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CROSS-BORDER COOPERATION PROGRAMME

## **Beyond Borders – Introducing Smart Tourism and Sharing Economy**

### **SWOT Analysis and Review of the National Level Documents and Reports Relevant to the Tourism Plans Within CBC Development Strategy**

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## 1. Introduction

### 1.1. Impacts of tourism

#### **Economic Impacts**

Tourism is a powerful business segment for the economy development, the main driver and a fundamental pillar of the socio-economic progress. Developing tourism sector increases the inflows of tourists and by the same time the number of businesses and employment opportunities. As tourism grows, new opportunities are offered for investment, development, infrastructure spending, new income is generated and standards of living are increased. Also public utilities such as water, lighting, sidewalks, parking, etc. can be improved, by which both tourists and residents benefit. On the other side it should also be considered that generally the jobs offered by the tourism sector are low-paying, no-insurance, and seasonal ones. The seasonal tourism may form high risk under or unemployment issues. Sometimes labor may be imported rather than hired locally.

The increase in demand for goods and services may turn in an increase of prices and the cost of living. In cases the owners of the businesses are not local, than the profits are exported out of the community to the non-local owners. The rapid growth of tourism globally encouraged many countries in taking direct steps towards the development of tourism and its more serious treatment. This has been a priority task to all governments, particularly to developing region such as CBC Region (Ohrid, Struga, Debar, Vevcani, Centar Zupa, Mavrovo-Rostushe, Mat, Diber, Bulqize and Klos)

Tourism in the Ohrid, Struga, Debar, Vevcani, Centar Zupa, Mavrovo-Rostushe is a large factor of the economy. Region's large abundance of natural and cultural attractions make it suitable for tourism. Having in mind the territorial framework of this study, it is of particular importance the fact that more than 50% of the current annual overnights are generated in the Southwest Region, which includes the tourism intensive municipalities of Ohrid Lake Region.

Tourism in Mat, Diber, Bulqize and Klos is constantly developing. Tourism is the second priority sector offering many opportunities for development of the Functional area of Diber. High tourism potentials of natural resources, great cultural and historical values, and rich culinary tradition are potential resources for tourism. The highest potentials are development of curative tourism, mountainous, historical and cultural tourism.

### **Environmental Impacts**

The quality of the environment is essential to tourism, however, tourism's relationship with the environment is complex - many activities can have negative impacts on the environment, by gradually destroying the environmental resources on which it depends. Some of these impacts are linked with the construction of roads & tourism facilities. Other negative impacts occur when the number of visitors is higher than the environment can afford. Uncontrolled conventional tourism and can lead to soil erosion, increased pollution, discharges into the sea, etc. Sometimes overuses of water resources of hotels, swimming pools and personal use by tourists occur, resulting in water shortages and degradation of water supplies. On the other side, tourism can contribute to the protection and conservation of the environment by raising the awareness of environmental values and increasing their economic importance by which will be financed their protection and restoration.

### **Social & Cultural Impacts**

There exist concerns that tourism development may lead to the loose of cultural identity of the hosting community. Tourism can serve as a mean for cultural exchange, learning about traditions of different countries. It can be also used as a tool for raising awareness, by strengthening the regional identity with the attribution of local products and achievements. But sometimes assimilation, conflict and artificial reconstruction may also happen. If presenting the community culture to tourists helps preserving that culture, by the same time there exist also the risk of diluting or even destroying it.

Albania and North Macedonia, like the other Western Balkan countries Montenegro and Serbia are still in their infancy, which need more involvement and exploration.

Balanced development, underdeveloped spatial entities, vitalization and promotion of attractive values, protection and improvement of the environment in areas of national interest, establishing a cultural attitude towards nature, natural and cultural heritage, raising the educational level of visitors and health-recreational benefits are well-known tourist functions.

## 2. North Macedonia

### 2.1. Introduction of the country: economy and touristic assets

According to World Travel & Tourism Council report for 2018 the impact tourism had on the economy of the country can be shown with the following statistics:

#### **GDP: DIRECT CONTRIBUTION**

The direct contribution of Travel & Tourism to GDP was MKD11.2bn (USD206.3mn), 1.8% of total GDP in 2017 and is forecast to rise by 6.4% in 2018, and to rise by 3.6% pa, from 2018-2028, to MKD16.9bn (USD312.0mn), 1.9% of total GDP in 2028

#### **GDP: TOTAL CONTRIBUTION**

The total contribution of Travel & Tourism to GDP was MKD42.2bn (USD776.9mn), 6.6% of GDP in 2017, and is forecast to rise by 6.4% in 2018, and to rise by 3.9% pa to MKD65.8bn (USD1,213.1mn), 7.6% of GDP in 2028.

#### **EMPLOYMENT: DIRECT CONTRIBUTION**

In 2017 Travel & Tourism directly supported 12,000 jobs (1.6% of total employment). This is expected to rise by 3.7% in 2018 and rise by 1.3% pa to 14,000 jobs (1.8% of total employment) in 2028.

#### **EMPLOYMENT: TOTAL CONTRIBUTION**

In 2017, the total contribution of Travel & Tourism to employment, including jobs indirectly supported by the industry was 6.1% of total employment (44,500 jobs). This is expected to rise by 3.6% in 2018 to 46,000 jobs and rise by 1.5% pa to 54,000 jobs in 2028 (7.0% of total).

## **VISITOR EXPORTS**

Visitor exports generated MKD17.5bn (USD323.3mn), 5.3% of total exports in 2017. This is forecast to grow by 8.7% in 2018, and grow by 4.1% pa, from 2018-2028, to MKD28.4bn (USD523.3mn) in 2028, 5.3% of total.

## **INVESTMENT**

Travel & Tourism investment in 2017 was MKD5.5bn, 2.4% of total investment (USD101.4mn). It should rise by 4.6% in 2018, and rise by 6.2% pa over the next ten years to MKD10.5bn (USD193.9mn) in 2028, 3.3% of total.

## **North Macedonian resources' diversity and richness**

Diversity in North Macedonia is the main word to qualify its tangible and intangible heritage. The major stake of tourism development in North Macedonia is now to find the appropriate sustainable marketing offers and enhancement tools to reveal them as key tourist resources.

North Macedonia's tourist resources are also present in its intangible traditions and human heritage. North Macedonian rich gastronomy and wine making traditions, traditional music, cultural feasts and celebrations, all fed by different historic and cultural influences, form the multicultural identity of North Macedonia, and represent an authentic tourist resource in themselves. Those natural and intangible resources are however very under-used, not well promoted and badly-known, even at national level.



## 2.2. Legislative and other documents related to tourism

The tourism legislature can be observed as :

- Direct tourism legislature: regards all legal norms that directly regulate the tourism and hospitality development (The Constitution, general laws and special laws); and
- Specific regulative related to tourism: refers to the multitude of by-laws that define in a more specific manner certain aspect necessary for functioning and development of tourism and hospitality (rulebooks, criteria, different standards for establishing hotels, traveling agencies, tourist guides as well as categorization for accommodation facilities).

Prior to elaborating the driving laws and documents we will give a brief overview of some other laws related to them:

### 1. Spatial Plan of the Republic of North Macedonia (2002-2020)

Strategic goals:

The Spatial Plan of the Republic of North Macedonia allows achieving higher degree of total functional integration of space as well as security conditions for significantly greater infrastructure and economic integration with neighboring and other European countries. Determining the importance of the state of environmental and environmental requirements for tourism planning activities.

### 2. National Strategy for Regional Development of the Republic of North Macedonia 2009 - 2019

National Strategy for Regional Development sets the foundations of the establishment of planning regions in the Republic of North Macedonia, as functionally territorial units for planning the development and realization of the measures and instruments for encouraging development. The primary goal of regional development policy is increasing the competitiveness of the planning regions by strengthening their innovation capacity, optimal use and valorization of natural wealth, human capital and economic characteristics of the planning regions.

### 3. National Strategy for Agriculture and Rural Development for the period 2007- 2013 year

The National Strategy for Agriculture and Rural Development defines the basic principles of the national strategic goal of the Strategy, for sustainable use of natural resources, the need for the introduction of agro-ecology policy, as well as goals for creating agriculture competitive on the integrated regional markets of the European Union and southeast Europe through measures to increase the efficiency of agricultural production and construction of rural municipalities capable of survival through sustainable rural development.

#### **4. Strategic Plan of the Ministry of Local Self-Government for the period 2007 - 2009**

The Strategic Plan of the Ministry of Local Self-Government is defined the strategic areas and goals of the Ministry of Local Self-Government through the development of decentralized system of local self-government and creation of a policy for ensuring balanced regional development.

#### **5. National Strategy for Tourism Development (2009-2013)**

The National Strategy provides guidance on how to build the Republic of North Macedonia the image of a recognizable European destination for tourism, based on cultural and natural heritage and recognizable by products with a high quality. All this should be incorporated into a common name – tourist product of North Macedonia.

#### **6. National Strategy for Rural Tourism (2012-2017)**

The basic goals of the Rural Tourism Strategy are: Identifying the concept and strategy for development, setting up an incentive framework of development as part of the overall tourist offer of the Republic Macedonia, Records of accommodation and catering facilities, Increase the capacities, employment and tourism offer in Rural Tourism.

#### **7. National Biodiversity Strategy and Action Plan (2014)**

Incorporation of the biodiversity conservation and its sustainable development use in the highest priorities of the country, protection of the natural ecosystems and species and their maintenance and revitalization, implementation of protection of endangered components of biodiversity.

### 2.2.1. Law on Tourism Activity

The Law on tourism activity (2014) sought to cover and regulate the important areas necessary for a regulated functioning of tourism like defining the basic concepts, actors and conditions, as well as supervision over them. Some uncovered aspect are additionally being reviewed so there is a new Law on tourism activity in preparation that will try to further secure the tourist activity ( one of the novelties is the bank guarantee required from the agencies as an insurance for their clients, as well as a ).

According to Article 40 of this Law The tourist guide must have finished at least secondary education and passed the professional exam for a tourist guide.”

Until 2018, unit of local-self-government of Debar and Struga have not established a tourist bureau. The lack of a desk is a shortcoming in the development of tourism and the promotion of the city

Despite all above, the Law on Tourism also regulates the issue of performing services in the country and **ethno tourism**. The tourist services may be provided by the visitors themselves for their own needs, or by a member of the village household who has obtained a license for provision of catering services in the village household, in accordance with the Law on Catering.

According to the official data from Municipality of Ohrid, until December 2018, 29 persons are registered providers of services in ethno tourism. One person is registered in Struga as provider of services in ethno tourism. There is no registered provider of services in ethno tourism in Debar.

From the analysis of the provisions of the Law on Tourism and the Law on Catering it can be concluded that a precise definition of the scope of the term rural tourism is needed, in accordance with the standards of the World Tourism Organization, as well as the expansion of the scope of tourism services offered in rural tourism.

According to the Law on Tourism Article 51 services for rural, ethnic and ecotourism are provided by a physical person, which is not consistent with the concept of creating small

businesses in rural tourism and stimulating the development of this branch. These shortcomings in the Law on Tourism generate an array of inconsistencies and ambiguities for service providers in rural tourism.

Simultaneously, standards for tourist accommodation services in rural tourism are regulated in the Law on Catering, which leads to the conclusion that there is no legal act that precisely regulates and defines the standards and terms covering rural tourism despite general compliance of national legislation with EU legislation. Also, there are no by-laws (regulations) that regulate the field of technical conditions, in particular the categorization according to EUROGITES (European Federation of Rural Tourism) and the standards for rural tourism.

In the above context, there are some suggestions for changes in the mentioned Law on tourism activity by the Economic Chamber of North Macedonia and the North Macedonia Chambers of commerce:

### **1. Introducing a period for renewing a license for touristic activity:**

It is a suggestion the article 27 p. 2 to state: “The license for touristic activity to be valid for three (3) years “.

- Reasoning :The experience of unlimited validity of the license while not having efficient control or a special inspection on the dealing of the touristic has yielded negative results and did not contribute to improving this activity, but has given rise to unfair competition.

### **2. Deleting par. 2 of art. 37 from the Law on touristic activity**

Reasoning: The above completely does not contribute to development of companies, and furthermore it creates the opportunity for a touristic agency with a B to undertake activities that require touristic license A.

### **3. Distinguishing licence A from license B**

Reasoning:The mentioned licenses should continue as they are, but in order for them to achieve the designed goal it is necessary to establish that the legal subjects who operate with license A can organize trips, while legal subjects with license B can only be selling intermediaries for the legal subjects with license A.

#### **4. Introducing insurance of travel arrangements**

Reasoning: In order to establish a system for tourism development and secure bigger self-control on touristic agencies it is necessary to introduce the said insurance. This suggestion has been informally accepted by the current minister of economy Bekteshi when he gave a statement that, in the upcoming new Law on tourism, bank guaranties will ensure a better quality from the touristic agencies.

