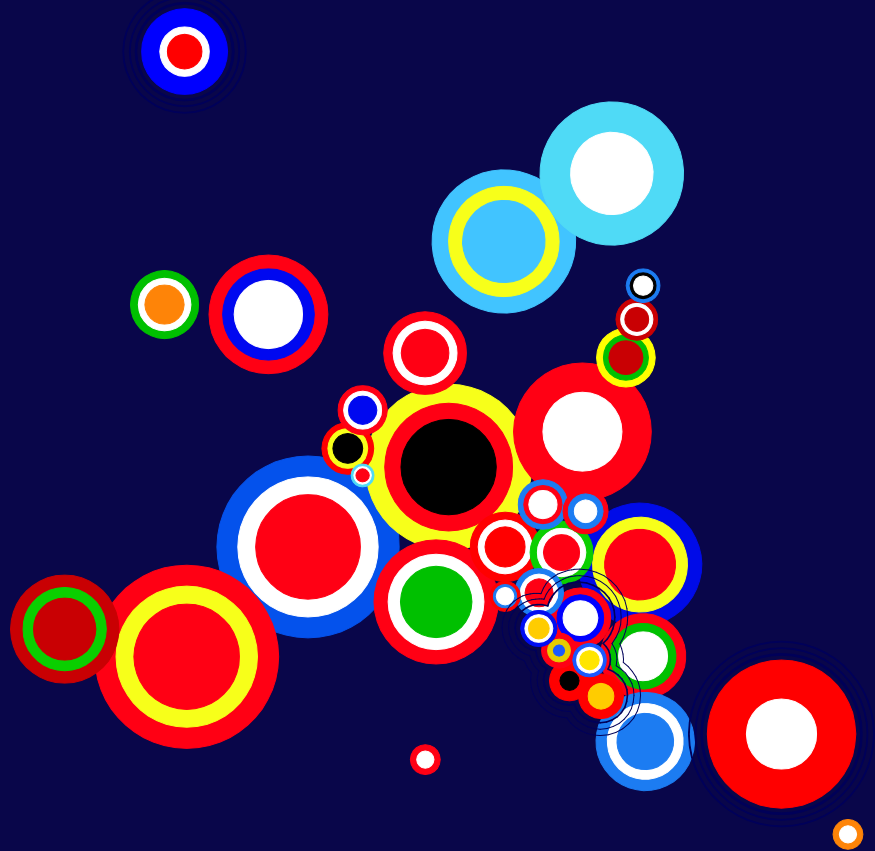




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)



INDICATIVE STRATEGY PAPER FOR THE **REPUBLIC OF MACEDONIA** (2014-2020)

ADOPTED ON 19/08/2014

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PART I: INTRODUCTION

1. Purpose

This Indicative Strategy Paper (the Strategy Paper) sets out the priorities for EU financial assistance for the period 2014-2020 to support the Republic of Macedonia on its path to EU accession. It translates the political priorities, set out in the enlargement policy framework, into key areas where financial assistance is most useful to meet the accession criteria.

The Instrument for Pre-accession Assistance (IPA II)¹ is the main financial instrument to provide EU support to the beneficiaries in implementing reforms with a view to EU membership. Financial assistance under IPA II pursues the following four specific objectives: (a) support for political reforms, (b) support for economic, social and territorial development, (c) strengthening the ability of the beneficiaries listed in Annex I to fulfil the obligations stemming from Union membership by supporting progressive alignment with, implementation and adoption of, the Union *acquis*, (d) strengthening regional integration and territorial cooperation. Furthermore, the IPA II Regulation states that financial assistance shall mainly address five policy areas: a) reforms in preparation for EU membership and related institution-and capacity-building, b) socio-economic and regional development, c) employment, social policies, education, promotion of gender equality, and human resources development, d) agriculture and rural development, and e) regional and territorial cooperation.

In order to increase its impact, EU financial assistance shall be concentrated on the areas where reforms or investments are most needed to meet accession criteria and tailored to take into account the capacities of the country to meet these needs. Assistance shall be planned in a coherent and comprehensive way with a view to best meeting the four specific objectives and address, as appropriate, the thematic priorities for assistance listed in Annex II of the IPA II Regulation, as well as the thematic priorities for assistance for territorial cooperation listed in Annex III of the same Regulation.

Moreover, EU assistance is only one of the means to achieve the necessary progress. When deciding on priorities for action, due account needs to be taken of the beneficiary's own means as well as of the support provided through other EU instruments and by other stakeholders, in particular bilateral donors or International Financial Institutions. In view of the above aspects, preference shall be given to providing financial assistance under a sector approach, to ensure a more long-term, coherent and sustainable approach, allow for increased ownership, facilitate cooperation among donors, eliminate duplication of efforts and bring greater efficiency and effectiveness.

