje is an administrative unit and also includes 10 municipalities: Aerodrom, Butel, Chair, Centar, Gazi Baba, Gjorche Petrov, Karposh, Kisela Voda, Saraj, and Shuto Orizari.

¹⁵ Source: Law on the Territorial Organization of the Local Self-government, art. 12.

The three eligible areas in the former Yugoslav Republic of Macedonia are organized based on the NUTS III level regions¹⁶.

The **Kosovo part of the programme area** includes two economic regions and 17 municipalities with a total of 529 settlements:

- **East Economic Region** (*eligible area*), is composed of the municipalities of Gjilan/Gnjilane, Kamenicë/Kamenica, Viti/Vitina, Novobërdë/Novo Brdo, Ferizaj/Uroševac, Kačanik/Kaçanik, Shtërpçë/Štrpce, Hani i Elezit/ Elez Han, Ranillug/Ranilug¹⁷ Partesh/Parteš¹⁸ and Kllokot/Klokot¹⁹.
- **South Economic Region** (*eligible area*), is composed of the municipalities of Prizren, Suharekë/Suva Reka, Malishevë/Mališevo, Dragash/Dragaš, Rahovec/Orahovac, and Mamusha/Mamuša.

Kosovo has not yet introduced the NUTS system, therefore the eligible areas are based on the "*Economic Region*" definition, which is equivalent to NUTS level III.

Table 1: Main data on territory and population

	Area (km ²)	% of the total territory	Population	% of the total population
The former Yugoslav Republic of Macedonia	25,713	100%	2,062,294	100%
Cross-border area	6,538	25%	1,103,825	54%
Polog Region	2,416	9%	317490	15%
Northeastern Region	2,310	9%	175560	9%
Skopje Region	1,812	7%	610775	30%
Kosovo	10,908	100%	1,815,606	100%
Cross-border area	4,314	39%	748,140	41%
East Economic Region	2,298	21%	351,449	19%
South Economic Region	2,016	18%	396,691	22%
TOTAL Cross-border area	10,852		1,851,965	

The entire programme area has a total surface of 10,852 km², of which 60.25% is in the former Yugoslav Republic of Macedonia and 39.75% in Kosovo. The total population of the programme area is 1,851,965 inhabitants, representing 47.76 % of the total population of both, the former Yugoslav Republic of Macedonia and Kosovo. 40.40% of the programme area population lives in Kosovo and 59.60% lives in the former Yugoslav Republic of Macedonia.

¹⁶ The Government of the former Yugoslav Republic of Macedonia adopted in 2007 the Nomenclature of Territorial Units for Statistics-NTES (Official Gazette N.158/2007)

¹⁷ New Municipality, established on 5 January 2010, based on Article 5 of the Law Nr. 03/L-041 on Administrative Municipal Boundaries

¹⁸ New Municipality, established on 19 August 2010, based on Article 5 of the Law Nr. 03/L-041 on Administrative Municipal Boundaries

¹⁹ New Municipality, established on 8 January 2010, based on Article 5 of the Law Nr. 03/L-041 on Administrative Municipal Boundaries

Reform Policies

The Government of the former Yugoslav Republic of Macedonia is implementing the sixth Pre-Accession Economic Programme (PAEP), covering the period 2012-2014²⁰. The PAEP 2012-2014 builds on the Government Programme (2011-2015), the National Programme for the Adoption of the Acquis, the Stabilisation and Association Agreement and the national and sectoral strategies. The programme outlines the main economic challenges and priorities for the period 2012-2014, that are: (i) continuous improvement of the business environment, (ii) support to entrepreneurship and SMEs, as main promoters of dynamic economic growth and unemployment reduction, (iii) promoting human capital and ensuring stronger link between supply and demand on the labour market and (iv) increased export support and promotion. Rule of law, as a foundation of the democratic society, is one of the basic criteria for the country's integration in the EU and NATO. A comprehensive strategic framework has been developed²¹ focusing on increasing efficiency and integrity of the judiciary, strengthening of the rule of law, fight against corruption and respect for fundamental rights focussing on the full implementation of the Ohrid Framework Agreement. Inter-community dialogue is an important element for strengthening the democracy and enhancing tolerance in the country. In addressing the problems between ethnic communities, efforts are being made to address inter-ethnic challenges in a spirit of mutual respect and tolerance²².

Kosovo's economic policies are aimed at a sustainable economic development, as formulated in the Programme of the Kosovo Government (2011 – 2014), which states that “the main generator of economic growth will be private investments and further development of entrepreneurship.” “Private sector development strategy 2013 – 2017” further defines the basis for economic policies for the upcoming years. These policies consist of three main pillars: (i) development, support, and promotion of investments and businesses; (ii) improvement of free movement of goods and of the internal market regulation; and (iii) advancement of trade policies. The private sector strategy states that reforms in legislation are a prerequisite for the removal of administrative barriers, which in turn would spur investments and support the development of private sector.” Creating a multi-ethnic and inclusive society, providing opportunities for development, participation and welfare of all individuals, regardless of their ethnicity, religion, gender, age, physical and mental abilities, cultural and ideological orientations, remains a major challenge for Kosovo's society. The government is implementing several reforms in the area of integration of RAE²³ community in education, labour market and improving their health and living conditions. As part of social inclusion policies the government has embarked on a special programme for supporting a sustainable return and reintegration of displaced persons and the economic reintegration of communities²⁴. One particular and rather negative element directly related to border crossing is human trafficking. The reforms in this area

²⁰ This programme is the predecessor of the Convergence Programmes the Member States prepare within the Stability and Growth Pact.

²¹ The strategy for the Police Reform, the Strategy for Fight against Corruption, the Strategy for Integrated Border Management, and the Framework for Further Development of the Judiciary 2014-2017

²² Source: EC Progress Report on the Implementation of Reforms within the framework of the High Level Accession Dialogue and Promotion of Good Neighbourly Relations". COM(2013) 205 final.

²³ Roma, Ashkali and Egyptian Communities

²⁴ The main priorities of the government programme stipulated in the Strategy for Community and Return 2009-2013 aimed at: (i) improving the capacity to further stimulate economic development in Kosovo, ensuring equal development opportunities for all communities; (ii) ensuring financial resources for supporting requirements for stabilization and integration of communities, including returnees.

are focused²⁵ on 1) preventing trafficking, 2) protecting the victims of trafficking, and 3) prosecuting the traffickers.

Relationship with the European Union

The relations of Kosovo and the former Yugoslav Republic of Macedonia with the European Union (EU) are at different stages. This is a reflection of different historical, economic and social developments of each of them :

- The former Yugoslav Republic of Macedonia has the status of Candidate Country, a status granted by the European Council in December 2005.
- Kosovo has the status of Potential Candidate.

Stabilisation and Association Process

The Stabilisation and Association Process remain at the core of the relationship between the EU and the two beneficiaries.

The Stabilisation and Association Agreement (SAA) **between the former Yugoslav Republic of Macedonia and the EU** was signed in April 2001 and entered into force in April 2004. The country has been implementing its commitments with the EU under the SAA including all the obligations related to the first stage of implementation of Title V (Movement of workers, establishment, supply of services, capital). In 2009 it was passed to the second stage of implementation on the SAA. A *High Level Accession Dialogue* (HLAD) was launched by the government and the Commission on 15 March 2012. The purpose of the HLAD is to inject new dynamism into the EU accession reform process, thereby strengthening confidence and boosting the country's European prospects. The HLAD focuses on five key areas: protecting media freedom of expression; strengthening the rule of law; reforming public administration; improving the election process; and developing the market economy.

The Stabilisation and Association Process Dialogue (SAPD), between **Kosovo and EU** was launched following the 2009 Commission Communication: *Kosovo – Fulfilling its European Perspective*. The SAPD has proven to be an essential tool in mobilising, discussing and prioritising Kosovo's overall European reform agenda. The visa liberalisation dialogue with Kosovo was launched in January 2012, establishing a core framework for Kosovo to adopt and implement reforms in the rule of law area. A draft of the Stabilisation and Association Agreement between the EU and Kosovo was initialled by the Chief negotiators at the end of July 2014.

Good neighbourhood relation is also one of the most important areas discussed by both HLAD and SAPD.

²⁵ The policy against trafficking is laid down in the "National Strategy and Action Plan against Trafficking in Human Beings 2011-2014" by the Ministry of Interior.

Economic Features of the Eligible Areas

Economy

Both beneficiaries are members of CEFTA²⁶. The former Yugoslav Republic of Macedonia is also part of the WTO²⁷ and EFTA²⁸. Several agreements and protocols of cooperation have been signed between the beneficiaries in the area of border control, customs, culture, road and railway transport, etc²⁹.

As in all world economies, the global financial crises impacted the economy of both beneficiaries, despite the different effects it had on the economic growth. The Gross Domestic Product(GDP) in Kosovo peaked at the level of 7.5% in 2008, declining at 2.5% in 2012³⁰. Despite such diminishing trends, the annual average growth rate of Kosovo has been the highest among other Western Balkan countries³¹ in the last four years³², whereas the economic downturn has affected mostly the economy of the former Yugoslav Republic of Macedonia, which had a slower development trend with the lowest growth rates in 2009 and 2012.

The GDP per capita in Kosovo in 2011 was 2,721 EUR, making it poorest in Europe. With a very slight difference, the GDP per capita of the former Yugoslav Republic of Macedonia is 3,641 EUR³³. Both beneficiaries remain far below the EU average with more than 60% for the former Yugoslav Republic of Macedonia and less than 70 % for Kosovo.

There are big discrepancies³⁴ between the regions in terms of their contribution to the economic growth, measured percentagewise in the national GDP: Skopje region is by far the main contributor to the national GDP with 42.4 %, while the North-eastern region, with 5.5³⁵ % has the lowest share. Skopje region has also the highest GDP per capita in the country (index 144) while Polog region has the lowest GDP per capita (47.3³⁶) immediately followed by the North-Eastern region (65.2). In Kosovo, there are no data on GDP contribution by regions, or GDP per capita.

Employment: The most pressing issue for both beneficiaries is unemployment, and the impact it has on poverty. Despite the progress, unemployment in Kosovo remains high³⁷. Data from the statistical office confirm that the number of people seeking a job in the East Economic Region is the lowest (21 %), compared to the South Economic Region with 29%. Unemployment rate in the former Yugoslav Republic of Macedonia in 2012 was 31 %. The most affected region is the Northeast Region, where the

²⁶ Central European Free Trade Agreement

²⁷ World Trade Organisation

²⁸ European Free Trade Association

²⁹ Source: Ministry of Foreign Affairs of Kosovo

³⁰ Effect of the global crises on the Kosovo economy have been at lesser degree due to the low level of integration into the financial market and low export's base (MTEF 2014-2020).

³¹ IMF Country Report No. 223, June 2013

³² World Bank, "SEE Countries Regular Report, "From Double-Dip Recession to Accelerated Reforms", December 2013

³³ The latest data published by the Statistical State Office in "Macedonia in Figures" 2012,

³⁴ Source: State Statistical Office " Regions, 2013"

³⁵ Source: State Statistical Office 2011

³⁶ GDP index as calculated by the State Statistical Office 2011

³⁷ Unemployment rate in 2009 was 45.4% declining in 2012 to 30.9%.

unemployment rate is 52.8 %, or 70 % higher than the country's average. Similar to Kosovo, underdeveloped and rural areas are most affected by unemployment.