#### **5. Coordinating the Law on tourism activity with the Law on transport in traffic**

#### **6.Changes in article 6 of the Law on Tourism activity : solely by touristic agencies with license A**

Reasoning: With the suggested change, by adding ‘other touristic activities undertaken only by touristic agencies’ will bring development of the same agencies, while the specification for possessing license A would ensure the quality of the service.

#### **7. Passing a by-law on general conditions for traveling**

Reasoning: For the specific issues regarding touristic activity it is necessary to pass by-laws (such as rulebooks) that are less complicated in their form and procedure, while having the same binding effect.

#### **8. Alteration of art. 15.par. 1 l. 11 from the Law on touristic activity**

Reasoning: The above should be deleted, or it should be added ‘only if it is selling airplane tickets’ because not every touristic agency is selling them, and even if they are, the same obligation is imposed by the IATA international agency.

#### **9. Introducing tourist guide license and changes on the legitimation data**

Reasoning: This will contribute to specializing a new working profile, as well as motivation for youth in terms of education choice. Furthermore, the lack of regulation has led to allowing foreign tourist guides to operate in the state without possessing a proper license.

#### **10. Modernization and strengthening of the capacities of the inspection departments.**

### 2.2.2. Law on Hospitality

#### **Implementation of licensing and categorization**

Until now the implementation of the licensing and categorization is unsatisfactory, but now with new standards for categorization there has been a hope that it will be better. A national classification system is primarily a marketing tool which can also be used as a development tool to raise standards which in the long run can enhance the sector. It is not a negative for the industry. Restaurant selections are usually based on local recommendations, independent guides, visitation and appearance

Outbuildings with four and five stars should provide services for breakfast in the object. Specific deviations out of the Rulebook for categorization can be approved if less than 10% of the criteria which are required for appropriate category are not met, and if the Commission decides that deviations do not affect the quality of services for the required category by the applicant. New amended rulebook gives new standards for Categorizations of hotels, motels, pensions, and categorization of camps.

For hotels, motels and pensions the new Rulebook gives new standards and conditions, in accordance with EU practice, and that is very good and qualitative step forward.

Also there are provisions for different Services such serving of main meals (lunch, dinner), other meals, drinks and beverages in spaces for serving, then serving food, drinks and beverages in rooms, looking of staff-clothing. Very important is provisions for knowledge of foreign languages of head, director, manager, owner of the object and staff which communicate with guests. Also there are standards for changing of bedding and towels in the rooms and bathrooms, cleaning and arranging of rooms, laundry and ironing of guest's clothes

There is no urban-planning documentation, many of the owners of the houses do not possess a proof of ownership. Therefore, some of them continue to perform activities without registration in the register kept by the mayor of municipality, avoiding to pay tax for temporary stay.

The assessment of the subjective elements requires highly experienced assessors with a detailed knowledge of food preparation, presentation and service and, as mentioned above, freedom from statutory impositions. The safety issues in hospitality are covered by hygiene, health, fire protection implemented by the appropriate authorities.

This law also regulates the standards for providing catering services in the field of rural tourism with special provisions, with the definition and minimum standards for accommodation in rural households.

All services offered by rural households in the field of tourism and catering are obliged to give them in agreement with a travel agency or tourist bureau established by the Mayor of the Municipality.

The analysis of the laws on tourism and catering activity shows that it is necessary to provide a precise definition of the scope of the term Rural Tourism, in accordance with the standards of the World Tourism Organization and extending the scope of the tourist services offered in the Rural Tourism.

According to the Law on Tourism, Article 51 provides services for rural, ethno and eco-tourism to a natural person who does not comply with the concept of creating small businesses in rural tourism and encouraging the development of this branch. These shortcomings in the Law on Tourism activity create confusing content and a number of illogicalities and uncertainties about the Rural Tourism Service Providers.

At the same time, the standards for tourist services for accommodation in Rural Tourism are regulated in the Law on catering activity that leads to the conclusion that there is no legal act that accurately regulates and defines the standards and concepts that Rural Tourism covers, despite the general harmonization of the national legislation with the legislation of EU.

A revision of the regulation is necessary by harmonizing the terms and services that Rural Tourism and the standards and carriers of these services are in line with EUROGITÉS.

### 2.2.3. Law on Taxes for temporary stay

According to Article 2 of this Law 80 % of the collected tourism tax remains at the municipalities -they are obliged to use it for tourism promotion or improvements for the tourism industry and 20 % has to be transferred to the Ministry of Finance.

In terms to the different types of tourism, lake tourism has the highest growth. This is particularly important for the subject region because the possibility for development of lake tourism is important for the whole region. Also, if we have in mind that Debar has a good opportunity for development of spa tourism, we can conclude that this type of tourism could not grow.

### 2.2.4. Law regulation of Tourist Development Zones

There was a heated debate on this Law while it was in parliamentary procedure. On one side, the ruling party considered this Law to help the tourism development and make the tourist locations more competitive at the world market, especially since, by then, none of them, including Ohrid, were. Furthermore the same Law is not interfering with the rights of the municipalities, on the contrary it is them that will benefit the most since 80% of the funds from the selling will be allocated to them. On the other hand, the opposition and the mayor of the city of Ohrid consider his Law as an instrument of bypassing the jurisdiction of the municipality, as well as being a hindrance to the process of decentralization. The law was passed and it determined six special tourism development zones. Under this Law the investors who are interested in these zones receive special fiscal benefits (for example, 0% personal income taxes in the first 10 years or 0% VAT) and complete infrastructure to the boundaries of the TDZ will be provided by the Government.

The object of the law is strictly set in the direction of arrangement of the benefits of investing in tourism development zones and determining the procedure and conditions for sale and construction of land used for a specific purpose for the construction of such zones, and of course the foundation, development and operation of tourism development zones.



The provision that building and the works for the establishment and operation of tourism development zones is the public interest only confirms the interest of the state to the development of tourism as an important sector of the economy of North Macedonia.

The second part refers to the Benefits of investing in the zones. Considering financial expenses which are made by the user of zone, regarding personal income earnings for the salaries of employees, the law foresaw the release and facilitating in a period of 10 years, from the beginning of the activity in the tourist zone.

For a user of the zone assistance is provided for training and development which consists in education in the form of either general or specific training and modernization of knowledge of employees.

In order to increase the transparency of operation in the tourism development zones, the law provides giving a report by the user of the zone to the Agency in order to check current operations in that particular area.

Activities in the zone are performed under the following conditions: the business is in accordance with the submitted feasibility study or business plan, provided in the announcement; operation shouldn't endanger public safety, the environment and health in the area and the user of the zone shall insure the main assets and employees from risks arising from operations.

In the region that is the subject of analysis, there are two zones, one in Ohrid, the other in Kalishta, Struga. According to the existing legislation, there are no tourist development zones in Debar.

It must be pointed out that until 2018, there is not realized proposed projects for this kind of tourism development in Ohrid Lake Region and Debar. Because of that analysis of the implementation of the law in the practice cannot be performed.

#### 2.2.5. The Law on auto camps

This law contains specific regulation related to the topic. The purpose of the transposition of the bylaws generally means contributing to the modernization of the work of all entities active in tourism and catering, and at the same time ensuring the quality of the service. The improved tourism legislation makes more significant and qualitative results, both for individual carriers of the tourist offer and at the level of the whole community.

The goal of this law is attraction of foreign and domestic capital for the establishment of auto camps. This law also sets the rules for the conditions and categorization, regulates the competencies of the Agency for promotion and support of tourism (APST), as well as the supervision. In this particular law, the APST acts as an intermediary for the potential owner and municipality on one hand, and the Government on the other.

Many laws have been amended several times since the adoption which goes to say that the state takes care not only for adoption, but also for reviewing the proposed legal solutions, as well as for possible changes and additions to the basic and special touristic laws.

#### 2.2.6. Law on protection of cultural heritage

Under the provisions of this law the goals of protection (art. 4) are the following:

(1) The main goal of protection shall include:

- Preservation of the cultural heritage in its genuine condition;
  - Creating more favourable conditions for survival of the cultural heritage and for maintenance of the integrity of all data
- Providing the means for the cultural heritage, due to its purpose and meaning, to serve to satisfy the cultural, scientific, educational, aesthetic, religious, economical, tourist and other needs of citizens and the society.

(2) The operational goal of protection shall be the carrying out activities to prevent activities, events and effects, which produce or may cause damage, destruction, disarrangement, vanishing, degradation and illegal seizure of the cultural heritage.

(3) The final goal of protection shall include the transfer of the cultural heritage to the future generations.

Article 5 provides for the basis of protection regarding:

-The cultural heritage is the fundamental value of the Republic of North Macedonia, which shall be protected in any circumstance; as well as

Inclusion of tourism in this context, art. 6 p. 2:

-The protection of cultural heritage shall be attained also by its obligatory involvement both in the spatial and urban plans and the programs and plans for protection of the environment and nature, as well as by its treatment as a factor of the persistent economical and social development, especially in direction of development of the cultural tourism, housing, specific professions and education.

### 2.2.7. Visa policy

The visa policy of the Republic of North Macedonia is similar to the Visa policy of the Schengen Area. The citizens of European countries (except Belarus and Moldova) and of main global tourism source markets (like the US, Japan, Canada or Australia) do not need a visa to enter North Macedonia. Therefore the current visa policy can be described as favourable.

### 2.2.8. Fiscal Policy

Fiscal policy is defined as the most frequent example of state intervention in the tourism development. It refers generally to tax allowances for hospitality services; tax allowances for catering services or tourist nights spent; direct investments in tourist infrastructure (accommodation capacities, national parks, cultural events etc.) etc. Governments of different

countries took a particularly active role in supporting tourism impacts for achieving overall economic development. With regards to North Macedonia, the government just recently, in 2010 decreased the VAT rate from 18% to 5%.

#### 2.2.9. Subsidies for tour operators / travel agencies

In 2011 the government started a subsidy program for North Macedonian tour operators and travel agencies to increase the competitiveness of the offered North Macedonian holiday packages and, as a consequence, to increase the demand for leisure holidays in the country.

The government, through the Ministry of economy provides financial support for tourist and travel agencies which promote Macedonia as a tourist destination by incoming tourism

**In 2016, the Rulebook on the manner, type and amount of subsidies shall be amended by articles referring to:**

"- The amount of the subsidy upon arrival of a foreign tourist is:

a) from European destinations, except for the Benelux countries, Finland, Norway, Denmark, Sweden, England, Germany, Russia, Ukraine, Israel, Austria, Italy, France, Spain, the Czech Republic, Slovakia, Hungary, Poland and Romania, 25 euros in Denar equivalence;

The introduction of subsidies is part of a wider plan to increase income from tourism. In 2013, the country of 2.1 million people earned 106 million euro from tourism. Over the same period, the number of foreign tourists in the country was increased by 14 percent, which is 2.5 times more than the world average, according to the World Tourism Organization.

#### 2.2.10. Subsidies for Low Cost Carriers (LCCs)

In 2012 North Macedonian government for first time establish subsidies for low cost carriers. In accordance with the decision of the Council of the Municipality of Ohrid, in 2015 the municipality implemented a procedure for subsidizing airplanes from Ohrid - Basel - Ohrid and

Ohrid - London - Ohrid. Therefore, in 2015 were allocated from the municipal budget 100 000 euros, in 2016 and 2017 were allocated 200 000 euros per year.

The data of number of passengers show that Ohrid airport mark an average growth of more than 25 per cent in the last 4 years. This growth is very high if we compare it to the highest average growth in passengers in Europe, which is 5 per cent. The data show that the growth in traffic is mainly down to the introduction of subsidized cheap flights. This trend is very important for develop of the whole Ohrid Lake Region and Debar because Ohrid Airport is very close to Struga and in distance of no more than 60 km to Debar.

Statistical data show that the smallest growth in the part of foreign tourists is recorded with Debar. Number of foreign tourists in 2017 compared to 2011 has doubled in Ohrid and Struga, which is good signal, for tourism and hospitality development in this region.

Statistical data for the number of tourist from Poland shows that the establishment of charter flights from Katowice, Poland to Ohrid, had a positive impact on the increase in the number of tourists from Poland who visited Ohrid.

#### 2.2.11. Program for promotion and support of tourism for 2019

The promotion and support of the tourism of the Republic of North Macedonia for 2019 requires the necessary funds for the implementation of the Program, projected in the Budget of the Republic of North Macedonia for 2019 with the amount of 162,132,000.00 denars.