With a view to delivering on the priorities set for EU financial assistance for the Republic of Macedonia for the coming seven years, this Strategy Paper sets meaningful and realistic objectives, identifies the key actions and actors, describes the expected results, indicates how progress will be measured and monitored, and sets out indicative financial allocations. The priorities defined for financial assistance will serve as a basis for the (multi-) annual programming of IPA II funds from 2014 to 2020. The indicative financial allocations allow for an appropriate amount of assistance to remain available as a

¹ OJ L 77, 15.03.2014, p. 11.

'reward', on the basis of an assessment of performance and progress over a period of several years but not later than in 2017 and 2020 respectively, as defined in the IPA II Regulation.

This Strategy Paper shall be reviewed at mid-term and revised as appropriate. It may also be revised at any time upon the initiative of the European Commission.

2. Consultation on this Strategy Paper

The present Strategy Paper is an assessment by the European Commission and the Government of the Republic of Macedonia of the country's needs, over the next seven years, in the context of its European integration process. It is also a result of consultations conducted with EU Member States, international financial institutions, international organisations, civil society and other donors and stakeholders represented in the country. A strategic dialogue with the European parliament has also been conducted. The Strategy Paper takes account of key documents, such as the latest Enlargement Strategy 2013-2014² and Progress Report, national strategic documents, reports from other relevant organisations, and information on current and past EU financial assistance.

PART II: ANALYSIS OF THE NEEDS AND CAPACITIES

1. Political and economic context

The Republic of Macedonia is a landlocked country of 25,713 square km, situated in south-eastern Europe, bordered by Serbia, Kosovo*, Bulgaria, Greece and Albania. Since its independence in 1991, the country is a parliamentary democracy. In 1993, the country was admitted to the UN under the provisional reference of *the Republic of Macedonia*, pending a resolution of the name issue with Greece.

The 2001 census put the population at approximately 2.05 million. More than 580,000 people live in the capital Skopje, with another 13 towns and cities having a population above 50,000. The country is organised into 80 municipalities. Ten of the municipalities constitute the City of Skopje, a distinct unit of local self-government.

Since the country declared independence, it has undergone a profound transformation process towards democracy and has made progress towards becoming a functioning market economy. Its first decade of independence was marked by significant political and economic challenges. Most notably, the country went through a security crisis in 2001 when ethnic Albanian groups took up arms in pursuit of greater rights, a conflict which ended with the internationally-brokered Ohrid Framework Agreement.

After 2001, in its second decade of independence, the country concentrated on building up its democratic institutions and stabilising its economy. Political and economic reforms, free trade agreements, and regional integration had a positive impact on the country's overall stability.

² COM(2013)700 of 16.10.2013 - Communication from the Commission to the Council and the European Parliament, "Enlargement Strategy and Main Challenges 2013-2014" and "The Republic of Macedonia 2013 Progress Report"

In its third decade of independence, it is crucial that the country systematically addresses and resolves the challenges highlighted in the Progress Reports.

Dialogue between political parties needs to improve, and there is a need for more constructive politics in the national interest. The country needs to further reduce corruption and establish a modern and transparent public administration. The independence, efficiency and the professionalism of the justice system also have to be strengthened.

More than ten years after the signature of the Ohrid Framework Agreement, inter-community relations are stable but remain fragile. The decentralisation process, a key component of the Ohrid Agreement, merits greater attention. The process of national reconciliation and full reconciliation between the communities needs to continue.

Despite economic reforms, in 2013 total unemployment stood at 29% of the labour force, one of the highest unemployment rates in the region and well above the EU average of 9.7%³. GDP per capita in 2012, EUR 3,650, was well below the EU average of EUR 25,500.⁴ The country needs to bring down structural and long-term unemployment and improve its socio-economic development through, inter alia, support for the business environment, for its agricultural sector, for its research and innovation capacities, and through investments in its infrastructure. In the field of gender equality, the participation of women in the labour market remains low and women comprise substantial percentage of the economically inactive population. Gender stereotypes existing in the society help to preserve a structural gender gap in economic, political and social areas.

For the sake of a low carbon and climate resilient development and the reduction of pollution levels, the country will have to address environmental challenges through investment and capacity-building efforts.

The present Strategy Paper is intended to guide EU support to the country in meeting these objectives.

In order to track the results of reforms, to which the EU contributes either through policy dialogue or financial assistance, outcome/impact indicators will be used, as set in Annex 2.

2. Context for the planning of assistance

2.1. EU enlargement strategy

A Cooperation Agreement with the EU was signed in 1996 and the country was the first in the region to sign a Stabilisation and Association Agreement (SAA) in 2001, giving it duty-free access to the EU market and a political framework for its European integration process. The country formally applied for EU membership in March 2004 and was granted candidate status by the European Council in December 2005. Since 2009, the Commission has assessed that the country sufficiently meets the political criteria and recommended, five times, the opening of negotiations. The Commission has also recommended, since 2009, to move to the second stage of the association, in line with the relevant provisions of the SAA. No decision has been taken by the Council in either case. The sustainability of EU financial assistance is linked to a

³ Cf. Eurostat

⁴ Ibid.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence.

credible EU perspective. The High Level Accession Dialogue (HLAD), launched in March 2012 between the government and the Commission, injected new dynamism into the EU-related reform process but cannot replace the accession negotiations.