Foreign Direct Investment: Due to the effect of the global crisis and the problems in the Eurozone, the Foreign Direct Investments' (FDI) contribution declined in both beneficiaries in the period 2008-2011, and picked up again in 2012³⁸. The contribution of FDIs is mostly in exports, which by end-2012 accounted for more than 55 % of all exports of the former Yugoslav Republic of Macedonia. Most FDI-related exports are connected to the automobile industry and include goods such as catalysts and electronic dashboard components. Kosovo has attracted over 1 billion of FDI during the past three years. Following the peak in 2007 with 440 million Euros of FDIs, and as a result of the global financial crisis, there was a small decrease in 2008 and 2009. In 2011, the positive FDI trend in Kosovo continued.

Both governments are pursuing policies for attracting foreign investors, but different challenges need to be addressed in order to create proper conditions for FDIs. In Kosovo insufficient capacities of institutions and organizations supporting development of the private sector; difficulties in implementation of laws related to the private sector's development field; and low levels of technological and "know how" based development, are some of the challenges affecting the FDI sector too³⁹. Due to the lack of statistical data, it is not possible to provide a clear picture on the impact of FDIs in specific regions.

Human resources

Education, Research and Development

In all regions of the programme area education is provided at three levels: primary, secondary and university. Primary and secondary levels of education are mandatory in the former Yugoslav Republic of Macedonia, while in Kosovo only primary education is obligatory.

The total number of schools in the **primary education** for the area is 858 out of which 459 in Kosovo and 399 in the former Yugoslav Republic of Macedonia. The total number of pupils is 235,430, out of which 112,683 in the area of the former Yugoslav Republic of Macedonia, and 122,747 in the area of Kosovo (see Table 4 in Annex 3).

Education of the ethnic communities, in their mother tongue, is a constitutional right and is provided at all levels in the former Yugoslav Republic of Macedonia⁴⁰. Primary and secondary education is also provided in Albanian and (depending on the concentration of ethnic minorities) in Serbian, Bosnian, and Turkish. In Kosovo, education of the ethnic communities is under the attention of the government as well. Particular provisions of education services to RAE⁴¹ community and incentive schemes are being used to attract the

³⁸ The net contribution of the FDI in the former Yugoslav Republic of Macedonia reached 6.5 percent in 2008, declined somewhat over 2009–10, while in 2012 the FDI contribution to the GDP was only 1% "*National Bank of Macedonia*"

³⁹ Strategy for Development of Pre-University Education in Kosovo 2007-2017.

⁴⁰ See Amendment VIII of the Constitution of the former Yugoslav Republic of Macedonia.

⁴¹ Roma - Ashkali - Egyptian

RAE community into education.⁴²

The cross-border area in the former Yugoslav Republic of Macedonia, in terms of school buildings for secondary education, is well covered by educational infrastructure, while in Kosovo, there is a disproportion between the number of schools and the population concentrated in a particular area, a discrepancy created due to the lack of proper planning of interventions after the war. As a result, in some areas there are free infrastructure capacities, while in other areas schools are overcrowded⁴³ with pupils, and teaching is provided in three or four shifts. This situation coupled also with the lack of infrastructures in terms of teaching laboratories and didactic tools makes the teaching conditions difficult and impacts negatively the quality of education. Teacher- training needs also to be improved.

It is recognised that infrastructure of education has been improved over the past years, but regional disparities remain in both beneficiaries. Some children in some rural areas of the former Yugoslav Republic of Macedonia do not receive primary education and the early school-leaving rate remains high, particularly among Roma⁴⁴. In Kosovo the illiteracy rate in the programme area is comparable to the overall average of 3.85⁴⁵.

There are several public universities and accredited private institutions for higher education in the cross-border area⁴⁶. There is cooperation and there are synergies between universities in the bordering area, in particular between the public and private universities in Tetovo with the public and private universities in the two Economic Regions of Kosovo on the exchange of academic staff and joint elaboration of teaching programmes. Cooperation in various fields such as online teaching is ongoing, mainly due to no language barriers. The higher education system is facing big challenges in Kosovo. Despite being a priority of the government the quality of the higher education system does not address the market demands⁴⁷. The infrastructure is well developed in both beneficiaries; curricula should be improved in order to orient the studies towards market demands and particularly in Kosovo, education quality must be improved.

The level of GDP allocated to **Research and Development (R&D)** in both beneficiaries is far below the EU average, as presented in figure 2 below. The main research potentials in all fields in the programme area are located at "Ss. Cyril and Methodius" University in Skopje and the public universities "Ukshin Hoti" in Prizren and "Kadri Zeka" in Gjilan/Gnjilane. Recent studies emphasize that the entire higher education system in Kosovo is characterised by a marginalisation of scientific research, which holds true even in the case of this University⁴⁸. Despite several problems and deficiencies,

⁴² "Implementation of grade nine of lower secondary education, measures of positive discrimination for minority students (25 % more funds allocated for every minority student compared to funds for majority Albanian students and 30 % more teachers hired for minorities for the same number of majority students" (See Strategy for Pre-university education in Kosovo" 2007-2017).

⁴³ The number of pupils per class is between 40 & 50, while the Kosovo-wide standard is between 30& 32 pupils per class.

⁴⁴ EC: "Enlargement strategy and main challenges 2012-2013"

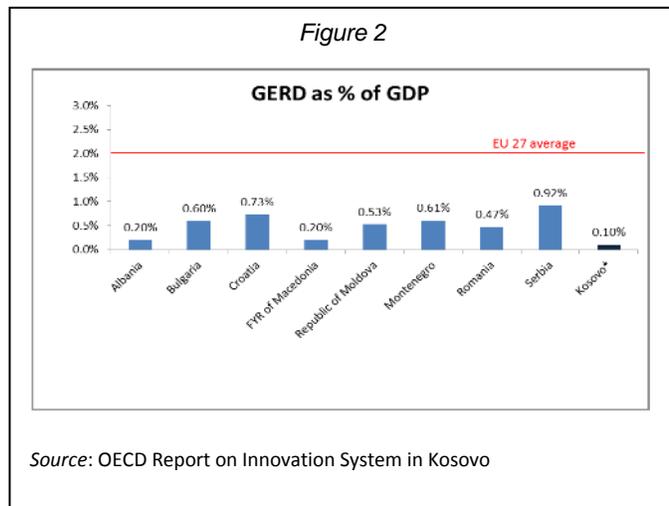
⁴⁵ Age 10 and above cannot read and write (no completed education)(2011)

⁴⁶ Seven universities in Skopje, 2 universities in Polog Region, public universities in Prizren and Gjilan/Gnjilane as well as the Faculty of applied science in Ferizaj/Uroševac and one private university in Polog

⁴⁷ OECD Report "Assessment of the Kosovo Innovation System in Kosovo: March 2013"

⁴⁸ OECD Report "Assessment of the Kosovo Innovation System in Kosovo: March 2013"

R&D⁴⁹ and innovation is starting to be considered as an element of economic growth, and governments' attention is being turned to this area with the scope of enhancing quality assurance mechanisms and increasing awareness about the importance that linkages between science and industry could have in the development of a knowledge-based society and economy. The private sector has some strength, including the existence of some innovative firms and business support agencies as well as some pilot co-operations between the industry and academia. However, the extent and level is limited.



Knowledge transfer should take place both locally and across the border, as well as between different sectors. Business incubators, clusters and business centres⁵⁰ are operating in both beneficiaries, but recent analyses indicate that since they were originally created by donors, they face serious sustainability problems once donor funding comes to an end. There are no tax incentives for companies that invest in R&D and innovative activities. In addition, most private firms do not have the capacities to engage in collaborative research projects or to absorb funding from research institutions. Therefore, it is recommended to build up research capacities and support business-oriented networks and knowledge flows, rather than commercialize the research activities. Increased focus on entrepreneurial learning, necessary for all levels of education, is also important.

Labour market and poverty

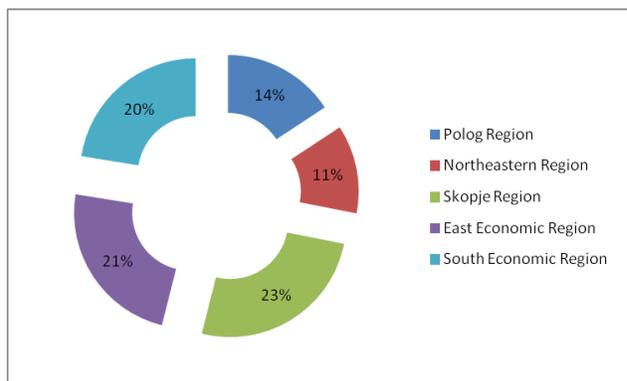
The labour market presents an unfavourable situation and a clear picture of region imbalances. Employment rate for Kosovo in 2012 was 29.5 % and in the former Yugoslav Republic of Macedonia 39 %. According to recent studies, one in two active people in the labour market in Kosovo is unemployed while in the former Yugoslav Republic of Macedonia one in three⁵¹. The average unemployment level in 2012 (see table 5 in Annex 3) in the whole programme area is approximately 37%. The regions being more affected by unemployment are the East Region (22% of total population) and Northeast Region, with an unemployment rate of 52.8%. In Kosovo, the unemployment rate in the same year was 30.9. Despite the fact that the activity rate for the former Yugoslav Republic of Macedonia has not changed in the last three years, the activity rates for the three regions of the programme area have slightly declined. There is not a big discrepancy in the activity rate of the two beneficiaries, being 56.9 % in Kosovo and 56.5 % in the former Yugoslav Republic of Macedonia.

⁴⁹ The lack of a cohesive innovation policy is detrimental to activities related to science, technology and innovation in Kosovo. Other weaknesses of the current system include weak capacities of institutions and a lack of support for linkages between innovation actors.

⁵⁰ APPRM network of 12 business centres. These centres have qualified and experienced, albeit generalist, business consultants.

⁵¹ Western Balkans Investment Framework: "Challenges to useful employment policy in the region: Discussion paper"- November 2012.

Figure 3: Unemployed people versus. total population



The female employment rate is low in Kosovo, where this level is 10.7%. The female unemployment rate is 40%, while the unemployment ratio among young people (age 15-24) is extremely high 55.3%⁵². In the former Yugoslav Republic of Macedonia this rate in 2011 was 30.8% (6.4% lower than in 2006). A similar situation occurs regarding urban and rural areas, with rural areas suffering from high unemployment.

The labour market structure differs between the regions. The service sector (14.46%) followed by manufacturing (10.23%) has the biggest

share in Kosovo, while in the former Yugoslav Republic of Macedonia the manufacturing sector (19.5 %) has the greatest share, followed by the agriculture sector (17%). Small and Medium Enterprises (SMEs) represent more than the 98% of the business entities in Kosovo, which indicates that Kosovo must look for development of sectors with greatest potential. Specific measures need to be taken to support the organic growth of the micro-enterprise sector and their progressive transformation into high-value adding entities⁵³. In terms of regions, the structure differs, with the Skopje and East Economic Region dominating the service market, and the South Economic Region with agriculture and service market sharing the same level close to 16%.

Poverty level data are also worrying. Poverty indicators in Kosovo have deteriorated instead of improving over the years. Official statistical data in 2012, according to preliminary reports, estimate that about 34.5% of the population live in general poverty and about 12.1% live in extreme poverty⁵⁴. The level of poverty in the rural areas is higher than in urban areas, while between males and females the poverty level in 2011 was almost the same⁵⁵. The number of families and individuals receiving social welfare assistance is higher in the East Economic Region. Similar is the situation in the former Yugoslav Republic of Macedonia, where the poverty rate reached 30.9% in 2010, having a very slight decline by 0.2% compared to 2009. The most vulnerable groups are multi-member households (47.3% of the poor people live in households with 5 and more members). The poverty rate for the unemployed is 41.8%. Roma community is particularly affected by poverty and social exclusion because of a range of factors such as lack of education and unemployment. Consequently, the rate of poverty among RAE population is approximately three times higher than at the national level (approximately 88%).