##### Article 2

**a) For promotional activities, marketing and international cooperation, a total of 31,500,000.00 denars are allocated, for:**

1. Participation at international, regional and local tourist fairs. 15,000,000.00 denars are allocated

2. Organizing presentations and meetings with foreign tour operators and days of North Macedonian tourism in Serbia, Bulgaria, Poland, Slovenia, Croatia are allocated 2.000.000,00denars.
3. Organizing promotional campaigns to be conducted in Serbia, Slovenia, Croatia, Bulgaria, Albania, Kosovo, Poland, Bosnia and Herzegovina, Romania, Sweden, Italy, Israel, Estonia and Turkey are allocated 9,500,000.00 denars.
4. Creating a photo archive - Providing photos of the tourist potentials of the Republic of North Macedonia for the purpose of forming a photo archive are allocated 600.000,00 denars.
5. Production of video material for North Macedonia as a tourist destination and design for a new complementary tourist brochure is intended for 600,000 MKD
6. Production, design, manufacture, printing and distribution of promotional material (brochures, guides, flyers, maps, business cards, etc.) are intended for 1.450.000,00denars
7. Creating stationaries as promotional material
8. Hosting and technical support on the website of the Agency for Promotion and Support of Tourism
9. Upgrading of the mobile application " North Macedonian Tourist Passport", which involves upgrading the online platform and setting up an offline platform, setting up GPS tracking and interaction with the tourists who are traveling individually are allocated 600.000,00 MKD
10. Creating a tourist slogan and logo for the promotion of North Macedonia

**b.) A total of 15,000,000.00 denars are allocated for tourism support activities:**

1. Project "Mountain Hiking Trails" - arrangement, marking and marking of new mountain hiking trails as well as promotion of them

2. A project for the preparation of the "Guide to Via Ignatia", containing data, information, images and text
3. Project "Designation of the old bazaars in Prilep, Bitola, Struga and the old part of Ohrid". This project will be marked with tourist signposts and signs of the old bazaars and parts of the cities
4. "Market research", making market analysis and market research for the tourism needs of the Agency for Promotion and Support of Tourism and Tourism Industry
5. Financial support of recognizable cultural, entertainment, sports, gastronomic and environmental manifestations of locally organized tourist events selected through a public call
6. Establishing auto camps and their promotion - increase of tourist offer, development of auto-camp tourism
7. Creating, development and marking of tourist development zones.
8. Strengthening and development of the tourist offer in Republic of North Macedonia - organizing informative workshops and trainings for the workers in the tourism industry, in the function of creating new tourist products and their promotion, as well as improving the service services with the involvement of domestic and foreign renowned experts and tour operators.

**c) Financial assets intended for the operation of the Agency for Promotion and Support of Tourism**

Article 5

The Agency for Promotion and Support of Tourism will take care of the manner and dynamics for realization of this program

2.2.12. Tourism Strategy

The tourism development strategy should provide a framework for a systematic and coordinated approach to the development of tourism supply, infrastructure and cooperation, as well as optimizing the management of resources and tourists.

However, despite the existence of annual draft strategies for this industry, Macedonia has not adopted an official strategy for tourism which means it lacks the access to the benefits of a coherent multidimensional approach of development.

The situation noted in a survey of managers and owners of tourist venues (conducted by EPICentar international from Macedonia), with three outstanding problems - inadequate staffing, unsatisfactory standards and inadequate categorization, as well as dissatisfaction with the infrastructure at the local and state level.

In this respect, more than 90 percent of the respondents answered that they have a big problem with a skilled workforce, and state support is still needed to stimulate a larger number of foreign guests. The survey informs that hotel operators recognize that there is no vision of how tourism could develop if the subsidies are abolished, that is, their survival is severely dependent on the state support of tour operators bringing in foreign guests.

### 2.2.13. Rural Tourism

National Strategy for Agriculture and Rural Development for the period 2014 -2020 year is the main long-term strategic document in the field of agriculture and rural development on which the setting and implementation of the objectives, policies and measures for development of agriculture and rural areas in the Republic of North Macedonia. The strategy for the upcoming period 2014-2020 is the second strategic document of this type after National Strategy for Agriculture and Rural Development for the period 2007-2013, document that provided the basis for re-introduction of serious and organized policies in agriculture and rural development after their complete abolition in the mid-nineties.

The ultimate goal remains the further improvement of the competitiveness of the agricultural sector in an open and changing market and maintaining the development of rural areas through



the optimal use of the engaged natural resources. Addressing structural problems will be directed towards actively treating the main cause of such conditions - small and fragmented land plots, then insufficient technical and technological equipment resulting from long period of disinvestment, inadequate grade and brands of productive structure, and the poor age and gender structure of the rural population.

In order to achieve the objectives of the agricultural policy, the Government of the Republic of North Macedonia in its Program for work for the period 2017-2020 projected further increase in financial resources to support the development of agriculture and rural areas, which will amount to 160 million euros a year, respectively an increase of EUR 10 million in relation to the planned amount under the NHSIR 2014-2020. Besides the funds provided by the Budget of the Republic of North Macedonia, the financing of the national agricultural policy is also carried out from the European budget Union, based on a multi - annual program for using the funds from the Instrument for Pre-Accession Assistance for the Development of Agriculture and Rural Development European Union - IPARD for the period 2014-2020, as well as from the third IPARD program document for the post-2020 period. This support is programmed in accordance with concluded agreements and agreements with the European Union on the use of the instruments for pre-accession financial assistance and EU planning documents. Besides the aforementioned two sources, part of the funds for financing the agricultural policy are provided and from donor projects, but also from the funds of the units of the local self-government in co-financing certain measures of rural development.

Due to poorly programmed operational program for rural development for the period 2013-2017: being written without a wide consultative process with farmers (over 86% of farmers of all planning regions do not have any information on how to get involved in the operation of the MAFW, as for the Agency for financial support, in all regions, this percentage moves even up to 100% emphasizing it as the most closed institution in the sector.

The rural tourism in our country, for the most part, consists of staying in accommodation facilities in villages or smaller towns with a limited number of additional activities that tourists can enjoy. Having this in mind the development of rural tourism in North Macedonia can be placed its first phase development, after which an expected increase of the number of tourists,

the rural tourism products, opening up new businesses and cooperation between them should follow.

The obstacles to the development of rural tourism, in short are the following:

- the lack of official definition of this concept, as well as incomplete legislation;
- insufficient engagement of the central and local government; and
- low activity of the non-governmental sector, etc.

Another problem in the development of rural tourism was the lack of strategy for each individual tourist product in a particular rural environment, as well as the non-compliant strategic, and institutional approach.

#### 2.2.14. Strategies and sub-strategies

The Agency for promotion and support of tourism (APST) has developed, in coordination with other relevant institutions, and published several strategies and sub-strategies concerning the CBC region:

- Sub-strategy for development of sport tourism with action plan 2015 -2018
- Sub-strategy for traditions and events in R. of North Macedonia
- Sub-strategy for development of “MICE” conference tourism
- Sub-strategy for development of curative tourism

#### 2.2.15. National strategy for sustainable development

### **Policy and legal framework - the pillar of the development of each strategy**

Consolidated conclusions arising from the working group Policy and Legal frame can be summarized as follows:

SWOT analysis and review the national level documents and reports relevant to the tourism plans within CBC development strategy

- There is a need to develop an integrated approach in creating the policy of sustainable development and therefore a significant effort should be made this field to ensure the implementation of the policy.
- The lack of an integrated approach to creating a sustainable development policy is caused by inadequate budget planning, low capacity to create policy and insufficient investments for capacity building. Further, the mechanisms for implementing the policy are underdeveloped and there is no institutional framework for encouraging and implementing sustainable development.
- Insufficiently developed awareness for sustainable development, insufficient cooperation between policymakers from different sectors as well as top-down approach policy making makes it difficult to include the sustainable development dimension in sectoral policies. In this respect, capacity building is of essential meaning, which will simultaneously be directed both to politics and to legislation.
- Existing strategic documents do not sufficiently include the dimension of sustainable development. This is clearly visible in the economic and social sphere. In implementation of the sustainable development policy, a revision of the existing strategies is needed, from the point of view of sustainable development, and also the inclusion of the component of sustainable development in all future strategic documents at national level.
- Regarding harmonization with the EU regulations regarding the sustainable development, the situation is particularly critical in the economic and social sphere. In respect of the environment, there is a basic legal framework, however, its implementation is not supported by the necessary by-laws as well as with appropriate institutional framework.

### **Environment - need for administrative capacity and capacity for law enforcement**

Consolidated environmental conclusions can be summarized as follows:

- The environment should be identified as a cross-cutting priority of the government.
- The capacity of the Ministry of Environment and Physical Planning should be strengthened

- Preparation of a set of indicators for monitoring sustainable development and the establishment of a comprehensive spatial based monitoring and information environmental system.
- Support, encouragement and implementation of alternative protection systems and improvement the damaged environment.
- Significantly increase the implementation of the adopted laws, and support central and local authorities to enforce laws and to increase administration efficiency.
- To increase public awareness of the environment in relation to the sustainable development and to point out the economic and social benefits of the responsible behavior towards the environment in everyday life.
- To intensify the focus on alternative energy sources that are not harmful for the environment, the development of ecotourism and the production of healthy food. Further, take advantage of the special amenities and opportunities of the environment in the Republic of North Macedonia in encouraging cooperation and management in the wider region

#### 2.2.16. National Park Galichica Management Plan 2010-2020

The strategic goal of tourism in NPG is to obtain maximum economic benefits by adopting a sustainable approach and simultaneous protection of natural, historical and cultural values. As such, it should be an integral part of the management plan for the area. A good strategy for tourism development is to enable the management of visitors in accordance with the needs of the park's protection, and at the same time, the development of successful and sustainable tourism products.

In this context, NPG follows the ten principles of the European Charter for Sustainable Tourism in Protected Areas, which are complemented by the following principles:

- Financial sustainability
- Sustainability of the environment

- Efficient use of limited funds
- Improving the quality of life
- Allocation of responsibilities and tasks

NPG has a reputation for poorly presented qualities, which needs to be improved with a well-established system of visitor management, infrastructure improvement, and informing and educating visitors, furthermore it could benefit from developing new products - in addition to the existing (natural environment, caves and puddles) like :

- Outdoor activities: hiking, mountaineering, cycling, paragliding, bird watching
- Local products and services: quality natural local food and authentic products
- Churches
- Tourism without traffic
- Extended tourist season.

### 2.2.17. The Law on Balanced Regional Development

This law (published in "Official Gazette of the Republic of North Macedonia" No. 63/2007) defines the basic framework for managing the policy of balanced regional development in the country and prescribes the planning documents for its implementation. The Law (Article 5) prescribes the establishment of planning regions in the Republic of North Macedonia as functional territorial units for the purpose of planning the development and implementation of the measures and instruments for encouraging development. The Republic of North Macedonia has eight planning regions: Vardar, East, Southwest, Southeast, Pelagonia, Polog, Northeast and Skopje region. In accordance with the legal framework, the planning regions are the basic unit for development planning in the Regional Development Strategy.

### 2.2.18. Relevant documents by the local municipality Ohrid

Reasonably, municipality of Ohrid has multitude of legislature and document, being an attractive touristic destination.

- G1 Program for support of the local economic development of the municipality of Ohrid for 2019 which covers the following topics:

- Supporting the local economic development by participation of the community
- Strengthening the local economic development and increasing the competitiveness of the enterprises
- Sustainable local development and rational use of resources
- Preparing and managing projects

- G2 Program for STRENGTHENING THE DEVELOPMENT OF TOURISM

MUNICIPALITY OF OHRID FOR 2019

- Managing touristic activities
- Promotion of Ohrid as a touristic destination
- Development of touristic infrastructure
- Preparing and managing projects

- Sub-strategy for rural development 2019-2025

The basic objectives of this Subsidy for Rural Development are:

- Identifying the concept, directions and priorities for rural development,
- Reducing the differences in the development of urban and rural part of the Municipality of Ohrid, encouraging entrepreneurship, using the opportunities to apply for rural development projects, economic initiatives for sustainable development, as well as

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making conditions for creating income (basic or additional) for local people from rural areas/parts of the Municipality of Ohrid.

- Setting a framework for encouraging rural development, and particularly rural tourism as part of the overall tourist offer of the Municipality Ohrid

### 2.2.19. SWOT Analysis

On table 1 SWOT Analysis of the legislative of the CBC region is shown.