A key lesson of previous enlargements is the importance of addressing early on the fundamental reform priorities identified by the latest Enlargement Strategy 2013-2014, mentioned here below.

Rule of law and fundamental rights are at the heart of the enlargement process. The "new approach", endorsed by the Council in December 2011, requires that countries tackle judicial reform and the fight against organised crime and corruption early in accession negotiations. This maximises the time to develop a solid track record of reform implementation. The visa liberalisation process has brought significant benefits to citizens and has given the country incentives to implement reforms in the field of justice and home affairs, in particular on border management, migration and asylum, corruption and organised crime. The Government needs to step up efforts to consolidate reforms and implement measures to prevent possible abuse of the liberalised visa regime.

The global economic crisis has underlined the need for the country, which is not yet a functioning market economy, to strengthen its economic governance. The country is affected by high unemployment, particularly among the young, and, like its neighbours, needs to intensify reforms to achieve sustainable growth and address the challenges necessary to meet the economic criteria and improve competitiveness. The Government needs to enhance its economic policy and its governance through the preparation of an annual National Economic Reform Programme and a biennial Competitiveness and Growth Programme. These programmes will be evaluated by the Commission, which will provide guidance on reforms needed to achieve further progress towards meeting the economic accession criteria. As part of this approach, the country is invited to embark on a comprehensive and credible reform of its public financial management system and prepare a multi-annual public financial management reform strategy and an action plan (a public financial management reform programme). This will also be relevant for possible sector budget support under IPA II.

Strengthening democratic institutions and ensuring more inclusive democratic processes remains very important for the country's successful accession process. The EU is founded on common values and principles, including respect for fundamental rights. Among the current priorities are respect for freedom of expression and the protection of minorities, as well as protecting other vulnerable groups from discrimination.

Regional cooperation and good neighbourly relations are essential elements of the Stabilisation and Association process.

2.2. Relevant national/regional strategies

The Government has a four-year Programme (2014-2018), which sets out five strategic objectives:

- To increase economic growth and employment
- To integrate the country into the EU and NATO
- To fight corruption and crime and implement laws efficiently
- To maintain good inter-ethnic relations based on the principles of mutual tolerance and respect and implementation of the Ohrid Framework Agreement
- To invest in education, science and information technology for a knowledge-based society

These largely coincide with the main objectives for IPA II assistance, namely improving socio-economic development, rule of law and good governance, and are reflected in the National Programme for the Adoption of the Acquis (NPAA) and the Pre-accession Economic Programme (PEP). In addition, IPA II will support environment protection and climate action.

To improve economic growth and employment, the Western Balkan countries have developed a common regional strategy for economic development in South East Europe (SEE 2020), supported by a set of pertinent policy objectives, implementation measures and monitoring mechanisms. The Government of the Republic of Macedonia has set itself a number of ambitious targets for 2020.⁵

The country is an active participant in regional cooperation, including the South East Europe Investment Committee (SEEIC), the Regional Cooperation Council (RCC), the Central European Free Trade Agreement (CEFTA), the South East Europe Transport Observatory (SEETO), the Western Balkans Investment Framework (WBIF), the Energy Community (EnC), and the Western Balkans Platform on Education and Training, all of which can help the Government to improve socio-economic development and address relevant regional challenges.

Important sector strategies that could guide reforms with respect to the main objectives for IPA II assistance are listed in Part IV, under the respective sectors. However, the country currently lacks a national development plan which could provide overall strategic guidance on how it plans to meet its strategic development objectives. The Government is therefore considering developing a national development plan as a way of formulating a comprehensive development agenda that could overarch the country's sector strategies and guide its European integration process.

2.3. Conditions for managing pre-accession assistance

In 2009, the Commission conferred IPA management powers to the national administration for IPA Component V without *ex ante* controls. In the same year, the Commission also conferred management powers with *ex ante* control for IPA Components III and IV, and, in 2010, for IPA Component I. Management of funds is being ensured by the so-called Decentralised Implementation System (DIS) for which the administration is currently employing around 400 staff.

The administrative capacities of the country's IPA structures have improved in recent years, but there are still shortcomings which have led to a backlog in procurement, a low rate of contracting and a risk of de-commitment of IPA funds. The management and control system also shows systemic problems, such as understaffing, high turnover of staff, and insufficient intra and inter-institutional coordination. Efforts in this area are therefore foreseen in order to improve management of resources.

For this purpose, and to increase the effectiveness of IPA II, all management modes will be considered for implementation of the assistance. In parallel, the national authorities, in partnership with the European Commission, must continue to take appropriate measures to lower the risk of de-commitments of IPA I funds.

⁵ Cf. South East Europe 2020 Strategy (<http://www.rcc.int/pubs/0/20/south-east-europe-2020-strategy>).