The social protection system provides support to a substantial part of the population in both programme areas. The households receiving social transfers in the cross border area counts for 45% of total households receiving social assistance in the beneficiaries. Skopje and the East Economic Region have

⁵² Source: World Bank, Results of the Kosovo Labour Force Survey 2012

⁵³ UNDP reflections on results of the Labour Force Survey 2012 (May 2013)

⁵⁴ The Household Based Survey for 2011 estimated that 29.7 percent of Kosovo's population lived below the poverty line, with 10.2 percent of the population living below the extreme poverty line (Kosovo Agency of Statistics).

⁵⁵ In 2011, 30.3 percent of females in Kosovo live in poverty in comparison to 29.2 percent of males, a one percentage point difference. From 2009 to 2010 poverty rate declined slightly more for males than females. However, the reverse was experienced from 2010 in 2011 when poverty increased more for male than female individuals, albeit by a small difference.

the largest share of households receiving social assistance, respectively 42% and 56% of the total cross-border area.

Industry and trade

Kosovo and the former Yugoslav Republic of Macedonia are small open economies. The **foreign trade** balance is significantly dominated by the imports in both countries. In Kosovo the volume of import in 2011 was EUR 2,492 million, compared to EUR 319 million of exports⁵⁶, while in the former Yugoslav Republic of Macedonia, the volume of export was EUR 2,961 million and the volume of import EUR 4,818 million. Manufactured goods (52.9%) and crude materials (25.4%) are the most exported categories in Kosovo, while machinery, transport equipment and mineral fuels represent the highest share of the total volume of import in the former Yugoslav Republic of Macedonia. In the former Yugoslav Republic of Macedonia, industrial supply is the most important category for both exports (52.3%) and imports (42.7%)⁵⁷.

In 2011, the export of Kosovo to the EU markets shared 42.8% of exports, while for the former Yugoslav Republic of Macedonia exporting to the EU markets is predominating, with a total share of 60.39%⁵⁸.

Trade relations between both beneficiaries have shown an increasing trend over the years⁵⁹. The volume of export from Kosovo to the former Yugoslav Republic of Macedonia increased by 78% in 2011 compared to 2007. This represents 9.7% share of the total export⁶⁰. The import from Kosovo to the former Yugoslav Republic of Macedonia represents a 4.6% share of the total imports⁶¹. After Germany, Kosovo is the second trade partner on the export exchange for the former Yugoslav Republic of Macedonia, sharing 12.35% of the total export. The imports from Kosovo count for only 0.19 % of the total imports⁶². Both beneficiaries are import-dependent and with negative trade balances.

In the cross border area, the Skopje⁶³ Region is the region which is providing the highest contribution in the **industry sector**. The activity is concentrated in food industry, textile, printing and metal.

Construction industry provides the highest contribution for the Skopje and Northeast regions. Production is dominated by large companies which participate with over 51% of the total production, contributing with a GVA (Gross Value Added) share of 42 % at the country level. In the Northeast Region, small enterprises are the basis of the regional economy, as they account for about 70% of the total production in the non-financial sector as well as in the total number of employees. In Polog Region, SMEs are even more prevalent representing 98% of the registered enterprises, mainly concentrated in Tetovo and Gostivar.

⁵⁶ Source: Ministry of Trade and Industry <http://www.invest-ks.org/en/Export-Import-in-Figures>

⁵⁷ Data refer to 2011. Source: State Statistical Office, Publication "Commodity International Exchange, 2011"- Statistical Review 2011 - Foreign Trade of the former Yugoslav Republic of Macedonia and the Ministry of Trade and Industry of Kosovo.

⁵⁸ Increased in 2012 at 62.78%.

⁵⁹ The former Yugoslav Republic of Macedonia signed in 2005 a free trade agreement with UN Mission in Kosovo which was replaced in 2006 with the membership of both beneficiaries in the Central European Free Trade Agreement (CEFTA).

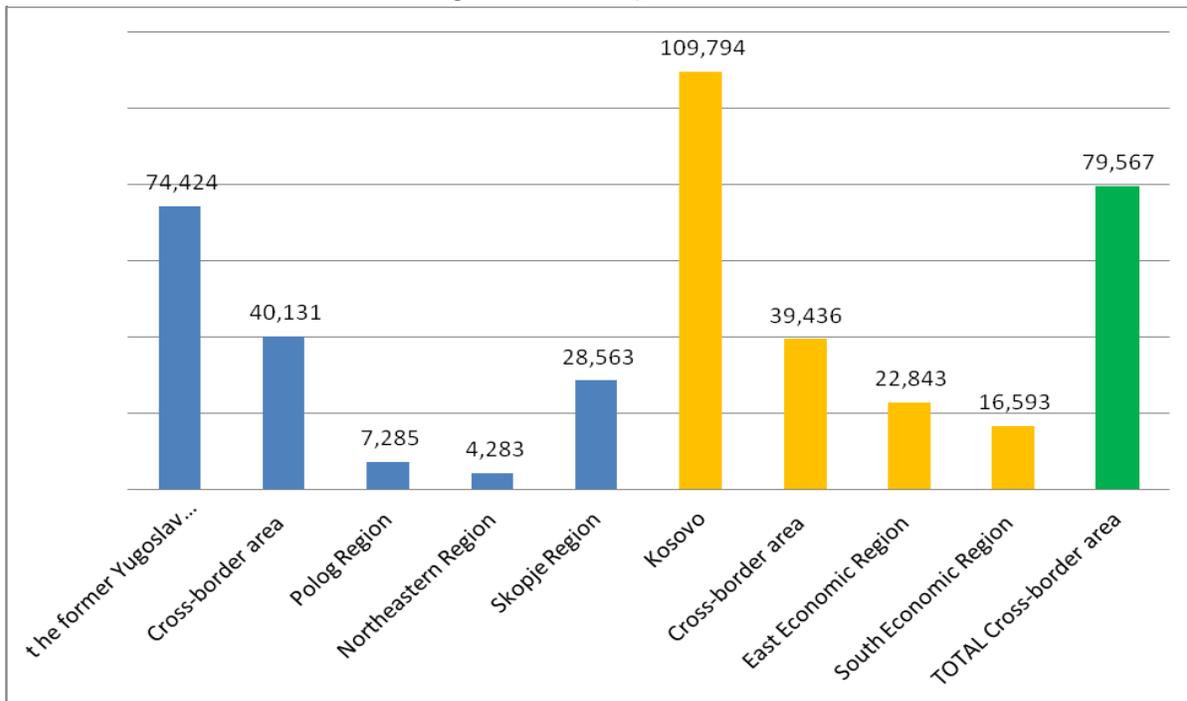
⁶⁰ According to Accounting Data for 2011, from the Kosovo Statistical Office

⁶¹ Data from the Kosovo Agency of Statistics.

⁶² Source: T-13.3: Commodity exchange by economic groups of countries

⁶³ Most important sectors are: automotive and metal processing industry, information and communication technology, pharmaceutical, food processing and beverages, printing, construction, trade, logistics and business services.

Figure 4: No. of registered SMEs



Trade companies are largely prevailing, followed by small processing industries and textile, transport, storage and construction companies⁶⁴. In the Kosovo eligible area, the number of enterprises with industrial activity constitutes a small number e.g. 14% in the East Economic Region. SMEs represent more than 99% of the total number of enterprises in the Kosovo eligible area. Their share in GDP amounts to more than 50%⁶⁵.

Tourism industry: The possibilities for short term development of tourism in the programme area are real, but remain moderate. In the former Yugoslav Republic of Macedonia the participating regions are suffering from the competition from the southern regions, highly attractive and having already a well developed tourism infrastructure. Statistical data for 2012 reflect this situation: the programme area, in the former Yugoslav Republic of Macedonia counts only for 13% of the beds available in the whole country (9% only for Skopje Region) and only 19% of the hotel nights. The Polog Region and even more the North eastern Region are obviously underequipped and tourism there is more a virtuality than a reality. 20 % of tourists visiting Kosovo in 2011 visited the East and South Economic Regions. The South Economic Region has a smaller number of hotels compared to the East Economic Region, hence a lower rate of visiting tourists.

There are many opportunities for further tourism development in the programme area, thanks to the existence of the ski centers (Polog Region already well known, Mavrovo and Popova Shapka near Tetovo). The South Economic Region has a great potential for tourism development with Sharr/Šar Mountains having hundreds of meters of skiing areas, as well as the mountains of Koritnik and Pashtrik/Paštrik in Dragash/Dragaš with a potential for hiking and hunting. The East Economic Region has

⁶⁴ Source: Draft Regional Development Programme of Polog planning region

⁶⁵ Central Bank of Kosovo - 2011

Brezovica, the biggest ski resort in Kosovo. Spa centers exist in all the regions, such as the thermo-mineral spa in Klllokot/Klokot (Kosovo) and the Katlanovo and Proevska Spa in the former Yugoslav Republic of Macedonia. The programme area has rich historical and cultural heritage, authentic ethno villages as well as valuable environmental resources and remarkable natural sites in each region. There are opportunities to develop rural tourism, eco tourism, mountain tourism, cultural tourism, etc.

But the tourism sector, as a potential for economic growth is at a very early stage of development and significant investments are necessary in order to upgrade the infrastructures and quality of services. The Travel & Tourism Competitiveness Report 2013 ranks the former Yugoslav Republic of Macedonia⁶⁶ at the 75th place, (one place higher compared to 2011). Based on the evaluation of this report, the country performs well on price competitiveness (ranked at the 46th place), regulatory framework (ranked at the 56th place), but it is not performing well on human, cultural and natural resources (rated at the 100th place out of 140 economies). Compared to European countries, the former Yugoslav Republic of Macedonia is ranked at the 35th place out of 41 countries reviewed.

Agriculture Sector

Agriculture sector contribution to the GDP counts for 14% in Kosovo and 8% in the former Yugoslav Republic of Macedonia. Despite being the second sector contributing to the GDP, its contribution to the export volume is only 8%⁶⁷. Kosovo is still an importer of many agricultural products (22% of overall imports in 2011).

The agricultural land in the programme area of over 600,000 ha is shared between the former Yugoslav Republic of Macedonia (374,180 ha⁶⁸) with 61% and 39 % in Kosovo (236,147 ha⁶⁹). The majority of agriculture land in Kosovo is privately owned (88.6%).

The Polog Region is the biggest contributor to the agriculture sector in the former Yugoslav Republic of Macedonia with 11% contribution to the national GVA level. Livestock sector is very important for this area and for the whole rural area. Thus, the management and preservation of the pastures is a major economic and environmental issue for the cross-border area and should be addressed jointly by the beneficiaries. Dairy products, mainly cheese, are produced in the farms and sold at the local markets. Meat products, mainly lamb, have a much longer distribution circuit as most of the production is exported. These products, because of their specificity and quality, could play an important role in the economy and visibility of the cross-border area and as such, they should be supported. Agriculture in the Skopje Region is oriented towards the market of the capital city. As for the North-eastern Region, there is diversified agriculture where crop production and cow farming occupy most of the arable land. Herbiculture in an open field (carrots, potatoes, green peppers, etc.) and fruit production is also an important activity. The Skopje and North-east Regions are harvesting 16% of the grape produced in the country and wine production is increasing. In the Northeast Region, cattle-breeding and organic productions are considered to be the most promising agricultural activities⁷⁰. Although major food-processing units are operating in Kumanovo, Tetovo and Skopje, the sector is still much less developed than in the southern part of the country where

⁶⁶ Kosovo is not yet included in the annual review. The total number of evaluated countries is 140.