*Table 1. SWOT Analysis*

<b>Strengths</b>	<b>Weaknessess</b>
<ul style="list-style-type: none"> <li>• CBC target Region (Ohrid Lake Region, Debar, Vevcani, Centar Zupa, Mavrovo-Rostushe,) has an appropriate state institutions covering the tourism sector and directly participating in the creation of the tourism policy and legislation.</li> <li>• CBC target Region is covered by appropriate laws and regulations related to tourism</li> <li>• General compliance of national legislation with EU legislation</li> <li>• CBC Region has the lowest VAT in Europe for accommodation facilities of 5%</li> <li>• Law on touristic activity ensures the competency of tourist guides</li> <li>• The national classification system can enhance the sector.</li> <li>• Tax benefits in tourism development zones (TDZ) is defined as public interest</li> <li>• Transparency and sustainability ensured with the law on TDZ</li> <li>• Government assistance for the users of touristic development zone</li> </ul>	<ul style="list-style-type: none"> <li>• There is not national strategy for tourism</li> <li>• Lack of definition for rural tourism</li> <li>• Inconsistencies from Law on touristic activity for service providers under art. 51</li> <li>• Implementation of the licensing and categorization is unsatisfactory</li> <li>• No by-laws that regulate the field of technical conditions, in particular the categorization according to EUROGITIS (European Federation of Rural Tourism) and the standards for rural tourism</li> <li>• Inadequacy of the legislation with the current situation in the country</li> <li>• There are no tourist development zones in Debar</li> <li>• Seasonality of tourism - government measures are not supportive to overcome this problem.</li> <li>• Up until 2019 there is not a single project realized concerning the tourist development zones</li> <li>• There are not local strategy for tourism development in (Ohrid, Struga, Debar,</li> </ul>

<ul style="list-style-type: none"> <li>• In the CBC region there are two zones, one in Ohrid, the other in Kalishta, Struga.</li> <li>• Rulebook for categorization ensures service quality</li> <li>• Subsidies for low cost carriers</li> <li>• The safety issues in hospitality are covered by hygiene, health, fire protection implemented by the appropriate authorities</li> <li>• Visa policy is favourable</li> <li>• Subsidy program for tour operators and travel agencies</li> <li>• New highway Ohrid –Skopje being built</li> </ul>	<p>Vevcani, Centar Zupa, Mavrovo-Rostushe)</p> <ul style="list-style-type: none"> <li>• Lack of cooperation between the central state bodies with those of local government in the regulation of policies and development strategies in tourism.</li> <li>• Lack of clear responsibilities on all governmental levels and lack of clear description of all responsibilities for all the institutions involved in tourism.</li> <li>• Non-compliance of the legislation with the factual situation in the country</li> <li>• There is no legal act that precisely regulates and defines the standards and terms covering rural tourism despite general compliance of national legislation with EU legislation.</li> <li>• Lack of harmonization of standards for categorization and licensing with European standards</li> <li>• Lack of full registration and licensing of economic operators in the sector including travel agencies, tour operators, tourist’s guides, accompanying persons, animators, sports, and recreation guides</li> <li>• The breakdown of competences and the coordination between the central government and the local authorities are still far from being appropriate</li> <li>• Inconsistencies with the completion of the new highway Ohrid – Skopje</li> </ul>
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*Table 2. SWOT Analysis*

<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• The government, through the Ministry of economy provides financial support for tourist and travel agencies which promote North Macedonia as a tourist destination by incoming tourism, and enable higher internal monetary flow</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of interest for TDZ</li> <li>• Turbulent political situation may affect opportunities</li> <li>• Insufficient and improper waste management may affect the image of pristine touristic offer</li> </ul>



- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Constant rise of the number of tourists</li> <li>• Decades old dispute solved with Greece</li> </ul> |  |
|---|--|

## 2.3. Stakeholders

### 2.3.1. Overview

The stakeholders in the CBC region can be grouped as international, national and local actors. Most active and prominent international actor is EU, multi-dimensionally involved through various funds, programmes and projects, out of which IPA are most influential in the context of this analysis.

Institutions at the state level regarding tourism are as follows:

- Ministry of Economy - Sector for Tourism and Catering
- Agency for Promotion and Support of Tourism
- Ministry of Agriculture, Forestry and Water Economy - Rural Development Department

Within the Government, there is a Committee for Tourism that has been established for the purpose of coordination and efficient implementation of the part of the Government Tourism Development Program.

#### **Institutions at the regional level**

According to the legal regulations for territorial division, the Republic of North Macedonia regionally consists of eight planning regions. All eight planning regions in the

country have institutional centers of the Regions within which the regional development of tourism should be planned and implemented, through the development of strategies and action plans for development.

### **Institutions at the local level**

Sectors for Local Economic Development in the Municipalities and the City of Skopje - (with sectors and departments for Tourism)

### **Tourism Associations and Rural Development**

- North Macedonian Chamber of Tourism
- Tourist-Catering Chamber of North Macedonia-SSKM
- Economic Chamber of Tourism of North Macedonia
- Association -HOTAM
- Atam Association
- Association of Hospitality and Tourism-SCM
- Federation of Farmers of the Republic of North Macedonia
- CEPROSARD - Center for promotion of sustainable agricultural practices and rural development

At a national level the state is the major actor, diversifying its activity through the various ministries: Ministry of economy, Ministry for agriculture, forestry and water management, Ministry for environment and physical planning, Ministry for transport and communications, Ministry for local government, Ministry for culture; as well as various agencies under their competence,

At the local level, the municipalities have the competencies and the authority to plan and develop the tourism.

In the process of conducting politics in tourism of particular importance are stakeholders operating in that area. The key stakeholders in the process of conducting politics in tourism, at a

national level are institution such as Ministry of Economy (tourism department) and Agency for Promotion and Support of Tourism. The other stakeholders of tourism are non-government organization such as HOTAM, ATAM, Economic Chamber for Tourism, North Macedonian Chamber of Tourism, Economic Chamber of North-West North Macedonia and Catering Industry and Tourism Association. The tourism department within the Ministry of Economy is currently responsible for the tourism policy/strategic planning and licensing, research, categorization and cooperation. Until the establishment of the Agency for Promotion and support of tourism, the Ministry of economy through the Tourism department was in charge for preparation and implementation of the Program for general tourism advertising

HOTAM is a voluntary association of hotel and catering businesses in North Macedonia. It is a non profit and non government organization, however members are required to pay a small annual fee. All collected funds are used to cover the expenses, to promote and protect the members. Currently the association has 67 members –50 hotels (the majority of them at Lake Ohrid), 3 camping sites, 2 private accommodation facilities, 3 tourism education institutes, 6 restaurants and 3 tour operators. Its main objective is supporting, promoting and developing the North Macedonian hospitality industry.

ATAM is the Association of Travel Agencies of North Macedonia – the majority of the members are outgoing agencies.

The Economic Chamber for Tourism (ECTM) was established on April 16, 2008, as the sixth chamber within the Association of Chambers of Commerce. Now, it has around 200 members –from travel agencies to transportation companies and accommodation facilities and restaurants. The members are divided into three categories: premium, regular and associate. The main goal of ECTM is to improve the business environment in the tourism industry and to create favorable conditions for its members. It is financed by voluntary membership fees.

The North Macedonian Chamber of Tourism (TKM) is a non-profit organization. It unites on voluntary basis national, regional and local organizations and councils, companies from tourist-catering business, tour operators and travel agencies, professionals, companies and organizations related to the tourism industry. TKM was established in March 2008 as the first non-governmental trade tourism organization in North Macedonia. TKM performs the functions

in order to coordinate, organize and manage the joint activities in North Macedonia in the tourism industry

Catering Industry and Tourism Association is an independent and non-profit professional organization. Twelve representatives of the tourism and hospitality sector of the RM are members of the Managing board of the Catering Industry and Tourism Association. This association operates within the Economic Chamber of North Macedonia.

### 2.3.2. The Strategy for Regional Development of the Republic of North Macedonia

North Macedonia is administratively divided into 80 municipalities and 8 statistical regions with RDCs have been defined. 10 of the municipalities constitute the City of Skopje. The country is also divided into 8 statistical regions – Polog, Skopje, Northeastern, Eastern, Southwestern, Pelagonia, Vardar and Southeastern.

The unequal regional development in North Macedonia was tackled with the Law on Balanced Regional Development, Strategy for Regional Development of the Republic of North Macedonia 2009–2019, Council for regional development of the Republic of North Macedonia, the Agency for underdeveloped areas which was transformed into Bureau of regional development.

This document is one of the main strategic documents for development planning, together with the National Development Plan and the Spatial Plan of the Republic of North Macedonia. The need for regional development planning in the Republic of North Macedonia is primarily imposed due to the large disparities between the center (Skopje) and other parts of the country. This state of affairs was largely contributed by the long-standing lack of regional development policy that resulted in a monocentric development model where the Center, in terms of its economic and other social characteristics, significantly distinguished itself from other settlements in the Republic of North Macedonia.

regional development presupposes continuous financial support by the state and at the same time a high degree of coordination between ministries, donors and stakeholders at regional and local level.

The South-west planning region encompasses the basin of the Ohrid Lake and the watershed of the Treska River and covers an area of 3340 km<sup>2</sup> or 13.4% of the territory of the Republic of North Macedonia;

The Polog and Southwest planning regions stand out with the high participation of the population living in rural areas, while in other regions rural settlements are less populated. This situation points to the need for revitalization and improvement of the quality of life in rural settlements in order to ensure the reduction of disparities within the regions.

Natural and cultural-historical heritage. In addition to natural resources, the planning regions are characterized by a significant natural and cultural-historical heritage that should be put in place to create recognizability of the planning regions and develop tourism. From the rich natural and cultural-historical heritage in the planning regions, the following are especially distinguished:

- The old town of the city of Ohrid, the numerous archaeological sites, churches, monasteries, urban and rural monuments and fortresses, as well as the extraordinarily rich natural heritage in the National Park Galichica, the Ohrid Lake, numerous booms, smaller lakes and natural reserves in the Southwest planning region;
- Mavrovo National Park, Radika River, Shar Planina, Natural Reserve Rostushe, St. Jovan Bigorski, Strezimir, Adzina River and numerous monuments of nature in the Polog planning region;

The basic characteristics of the planning regions show that the regions have significant natural resources and interesting cultural and historical heritage that is not sufficiently utilized. The concentration of the majority of the population in urban settlements to a certain extent affects the existing situation of underutilization of the potential for development, but the lack of conditions for quality life in a large part of the rural settlements is a reason for the migration of the population to the cities. From the aspect of regional development, a special challenge will be to ensure a more balanced concentration of the population in the planning regions in accordance with the identified potential for development and creation of recognition of the regions by promoting the natural and cultural-historical wealth.

**Environmental Protection.** Environmental protection is an extremely important segment of the regional development policy. The established areas show that disturbance and / or danger

of environmental damage is present in all planning regions. The most important reasons for the existing situation are the following: degradation of large soil areas during excavation, transport and other activities related to the exploitation of mineral resources and disposal of technogenic waste from smelting and energy complexes; the conversion of high-grade agricultural land with non-productive purpose; degradation of forests near settlements through felling in national parks and insufficient / timely protection of forests; release of chemical and other pollutants in surface and groundwater; application of old technologies in the economy, as well as non-existence / non-use / obsolescence of waste gas, communal and industrial water purification systems.

Degree of development of the regions.

The decision for classification of the planning regions according to the level of development adopted in December 2008 ("Official Gazette of the Republic of North Macedonia" No. 162/2008), the planning regions are classified as follows:

*Table 3: Classification of the planning regions according to degree of development for the period 2008-2012*

Planning Region	According to the development index	According to the economic and social index	According to the demographic index
Skopje	1.48	1.86	1.25
Southeastern	0.89	1.38	0.58
Pelagonija	0.73	0.79	0.69
Vardar	0.69	0.63	0.79
Eastern	0.67	0.95	0.50
Northeastern	0.56	0.33	0.70
Southwestern	0.72	0.50	0.86
Polog	0.72	0.018	1.05

## Roads

From the aspect of the development of the road network, all planning regions are relatively well covered with national and regional roads. The development of the main and regional road network is particularly good, that is, only a small number of road routes have not been built. However, the quality of the existing main and regional road network is quite different. In the South-west region, the city of Debar is in some kind of traffic isolation, because the existing regional road network is in a very poor condition.

The main strategic objectives of the Strategy (for regional development for the period 2009-2019) are:

1. Competitive planning regions that are characterized by dynamic and sustainable development and
2. Greater demographic, economic, social and spatial cohesion between and within the planning regions in the Republic of North Macedonia.

**The main priorities for achieving the first strategic goal are:**

Priority 1.1. Encouraging economic growth in the planning regions

The acceleration of economic growth is a basic precondition for ensuring the sustainable development of the country, as well as for reducing the disparities in regional development.

Priority 1.2. Developing modern and modern infrastructure in the planning regions

the quality of infrastructure in the planning regions, especially the traffic, is not satisfactory. It is necessary to reconstruct and modernize a large part of the roads, as well as to build new sections (highway Ohrid - Skopje), as well as modernization of the existing regional roads (such as R418 Struga - Debar (Southwest planning region), P501 Ohrid - St. Construction of multimodal transport nodes in Struga (South-west planning region) Expansion (building) Multilateral transport nodes (Construction of multimodal transport node in Struga (South-west planning region)) Expansion on infrastructure for air transport (Construction of transport and logistics centers and terminals (all planning regions); Restructuring, modernization and expansion of water supply systems (all planning regions):

- o Construction of new and rehabilitation of existing tanks and water supply systems and
- o Utilizing existing and creating new water accumulations;

- Reconstruction and modernization of wastewater drainage and purification systems (all planning regions):
  - o Construction of new and extension of existing sewage networks
  - o Completion of collector systems;
  - o Construction of atmospheric sewerage and
  - o Construction of wastewater treatment plants.
- Improving solid waste management (all planning regions):
  - o Construction of regional landfills in accordance with the standards for environmental protection;
  - o Restoration and modernization of the existing local landfills in accordance with the environmental standards and
  - o Recycling and processing of waste.