It is expected that the proportion of assistance delivered by means of the sector approach will progressively increase as the beneficiary country meets the relevant criteria⁶. The following three criteria are considered to be essential and must be in place before adopting a sector approach:

1. The existence of a national sector policy and strategy and a sector budget or a commitment by government to either elaborate or refine these.
2. An institution/ Ministry responsible for the sector/subsector.
3. The existence of a functional sector coordination framework or a commitment by government that steps will be taken towards its development.

In improving its capacity to implement the sector approach, the Government can draw on the Programme Based Approach (PBA) and its working groups⁷. If further empowered by the Government, the PBA working groups could assume effective institutional leadership in their sectors and play a role in coordinating and monitoring of sector policy implementation. This will require an integrated monitoring framework, enhanced inter-institutional cooperation and a more consistent use of sectorial strategies. The Government's intention to establish a Mid-Term Expenditure Framework will enable the Government to budget, on a mid-term basis, for sector strategies.

The Government could receive sector budget support once it has been assessed that it meets all the relevant pre-conditions, namely a stable macro-economic framework, a credible and relevant programme to improve public financial management, transparency and oversight of the budget, as well as a credible and relevant sector strategy that is consistent with the EU accession strategy.

2.4. Donor coordination, complementarity with other EU assistance

Donor assistance to the country has decreased over the last years. The EU remains by far the largest donor. EU Member State donors include France, Germany, Italy, the Netherlands and the United Kingdom. Other large bilateral donors include Switzerland and the United States. Multilateral donors include the Council of Europe, the Organization for Security and Co-operation in Europe (OSCE) and the United Nations. The main lenders are the Council of Europe Development Bank (CEB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the International Monetary Fund (IMF) and the World Bank (WB).

Government donor coordination is led by the Secretariat for European Affairs, which oversees a general and sector donor coordination mechanism, on the basis of the country's Programme Based Approach. Regular donor coordination meetings take place in the context of the annual IPA programming exercise, as well as ad hoc donor coordination meetings involving EU Member States, international organisations, other donor organisations, civil society and other relevant stakeholders.

⁶ Cf. Instrument for Pre-accession Assistance (IPA II), 2014-2020. A Quick Guide to IPA Programming, p.37.

⁷ The programme-based approach (PBA) is defined in the OECD DAC guidelines as a way of engaging in development cooperation based on the principle of coordinated support for a locally owned programme of development. As such it takes up the core elements of the sector approach.

2.5. Consistency with EU policies

Financial assistance in the priority areas identified in this Strategy Paper will be granted in line with and in support of the EU's enlargement strategy, consistent with relevant EU policies, in particular with the Europe 2020 strategy and applicable macro-regional strategies, flagship initiatives of the EU to boost growth and jobs, as well as climate policy objectives. The objectives set for 2020 reflect *today's* level of economic development and the country's stage in the accession process.

The country specific reform objectives of the SEE 2020 Strategy are important reform goals and IPA II will be used to support meeting these goals.

PART III: THE OVERALL DESIGN OF PRE-ACCESSION ASSISTANCE TO THE COUNTRY

In view of the priorities of the latest Enlargement Strategy 2013-14, the Progress Reports and the Government, IPA II assistance will focus on the key strategic priorities set out below.

Democracy and rule of law

Governance and public administration reform (PAR) are key elements in the accession process and priorities under the High Level Accession Dialogue (HLAD). IPA II will support efforts aimed at enhancing economic governance, establishing a more professional, impartial and accountable public administration and improving public financial management. The country will furthermore need to continue and intensify the process of aligning its legislation with the EU *acquis* and developing administrative capacity throughout all government institutions to ensure its proper implementation. Dialogue and cooperation between the Government and non-state actors will be supported throughout all sectors.

Continued reforms in the fields of rule of law and fundamental rights are of key importance to the overall development of the country. The sector's prominence is also reflected in the priorities of the High Level Accession Dialogue (HLAD) and the Commission's "new approach" in this area. Further progress in this sector will ensure the country's stable and democratic future and also benefit its socio-economic development, including through increased inward investment.

IPA II will support the completion of the country's judicial and police reforms, support full respect for the fundamental rights of its citizens and the full implementation of the Ohrid Framework Agreement. Assistance will be provided for activities safeguarding the independence and professionalism of the judiciary, effectively combating corruption and organised crime, addressing problems with freedom of expression, strengthening capacities for the protection of fundamental rights and tackling new challenges emerging in the fields of migration and asylum, as well as improving the effective management of external borders and the implementation of visa, migration and asylum policies, in line with the EU *acquis*.

Competitiveness and growth

Improving the competitiveness and growth of the country is of key importance for the country's development towards a functioning market economy and its successful accession to the EU. IPA II assistance will support this objective by improving the conditions for job creation by strengthening the educational system and the national employment agencies.

In order to reflect the EU's focus on economic governance and competitiveness, IPA II will contribute to improving the business environment by supporting small and medium-sized enterprises (SMEs), reduce disparities between the different regions and link research & development institutions to the business and employment sector.

As a landlocked country, the Republic of Macedonia is particularly dependent on a well-developed and inter-connected land transport network for its economic and social development. Therefore, IPA II will help to develop the national and international trade and transport routes along the SEETO comprehensive network.