⁶⁷ The data includes agriculture and agro-processed products.

⁶⁸ The Polog Region participates with 44%, the Northeast with 39% and the Skopje Region with 16.7%.

⁶⁹ East Economic Region 43% and South Economic Region 57%.

⁷⁰ Source: Draft Programme for the Development of the Northeastern Planning Region

the availability of raw material is also much higher. The South Economic Region is the main producer of high quality agricultural products in Kosovo, with a big contribution in export. Viniculture is typical for this region, with the large production in Rahovec/Orahovac, Suharekë/Suva Reka and Prizren. The Dragash/Dragaš municipality is well-known for the medicinal plants, 90% of which is exported in the western European countries.

Cooperation with Kosovo in the sector of agriculture is being intensified through initiatives undertaken by the farmer unions and also through the LAGs established in Kosovo and in the former Yugoslav Republic of Macedonia in 2009.

The size of the farms in the programme area is small, with an average of 1.5- 1.6 ha, which presents an obstacle for using agro-technologies and advanced machineries. Continuous bottlenecks affect the sector in Kosovo⁷¹. In order to address the situation the government has approved the Agriculture and Rural Development Plan 2009-2013.

Social Development of the Eligible Area

Demography

The total population living in the programme area amounts to 1,851,965 inhabitants. Since 2010 the number of inhabitants in the cross-border area has declined by 16% as a result of migration. The average density of population in the cross-border area is 179 inh/km², with the South Economic Region in Kosovo and the Skopje Region in the former Yugoslav Republic of Macedonia having the highest density of population, while the Northeast Region in the latter country has a density of 75.9 inh/km².

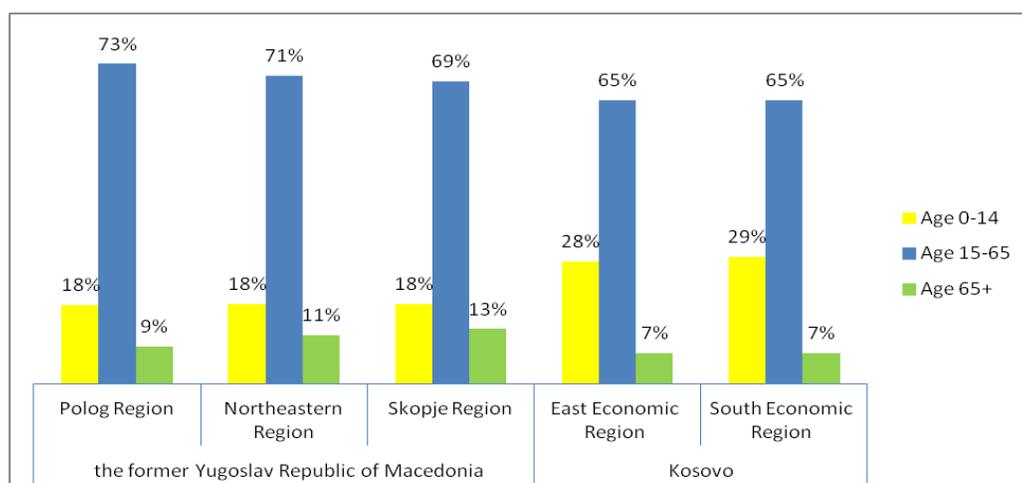
The Skopje and Polog regions also count for more than 60 % of the total natural population increase in the country. Internal and external migratory movements have had a significant impact on the demographic structure of the programme area. Several municipalities on the Kosovo side (especially Prizren, and Gjilan/Gnjilane) report a significant increase of their population in recent years. Kosovo and the former Yugoslav Republic of Macedonia are known for the ethnic diversity of their populations (see table 7 in Annex 3).

The programme area continues to be characterized by a low **urbanisation** level and a predominance of rural population. In the eligible regions of Kosovo, 66% of the population is classified as rural. In the former Yugoslav Republic of Macedonia, almost 70% of the population in the Polog Region and 44% in the North-eastern region live in rural areas (table 6 in Annex 3).

In Kosovo, the population living in rural areas has a relatively young age structure, with children (under 14 years old) accounting for nearly 1/3 of the total rural population, and the youth group (15-29 years old) composing 24% of the total population. In the former Yugoslav Republic of Macedonia, the Polog region has a relatively similar structure, with 31% of its population under the age of twenty. The situation in the other regions is closer to the national average (25.6%).

⁷¹ According to the Agriculture and Rural Development Plan 2009-2013 the main bottlenecks in the agriculture sector are: (i) low level of efficiency and use of outdated farm technologies; (ii) small average farm size and fragmented agricultural production; (iii) low quality of agricultural produce; (iv) processing of agricultural products is fragmented, (v) food safety and environmental problems.

Figure 5: Age structure of the population at the cross-border area



The movement of population from rural to urban areas continue. Data for 2012 indicate that the Skopje Region has the larger percentage of internal migration in 2012 at the ratio of 20%. Data reported for 2012 for the former Yugoslav Republic of Macedonia indicate that the highest percentage of emigration⁷² in 2012 took place in the Polog Region (12 % of total population emigrated in 2012).

The population growth tendency is declining. In 2006, the natural increase index for the former Yugoslav Republic of Macedonia was 1.9, while in 2011 it declined to 1.6. Average fertility rate in 2011 in the former Yugoslav Republic of Macedonia is 1.46, while in the programme area the Skopje Region has the highest ratio of 1.71, followed by the Northeast Region with 1.48. The Skopje Region has also the highest ratio of natural increase based on 2011 data with an index 4.3, while the Northeast Region has an index of 1.4, below the country average of 1.6 (table 9 in Annex 3). Life expectancy, although improving, is significantly below the EU averages, while the average infant mortality in the eligible area is higher than in the EU.

Health Services

Health care in the former Yugoslav Republic of Macedonia is relatively easily accessible (geographically, economically and time-wise) for the population, because it is delivered within a widespread network of health care institutions⁷³. Despite the accessibility, the situation in the area has a big contrast with big centers well covered with health services and facilities, while the remote areas have an underdeveloped system. The Skopje Region is well covered by primary, secondary and tertiary health services (although it is less the case in the rural municipalities which are part of the Skopje Region). The situation in the Polog and Northeast Regions is less favourable. The population in these regions benefits from the presence of towns such as Tetovo, Kumanovo, Gostivar, with a relatively high concentration of health services, at least for primary and secondary health services. The network of health care institutions at the secondary level is widespread, with certain differences in terms of space capacity and availability of staff and equipment, but it does not function as an integrated and coordinated system. There is a notable disparity between urban

⁷² GVG on behalf of EC: Social Impact of Emigration and Rural-Urban Migration in Central and Eastern Europe; Final Country Report : The Former Yugoslav Republic of Macedonia, 2012

⁷³ This makes it possible for around 90% of the population to get a health service in less than 30 minutes

and rural areas where the medical staff is reported to be insufficient, presenting an unbalanced situation between supply and demand. Most people seeking care use emergency services (55%) followed by hospitals (19%) while primary health care system is less used. It appears there are too many hospitals per patient⁷⁴, and productivity is low⁷⁵.

In the Kosovo bordering area, municipal health care faces difficulties of poor infrastructure, lack of investments and insufficient budget resources for offering appropriate health services. The East Regional Hospital is based in Gjilan/Gnjilane, where there is also a municipal Health Centre providing primary and secondary service through a network of 13 mobile and 18 smaller clinics. The Gjilan/Gnjilane municipality also hosts two psychiatric institutions. A regional hospital in Prizren is the main hospital centre for the South Region offering medical services to the population in the area. Public Health Houses and Family Health Centres are established in all towns. Minority communities living in the bordering area have equal access to the health care system (see table 10 in Annex 3 for number of health care institutions).

Social Services

There are a total of 311 kindergartens and pre-school institutions situated in the programme area, the majority of them situated in the Kosovo regions (see Table 11 in Annex 2). In the cross-border area of Kosovo, there are 18 kindergartens and 267 preschool institutions providing services for 10,172 children⁷⁶. Twenty-six kindergartens offer services to 15,581 children in the eligible area of the former Yugoslav Republic of Macedonia, where pre-school education is implemented only in kindergartens. The ratio between the numbers of children and teachers is high in particular in the South Economic Region of Kosovo.

In the former Yugoslav Republic of Macedonia, an innovative and well-targeted social safety net is being established⁷⁷. The Social Financial Assistance Program, supported by the World Bank, is helping to reduce the inter-generational transmission of poverty by linking benefits to the fulfilment of standards for secondary school enrolment and attendance. The CCT⁷⁸ benefits will be extended to improve outcomes in kindergartens and primary-schools, job trainings and adult education, and the health sector, particularly through programs designed for mothers and children (see table 12 in Annex 2 for number of households receiving social assistance benefits).

Civil Society

The number of Civil Society Organisations (CSOs) in both beneficiaries is increasing and institutional and legal framework has recently improved. The number of registered CSOs in the former Yugoslav Republic of Macedonia in 2010 was 11,350. The ratio of urban to rural CSOs is 10:1. Poor and socially marginalised

⁷⁴ Similarly, the hospital occupancy rate was only 54 percent, compared with averages of 78 percent in the EU15 and 74 percent in the new member states. Average length of stay in hospital is 11.8 days, and bed occupancy rate is extremely low compared to European average (51.5% for all inpatient facilities, including long-stay and institutional care facilities).

⁷⁵ World Health Organization "Country Partnership Strategy - *at a glance*" 2011

⁷⁶ Kosovo Agency for Statistics: Series 5: Social Statistics. Statistics for Kindergarten and Preschool education 2011-2012

⁷⁷ World Bank: Country Partnership Programme, 2012

⁷⁸ The former Yugoslav Republic of Macedonia is implementing a Conditional Cash Transfer (CCT) for secondary school attendance targeting the poorest layers of the population

groups are insufficiently represented by civil society. In Kosovo there are currently 6,815 registered local NGOs, but according to the authorities only 10% of them are active⁷⁹.

An institutional framework motivating civic activism and promoting voluntarism is established in both beneficiaries. There are different characteristics of civil society, their form of organisation and participation in the political, social and decision making process. While in the former Yugoslav Republic of Macedonia the participation of the citizens in the CSOs as volunteers is a characteristic of this sector, in Kosovo only registered CSOs operate. In July 2011 the Government of the former Yugoslav Republic of Macedonia adopted and announced the Code of Good Practices for the participation of CSOs in policy creation with the intention to introduce a regular and systematic approach to the involvement of CSOs in policy making. The level of participation of the civil society in Kosovo is higher, with participation of very active CSOs in strategy formulation process⁸⁰.

The level of trust that citizens have in civil society varies depending on civil society sectors, with humanitarian and charitable organisations enjoying the highest level of trust among citizens and advocacy and democratisation organisations at the bottom.