#### Priority 1.5. Creating competitive advantages of the planning regions

In order to encourage the development of the planning regions, it is necessary to identify and develop the potential for creating competitive advantages of the planning regions by creating recognizable North Macedonian products and encouraging the development of export-oriented industries and tourism by CBC. It is necessary to encourage the development of agriculture and services, especially tourism, in accordance with the specificities of the planning regions. In order to achieve some of the objectives within this priority, it would be useful to use the opportunities offered by IPA Component 3: Regional Development and IPA Component 5: Rural Development (IPARD).

The realization of this priority includes the following basic measures:

- Preparation of studies for identifying the priority industrial and service activities for the development of the regions according to their potentials (all planning regions);
- Support for the branding of recognizable North Macedonian products (all planning regions);
- Providing institutional support for the promotion of transport industries in the planning regions:
  - o Wine industry (Vardar, Skopje, Southwest and South-East planning region);
- Optimal use of the natural and cultural-historical heritage in the function of tourism development (in accordance with the priorities in the Tourism Strategy):



- o Comprehensive mapping of archaeological sites and cultural-historical and natural monuments at the level of planning regions (all planning regions);
- o Building a new / modernization of the existing infrastructure for safe and fast access to tourist destinations (all planning regions);
- o Development of studies for optimal use of the natural wealth of the planning regions for tourist purposes (all planning regions);
- o Development of studies for the optimal use of the cultural and historical heritage of the planning regions for tourist purposes (all planning regions);
- o Tourist promotion of the natural and cultural-historical heritage in the planning regions (all planning regions);
- o Providing institutional support for developing different types of tourism at the level of the planning regions:
  - Lake tourism (Southwest, Pelagonia and South-East planning region);
  - Mountain tourism (Pelagonia, Polog, East, Southwest and South-East planning region);
  - Preservation and development of traditional crafts (all planning regions);
  - Rural tourism and revitalization of ethno villages (all planning regions);
  - Wine tourism (Vardar Planning Region);
- Spa tourism (Southwest, Southeast, East, Skopje, Northeast planning region);
  - Transit tourism (all planning region);
  - Alternative forms of tourism (caving, hunting and other) according to the specificities of the regions (all planning regions) and
- o Protection of the natural and cultural-historical heritage (all planning regions).

Priority 1.6. Optimizing the use and valorization of natural resources and energy potentials in the planning regions

- The planning regions in the Republic of North Macedonia have specific natural resources and high energy potentials, the greater utilization of which would enable numerous positive effects. The natural wealth of the regions is a significant economic resource, but their utilization should

be optimal, rational and in accordance with the legal standards and norms in order to ensure the preservation of the environment.

#### Priority 1.7. Environmental protection in the planning regions

Strategic goal 2. Greater demographic, economic, social and spatial cohesion between and within the planning regions in the Republic of North Macedonia

In the Republic of North Macedonia, a process of depopulation and demographic aging takes place over a longer period of time. This process with varying degrees of intensity affects all planning regions and very unfavorably reflects the human resources in the regions, especially from the aspect of the available labor force as a factor for investments. Furthermore, the long-standing monocentric development policy in the Republic of North Macedonia resulted in a concentration of more than  $\frac{1}{4}$  of the population in the Skopje region, especially in the City of Skopje, together with the allocation of most of the total investments in this region. . Hence, there are major disparities in the economic, social and other aspects of development between and within the planning regions, which is the starting point in the planning of regional development.

#### **The main priorities for achieving the second strategic goal are:**

Priority 2.1. Demographic revitalization and even distribution of the population between and within the planning regions in most of the country there is an intensive process of depopulation and demographic aging which is unfavorably reflected both on the volume and quality of available human resources, some changes in population distribution are also needed, and the long-term flow should be provided by dynamic economic growth in all planning regions, modernization of infrastructure and improvement of living conditions in smaller urban areas and especially in rural areas.

The realization of this priority includes the following basic measures:

- Demographic revitalization of the planning regions and municipalities (all planning regions):
  - Reduce the uneven distribution of the population among the planning regions
  - Reduce the uneven distribution of the population inside the regions

Priority 2.2. Building Functional-Spatial Structures for better integrating urban and rural areas into planning regions

Priority 2.3. Increase and more even dispersion of investments and employment between and within the regions

Priority 2.4. Raising the level of social development in the planning regions

Priority 2.5. Supporting areas with specific developmental needs

The realization of this priority includes the following basic measures:

- Improvement of the traffic and communal infrastructure of hilly-planning, border and rural areas and their connection with the nearest urban centers;
- Encouraging cross-border cooperation at border points in economic, cultural, social and other purposes;
- Protection of flora and fauna in the national parks "Mavrovo", "Galichica" and "Pelister";
- Supporting the activities for declaring new national parks and
- Creating recognizability and protection of cultural and historical heritage and natural wealth in areas protected by law.

Priority 2.6. Developing cross-border and mutual cooperation planning regions

To realize this priority, it would be useful to use the opportunities offered by IPA Component 2: Cross-Border Cooperation.

The realization of this priority includes the following basic measures:

- Raising awareness in the planning regions of the opportunities and available funds for cross-border cooperation;
- Providing training to stakeholders on the conditions and manner of using EU IPA funds (component 2) and other available cross-border cooperation funds;

Providing institutional support to stakeholders for the preparation and implementation of cross-border projects.

## **Implementation of the Strategy**

## 1. Institutional framework for regional development

Policy makers for regional development:: Government of the Republic of North Macedonia; Council for Balanced Regional Development of the Republic of North Macedonia; The Ministry of Local Self-Government and the councils for development of the planning regions, and in the planning of regional development and the implementation of the planning documents for regional development, the Bureau for Regional Development participates; the centers for development of the planning regions and the units of the local self-government.

Institutional capacity for regional development .The available institutional capacity for regional development in the Republic of North Macedonia is rather limited. The insufficient capacity is mainly due to the long-standing lack of a policy and system for regional development in the Republic of North Macedonia.In order to achieve an efficient and effective capacity building process, several preconditions need to be met:

- Consensus among the main stakeholders on the objectives of the regional development policy;
- Will and commitment by the governing structures in the relevant institutions (bodies) for capacity building for regional development;
- Providing the necessary financial support by the central and local governments for capacity building for regional development;
- Selecting staff exclusively based on professional qualifications and using all available staff with specific knowledge relevant to regional development and
- Commitment to education and training for the regional development of the employees in the relevant institutions.

## 2.Financing regional development

The realization of the goals foreseen in the Strategy for Regional Development of the Republic of North Macedonia is related to significant financial resources. Pursuant to the Law on Balanced Regional Development (Article 27), sources of financing of regional development are listed:

- The Budget of the Republic of North Macedonia,
- The budgets of the local self-government units,
- Available EU funds,
- Other international sources,
- Donations and sponsorships from individuals and legal entities and Other means determined by law

According to the legislation, 70% of the funds allocated at the national level for support of the regional development will be for financing projects for development of the planning regions, while the remaining funds will be directly available to the municipalities for village development (10%). and areas with specific developmental needs (20%). The funds for rural development are distributed by regions, with each planning region receiving an equal share, and as project holders, the municipalities appear.

the local self-government units should play a leading role in the process of raising public awareness on the need for regional development, as well as the necessity of prioritizing the regional ones in front of the municipal interests when it comes to proposing regional projects. The promotion of inter-municipal cooperation will be of great benefit to regional development and can undoubtedly contribute to more effective and more efficient use of the funds for regional development.

Another factor that further emphasizes the role of the local self-government units in the development process is the availability of EU and other donor funding for joint cross-border development projects with neighboring countries' municipalities. The participation of local self-government units in cross-border projects, as well as the development of the ability of regions to propose quality development projects, can greatly accelerate the development of the planning regions (and local self-government units, respectively), and at the same time enable the creation of goods institutional basis for successful use of the EU funds before and especially after joining the EU.

### 2.3.3. Practical implementations

The focus of EU policy towards tourism development is to promote economic activities in rural areas, which are deprived and suffer immigration. It aims to contribute to improving the competitiveness of the European tourism industry, creating better opportunities and greater employment, through the continuous growth of tourism in Europe and the world in accordance with the existing framework of EU policies for development economic, social and environmental development, based on the Partnership for jobs and growth and strategy of continuous development.

Tourism can be seen as a tool of sustainable global development for addressing the Millennium Development Goals (MDGs) towards the elimination of poverty and hunger, ensuring fulfillment of Tourism Ethics of the United Nations World Tourism Organization.

In the formulation of the strategic goals and priorities for regional development, the goals and priorities of the National Development Plan (NDP) 2009-2013 and the Spatial Plan of the Republic of North Macedonia as basic documents for development planning are studied in detail; great attention is paid to the available pre-accession assistance from the EU, in particular to the IPA funds, in order to ensure compliance of the strategic goals with the respective IPA components that can play a role in fostering the regional development of the Republic of North Macedonia. In this regard, the following IPA components are especially important:

- IPA Component 2: Cross-Border Cooperation, which supports projects aimed at promoting sustainable economic and social development in border areas, with particular attention being paid to fostering co-operation in the fields of: environment, natural and cultural heritage, public health, as well as the prevention and fight against organized crime;
- IPA Component 3: Regional Development whose main goal is to prepare candidate countries for future successful accession to the European Regional Development Fund and the Cohesion Fund through which the EU cohesion policy is implemented. Regarding the Republic of North Macedonia, the use of this component in the period 2007-2009 is limited to improving the transport infrastructure and the environment, and after 2010, funds are provided for supporting regional competitiveness;
- Component 4: Human resources development that focuses on three priority areas: employment, education and training and social inclusion. The purpose of this component is to attract and retain more people in employment, modernize the social protection system, increase investment in

human capital in order to achieve greater growth, create better jobs and increase national competitiveness international level and

- IPA Component 5: Rural Development (IPARD), which is focused on improving competitiveness and introducing EU standards in the production and sale of agricultural products, implementation of agro-environmental measures and local rural development strategies, as well as encouraging the development of rural economies. The Republic of North Macedonia has chosen the IPARD support to be aimed at raising the competitiveness of the sectors: meat and milk, fruits and vegetables and grapes and wine, while supporting the diversification of economic activities in the rural areas.

Since 1991, the role of the state in tourism planning in North Macedonia has been changing significantly. First of all, in the first decade, the numerous changes that took place in the country (independence, border blockades, transition process, numerous reforms, political instability proximity to military conflicts, economic crises, etc.) have negatively affected the development of tourism. The previous active role of the state began to change and get marginal significance in encouraging and promoting tourism. Consequently, tourism began to permanently stagnate due to disorganization, unstable environment, slowness of transitional processes and the absence of foreign capital. Just in the last few years, the state has begun to give more importance to tourism, and consequently, to indicate its importance in its strategic documents.

Positive examples enumerate all measures and activities that the state, through its corresponding institutions, undertakes to improve the situation of tourist and cultural sites and monuments, tourist equipment, determining and protecting the routes and paths of interest to the tourism, setting appropriate tourist signalization. At the same time, the state subsidizes various tourist manifestations and business forums with the goal of encouraging and promoting tourism.

In North Macedonia, the state intervenes in cases when support is needed for certain projects on tourist offer, regardless of whether it is at the national or local level. At the national level, the state intervenes, at first instance, through the Sector for Tourism and Catering within the Ministry of Economy, as well as through the Agency for promotion and support of tourism, as well as through other bodies responsible for tourism development.

In North Macedonia there is still a need for state intervention in the field of tourism. If there is no balance between the public and the private sector, maximum positive results cannot be expected in the development of tourism and catering.

Other laws that have a direct or indirect impact on tourism development need to be cautiously worked out in order to be complementary to the overall tourism legislation. Here, first of all, is the existence of a good legal framework for spatial planning, environmental protection, guaranteeing the safety and security of visitors and protection of their health, laws that will protect the natural as well as anthropogenic cultural heritage, etc.

### **Agency for promotion and tourism support**

In 2010, the state introduced subsidies in tourism through financial support for travel agencies that promote North Macedonia by attracting foreign tourists. The purpose of this type of measures is increasing the number of foreign tourists, as well as the foreign exchange inflow from tourism. More specifically, this type of subsidy is intended for those who carry an organized group of at least 10 tourists who will make at least 3 nights with breakfast in all accommodation facilities where professional catering services are offered.