Since grant funding for investments and the national budget are limited, the country can use the Western Balkans Investment Framework (WBIF), a unique facility for blending loans and grants, which also provides a mechanism for coordinating priority investments in national and regional projects.

Agriculture is one of the most significant economic sectors in the country. IPA II assistance will continue to provide substantial funding to this sector to increase its competitiveness and its growth potential. Particular attention will be paid to the economic development of the country's bordering regions with Albania, Bulgaria, Greece, Kosovo* and Serbia. This will help to improve economic growth and reduce the high unemployment rate.

Reforms related to the environment and climate action are of key importance for the EU accession process and should lead to a cleaner environment and improved quality of life. This will also contribute to the implementation of the Europe 2020 Strategy, helping to ensure sustainable growth and a low carbon, climate resilient and resource-efficient economy. IPA II will help to transpose and implement the *acquis* in key areas, by capacity and investment-related assistance.

Specific attention will be paid to a number of cross-cutting issues throughout all sectors. These include the prevention of and fight against corruption, environmental sustainability and climate action, gender equality, strengthening of democracy, human rights and civil society participation as well as protection of cultural heritage as appropriate. Climate relevant expenditure will be tracked across the range of IPA II interventions in line with the OECD-DAC's statistical markers on climate change mitigation and adaptation.

As an additional cross cutting-issue, IPA II assistance will support the full implementation of the Ohrid Framework Agreement, in particular local governance and local economic development, in accordance with the principles of subsidiarity and participatory development, as well as social cohesion and good inter-community relations, based on the principle of mutual tolerance. Civil society organisations (CSOs) will play an important role both in the sector dialogue and in the implementation of sector reform activities. Their inclusion will be tailor-made in each sector.

In addition to assisting the above areas, IPA II support may also be mobilised in response to unforeseen priority needs relevant to the accession process which do not fall under the aforementioned priority sectors. In particular, this may include, but will not be limited to, ad hoc and short-term technical assistance provided under the Technical Assistance and Information Exchange instrument (TAIEX) and through Twinning.

The indicative financial allocations per policy area and sector resulting from the priorities defined in this Strategy Paper are set out in Annex 1.

PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2020

1. Democracy and governance

1.1. Needs and capacities in the sector

Governance and **public administration reform** (PAR) are key elements in the accession process. Challenges include ensuring transparency and the independence of the civil service, respect for the principles of merit and equitable representation and provision of stable and predictable public services to citizens and businesses. Challenges with regard to corruption are specifically addressed in the sector of "Rule of law and fundamental rights".

The challenges in relation to **decentralisation**, a key element of the Ohrid Framework Agreement, include ensuring a sustainable financial and legal framework for the implementation of all transferred and yet to-be-decentralised competencies. The relevant laws and strategies on regional development need to be fully implemented.

The country's **economic governance** should be strengthened. Challenges related to macroeconomic stability and a functioning market economy will be dealt with through the National Economic Reform Programme, which leads to country-specific recommendations. Implementation of these recommendations will be subject to an annual cycle of stock-taking, which will identify the steps to be taken towards meeting the first economic accession criterion. Based on these recommendations, annual follow-up actions will be prepared in cooperation with relevant partners, in particular with the IMF.

There is also a need to modernise public financial management based on a well-designed, multi-annual reform programme, covering the reform needs in the relevant public finance sub-systems, including revenue administration and collection, budget preparation, budget execution on the basis of cash management, public procurement, accounting and reporting, debt management, public internal financial control and external audit. General EU **accession-related reforms** with respect to gradually meeting EU standards and to developing regulatory and supervisory bodies, particularly with regard to statistics, as well as enhancing IT interconnectivity and interoperability of customs and tax administrations with EU systems, will need to continue.

An empowered **civil society** is a crucial component of any democratic system, contributing to a more transparent, accountable, effective and legitimate governance, greater social cohesion and more open societies. The challenge will be to achieve a higher level of constructive interaction of government with civil society on all government policies, especially in the areas of social reform, gender equality, and with regard to vulnerable groups, including the LGBTI (lesbian, gay, bisexual, transgender and intersex) community and minorities. The Roma community merits particular attention in all respects.

The development of **democratic institutions**, including through the development of trust in the democratic process, also needs to continue.

Under IPA I, around EUR 77 million have been programmed for the above areas. The lessons learned from IPA I indicate that reforms in areas without hard EU *acquis* take longer and need

stronger political support, commitment from all layers of the administration and an effective coordination of the various stakeholders involved. Assistance needs to be sequenced appropriately and the quality of project outputs needs to increase to achieve a greater impact.

Donor coordination at sector level was largely efficient and geared towards gradually meeting EU accession requirements. France, the Netherlands and the United Kingdom, as well as World Bank and IMF have been among the most active stakeholders and donors in this area. Further efforts will be needed to strengthen coordination and coherence amongst the key stakeholders and donors to ensure an efficient framework for sector support needed for a combined sector.