CSOs Networks: key NGOs from Kosovo and the former Yugoslav Republic of Macedonia are cooperating under the umbrella of Regional networks, the most important being the Balkans Civil Society Network, officially registered in Skopje and BIRN, the Balkan Investigative Reporting Network with organisations -based in both Kosovo and the former Yugoslav Republic of Macedonia. Other networks are the Civil Society Development Network, the Network of Education Policy Centers, the Regional Commission, and CIVIS, Association of Non-Governmental Organizations of Southeast Europe. The EU funded Technical Assistance for Civil Society Organisations (TACSO) project initiated in 2009 is playing an important role for strengthening capacities and increasing the networking of the civil society organisations in the Western Balkan countries.

Culture and Sport

The historical and cultural heritage is one of the most important assets for the development prospects of the programme. The area is rich in cultural, religious and historical sites and monuments, as well as in its own traditions and folklore. Numerous cultural events and festivals are organized, and there are diversified traditions and handicrafts that could play an important role in the promotion of tourism but which, so far, have been insufficiently well known, underestimated and not exploited. There are also very strong bonds between the populations of the two sides of the programme area, such as a common language for the Albanian speaking population and a common history of cultural and commercial relations and exchanges that have linked these territories and their inhabitants for centuries.

There are several attractive and diversified cultural-historical heritage centres in the area. In the City of Skopje, the stone bridge, the old bazaar, the fortress Kale, Isa Bey's and Mustafa Pasha's mosques as well as the ancient Turkish baths, Daut-Pashim Hamam, are among the most famous. The megalithic observatory Kokino located in the North-eastern Region is included among the most valuable ancient observatories in the world. Valuable monasteries and churches as well as ancient localities and authentic ethno villages also contribute to the specificity of the region. In the Polog region, there are also valuable

⁷⁹ MPA(2013) Department of Registration and Liaison with NGOs

⁸⁰ TACSO Needs Assessment Reports for Kosovo and the Former Yugoslav Republic of Macedonia, October 2011.

monuments to be visited. Among them, in Tetovo, are Arabati Baba Teqe, the Colored Mosque, the old Haman and the castle. The Regional Historic Archive in Prizren and the Ethnographic Museum Archives are also important places for preserving and presenting cultural and historical values in Kosovo. A number of amateur Cultural-Artistic Associations, Writers Clubs, Associations of Painters and NGOs are involved in the sphere of culture and arts. Cinema "Lumëbardhi" in Prizren with its summer garden for projecting movies in the open air, the regional library, regional museum, all play an important role for cultural and artistic life for all communities in the whole bordering area.

There are several institutions in charge of protection, cultivation and presentation of cultural heritage that are active in the bordering area, such as the Memorial Complex of the Albanian League of Prizren (with the Historic Museum, Ethnographic Sector, Art Gallery and Library). In Skopje, there is the National Conservation Center and the National Institution Conservation Center, both competent institutions for the protection of cultural heritage.

Both beneficiaries participate in the Lisbon programme in the area of promotion and protection of cultural heritage. There is a rich historic-cultural-artistic heritage in the bordering area that needs to be preserved.

Joint activities for strengthening capacities of business operators would be important, similar to investing in human resources accommodation capacities and quality. The joint initiative on organising the presentation of a product named '7 Days, 7 Wonders,' which would include a tour in Kosovo, the former Yugoslav Republic of Macedonia and Albania would be a good opportunity for promoting tourism in the bordering area. There are in total 12 sport centers and facilities in the Kosovo area.

Transport and Communications Infrastructure Development

Road Network: Adequate road transport and integration with the networks of neighbouring countries are of critical importance, considering the landlocked geographical position of the area. The programme area is at the crossroads of the pan-European Corridor 8 that links the Adriatic-Ionian region with the eastern Balkans and Black Sea countries, as well as Corridor 10, linking the north and south Balkans. Both beneficiaries are investing substantially, in the road network infrastructure. There are projects aiming to improve both corridors by completing the highway connection between Bulgaria and Durres in Albania and between Skopje and Vranje in Serbia. The road R6 (Prishtinë/Priština - Skopje) and the highway Vermice-Vardar that connects with Corridor 10 will be constructed soon. Improvement of the roads infrastructure and connection to wider European networks will have a positive impact for the economic development of the programme area.

Kosovo's transport system is inadequate in relation to business and trade needs and it is incompatible with European standards in many respects⁸¹. The cost of goods transported between Kosovo and key trading partners is among the highest in the region. Within Kosovo territory the road network density (3.3 km per 1,000 people) lags behind the SEE average (8.6 km per 1,000 people) and quality is poor due to poor construction and inadequate maintenance.

In the former Yugoslav Republic of Macedonia, the national road network is in a relatively good condition and meets European standards. The three regions in the former Yugoslav Republic of Macedonia, including Skopje city, have a total of 410 km of national roads, 1,094 km of regional roads and 3,511 km of local roads. With the support of the Second Trade and Transport Facility project funded by the World Bank

⁸¹ World Bank: Country Partnership Strategy for Kosovo, 2012

continuing efforts to lower transport and freight costs, particularly by improving border crossing facilities, upgrading a road corridor section to motorway standards, and harmonizing and improving telecommunications and cargo data exchange between railways and customs will continue. Due to investments, freight processing times will be reduced and non-tariff trade obstacles between the former Yugoslav Republic of Macedonia and its neighbours will be removed. The local road network in some regions is suffering from improper maintenance, thus, especially during the winter time creating difficulties for normal traffic.

Border crossings: The border line includes two operating border-crossing points. The main point is Blace-Hani i Elezit/Elez Han, on the main road linking Skopje and Prishtinë/Priština, located only 20 km far from Skopje City and 70 km from Prishtinë/Priština. This border crossing point also serves as a customs clearance point. The second border crossing point is in Jazhince / Jažince - Glloboçica/Globočica linking the Polog Region with the towns of Ferizaj/Uroševac and Prizren in Kosovo. This border crossing point is used for people and cars, but it is not yet a customs point. In addition there are two seasonal spot checks for pedestrian and livestock, located in the Skopje region (Tanushevci-Debelde and Strazimi-Restelicë/Restelica) and opened only from April to November.

Railway network: In the former Yugoslav Republic of Macedonia, there is a main railway line in Corridor 10 linking Skopje and Thessaloniki and Skopje and Belgrade through Kumanovo. Another railway line, a non electrified line, links Skopje to Kichevo through the Polog Region on Corridor 8 (serving also Tetovo and Gostivar). Finally a non electrified railway line, re-opened in 2006, connects Skopje to Prishtinë/Priština and potentially to Fushë Kosovë/Kosovo Polje, the border crossing point being Volkovo, which is also the only operational railway in the programme area in Kosovo. Despite the existing network, a downward tendency is noted in the transport of both goods and passengers. Modernization of the railroad infrastructure will be necessary in order to make the railroad network a competitive transportation option contributing to the development of the area. A joint agreement is signed recently by both governments in the area of railway transport.

Airports: There is one international airport in the bordering area, located in Skopje. The international airport of Skopje has been recently reconstructed fulfilling the international standards. Due to the increase of the number of lines and capacities, the number of passengers in the first eight months of 2013 increased by 17.5 % compared to the previous year, with 732,831 passengers transported.

Telecommunication and use of ICT: All towns and most of the villages in the former Yugoslav Republic of Macedonia are connected to the national and international communication network. Statistical data indicate that in average 60% of households have internet access and are using computers. The large number of subscribers is in Skopje region (65%), while the lowest number in the Northeast Region (43 %) ⁸². The situation is less favorable in Kosovo where only 28.7 % of the population has access to the public telephone network ⁸³. The Postal and Telecommunication Company of Kosovo (PTK), as a joint company has three business units: Postal Services of Kosovo, Kosovo Telecom and mobile operator Vala. The three business units of PTK are licensed by the Telecommunications Regulatory Authority of Kosovo. Vala mobile operator already offers various services to its customers covering almost 90% of the territory of Kosovo, offering customers GPRS wireless communication or internet services through a mobile phone.

⁸² Source: The former Yugoslav Republic of Macedonia, State Statistical Office

⁸³ Source; Local Development Strategies, 2008

Geographical Features

The programme area is dominated by the mountains Sharr/Šar and Zheden which constitute most of the border. The highest peak in Sharr/Šar Mountain reaches 2,748 m (Titov Vrh, second highest peak in the former Yugoslav Republic of Macedonia). These mountains, rich in natural pastures, are traditionally dedicated to semi nomadic sheep breeding and most of the inhabitants still directly or indirectly depend on this activity. They contain numerous natural monuments such as 39 glacial lakes (the biggest one being Bogovinsko lake), and spectacular canyons, like the Radika river canyons, offering a high potential for mountain and winter leisure activities. Two ski centres, Mavrovo and "Popova Shapka" near Tetovo, are already well known. Between the Sharr/Šar Mountain and Suva Gora Mountain in the south lies the Polog valley divided by the river Vardar which begins at the upper Polog valley. This valley of fertile land comprises two main towns, Tetovo and Gostivar.

Following Vardar river, south-east of Polog valley, is the capital city and the valley of Skopje. It is a vast basin where 29 % of the population of the former Yugoslav Republic of Macedonia is concentrated. The region is bordered at the North East by the mountain Skopska Crna Gora. The mountainous areas are relatively rich in wood (the forest covers 9.3 % of the Polog Region, 7.1 % of the North-eastern Region and 7.5 % in the Skopje Region).

The Sharr/Šar Mountains extend also over the Kosovo part of the programme area, covering a surface of 1,100 km². This National Park covers four municipalities in two economic regions: Prizren and Suharekë/Suva Reka in the South, Kaçanik/Kaçanik and Shtërpçë/Štrpce in the East.

The South Economic Region's topography is mixed and includes high mountains, valleys and plains. Its mountains have extensive forestlands and natural grazing lands, with a wealthy wild animal life and vegetation. This region has an adequate supply of water and a good quality soil. Archeological findings prove that Prizren, as the center of the region, is one of the oldest cities in Southeast Europe.

The East Economic Region is mainly hilly and mountainous, and has less continuous flat land which is arable. It is well known for the minerals and ores. The mine in Novobërdë/Novo Brdo and its ore is known for very high percentage of minerals containing zinc, lead, silver, gold and copper.

The programme area is at the crossroads of two major pan-European transport corridors (number VIII and X), which link Central Europe to the Adriatic Aegean and Black Seas. This constitutes a major opportunity for the further development of the region.

The programme area is at the crossroads of continental and Mediterranean climates. However, in the most mountainous areas of these regions winters are cold and wet while summers are hot and dry. The temperatures in mountain areas along the border range from -16 to 36 °C. The climatic variations deeply affect the agricultural production. Late spring and early autumn frosts, regular hail phenomena in summer and droughts cause severe damage to the agriculture production.

Environment and Nature

The whole programme area is extremely rich in environmental resources and biodiversity. Both governments are engaged with programmes for protecting the environment and natural resources, thus giving priority to environmental protection issues. Several natural sites are protected or registered under a

specific status⁸⁴ of Strict Nature Reserves: (Ploche Litotelmi; National Parks: Mavrovo (73,088 ha) and Sharri/Šar Mountain (39,000ha)). Skopje has also the natural reserve Jasen and the Vodno mountain. In Kosovo area there are 23 protected areas, or 24% of all those of Kosovo.

Pollution and land degradation are common problems in the programme area. Industrial and transport pollution are impacting air quality and inter-alia the life quality of citizens. In the Polog Region the test of toxic chemicals in the water of rivers shows permanent presence of 6-valent chromium⁸⁵. Recent measures are taken to identify stationary installations for the purpose of future implementation of an emissions trading system, but significant efforts are required to strengthen the country's monitoring, reporting, and verification capacities.⁸⁶ Air pollution is a critical environmental problem also in Hani i Elezit/Elez Han, due to the cement factory SharrCem. This factory is one of the main current air pollution sources in Kosovo⁸⁷. Respiratory diseases and allergies indicate the impact of pollution on the health of the population⁸⁸.