Article 3 of the Law for establishing Agency for promotion and tourism support in the Republic of North Macedonia regulates the competencies and strategic priorities of the Agency:

- enhancement and promotion of tourism
  - establishment and development of a unified tourist information system and its connection with other information systems in the country and abroad
  - developing and promoting new integrated tourism products
- quality sustainable development and promotion of the tourist offer that will include the locally organized tourist events
- initiates and directs inter-municipal and regional cooperation for joint promotion of tourism in the given regions,



For success in the sphere of tourism a proper planning and management is necessary, which is achieved by dedicated and responsible work, but also with an open and constructive inter-sectoral cooperation of institutions. The Agency for Promotion and Support of Tourism, as marketing and market-oriented institution, through promotional activities and creation of tourist products in cooperation with the economy, contributes to greater competitiveness and recognition of the Republic of North Macedonia as a tourist destination.

#### 2.3.4. SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Government support for tourism development</li> <li>• Promotion on foreign markets by APST</li> <li>• Subsidies for flights to Ohrid</li> <li>• CBC region is rich with well-preserved cultural ,natural heritage offering a very dense cultural diversity, which is a strong asset.</li> <li>• Developed Ethno tourism service providers in Ohrid</li> <li>• Average increase of 15 % on foreign currency inflow from the tourism item</li> <li>• Abundant water resources</li> <li>• Rich and diverse nature, cultural heritage and cuisine</li> </ul>	<ul style="list-style-type: none"> <li>• The available institutional capacity for regional development in the Republic of North Macedonia is rather limited</li> <li>• Long-standing lack of a policy and system for regional development in the Republic of North Macedonia</li> <li>• Lack of investments in tourist resorts</li> <li>• Insufficient education of the population in the rural areas CBC Region for the opportunities provided by the laws.</li> <li>• Lack/absence of local development strategies</li> <li>• Absence of local tourism organizations ( exception is Ohrid)</li> <li>• Low level of employment and uneven fair competition</li> <li>• Undeveloped ethno tourism service providers in Debar, Struga, Mavrovo - Rostushe</li> <li>• Poor waste management implementation and infrastructure</li> <li>• The tourism welcoming facilities and tourism information offices have too low objectives and too limited means</li> <li>• The cooperation between the public bodies and the private operators is sporadic but not yet sufficient</li> <li>• The means allocated to tourism observation and promotion and to</li> </ul>

	heritage protection are still insufficient
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Opportunities	Weaknesses
<ul style="list-style-type: none"> <li>• Flexibility in rural tourism services</li> <li>• 80% of tourism tax goes to municipalities for tourism promotion providing for sustainable development of tourism</li> <li>• Initiating and directing inter-municipal and regional cooperation for joint promotion of tourism in the given regions</li> <li>• Possibility for development of lake tourism is important for the whole region.</li> <li>• Restaurant selections are usually based on local recommendations, independent guides, visitation and appearance.</li> <li>• Stable growth of passengers in Ohrid airport</li> <li>• Future increase of charter flights to Ohrid airport</li> <li>• Existence of TDZ</li> <li>• Establishing and strengthening the relations with the diaspora</li> <li>• Positive media coverage in target markets</li> <li>• Development of wine tourism</li> <li>• Development of rural tourism can be beneficial for opening new jobs</li> <li>• Public- private partnership</li> </ul>	<ul style="list-style-type: none"> <li>• Subsidies and financial support from national and international stakeholders are not fixed and may vary.</li> <li>• Long-term investments are non-existent and conditioned by a future Strategy for tourism.</li> </ul>

## 3. Albania

### 3.1. Introduction of the country: economy and touristic assets

The geographic location of Albania forms the characteristics of its tourism economy. The local climate and the terrain favor the development of a tourist industry throughout the year. In recent years, tourism has become one of the most important and growing sectors of the Albanian economy and is considered by the government as one of the main drivers of national growth. Albania is increasingly being recommended as a tourist destination by various tour operators and international travel guides. Albania's emerging tourism industry is set to register one of the region's highest growth in the next decade in terms of its contribution to GDP, employment, investment and exports, according to a report by London-based World Travel & Tourism Council, WTTC.

#### **GDP: DIRECT CONTRIBUTION**

The direct contribution of Travel & Tourism to GDP was ALL134.1bn (USD1,124.1mn), 8.5% of total GDP in 2017 and is forecast to rise by 3.9% in 2018, and to rise by 4.7% pa, from 2018-2028 to ALL 220.4 bn (USD 1,847.2mn), 9.3 % of total GDP in 2028.

#### **TOTAL CONTRIBUTION**

The total contribution of Travel & Tourism to GDP was ALL414.2bn (USD3,471.9mn), 26.2% of GDP in 2017, and is forecast to rise by 4.4% in 2018, and to rise by 4.7% pa to ALL684.2bn (USD5,735.0mn), 28.9% of GDP in 2028.

#### **EMPLOYMENT: DIRECT CONTRIBUTION**

In 2017 Travel & Tourism directly supported 93,500 jobs (7.7% of total employment). This is expected to rise by 3.3% in 2018 and rise by 1.4% pa to 111,000 jobs (8.8% of total employment) in 2028.

#### **EMPLOYMENT: TOTAL CONTRIBUTION**

In 2017, the total contribution of Travel and Tourism to employment, including jobs indirectly supported by the industry was 24.1% of the total employment (291,500 jobs). This is expected to rise by 3.8% in 2018 ( to 302,500 jobs) and rise by 1.3% pa 344,000 jobs in 2028 (27.3 of total)

Visitor exports generated ALL235.5bn (USD1,974.1mn), 54.2% of total exports in 2017. This is is forecast to grow by 3.6% in 2018, and grow by 4.7% pa from 2018-2028 to ALL 387.4 bn (USD 3,247.4 mn) in 2028, 62.2% of total.

## **INVESTMENT**

Travel & Tourism investment in 2017 was ALL32.2bn, 7.5% of total investment (USD269.9mn). It should rise by 5.5% in 2018, and rise by 4.4% pa over the next ten years to ALL52.1bn (USD437.1mn) in 2028, 8.2% of total.

## **3.2. Legislative and other documents related to tourism**

### **3.2.1. Law on tourism**

The Tourism Law, provides the legal basis for government intervention in tourism development, with significant environmental consequences. It was passed in May 2007 and the scope of this Law is to determine the principles and rules governing tourism sector and to develop standards for tourism services and products.

This Law regulates the relations between public institutions and private companies and individuals, local or foreign ones engaged in tourism. It determines the rights and obligations of participants in tourism activities, in compliances with standards set through this law.

The Article 5 of the law put on the main principles of sustainable tourism development. According to this article tourism and other related activities should progress based on the principle of sustainable development, in conformity with cultural heritage, traditions and customs of the Albanian people and on the principle of protection and uniform use of tourism resources.

The New Law on Tourism was discussed with the stakeholders and approved in late July 2015 by the Parliament. The new law on tourism provides a range of changes for the tourism

sector, aiming to transform it into one of the most important economy sectors in the upcoming years.

The scope of the Law is the promotion of Albania as an attractive tourism destination, inter alia, by supporting the development of a sustainable tourism and ensuring that the service providers meet the needs of tourists. S The law aims to promote Albania an attractive tourist destination, both for domestic and foreign visitors, supporting the development of sustainable tourism, providing a healthy and safe environment, and respecting the needs of today's host communities and future generations.

According to the Law, government is responsible for adopting the criteria and regulations for hotels rating, a foreign company chosen by the Ministry of Tourism will evaluate, classify and standardize businesses operating in the tourism sector in Albania, by issuing certificates of evaluation for each business (such as restaurants, hotels, guesthouses, etc). Another novelty of this law is the vast support and facilities provided to strategic foreign investors in this sector. The Ministry of Tourism is the link between the government and strategic investors and plays the monitoring role in the implementation of the signed agreements for different investments in this sector. The new law favors big investors which seek to implement vast touristic resorts and the provision of the state owned land by applying “Albania 1 Euro” scheme is justified by the vast amount of an investment, according to tourism experts.

This decision also paves the way for the classification of hotels based on the star rating category. Furthermore, every hotel must collect the minimum points in order to qualify for the stars rating category. If a hotel fails to achieve this, it would not receive the qualification certificate that allows the subject to operate in a specific category. However, in terms of practical realization further investment is necessary as the current guestroom stock in Albania remains low. There are 67,000 beds in Albania, which is low compared with the growing influx of visitors. There is a total lack of investment in tourist resorts and few accommodation structures offer top standards.

Connected to this are the arrivals to Albania, which in the period of 2013-2017 were approximately 21 million, with the statistical tendency of average growth per year of 12%.

Tourism is the second priority sector offering many opportunities for development of the Functional area of Diber. High tourism potentials of natural resources, great cultural and historical values, and rich culinary tradition are potential resources for tourism. The highest potentials are development of curative tourism, mountainous, historical and cultural tourism.

Diber area is well known for its curative tourism, through thermal waters of Peshkopi Thermal Baths, where relax around 12,000 holiday-makers a year, from all regions of Albania, Kosovo and North Macedonia.

There are important opportunities for the development of tourism in this region based on rich natural and cultural resources. The region can be developed based on the clean and virgin nature, cultural heritage, and traditional hospitality of people thus projecting an image of protection of environment, promotion of local culture, exploration of adventure, and traditional hospitality and traditional cuisine based on bio-products

In this territory is located the bathing resort that is owned by the municipality of Peshkopi, which offers all necessary services ranging from swimming pools, bathing, massage, mud and medical services. The quality of Thermal Bath Water of Peshkopi is among the best in Europe.

Lodging and tourism services are at satisfactory condition and are offered through a number of hotels and guesthouses. In the area of Peshkopi stream are built up around 300 guesthouses (of various size) and 7 hotels with approximately 60 beds for holiday-makers. In these facilities, the service is provided daily as a whole package, including lodging, food, and warm water therapy. The service price is not high, which suits to clients' opportunities ranging from 10 to 13 EUR per day, for a 10-day package, i.e. 100-130 EUR per person all inclusive.

On Diber area, tourism is in its early stages and much less promoted and supported by subsidy schemes. A negative impact on the non-development of tourism has played the poor road infrastructure to Tirana.

The few visitors are foreign tourists coming mainly from Western and Central Europe and North America for short periods of 1-5 days. A significant number of visitors, especially those coming for one day, are from Tirana and Durres.

### 3.2.2. Fiscal policy

Albanian parliament on July 9, 2018, approved a draft law submitted by the Council of Ministers proposing several changes to income tax.

The law affects income tax in several sectors of the country's economy, including agro-tourism businesses. Albania currently has three income tax brackets: for annual turnover up to 5 million ALL (46,000\$) the rate is zero; for a turnover of 5-8 million ALL it is 5%, and over 8 million ALL the rate is 15%.

Travel and tourism is a 1.24 billion dollar industry in Albania and is rapidly growing by 6.2% annually. It is expected to become a 2.1 billion dollar industry by 2028, an indicator of Albania's Tourism Industry's abundant opportunities and beneficial climate for business.

Albania boasts a 1.4% annual increase in trained tourism personnel, making all future ventures more profitable and shortening time to profitability.

The Government is adopting a unified investment law, aiming to streamline strategic investments by focusing on legal guarantees and offering a 'fast track' instrument to support investors kick off their investment.

Strategic investments can be private, public, or public-private investments in the tourism industry and all related industries such as: transport, telecommunications, infrastructure and technology.

Under the new incentive package, as of January 1, 2018, newly built 4\* and 5\* hotels will benefit from 10-year tax exemptions, neither will they be required to pay infrastructure taxes. VAT in the tourism sector will also drop, from the current level of 20% down to 6%.

#### **Incentives for agro-tourism enterprises**

The Albanian economy is largely dependent on the agricultural sector. The government's objective is to increase the cooperation of small land owners by creating agricultural cooperatives. This requires incentives, which is why the revised law reduces the income tax rate for agro-tourism enterprises from 15% to 5%. The objective is to promote the creation and

growth of this type of enterprise, which is expected to provide accommodation, food, recreation, entertainment, and other activities related to the farm. This business category is required to be licensed in accordance with the legal criteria. This is a provisional measure, which will remain in force for 10 years.

### 3.2.3. Visa Policy

The total number of foreign visitors has marked a significant increase in recent years, an increase of 80% in 2016 compared to 2011 (4.58 million visitors in 2016 from 2.53 million visitors in 2011). In 2016, 16% of foreign tourists visited Albania compared to 2015. Tourism revenues in 2016 reached 1.528 billion euros, 13% higher than in 2015. Travel and tourism investments in the year 2016 were 28.9 billion ALL of total investment.

Foreign citizens who enter Albania without a visa are permitted to remain in Albania only for 30 days for one entry. They can stay in Albania up to 90 days in a period of 180 days.