The government's 2010 PAR Strategy has been regularly reviewed and updated through Action Plans. Reforms in the area of PAR have enjoyed political support, with strategic planning and policy making co-ordinated at ministerial level and a dedicated joint consultative forum with the EU under the SAA. E-government tools are also being introduced and broadly applied. Other sub-sector strategies exist, such as the Strategy for Cooperation with Civil Society (2012-2017). However, a comprehensive public financial management reform programme is not yet in place. The establishment of proper sector stakeholder consultation mechanisms needs to be strengthened. The readiness of the sub-sectors of PAR and public financial management for the sector approach are at an early stage.

1.2. Objectives, results, actions and indicators

The **objectives** of IPA II assistance for this sector are to support the establishment of a more professional, transparent, accountable and independent public administration at central and municipal level, taking into account the principles of merit and equitable representation; to improve economic policy-making and public financial management; to improve the quality and sustainability of local governance; to improve capacities and independence of key institutions; and to support the development of a civil society which can participate actively and competently in public debate.

The **results** to be achieved include:

- National legislation aligned with EU *acquis* to a greater extent and capacities of relevant institutions strengthened
- A strengthened, more accountable, depoliticised and merit-based public administration
- Improved provision of public services at all levels of government
- Improved legal predictability and enforcement of laws and court decisions
- Financially more sustainable and autonomous municipalities established
- Sound public financial management established
- Improved IT interconnectivity and interoperability of tax and customs administrations with EU systems
- Enhanced quality and availability of statistics and better functioning and more independent regulatory and supervisory bodies
- Improved functioning of democratic institutions
- A more independent civil society as a key component of a democratic system established

In the field of **PAR**, support will be provided for policy coordination, policy making, and implementation of legislation. Support will further be provided for greater respect of the principles of merit based and equitable representation, improved service delivery to citizens and businesses, continued development of e-services for citizens and businesses, e-procurement, statistics, and free access to public information, including for upgrading of IT systems for operational efficiency and interconnectivity.

In the field of **decentralisation** and local governance, support will be given for the development and implementation of relevant policies and legislation. Municipal capacities will receive assistance with a view to delivering better quality services to citizens and businesses, to become financially sustainable, including through improved revenue collection and enhanced coordination with other municipalities, and a more balanced distribution of resources. Finally, support will be given for maintaining good inter–community relations based on the principles of mutual tolerance and respect.

In the field of **economic governance**, assistance will be given for the implementation of the country-specific policy guidance of the annual National Economic Reform Programme. Support will also be provided for the preparation and implementation of a comprehensive public financial management reform programme to ensure efficient and transparent management of public funds. Based on the sequencing of reform actions in the reform programme, assistance will address among others the revenue administration and collection (customs/tax) and their operational and institutional capacities, medium term budget planning, budget preparation, budget execution with cash management, including introduction of the Treasury Integrated Information System, accounting and financial reporting in accordance with appropriate statistical methodology. Assistance will also aim at improving operational and institutional capacities for public procurement, and public internal financial control and external audit. In addition, support will be provided for improving IT interconnectivity and interoperability of customs and tax administrations with EU systems, and further alignment with and efficient implementation of the EU *acquis* in the customs and taxation fields. Supervisory and regulatory bodies will also be supported.

Support for **civil society** organisations (CSOs) will be provided through assisting in the implementation of the Civil Society Strategy with a focus on the new advisory body; through assisting the establishment of a legal and financial environment, favourable to sustainable and independent CSOs, able to work in a representative, transparent and accountable manner; through supporting capacity-building and improving CSOs' cooperation with public institutions, and improved access to public information; and through promoting the inclusion of CSOs in the formulation, implementation and monitoring of sector policies.

EU accession-related assistance will support further transposition, alignment and implementation of the EU *acquis* in all accession areas. Support will also be extended to institutions and independent agencies involved in the EU *acquis*, including **democratic institutions**, particularly the parliament. Support will further be provided to strengthen the administrative capacity of institutions involved in the planning, preparation and implementation of EU assistance. Assistance will finally be used for the programming, identification, formulation, monitoring and evaluation of EU assistance, as well as for co-financing entry-tickets to relevant Union programmes.

Indicators (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria (European Commission)
- Composite indicator Government Effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB)
- Statistical compliance (Eurostat)

1.3. Types of financing

Reforms will be supported through Twinning, service, supply, works and grant contracts, implemented under direct and/or indirect management. SIGMA and the Regional School for Public Administration (ReSPA) can also support reforms in this area. TAIEX can be used for

ad hoc and short-term technical assistance. Support for non-state actors will also be provided through the Multi-country IPA programmes, notably the Civil Society Facility (CSF). The use of sector budget support for sector reforms can be considered, once the conditions have been met. Assistance can also be provided through co-financing the country's participation in relevant Union Programmes and Agencies in all sectors of this Strategy Paper.