Poor water and sewage management, uncontrolled waste disposal (table 13 and 14 of Annex 3 show the number of landfills and volume of waste disposal), unregulated urbanization, and industrial pollution cause critical environmental damages. There is a risk of de-forestation due to illegal wood cutting; badly managed pastures; rivers and lakes risk pollution from illegal landfills and poor industrial and urban waste management, as well as from the intensive use of pesticides in agriculture.

In Kosovo, the environmental impact on economic growth is serious. Cost of environmental degradation in Kosovo is estimated to be about €223 million, thus creating serious social and economic impacts⁸⁹.

Water supply, waste water, and waste disposal: In the cross border area of the former Yugoslav Republic of Macedonia, 96.5% of households have access to public water supply and sewage systems (municipal or individual system). In the urban areas, the water supply capacities and hygiene quality are satisfactory but the water quality is a concern in many rural areas. Improving waste water treatment and solid waste management (out of the 17 landfills in the former Yugoslav Republic of Macedonia programme area only one meets the required standards) is considered to be a priority in all regions and a matter of environmental protection as well as public health. In the Kosovo bordering area the rural population does not have adequate access to public water supply or sewage systems. Only 21% of the rural population in the Kosovo bordering regions is covered by the public sewage network and only 30.6% of the population in these areas has direct access to the public water supply network.

Energy: different resources of energy generation are used in the area. In Kosovo, thermal energy is the source of energy production.. In the former Yugoslav Republic of Macedonia, energy is produced from different sources, mainly from HPP, but also from biomass (33%), bio-fuels, and geothermal sources. The programme area is rich in hydro potentials. The largest HPP on Šarski/Sharski Vodi and other small HPPs

⁸⁴ Source: the former Yugoslav Republic of Macedonia State Statistical Office, Statistical Yearbook 2009 (data source is Ministry of environment and place planning).

⁸⁵ The towns of Gostivar (5,393,189 m³/year) and Tetovo (6,283,878 m³/year) are ranked right after Skopje (10,457 m³/year) according to the volume of waste water discharged in the river Vardar. The fourth largest emitter of waste water (Veles) discharges two times less waste (See: Development Program of Polog Planning Region 2009 - 2013)

⁸⁶ Source: EC Report 2012. The national management plan for the phase- out of hydrochlorofluorocarbons (HCFCs) was adopted in November 2011.

⁸⁷ Source: Kosovo Ministry of Environment and Spatial Planning: State of the Air Report 2012

⁸⁸ In 2010 in Kosovo approximately 12,500 patients have been treated in the emergency rooms and 25,600 children have been visited due to effects caused by PM₁₀ (WB)

⁸⁹ See: WB: Kosovo Country Environmental analysis, January 2013)

are located in the Polog Region. In Skopje region there are two significant HPPs in River Treska (Kozak and St.Petka).

Both beneficiaries are making efforts to use other alternative resources of energy. In Kosovo the Government and the World Bank are developing a proposed US\$32.5 million Energy Efficiency and Renewables Project, aiming to retrofit public buildings to substantially reduce their energy consumption and strengthen the supply-chain through training of energy auditors, contractors, vendors and equipment suppliers. The Government of the former Yugoslav Republic of Macedonia has prepared a strategy for the RES⁹⁰ setting the target of share of 21% for RES by 2020, through promotion of different kind of energies among others, wind and *solar energy*.

Improved waste management, control of pollution and use of energy resources are amongst the key priorities of the local development plans, in all regions participating in the programme. In both IPA II beneficiaries, environmental protection and monitoring structures are established, but the concern is that their capacities are weak. Transposition of the *acquis* (the former Yugoslav Republic of Macedonia) and alignment to the *acquis* (Kosovo) into domestic legislation is progressing, but not at the required speed.

Institutional Development and Legal Basis

The cross-border programme between Kosovo and the former Yugoslav Republic of Macedonia is primarily based on the mutual recognition of the border demarcation which took place in 2009.

In both beneficiaries the structure of government is divided between central government and local government, represented by the municipalities. There is no other intermediate level of administration existing in other countries like Albania, in the form of regional authorities.

The decentralisation process is a very important process for the cross-border programme as it allows local government units to be fully involved in all aspects of local development. The inter-municipal cooperation framework is developed in both beneficiaries, in addition to the decentralization, allowing and creating enabling environment for many local government units to be engaged in joint initiatives, and with a large number of participating unit.

Both governments are developing policies to ensure the balanced development of the regions. The progressive implementation of a regional development policy is another important pillar for the cross-border programme as it allows large scale development programmes and multiplies the cross-border cooperation possibilities. In the former Yugoslav Republic of Macedonia, the “Law for a balanced regional development” (2007) establishes the need for planning local development on the basis of NUTS III level. It stipulates creation of Regional Development Centres (RDC) in each of the eight regions of the country. RDCs started to be established in 2008. The parliament also adopted a “Strategy for regional development 2009-2019” (Official Gazette 119/2009). Development programmes and strategies have been prepared per each of the regions and they are being implemented: (i) Strategic Plan for the Centre for Development of the Northeast Planning Region for 2013-2017 year (under drafting process); (ii) Programme on Development of the Northeast Planning Region 2009-2014 and (iii) 2009 Programme for the Skopje Region.

With the support of the European Union, under the European Union Regional Economic Development (EURED) programme, five economic zones are created (Central, East, North, South, and West) aiming to

⁹⁰ Source: Strategy for Utilisation of Renewable Energy Sources 2020 , August 2010

address the socio-economic development of Kosovo at the regional level, as well as promoting inter-ethnic integration and reconciliation. With the signature of the Inter-municipal Agreements in December 2008, five Regional Development Agencies (RDAs) were established based on the municipal association and cooperation principle outlined in the Local Self Government Law. The RDAs are becoming a very active player in supporting both municipalities and business community initiatives related to social and economic development. The RDAs have developed mid-term strategies covering the period 2010-2013 with the focus on the economic development of the regions.

Parallel to regional development strategies, the local government units have developed their own strategies. The existence of the strategic framework for local and regional development is crucially important for ensuring synergies on joint interventions, as well as on using the joint initiatives implemented through the cross border programme, for the benefit of the development of the regions and the entire community living in the programme area.

There are several bilateral agreements between the two beneficiaries. A selection of the most relevant bilateral agreements to the programme area and CBC initiatives is listed in the table below:

No	Thematic Sectors	Bilateral Agreements
1	Social sector	- Agreement on confirmation of insurance period for the realization of the pension rights (published 18.03.2013)
2	Infrastructure sector	- Agreement on international road transport of passengers and goods - Agreement on border traffic railway - Agreement on cooperation and mutual assistance in customs matters - Agreement on the opening of a new joint crossing point for international road traffic between the two beneficiaries " Stançiq/ Stančić – Bellanoc/ Belanovce"
3	Tourism and culture	- Agreement on cooperation in the field of culture
4	Business development, trade and investment	- International agreement on the avoidance of double taxation and prevention of fiscal evasion in connection to the tax on income and on capital, - Agreement on economic cooperation

The table below presents the main strengths, weakness, opportunities and threats for future development of the area, analysed according to main thematic sectors.

	STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
EMPLOYMENT, LABOUR & SOCIAL AND CULTURAL INCLUSION	<ul style="list-style-type: none"> • Flexible labour market with the lowest labour costs in Europe • Existing human capacity and a young labour force • Positive trends in population growth • Presence of Vocational Education schools • University Institutions present, to support the development of local knowledge and required market skills • Multi-ethnicity as an advantage for economic, social and cultural inclusion • Policies on social inclusion and integration of communities in place. 	<ul style="list-style-type: none"> • Insufficient development of human resources in certain economic areas • Limited capacities to ensure proper jobs and living condition to returnees • Curriculum not aligned with potential employment opportunities and lack of employment-oriented vocational training • Underdeveloped system of lifelong education • Low level of education of the rural population and socially marginalized groups such as Roma, Ashkali, Egyptians, etc. • Large number of households dependent from remittances 	<ul style="list-style-type: none"> • Capacity building activities for self-employment • Raising human professional capacities • Young population with high potential for creating a qualified and dynamic work force • Develop lifelong education programme • Improvement of the business management and entrepreneurship skills • Improvement of health and other social services • Investment in sport-recreative activities to promote good health 	<ul style="list-style-type: none"> • The labour supply fails to meet the demands of an expanding labour market • High level of poverty and unemployment reduces domestic demand • Overdependence on the international donor community discourages entrepreneurship • Lack of health facilities for patients with special needs, • Lack of sufficient facilities for preschool (kindergarten) • Lack of sufficient sport - recreational centers
ENVIRONMENT AND CLIMATE CHANGE	<ul style="list-style-type: none"> • Rich natural resources available for diversification (waters, mining, forest fruits, etc) • Natural protection programmes ongoing in the area • Environmental strategies and programmes in place • Rich natural biodiversity, attractive environment and diversity of natural landscapes. • Several protected areas and national parks appropriate for the development of eco-tourism • Wide forest areas and quality of the forests • High potential for using renewable energy sources 	<ul style="list-style-type: none"> • Lack of development and strategic planning • Inspection services are not satisfactory • Lack of awareness in private sector related to environmental protection and sustainable development • Low enforcement and weak inspection capacities of environmental agencies • Limited financial resources for investments in solid and water waste collection and treatment • Industrial pollution impacting air, water and land quality • Energy, industry and transport sectors the biggest polluters in the area 	<ul style="list-style-type: none"> • Disaster management systems and emergency preparedness • Improved waste collection and disposal systems • Efficient and sustainable use of natural resources; • Exploitation of mineral resources, opportunities for the production of electricity from water resources, use of natural resources • Development of alternative energy sources as a way to protect the environment • High potential for energy conservation and efficiency 	<ul style="list-style-type: none"> • Development of industrial activity, without measures to protect the environment • Lack of waste water treatment plants and obsolete water supply network • Use of hazardous materials in construction (asbestos roofs, radioactive lightning rods) • Lack of controlled measures on gas emission, negative impact to the population health • Inconsistent application of the legislation in the area of concessions to exploit natural resources

	STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
TRANSPORT & PUBLIC INFRASTRUCTURES	<ul style="list-style-type: none"> • Participation to the Corridor 8 and 10 important for commuting with other regions/countries • Existence of international airports in the cross border area • Infrastructure sector priority receiving high priority in terms of public investments • Ongoing programmes for improving road and rail networks in both beneficiaries • Easy connections by road and railway networks 	<ul style="list-style-type: none"> • Inadequate state of the road infrastructure • High costs of maintaining this infrastructure • Inadequate utility infrastructure in economic and industrial zones • Inadequate roads and infrastructure for economic-technological areas • Underdeveloped infrastructure in some urban and rural areas • Urban plan incomplete • Lack of detailed urban plans • Incorrect application of the standards for urban planning 	<ul style="list-style-type: none"> • Development of alternative sources of energy • Utilization of hydro-geothermal resources and alternative energy resources • Modern infrastructure and construction of Corridor 8 and Road R6 • Easier movement of people and goods through improved roads and new (including re-opened) cross-border points • Improvement of internet accessibility 	<ul style="list-style-type: none"> • Limited financial resources to large investments in public infrastructure • Lack of inter-municipal cooperation may hamper improvement of infrastructure in the regions and between the regions • Property issues unresolved could hamper the investments' development plans in the long run.
YOUTH AND EDUCATION	<ul style="list-style-type: none"> • Existence of a well developed primary and secondary education • Good incentives for the private sector to participate in the education sector • Existence of universities and private colleges in almost all the regions • Higher education considered as driving force for social and economic development • Equitable access to education for all citizens • Young generation eager to learn foreign languages 	<ul style="list-style-type: none"> • Higher education programmes do not cover all professions needed in the market • Inadequate entrepreneurship learning in the education system • Curricula for different branches/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 • Vulnerable groups education still problematic 	<ul style="list-style-type: none"> • International knowledge exchange, opportunities to use different education programmes such as ERAMUS, CEEPUS • Creation of networks of universities education bodies, research institutions • Ensure good quality of curricula and continue training of teaching staff • Develop e-learning taking advantage of the existing ITC infrastructure • Introduce contemporary teaching and learning methods 	<ul style="list-style-type: none"> • Reduction of public funds for the education sector • Limited access of rural population and vulnerable groups to the formal educational system, due to poverty • Poor or inexistent rural ICT infrastructure, augmenting regional disparities; • Migration of youth due to lack of opportunities

	STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
TOURISM, CULTURAL & NATURAL HERITAGE	<ul style="list-style-type: none"> • Attractive tourist potential and favorable development • Pleasant continental climate enabling diverse types of tourism throughout the programme area • Rich and diverse nature, well suited for outdoor leisure and activities • Presence of rich cultural and historical heritage sites • Multicultural diversity, and tradition in cultural exchanges • Presence of a large number of cultural institutions • Presence of experienced institutions in the former Yugoslav Republic of Macedonia in the field of protection of culture heritage • Presence of two capitals, high potential for tourism , in particular business tourism • Governments committed to develop joint touristic packages and routes 	<ul style="list-style-type: none"> • Limited international recognition of the region as attractive touristic destination • Underdeveloped tourism infrastructure in view of international standards • Insufficient funding for the protection and preservation of nature and of historical and archaeological heritage • Limited skills • Insufficient proper management capacities of business operators • Quality of services on the hospitality industry not meeting international standards • Quality of tourism infrastructure not meeting the international standards • Low level of development of rural tourism 	<ul style="list-style-type: none"> • Development of tourism offer connected with the promotion of cultural heritage/natural resources • Opportunities for investment in tourism, thanks to the existence of attractive natural and historical sites • Large opportunities for development of rural tourism • Culinary tradition and agro-food products could contribute to strengthening the identity and tourist experience of the region • Developing and strengthening local institutional capacities related to promotion of tourism, cultural and traditional assets • Cooperation between tourist agencies to provide integrated tourist packages across the border 	<ul style="list-style-type: none"> • Environmental pollution in areas with a high potential for eco-tourism • Insufficient tourism promotion, both at national and regional levels due to scarcity of funding • 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 • Limited access to micro- credit system for businesses and households interested to invest and engaged in tourism industry and hospitality services • Lack of integrated efforts and cooperation to develop regional touristic offers • Insufficient investments in road infrastructures as bottleneck for rural tourism development

	STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
COMPETITIVENESS, BUSINESS AND SMEs DEVELOPMENT, TRADE AND INVESTMENT	<ul style="list-style-type: none"> • Longer entrepreneurial tradition • Good trends of FDIs investments • In Kosovo the official currency is the Euro, facilitating trade with the Euro zone • Cheap labour force compared to other countries in the Western Balkan region • Attractive tourist potential and favorable development • Richness of natural resources for production of renewable energy with high potential for attracting more FDIs. • Agriculture sector • Flexibility of production, tailor made and smaller size series • Improved computerization of industry • Favorable business climate and corporate taxes (MK) 	<ul style="list-style-type: none"> • Low competitive strength due to low labour productivity • Insufficient rule of law enforcement • Presence of business barriers in the legal framework of Kosovo • Concentration on trade rather than on production • Limited understanding on modern production technologies, marketing and business techniques • Private sector relatively small with low value added and low-skills occupations • Corruption and crime significantly raise the cost of doing business (K) • Centralized and inadequate state SME support institutions (MK) • Unfair competition from entities operating in gray economy. Level playing field for all market participants not provided. • Inspection services are not satisfactory • Low awareness on issues related to sustainable development • Lack of entrepreneurship skills provided by education sector 	<ul style="list-style-type: none"> • Developing more Public Private Partnership investments • Advantage of wage competitiveness in low-skilled jobs • Development of capacities for agricultural production and food processing • Rural development (investment opportunities in agriculture, livestock, tourism, mountain) • Branding of local products aimed at local and regional economic development • Opening of rural business incubators to support small and medium as well as women entrepreneurs • Development of industrial and economic zones along road transport Corridors 8 and 10 • Creation of joint economic zones • Opportunities for investment in tourism, thanks to existence of attractive natural and historical sites • Diaspora involvement in exploring/promoting international/global trade • Development in road infrastructure to facilitate mobility 	<ul style="list-style-type: none"> • Low central government financial support for local development and insufficient budget for support local and regional development • Grey economy and large informal sector. Informal sector competing unfairly with the formal sector • Weak and inconsistent enforcement of commercial law discourages bank lending • Failure to control bureaucracy and corruption discourages entrepreneurship • Unresolved property issues • Decreased number of population in rural areas negative impact in agriculture sector • Small size of farming limits development of intensified agriculture and agro-processing industry • No knowledge in agro-technical measures • Not regular payment of subsidies to farmers and livestock producers • Risk of brain-drain of best quality workforce due to non-stimulating working environment • Limited access to micro- credit system

	STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
RESEARCH AND DEVELOPMENT , INNOVATION AND ICT DEVELOPMENT	<ul style="list-style-type: none"> • Presence of public and private universities in the bordering areas • Presence of the innovation centres in the former Yugoslav Republic of Macedonia • Increasing percentage of population actively using ICT technology • Increased use of ICT and new technologies in some sectors <p>Several international organisations through different programmes and instruments support and foster the innovation and development activities.</p>	<ul style="list-style-type: none"> • Inadequate environment for R&D and innovation activities, low availability of specialized facilities for research • Lack of financial incentive schemes for increasing private more R&D from the private sector • Poor research and innovation practices of universities and other operators in the programme area • Current innovation policies and measures focus on supply-side and do not prioritise aspects of demand that might stimulate or enable innovation. 	<ul style="list-style-type: none"> • Rapidly developing electronic communications sector • Developing and implementing cross-border ICT projects • Investment in ICT and R&D programmes that would support private sector development needs • Strengthening research, technological and innovation in the programme area • Student exchange programmes • Creation of mechanisms to promote the continuous and structured cooperation between the public and private sector 	<ul style="list-style-type: none"> • Lack of financial incentive schemes for increasing the investment in R&D from the private sector • Lack of interest from business community to invest/benefit from R&D initiatives • Lack of domestic strategies promoting ICT and R&D • Lack of re-orienting government funds to innovative enterprises
LOCAL AND REGIONAL GOVERNANCE, PLANNING & ADMINISTRATIVE CAPACITY	<ul style="list-style-type: none"> • Existence of long term cooperation between central and local level • Existence of the relevant structures dealing with cross - border cooperation and policies • Existing protocol of cooperation between the beneficiaries. • Existence of Regional development strategy • Existence of Regional development plan 	<ul style="list-style-type: none"> • Limited cooperation between some institutions and business associations • Limited capacities on spatial planning at local government level • Limited capacities of the local government units to implement development policies • Insufficient financial resources to finance development goals • Lack of proper knowledge by the local administration to apply for and implement EU funds 	<ul style="list-style-type: none"> • Cooperation at central and municipality level on joint implementation of priorities, • Institutionalizing cooperation with the business community • Participation of Local government units into joint initiatives or programmes to enhance institutional capacities 	<ul style="list-style-type: none"> • Lack of contribution for the implementation of joint projects , due to lack of financial resources or trust • Insufficient financial resources for local government units • Lack of funding for training of Local government administration to increase their policy making and implementing capacities;

ANNEX 2: LIST OF THE STRATEGIC DOCUMENTS CONSULTED

The cross-border programme complies with the following strategic documents of the **former Yugoslav Republic of Macedonia**:

- The strategy of the cross-border programme is linked to the **Programme of the Government of the former Yugoslav Republic of Macedonia 2011 - 2015 and** based on the same assumptions. It emphasizes sectors that are compatible with the cross-border approach and that have already been identified as priorities in the government programme at the midterm.
- **Industrial Policy of the former Yugoslav Republic of Macedonia 2009-2020** puts the emphases on increasing competitiveness of the domestic industry based on knowledge, innovation and research, the creation of a stimulating business and investment climate, and to support companies to increase their competitive advantages by acquiring more knowledge, new technologies and markets.
- Despite it does not focus directly on innovation and R&D aspects the cross border programmes takes into consideration the prospective approach set out in the **Innovation Strategy of the former Yugoslav Republic of Macedonia 2012 – 2020** which drives towards competitiveness and economic development based on knowledge and innovation, thereby creating high value employment and prosperity for citizens.
- The **National Strategy for Rural Tourism 2012 – 2017** which puts emphasis on the development of rural tourism for giving impetus to the economic and social development of rural areas, and addressing urban & rural imbalances.
- The **National Strategy for Sustainable Development 2009-2030 stresses** environmental issues and a sustainable economic development that is socially responsible and equitable, as well as environmentally acceptable.
- The **Strategy for improving energy efficiency 2020** and the **Strategy for the utilization of renewable energy sources 2020** which emphasize future policies on improving energy efficiency and the use of renewable energy sources in order to ensure an environmentally sustainable development and reduce the effects in climate change and citizens health.
- **Regional Development Programmes/Plans** - which aim to strengthening the economy of regions through sustainable use of regional natural resources, use of regions' competitive advantages to ensure growth and improving living conditions of the population.

.....and following strategic documents of the the **Government of Kosovo**:

- The cross border programme is in line and supports the vision of the **Programme of the Government of Kosovo 2011-2014** which emphasizes that the future of Kosovo lies in the EU and its development will be achieved through: (i) sustainable economic development; (ii) good governance and strengthening the rule of law; (iii) human and capital development and (iv) social welfare.
- The **Private Sector Development Strategy 2013 - 2017** mainly focuses in the development of Small and Medium Enterprises, investment promotion, enhancing the internal market by the free movement of goods and the advancement of trade policies.
- The **Policy and Strategy Paper on Forestry and Sector Development 2010 – 2020** and the **Strategy and Action Plan for Biodiversity 2011 – 2020** which underline the government strategic programme for forest resources and biodiversity protection, taking into consideration the multi-

functional role of forestry, as well as the important role of nature and its heritage, both in terms of economic and human development.