### 3.2.4 Law on cultural heritage

The cultural offer of Albania and its cities is an important condition to attract foreign investment, tourists and talents. Still, Albania has to address its undeserved image and prejudices (corruption, mafia, violence). Tirana is competing with a large number of cities in Europe to attract economic activities, to remain competitive the city needs to develop a unique proposition built on local strength and resources. Culture is such an essential resource. The country has yet to make the most of its cultural resources notably local talents who may feel neglected or not sufficiently empowered. Most national cultural institutions need heavy renovation spending and additional spaces for archiving (national history museum, Opera House, National Theater, National Library and film archive). This is limiting public investment in contemporary creation. In the 2017-2021 mandate, the Government has the priority to maintain and improve the quality standard in cultural products, intensify investments in this sector, independence of the cultural scene from public structures (including funding sources and public-private partnerships) and the use of culture as a source of economy and tourism.



Within the mandate 2017-2021, works will be completed for the complete reconstruction of the Opera and Ballet Theater, will be completed the multifunctional art center "Turbina", will be invested in multifunctional cultural centers in cities where the Renaissance Urban has significantly increased the interest for culture.

In Tirana cultural investments will have three priorities in this second term: retraining and re-engineering of the National Historical Museum; reconstruction of the National Library; rehabilitation of the National Gallery of Arts as an important center of Albanian art history. In cooperation with the Municipality of Tirana we will also start building for the New National Theater and the construction of a Museum of Contemporary Art in the new infrastructure axes that are being added to the capital.

Culture not as a chance for some, but as a real right for everyone, will be concrete in the continuation of the reform in arts institutions and in cultural policies, where it will strongly emphasize "education through culture" in professional standards. Mass education with art and culture in cooperation with the Ministry of Education, intervening in school curricula on one hand and involving in every institution the pedagogical and educational line on the other will be a priority in the second mandate.

Cultural heritage as a combination of the Urban Renaissance program with the rehabilitation of historic centers will consolidate the successful model of cultural heritage resurfacing with a tourist destination.

Priority will be given to the combination of cultural tourism with agrotourism through the Rural Revival program aimed at the restoration of historic centers of historic potential villages such as QH Rehovo, QH Theth, QH Dhërmi, QH Vuno, QH Përmet.

New tourist routes of cultural character such as "Roads of Trust", old historical and commercial corridors such as Via Egnatia will be promoted, combining cultural heritage, culinary and craftsmanship.

"Memory Streets" are also a unique route of Albania that will continue to highlight the historical and educational aspect of the sites of former dictatorships such as Spaci or Tepelena, following the already well-known museum memorial projects.

On the international stage, culture will continue to strengthen its qualitative presence as a passport Our best.

### 3.2.5 New draft National Strategy for Tourism 2014-2020

As a service-oriented industry, tourism offers a wide range of different professional opportunities, ranging from low to high-skilled professions, which are particularly interesting for women and young people. To illustrate the importance this has for Albania we must know that almost half the poor people in Albania are under 21 years of age.

Women especially make up a large portion of the formal tourism workforce. The industry is relevant particularly for rural areas and women because more than half of Albania's population lives in rural areas with 57% of them being women.

**Accommodation and restaurants.** Regarding accommodation, currently, there is no accreditation system for hotels and their facilities which, combined with informality, makes it difficult to exercise quality control. The capacity overall is very limited (80% of the registered accommodations have max 20 rooms per hotel )<sup>1</sup> which makes it also difficult to accommodate groups of tourists visiting various areas and seeking overnight accommodation. This is one of the main constraints in Albania with regards to accommodating very large groups of tourists in one destination.

**Transport and infrastructure.**Road infrastructure has improved a lot in the last years, but as focus groups revealed, some cities are still suffering from unfinished roads – most notably Berat – and from missing terminals for transport. Regarding other infrastructure, according to the interviews during this study, the tourism businesses continue to suffer the lack or frequent interruption of electricity, problematic water supply and sewerage system, poor quality of roads, lack of pedestrian areas, parking, public areas lighting, etc. Two problematic areas that came up more prominently during fieldwork were insufficient tourist signage at the destinations and poor waste management at municipality and commune level.

Road infrastructure, and especially local, can be a serious obstacle to the intensive development of rural tourism.

**Tourism product.**Albania has more than 2000 recognized touristic sites and items considered as cultural monuments. Four of these – Butrinti, Berat, Gjirokaster and the Transboundary Biosphere Reserve 'Ohrid-Prespa Watershed (as part of UNESCO's World Network of Biosphere Reserves) – are declared World Heritage Sites and are protected by UNESCO.

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<sup>1</sup> Source: National Tourism Strategy 2014-2020, Draft

Tourism should not be seen as “the solution” to economic hardship, but as a diversification for the local economy. Inadequate infrastructure, training, promotion, regulation and political commitment are the main obstacles for the development of tourism in Albania (World Bank, 2009). The main areas for sustainable tourism development can be development of human resources; managing the positive economic impact of tourism on the community habitants; invest in infrastructure development while managing the environmental issues in order to prevent possible negative impacts which can destroy it; invest in the promotion and preservation of the community culture

### **Tourism strategy of Albania 2014-2020 Strategic Positioning of Albania Tourism Sector:**

Core tourism product “Discovery of Albania”: History (Illyrian, roman, byzantine, ottoman), archeology , nature (beaches, mountains, coasts, forests, agricultural), culture ( customs, cuisine, rural life, coastal life, folklore)

Specialized tourism products: classical archeology, byzantine history and architecture, Balkan history and ethnography, Islamic history and architecture (history and archeology), trekking, mountaineering, wildlife, agrotourism, diving, hunting and fishing (nature), folk festivals, rural lifestyles, village celebration (culture)

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### 3.2.6 SWOT Analysis

*Table 4: SWOT analysis of legislation in Albania*

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• CBC Region (Mat, Diber, Bulquze and Klos) has an appropriate state institutions covering the tourism sector and directly participating in the creation of the tourism policy and legislation.</li> <li>• CBC Region has the lowest VAT in Europe for accommodation facilities Decreasing the value added tax (VAT) for the sector of tourism from the level of 20 % to only 6% in Mat, Diber, Bulquze and Klos.</li> <li>• Strategy of tourism development in the Deshati Mountain Range Region Diber 2014 – 2019</li> <li>• CBC region is covered by the appropriate laws and regulations regarding tourism</li> <li>• General compliance of national legislation with EU legislation</li> <li>• Classification of hotels based on the star rating category means improvement of service</li> </ul>	<ul style="list-style-type: none"> <li>• No national strategy for tourism</li> <li>• Seasonality of tourism - government measures are not supportive to overcome this problem.</li> <li>• Lack of cooperation between the central state bodies with those of local government in the regulation of policies and development strategies in tourism.</li> <li>• Lack of clear responsibilities on all governmental levels and lack of clear description of all responsibilities for all the institutions involved in tourism.</li> <li>• Non-compliance of the legislation with the factual situation in the country</li> </ul>

*Table 5: SWOT analysis of legislation in Albania*

Opportunities	Threats
<ul style="list-style-type: none"> <li>• The government provides financial support and promotion of tourism</li> <li>• Constant rise of the number of tourists</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of clear policies of development coupled with the lack of investment has resulted in a large migration</li> </ul>

### 3.3. Stakeholders

#### 3.3.1 Overview

Albania's territorial organization has two levels: municipalities and counties. After 2014 the total number of municipalities is 61, while the counties ( qark) have a total of 12 after year 2000.

The central government institutions related to tourism

- Ministry of Tourism and Environment
- National Tourism Agency (NTA)
- National Coastal Agency (AKB)
- National Protected Areas Agency (AKZM)
- Albanian Investment Development Agency (AIDA)

Other public institutions that affect tourism at the national level are as follows:

- Ministry of Culture
- Ministry of Education, Youth and Sports
- Ministry of Health and Social Protection
- Ministry of Internal Affairs
- Ministry of Infrastructure and Energy
- Ministry of Agriculture and Rural Development
- Ministry of Finance and Economy
- Ministry for European and Foreign Affairs
- The Bank of Albania

- Institute of Statistics
- Institute of Cultural Monuments
- Archaeological Service Agency
- National Agency for Regional Development
- Agency for Regional Economic Development

Advisory Committee on Private Sector Tourism

Local government bodies and their responsibilities regarding tourism

Associations of Private Sector Tourism

international donors active role in the tourism sector

In recent years, the tourism industry has increased its contribution to the country's economy in monetary and employment terms. In the next four years, the Government will promote the diversification of tourism in order to have a more sustainable and perennial tourism.

Targeted objectives are:

- Centralizing the planning process in tourism, reforming institutions, tourism agencies.
- Regular market placement of all economic operators in the field of tourism (agencies, tour operators, guides and host structures).
- Improvement of legislation will also be accompanied by the improvement of data as the main means of economic measurement of tourism.
- Mobilization of actors dealing with tourism and continuous communication with the community.
- Quality control and standards in hospitality facilities

### 3.3.2. Environment and economy of municipalities in the CBC region

The environment is not only a rich variety of ecosystems, but also an economy resource that needs to be used with care and strategy and we are aware of the institutional, social and moral obligation to maintain and protect this national wealth in the interest of citizens and generations to come .

Preventing and limiting erosion is directly related to improving environmental conditions and in the long run it directly affects the quality of life. For this purpose, we have predicted fast-paced afforestation and elevation of various hydro-technical works, in order to discipline the flow of water in the river beds.

Improving air quality is another environmental priority of the Government. During this mandate we will install monitoring equipment for air pollutants in the 12 main cities in the country. The Government will draft the National Plan for Integrated Protection of Protected Areas (PAs), National Parks (NPs), Natural Resources (RNS), to protect their ecosystems, but also to integrate them into a long-term plan with infrastructural and tourist projects.

Waste treatment as raw materials will be done in accordance with the concept of circulatory systems, serving the criterion of use and preservation of raw material resources.

#### **Qualities of the CBC region (Mat, Diber, Bulquze and Klos):**

Diber, Kukes, Lezhe and Berat– scoring the best, low values of pollution, low urbanization and in several cases depopulation of specific settlements, rich in surface waters and low discharge (better dilution of pollutants in water), agriculture land either small or not in function, extensive forests coverage;

All qark centers, with the exception of Peshkopi in Diber, as well as the main cities along the coast have direct access to the national corridors. The qark of Diber as well as the

mountainous areas (that constitute most of the area) in Korce, Gjirokaster and Berat qarks have access to second and mainly to third category of national roads. However, while in Diber the distance of the different settlements (apart from those situated along the road) to the national roads is 25 km.

Other characteristic for this region are :

- Low accessibility, poor mobility ( the more peripheral, mainly mountainous qarks, few investments and maintenance -Berat, Diber, Kukes, Korce, Gjirokaster);
- On a side note, accessibility to major hubs for Kukes should improve significantly with the new Durres-Morine highway, however, this does not bring any improvement for the internal mobility (within the qark);
- Worst accessibility, best sustainability: more peripheral mainly mountainous qarks, limited investments in transport infrastructure (with exception of Kukes with the new Durres-Morine highway, however, this does not bring much improvement for (internal mobility), worst access to main internal and external markets, relatively few car owners, varied shares of population without access to water systems, weak telecommunication coverage and use, little and in some cases decreasing pressure on the environment.

Municipalities in Albania, in the CBC area can be described by two working models:

### **1) The concentric model.**

The concentric model of the functional area is especially dominant in the poorest, mountainous and isolated regions. The functional area overlaps with the border of the district. This tendency is clear in the regions of Dibër and Kukës, but also in some areas of Shkodër and Lezhë. The main features of this type of the functional area (FA) are:

- The area has **one important center**, that is the town or the administrative center of the district. This is due to the economic structure of the area, the town as the only important market place, but also due to its importance as the place where the services are located. There are no other intermediate centers.



- **The functional area is stronger** in the LGUs close to the FA center; the intensity of the linkages decreases when distance to FA center increases. Typically, this effect of inner cohesion corresponds with the population density, the urban centre has a (relatively) high population density, with the surrounding LGUs having also a medium-size population density while the rest of the LGUs far from the centre sparsely populated and have weak interactions. Strictly speaking, those LGUs are typically outside of the functional area; however, the still existing weak linkages are mostly with the FA centre.

## 2) The cross border model.

This type of FA is an option more than a first choice in most of the districts where it emerges as a solution. It might include areas across borders of districts, regions or even nations (i.e Montenegro in Shkoder and North Macedonia in Diber). The main features for this type of FA:

- It usually overlaps with the concentric model; the area might have two centers, one within its district and the other one across the district border. Further and more detailed research will be needed to investigate current and future trends of the area interaction.

- The cross-border area might be driven by **shared traditions** or **new economic realities** especially in the context of intensified international cross border cooperation intensification. In this second case the cohesion of the area is especially dependent on the development scenarios.