1.4. Risks

The lack of sector strategies, affecting coherence in the reform process, can be mitigated through their development with IPA assistance. The lack of commitment to a medium-term expenditure framework, and the insufficient allocation of resources, affecting the capacity and independence of institutions, can be mitigated through supporting public financial management through policy dialogue and relevant assistance. The lack of an enabling environment for civil society participation can be partly mitigated by supporting more participatory decision-making processes. The risk of corruption can be mitigated through supporting the implementation of the national anti-corruption strategy and relevant bodies.

2. Rule of law and fundamental rights

2.1. Needs and capacities in the sector

Despite the progress made, and the substantial assistance provided in this sector, the area of justice and home affairs still faces challenges which need to be addressed in a comprehensive manner. Improvements in this area will benefit the stable democratic development of the country, as well as the business environment and the country's economic growth.

The country's **justice** sector underwent long-term legislative and structural reforms between 2004 and 2012, but important improvements are still needed in order to address the excessive duration of court proceedings, strengthen the system of merit-based recruitment in the judiciary and ensure that the Judicial Council's implementation of systems of evaluation, discipline and dismissal is in line with the principle of independence of the judiciary. Support is needed to further enhance the capacities, infrastructure and IT systems of the judicial institutions, including the Public Prosecution Offices, as well as those of the Academy for Judges and Prosecutors. The codification of civil law needs to continue, and should contribute to harmonisation with EU legislation in various fields, as well as improving the efficiency of civil and commercial court proceedings. Administrative justice reforms as well as the legislative framework governing misdemeanours need to be completed. Further steps are still needed to improve transparency and access to justice for citizens, including greater use of legal aid and alternative dispute resolution. The quality of justice would benefit from improvements to the tools of the judicial professions (access to legislation and legal commentaries, harmonisation of jurisprudence and familiarisation with international and EU law). Strategic planning and human and budgetary resource management within the courts and prosecution service still need to be improved considerably.

On the fight against **corruption**, the capacities of the relevant institutions (including the Ministry of Interior, Public Prosecution Offices, State Commission for the Prevention of Corruption, Agency for the management of Confiscated Assets, State Audit Office and other law enforcement and supervisory bodies) to ensure effective suppression and prevention of corruption need to be stepped-up and inter-agency cooperation improved. The existing track record of investigations, prosecutions and final convictions needs to be strengthened, and in

particular the capacity of courts to deal effectively with corruption cases should be enhanced. The existing legislative regimes for the declaration of assets, interests and political party financing need to be enforced fully and improved where necessary. More attention still needs to be paid to combating corruption in the field of public procurement and in the field of public administration in general. Systematic monitoring and follow-up of cases which are referred to the public prosecutor by supervisory bodies has not yet been developed.

Increased efforts are needed in the overall promotion and protection of **fundamental rights** of vulnerable groups, including children, the LGBTI community, persons with disabilities, including mental health conditions, and persons belonging to minorities. The social and economic integration of the Roma will require particular attention. Implementation of the national Roma Strategy will need to be kept well on track. Continued support for social inclusion of all vulnerable groups is needed. Implementation of policies in this field needs to be strengthened, notably through building capacity and co-ordination among the institutions involved. There is a need for more proactive implementation of the relevant policies, including the Roma Strategy at national and local level, as well as ensuring the full implementation of the Ohrid Framework Agreement. Continued prison reform should focus in particular on long-term strategic planning and improved managerial capacity. The procedural rights of detainees, in particular of juvenile offenders, need to be safeguarded in a more systematic manner. Further efforts are necessary to ensure that freedom of expression and the media is respected in practice through reforms, technical assistance and confidence building measures.

On home affairs, asylum, visa and migration policies are in place but human and material capacity need to be strengthened, in particular to deal with increasing pressure from the influx and transit of irregular migrants, as well as increasing demands on the asylum system. Support should be targeted towards the capacity to detect irregular migration; voluntary and non-voluntary return; identifying victims of trafficking; improving reception and accommodation capacities and the provision of assistance to asylum seekers, vulnerable irregular migrants and victims of human trafficking and the capacity of the administrative justice system to deal with asylum cases. The Ministry of Interior needs to continue to reform the police as there is a need for further professionalisation and de-politicisation of the police, as well as enhancing the effectiveness and transparency of special investigative measures, more pro-active investigation of **organised crime** including financial investigations and the establishment of a national intelligence model. The country has launched a comprehensive reform of the criminal justice system, adopting a new Law on Criminal Procedure. The implementation of this reform, entailing significant organisational and legislative changes, remains a major challenge for all the actors within the criminal justice system. The human and material capacity of the border police to maintain national security against trans-national crime, irregular migration, trafficking in drugs, goods and people as well as terrorist-related threats, should be further strengthened in accordance with the Schengen *acquis*.

Over the past decade, substantial EU assistance has been provided for important structural reforms, notably of the judiciary and the police. The country's achievements in this respect include the establishment of an Academy for Judges and Prosecutors, the development of a system of administrative justice, the reform of the criminal justice system and implementation of the Police Reform Strategy. Sector-specific assistance and equipment has been provided on corruption, organised crime, witness protection and border control capacity. In the field of fundamental rights, assistance has focused on the implementation of juvenile justice reform, prison reform including construction and refurbishment of prisons, support to the Office of the Ombudsman, respect for human rights in the treatment of prisoners and detainees, implementation of the Roma Strategy and protection of personal data. Further assistance has

been programmed in the areas of freedom of expression and anti-discrimination. Under IPA I, around EUR 60 million have been programmed for this sector.