- The cross border programme reflects the government strategy underlined in the **Energy Strategy of Kosovo 2009-2018** which promotes the use of renewable energy sources (RES) and energy efficiency.
- **Local Development Strategies** – for each of the Municipalities involved in the programme. These documents emphasize cross-border cooperation as a tool for supporting socio-economic development and the protection and preservation of the environment.
- **Regional Development Strategies** – developed with EU funding (EURED). They chiefly aim at strengthening Kosovo's economic regions and setting up a regional development framework in line with EU standards.
- **European Partnership Action Plan (EPAP) for Kosovo** – which puts great emphasis on regional development and cooperation as a vehicle for the development of Kosovo in the view of the overall European Approximation Process

ANNEX 3: TABLES WITH MAIN STATISTICAL DATA

Table 1. Main data on the territory and population⁹¹

	Area (km ²)	% of the total territory	Population	% of the total population
The former Yugoslav Republic of Macedonia	25,713	100%	2,062,294	100%
Cross-border area	6,538	25%	1,103,825	53%
Polog Region	2,416	9%	317,490	15%
Northeastern Region	2,310	9%	175,560	9%
Skopje Region	1,812	7%	610,775	29%
Kosovo	10,908	100%	1,815,606	100%
Cross-border area	4,314	39%	748,140	41%
East Economic Region	2,298	21%	351,449	19%
South Economic Region	2,016	18%	396,691	22%
TOTAL Cross-border area	10,852		1,851,965	

Table 2: Number of Municipalities and Settlements⁹²

	No of Municipalities	No of Settlements
The former Yugoslav Republic of Macedonia	84	1,767
Cross-border area	32	518
Polog Region	9	184
Northeastern Region	6	192
Skopje Region	17	142
Kosovo	38	1,465
Cross-border area	17	529
East Economic Region	11	295
South Economic Region	6	234
TOTAL Cross-border area	49	1,047

⁹¹ Source: The former Yugoslav Republic of Macedonia, State Statistical Office (estimation 2012) and Statistical Agency of Kosovo (2013) Population Estimation 2012

⁹² Source: Agency for Real Estate Cadastre and Statistical Agency of Kosovo

Table 3: Total Number of active SMEs⁹³

Number of active SMEs	
The former Yugoslav Republic of Macedonia	74,424
Cross-border area	40,131
Polog Region	7,285
Northeastern Region	4,283
Skopje Region	28,563
Kosovo	109,794
Cross-border area	39,436
East Economic Region	22,843
South Economic Region	16,593
TOTAL Cross-border area	79,567

Table 4: Data on Primary and Secondary Education⁹⁴

	Primary and lower secondary education		Upper secondary education	
	No. of enrolled pupils	No. of schools	No. of enrolled pupils	No. of schools
The former Yugoslav Republic of Macedonia	195,311	990	89,884	111
Cross-border area	112,683	399	50,963	52
Polog Region	31,427	145	15,084	13
Northeastern Region	18,078	98	8,187	9
Skopje Region	63,178	156	27,692	30
Kosovo	294,419	1,029	109,516	142
Cross-border area	122,747	459	45,999	68
East Economic Region	58,473	243	25,191	43
South Economic Region	64,274	216	20,808	25
TOTAL Cross-border area	235,430	858	96,962	120

⁹³ Source: State Statistical Office of the former Yugoslav Republic of Macedonia (2012) and Kosovo SME Support Agency : A statistical Overview of Enterprises as of 30.09.2011

⁹⁴ State Statistical Office of the former Yugoslav Republic of Macedonia (year 2012/2013) and Kosovo Agency of Statistics (2012) Education Statistics 2011-2012. Series 5: Social Statistics

Table 5: No. of unemployed persons⁹⁵

	No. of unemployed persons	%	Male	Female
The former Yugoslav Republic of Macedonia	292,502	100	180,406	112,096
Cross-border area	163,465	56%	99,219	64,246
Polog Region	40,753	14%	21,744	19,009
Northeastern Region	38,514	13%	23,265	15,249
Skopje Region	84,198	29%	54,210	29,988
Kosovo	226,634	100	144,910	81,724
Cross-border area	92,462	41%	60,722	31,740
East Economic Region	47,984	21%	29,595	18,389
South Economic Region	44,478	20%	31,127	13,351
TOTAL Cross-border area	253,927		159,941	95,986

⁹⁵ State Statistical Office of the former Yugoslav Republic of Macedonia(2012) and Kosovo Agency for Statistics , Labour market data by municipalities 2011

Table 6: Demographic Data⁹⁶

	Population	Population Density	% of Urban Population	% of Rural Population
The former Yugoslav Republic of Macedonia	2,062,294	82.7	57%	43%
Cross-border area	1,103,825	181		
Polog Region	317,490	131.2	29%	71%
Northeastern Region	175,560	75.9	57%	43%
Skopje Region	610,775	336	72%	28%
Kosovo	1,815,606	177.4	39%	61%
Cross-border area	748,140	175		
East Economic Region		153	36%	64%
South Economic Region	396,691	197	32%	68%
TOTAL	1,851,965	179		
Cross-border area				

Table 7: Ethnic diversity⁹⁷

	Majority community	Non-majority community					
		Albanians	Serbs	Turks	Bosniaks	Roma	Other
The former Yugoslav Republic of Macedonia	64.2%	25.2%	1.8%	3.9%	0.8%	2.7%	1.0%
Cross-border area	47.03%	42.50%	3.17%	2.67%	0.67%	2.93%	0.90%
Polog Region	18.4%	73.2%	0.3%	5.7%	0.1%	1.6%	0.7%
Northeastern Region	59.1%	31.1%	6.1%	0.2%	0.0%	3.0%	0.5%
Skopje Region	63.6%	23.2%	3.1%	2.1%	1.9%	4.2%	1.5%

	Majority community	Non-majority community				
		Serbs	Turks	Bosniaks	Roma	Other
Kosovo⁹⁸	92.9%	1.5%	1.1%	1.6%	0.5%	2.4%
Cross-border area⁹⁹	90%	2.25%	2%	2.75%	0.55%	2.7%
East Economic Region	93.6%	4.4%	0.3%	0.1%	0.3%	1.4%
South Economic Region	86.4%	0.1%	3.7%	5.4%	0.8%	4.0%

⁹⁶ The former Yugoslav Republic of Macedonia, State Statistical Office (estimation 2012) and Kosovo Agency for Statistics : Demographic data by municipality 2011

⁹⁷ The former Yugoslav Republic of Macedonia, State Statistical Office (population census 2002) and Kosovo Agency for Statistics, Demographic data by municipality 2011

⁹⁸ Kosovo Agency for Statistics: Kosovo in Figures 2012

⁹⁹ Kosovo Agency for Statistics: Demographic data by municipality 2011

Table 8: Age structure of the population¹⁰⁰

	Age 0-14	Age 15-65	Age 65+
The former Yugoslav Republic of Macedonia			
Cross-border area average age	18%	71%	11%
Polog Region	18%	73%	9%
Northeastern Region	18%	71%	11%
Skopje Region	18%	69%	13%
Kosovo			
Cross-border area average age	28%	65%	7%
East Economic Region	28%	65%	7%
South Economic Region	29%	65%	7%
TOTAL Cross-border area	23%	68%	9%

Table 9: Vital indicators¹⁰¹

	Fertility Rate	Natality Rate	Mortality Rate	Natural Increase	Infant Mortality
The former Yugoslav Republic of Macedonia					
Cross-border area	1.51	11.8	8.6	3.1	5.7
Polog Region	1.34	11.4	7.6	3.7	10.2
Northeastern Region	1.48	11.1	9.6	1.4	5.3
Skopje Region	1.71	12.9	8.6	4.3	1.6
Kosovo					
Cross-border area	2.03	18.4	4.12	14.2	8.1
East Economic Region		18.15	4.65	13.5	7.6
South Economic Region		18.6	3.6	14.9	8.6

¹⁰⁰ The former Yugoslav Republic of Macedonia, State Statistical Office(2012) and Kosovo Agency for Statistics: Demographic data by municipality 2011

¹⁰¹ The former Yugoslav Republic of Macedonia, State Statistical Office(2012) and Kosovo Agency for Statistics (2009): Demographic Social and Reproductive Health Survey in Kosovo. November 2009

**Table 10: Health services
No harmonised data available**

	Primary Health Care general medicine	Public Health Institute								
		Specialized Health Care			Consultative Inpatient Health Care					
		Health Centre	Center for Public Health	Institute	Institute	General Hospital	Clinical Hospital	Special hospital	University clinics	
The former Yugoslav Republic of Macedonia ¹⁰²	1179	215	20	11	12	193	47	17	58	
Cross-border area	612	69	6	11	3	52	15	6	58	
Polog Region	167	7	2			18	15	2		
Northeastern Region	102	23	2			18				
Skopje Region	343	39	2	11	3	16		4	58	

	Primary Health care				Total Primary Health Care centers	No of medical staff
	Main FMC	FMC	Ambulant MC			
Kosovo ¹⁰³	29	165	234		428	4453
Cross-border area	13	63	111		187	1610
East Economic Region	7	25	63		95	891
South Economic Region	6	38	48		92	719

	Secondary health care (regional hospitals)	
	Regional Hospital	No of medical staff
Kosovo ¹⁰⁴	18	7003
Cross-border area	2	1011
East Economic Region	1	433
South Economic Region	1	578

¹⁰² Source: "Health Insurance Fund of Macedonia"

¹⁰³ Kosovo National Institute of Public Health (2012) Analysis of the population state of health in Kosovo for 2010

¹⁰⁴ *ibid.*

Table 11: Social services data ¹⁰⁵
No harmonised data available

	No. of Kindergartens	No. of Pre-school Institutions	No. of children	No. of Children per Educator
The former Yugoslav Republic of Macedonia ¹⁰⁶	57		26 885	
Cross-border area	26		15 581	7
Polog Region	3		1 243	6
Northeastern Region	3		1 675	8
Skopje Region	20		12 663	7
Kosovo	50	562	24945	19.3
Cross-border area	18	267	10172	20.5
East Economic Region	14	142	5639	17
South Economic Region	4	125	4,533	24
TOTAL Cross-border area	44			

Table: 12 Number of households/families receiving social assistance benefits ¹⁰⁷

The former Yugoslav Republic of Macedonia	33,717
Cross-border area	20,311
Polog Region	7,679
Northeastern Region	4,191
Skopje Region	8,441
Kosovo	34,867
Cross-border area	10,698
East Economic Region	5,992
South Economic Region	4,706
TOTAL Cross-border area	31,009

¹⁰⁵ State Statistic Office 2012 and Kosovo Agency for Statistics: Education Statistics for Kindergarten and pre-school 2011-2012

¹⁰⁶ In the former Yugoslav Republic of Macedonia, preschool education is implemented in kindergartens only

¹⁰⁷ State Statistic Office 2012 and Kosovo Agency for Statistics " Social Welfare in Kosovo"

Table 13: No of Landfills

No of Landfills¹⁰⁸	
The former Yugoslav Republic of Macedonia	58
Cross-border area	28
Polog Region	17
Northeastern Region	6
Skopje Region	5
Kosovo	26
Cross-border area	6
East Economic Region	3
South Economic Region	3
TOTAL Cross-border area	34

Table 14: Annual waste disposal and collection¹⁰⁹ volume in tonnes

	Generated municipal waste in tonnes	Collected municipal waste in tonnes
The former Yugoslav Republic of Macedonia	786,909	555,760
Cross-border area		
Polog Region	104,289	59,096
Northeastern Region	72,121	52,492
Skopje Region	168,404	144,593
Kosovo*	230,135	333,000
Cross-border area		
East Economic Region	52,120	NA
South Economic Region	40,574	NA

* Waste disposed in regulatory landfills in 2008. World Bank¹¹⁰ estimated a waste generation of 395,000 in the same year, implying that the remainder of the solid municipal waste was burned by households or dumped in unregulated locations.

¹⁰⁸ Source: State Statistical Office(2012) and Kosovo Environmental Protection Agency: Environmental hotspots in Kosovo (2011)

¹⁰⁹ Source: State Statistical Office(2012) and Kosovo Environmental Protection Agency: The State of Waste in Kosovo (2008)

¹¹⁰ Source: World Bank Kosovo Country Environmental Analysis (2013)