**Implication for the reform:** There are several solutions for the LGUs located close to the borders of a district or region. In the case of the functional areas across national borders, enhanced cross border collaboration is a more viable solution to improve efficiency of local governance.

The suggestion is not a substitute for democratic decision-making; however, it facilitates rational and well informed policy making. Should this approach be accepted by the decision makers and used for the territorial reform, these are the following main recommendations:

- Proper application of the research approach **requires that capacities are built up**; all the stakeholders who will facilitate and participate in the reform process at local, regional and national level needs to be properly introduced to the research methodology.
- It was demonstrated that the **research can be carried out in a relatively short time frame** if a dedicated, knowledgeable and well organized research team is engaged. Methodological knowledge is required as well as good contacts and insights at the local level. However, team members should be independent personalities.

The concentric model can easily be identified in the region of Dibër. Three main FAs can be identified in the region corresponding to the district borders; and the respective centers of the FAs are the district center towns. The three FAs are Dibër, Bulqizë and Mat with Peshkopi, Bulqizë and Burrel as the respective centers.

The following other solutions can be identified:

1) A Cross Border Functional (CBC) area around Dibra e Madhe town located across the border with North Macedonia. The CBC area could include the communes of Maqellare in Dibër district and communes of Shupenzë, Gjoricë, Ostren and Trebisht in the Bulqizë district. The area communicates via two border crossings with Dibër e madhe and surrounding areas in North Macedonia.

2) In the district of Mat, another potential functional area could be designed around Klos municipality to include the surrounding communes of Suç, Xibër and Gurrë.

3) Peripheral communes must be examined more carefully to understand the intensity of the linkages with the respective district centers or other centers in other districts (i.e Ulëz etc.) and to discuss further options.

Regarding the regional disparities in Albania few steps can be taken. Firstly, there is a need to upgrade the economic infrastructure in order to create an attractive and suitable environment for future investments. With regard to this, a number of difficulties has to be overcome: the obvious lack of resources and the legacy of the inherited administrative structures and practices by which investment planning is typically carried out by the ministries, with little concern for local and

regional impact. Secondly, the issue of deepening regional disparities in Albania needs to be better addressed, which can be done through regional policy. Thirdly, compliance with the EU membership regulations requires a regional policy and respective institutions.

The overall position of the regions, with regards to the economic indicators used could, be divided in several groups:

- Tirana – outstanding with regards to most indicators
- Durres and Vlore – relatively high position
- Diber, Kukes and Lezhe – low position

Regional level data shows that, while there is a higher concentration of “poor” municipalities and communes in the worst performing regions, the distribution is quite disperse, i. e. “poor local government units can be found in all regions.” The poverty level is highest in Diber, Kukes, Lezhe, Shkodra and Elbasan(between 125 % and 168 % of the average)

On one hand, The Regional Development Strategy being in place as the only policy document, and an action plan attached too, but not implemented yet; and, on the other, a compliance with the rules of EU membership requires the regional policy and its institutions to be established as soon as possible.

Some of the main challenges identified with regional representatives are:

- A lack of strong political ownership and leadership at the highest level, ensuring wide participation, transparency and clear accountability;
- Capacity development and training programmes aimed at local governments are rarely aligned with the objectives of public administration and civil service reform;
- There are many different methodologies for local/regional development planning which ultimately create confusion among beneficiaries. In addition, the lack of donor coordination in providing trainings in these methodologies results in their duplication and a waste of efforts and resources.
- The geographic distribution of capacity development activities is uneven and so far mainly concentrated around 10 to 12 big cities, totally neglecting the majority of communes and municipalities

On the basis of the previous analysis of Albania’s situation the following key conclusions and recommendations for the future have been identified:

- Conceptualizing and implementing a long-term regional development policy complementary to a decentralization reform;
- Establishing links between regional development strategies and the National Strategy for Development and Integration; (the need for a regional approach in addition to the national approach to development);
- Aligning the regional policy for EU accession and the EU regional development policy;
- Ensuring the implementation of social, economic and environmental indicators linked to the regional development strategies of each region;
- Regional disparities appear most amenable to policy-driven development interventions;
- Monitoring of regional development strategies as an accountability tool;
- Limited capacities of the actors involved hinder further development.

Least developed/ disadvantaged: Kukës and Diber are least developed, but in many aspects as well. They could generally be described as mostly peripheral and mountainous, little urbanised, much of the population living in small communities, characterised by agriculture; they are not very attractive for non-agricultural use or to live and work in (high levels of poverty; large parts of the population relying on social assistance, significant migration of the population). In comparison the Tirana, Kukës and Shkodra region showed that most investments come from the state budget which makes state agencies responsible for their implementation, whereas the regions themselves have very limited resources to promote development.

Key constraints regarding dynamics and performance of the tourism in Albania are as follows:

- Overall, there is still a lack of future vision for tourism in Albania and the collective conscience on the importance of tourism for the economic and social development seems to be still weak.
- There is limited accurate tourism data to identify and understand the tourism market.
- Destinations in Albania suffer the lack of a platform for cooperation and coordination body, which takes a wider look at the region and enhances a suitable environment for the development of tourism.

- All stakeholders have recognized an evident gap between the offer of training and education programs in the regions and the demand for specific skills coming from the tourism sector enterprises
- Another very specific but crucial requirement is foreign languages throughout the tourism value chain.
- Employment in tourism is characterized by seasonality and high turnover rates. In terms of internships, which are badly needed, businesses has the feeling that internship programs are organized at random and have no continuity.

Four key functions and rules emerged, whose underperformance particularly influenced tourism businesses in Albania, and where stakeholders prioritized interventions:

-Online Promotion: The visibility of destinations online is still relatively weak but during interviews and focus groups businesses mentioned that they now recognize that opportunities are ample, especially with social media and booking websites for accommodation units, which are increasingly used. The main challenges of internet promotion in Albania relate to the lack of infrastructure, skills and awareness on the value of this service. Some of these obstacles have been overcome given the great results many hotels have had from investing in online promotion but visibility overall remains low.

-Market Intelligence: Research and information on customer trends and preferences is generally missing in Albania. The most important indicator of this constraint is an almost absent system of statistics and data collection targeted directly at the Tourism industry. Albania still faces a lack of awareness on the importance of market research and the importance of measuring satisfaction levels of customers (monitoring the market through continuous surveys, software that collects customer feedback, etc.).

-Product development. Focus groups and interviews highlighted the potential in the areas where the main tourism products are 14 focused. Current products were perceived by local businesses and other stakeholders as often poor in quality or limited in the number or attractions they include. . The tourism product was also described as unorganized. This impacts job creation greatly because new better-organized tourism products can generate

jobs (both for women and youth) directly through hotels, restaurants, taxis, souvenirs sales, etc. as well as indirectly through the supply of goods and services needed by tourism related services.

-Lack of Albanian legislation that would certify guides and regulate the exercise of this newly recognized profession.

### 2.2.3 SWOT Analysis

*Table 6: SWOT analysis*

<b>Strength</b>	<b>Weakness</b>
<ul style="list-style-type: none"> <li>• Government support for tourism development</li> <li>• Abundant water resources,</li> <li>• Rich and diverse nature, heritage cuisine</li> <li>• Second top for warm and sunny days in Europe</li> <li>• Affordable tourist packages</li> <li>• Access to mobile telecommunications and the Internet</li> </ul>	<ul style="list-style-type: none"> <li>• Road infrastructure, energy and poor water</li> <li>• Poor waste management infrastructure</li> <li>• Lack of environmental plan</li> <li>• The low level of employment</li> <li>• Limited offer of Diber touristic potentials</li> <li>• Insufficient dialogue with stakeholders for sustainable development of tourism sector</li> <li>• Insufficient or inadequate promotion</li> <li>• Weak environmental standards</li> </ul>

*Table 7: SWOT analysis*

<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Arrivals to Albania in the period of 2013-2017 were approximately 21 million, with the statistical tendency of average growth per year of 12%.</li> <li>• The highest potentials are development of curative tourism, mountainous, historical and cultural tourism</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of clear policies of development coupled with the lack of investment has resulted in a large migration</li> <li>• Lack of inter-municipal cooperation for maximizing the potential of cultural heritage in the function of tourism development</li> </ul>

<ul style="list-style-type: none"> <li>• Significant number of daily home visitors</li> <li>• Encouraging employment through support for potential sectors, such as agriculture, agro-processing industry, forestry and tourism</li> <li>• Funding for environmental and infrastructure projects by government agencies and donors</li> <li>• Twinning with other municipalities</li> <li>• Public-private partnership</li> <li>• Establishing and strengthening the relations with the diaspora</li> <li>• Positive media coverage in target markets</li> <li>• Developing new tourist products</li> </ul>	
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#### 4. Analysis and Conclusion

##### Trade comparative advantages between North Macedonia and Albania

The indirect results of the previous work of the Agency for Promotion and Support of Tourism are visible by achieving a certain level of recognition and competitiveness of the North Macedonian tourism product, while direct results show an increase of 150% in the number of foreign tourists and an average increase annually by 15 % of foreign currency inflow from the tourism item.

In the period of 2006-2015, the Republic of North Macedonia had a distinct comparative advantage in the trade with Albania in a larger number of sectors

The trade exchange between the Republic of North Macedonia and the Republic of Albania is not at the desired level and it has to be intensified through closer meetings and cooperation between businessmen. The main precondition for a bigger trade exchange and economic

cooperation between North Macedonia and Albania presents the building of road infrastructure that the governments of both countries need to put some bigger efforts into.

The key sectors which can set in motion the low trade exchange between North Macedonia and Albania are agriculture, **tourism**, building industry, wood processing, and furniture manufacturing. Mutual touristic offer of the cross-border region would enable to a certain extent the intensification of trade exchange between these two countries, as well as for the CBC region for the rest of the world, both in short and medium terms.

A good intersection with the above is the global analysis on trade comparative analysis where, according to the calculations of the parameters Albania scores with a grade 'moderate' as a comparative advantage that can be developed, while does not show, via the analysis of the parameters, any comparative advantage for developing tourism.

The countries of the Mediterranean (and others enjoying a Mediterranean climate) reveal a strong comparative advantage. The USA, Spain, Turkey and France are the only countries that fall within the "Very Strong" category. They are followed by a larger group of countries revealing a "Strong" comparative advantage for travel service exports, a list that includes a diverse range of countries – from developed economies like Italy, Australia and Switzerland, larger developing economies like Egypt, South Africa and Thailand, to island economies such as Macau SAR, Cyprus and the Bahamas.

Having in mind the conclusion of the analysis:" results supporting the central hypothesis that the natural environment is strongly correlated with a large revealed comparative advantage in tourism, controlling for various other factors. A number of indicators of natural environment are used in the analysis. While cultural heritage and warm water are positive, but statistically insignificant, natural heritage (with the number of UNESCO World Heritage sites used as proxy) are consistently positive and both economically and statistically significant... This suggests a key role for 'clusters' or agglomeration effects in the tourism industry across countries. Transport capacity, although with a smaller coefficient, is also statistically significant throughout the analysis. This supports the notion that relative transport costs matter; a landlocked country with expensive access to the sea is more likely to specialize in tourism than a country with efficient



port infrastructure.” it can be said that both countries, in regard to the conclusion of the analysis, are in a very particular position, and can benefit from an eventual synergy for which end the CBC region seems like a promising start and potential breakthrough. Especially since natural environment is found to be consistently positive and significant; controlling for other factors, more natural resources in a country would increase the likelihood that the country would reveal a comparative advantage in travel service exports. While capital and labour do not influence the comparative advantage of a country (both are economically and statistically insignificant), the large and statistically significant coefficient on natural environment suggests that, *ceteris paribus*, a country with a large endowment of natural resources should specialize in tourism services.

The intuition is simple: following the law of comparative advantage, a country with a favourable natural environment should specialize in tourism exports rather than exporting other goods or services. The empirical results support this conclusion. Capital and labour add no additional advantage or disadvantage for travel service exports. Other factors may also add to exporting tourism relative to other exports, including local demand for tourism and tourism infrastructure.

The general conclusion is that tourism in analysed cross border region suffers from lack of coordinated activities and organisational forms functioning on horizontal and vertical line, unclear set of goals, aims and field of interest within the public, as well as the private tourism sector. Although some significant efforts have been made in promoting tourism, yet the modest and limited budget is the biggest obstacle in achieving greater competitive advantages. The result is a poorly developed tourism industry. Therefore, as a starting point, partial tourist products must be introduced until the moment when certain preconditions are created in the sense of strengthening the cooperation between all key actors in tourism. Hence, it can be concluded that the need for further governmental intervention in tourism in Ohrid Lake Region, Debar, Vevcani, Centar Zupa, Mavrovo-Rostushe, Mat, Diber, Bulquze and Klos is necessary, with emphasize on support and balance.

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