In addition to EU assistance, support is provided by Germany, Italy, the Netherlands, the UK, Norway, the United States, the Organisation for Security and Co-operation in Europe (OSCE), the International Organisation for Migration (IOM), the United Nations Children's Fund (UNICEF), the United Nations High Commissioner for Refugees (UNCHR) and the United Nations Development Programme (UNDP).

IPA II assistance will be based on the Government's key sector strategies, including the Strategy for Fight against Corruption, the Roma Strategy, strategies for Gender Equality and the Rights of Persons with Disabilities, the Strategy for Police Reform, the National Strategy for Development of the Established System of Integrated Border Management, and any future strategy for continued reform of the judicial system. However, readiness for the sector approach is at an early stage. The Government will have to implement fully, and revise as necessary, the key policy documents and improve its planning and policy-making capacities. Strategic frameworks for the Justice and Home Affairs sector need to be reviewed or developed in close cooperation and coordination with all the relevant stakeholders.

2.2. Objectives, results, actions and indicators

The **objectives** of IPA II assistance in this sector are to support the country in completing its judicial and police reforms, improve the effectiveness of the fight against corruption and organised crime, ensure full respect for the fundamental rights of its citizens, improve the effective management of its external borders and ensure the implementation of visa, migration and asylum policies, in line with the EU *acquis*.

The **results** to be achieved include:

- Enhanced strategic planning, administrative and judicial capacity and inter-agency cooperation in all areas of justice, home affairs and fundamental rights
- Legislation further aligned with the EU *acquis* in all above mentioned areas
- A more independent, efficient, professional and merit-based justice system established
- Reduced duration of proceedings, more coherent and consistent jurisprudence, and a more timely and correct enforcement of judicial rulings
- Notable decrease in corruption, demonstrated by a solid track record of prevention and suppression, and a solid track record in the fight against organised crime
- Compliance with the case law of the European Court of Human Rights and conformity with European standards and international best practices on human rights and fundamental freedoms
- Strengthened implementation capacities in the area of home affairs (border management, visa, migration, asylum) founded on legislation which is fully aligned with the EU *acquis*
- A more effective, professional and independent police and enhanced capacities and inter-agency cooperation in the fight against organised crime

On the **judiciary**, support will be provided to guarantee merit-based recruitment and equitable representation, as well as the promotion of the judiciary, prosecution service and court staff. The independence of the judiciary will be strengthened through supporting improvements to systems of evaluation, discipline and dismissal. Further assistance will support the pre-service and in-service training of judges, prosecutors and court staff; the development of reliable data to monitor the overall duration of proceedings; the enhancement of the civil and commercial justice systems, including through procedural reforms; improving the efficiency of administrative justice and the misdemeanour system and completing the criminal justice

reform. Support will assist better access to justice for citizens (including promotion of existing systems of alternative dispute resolution (ADR) and free legal aid), enhance the material and technical conditions in relevant institutions, and further promote the use of e-justice by courts and related institutions. Support will also be granted to actors promoting the rule of law, including associations of legal professionals and academic institutions.

On the fight against **corruption**, assistance will be provided to improving the track-record of investigations, prosecutions and convictions, as well as the effectiveness of penalties imposed; further developing the integrity concept within the public and private sector and supporting the implementation of mechanisms for whistle-blower protection. Assistance will help to strengthen the transparency and accountability mechanisms within the public and private sector, as well as political parties; strengthen the checks and balances within the judiciary and law enforcement agencies; improve cooperation between the various bodies involved in the fight against and prevention of corruption and involve the non-governmental sector and citizens in the implementation of anti-corruption policy, improving policy-making, monitoring and evaluation capacities of relevant state and non-state institutions.

On **fundamental rights**, assistance will help in the implementation of the European Convention on Human Rights (ECHR) and the case law of the European Court of Human Rights (ECtHR), including protection against discrimination, guaranteeing freedom of expression and safeguarding procedural rights of detained persons. Assistance will further support the implementation of effective policies, protecting vulnerable groups including persons with disabilities, children, Roma and other minorities, as well as strengthening of community-based services for vulnerable groups, especially with regard to social inclusion, health and economic wellbeing. Support will also be provided to prevent ill-treatment of detainees and prisoners, combat impunity of perpetrators and strengthen institutional prevention mechanisms, support the creation and implementation of formal and vocational education systems for juveniles deprived of their liberty, improve the conditions in, and the strategic planning and the management of, prisons and strengthen the capacities of the Office of the Ombudsman, including for mainstreaming gender equality. Assistance will also aim at strengthening personal data protection, increasing participation and involvement of non-state actors in promoting respect for fundamental rights and strengthening inter-institutional cooperation and coordination in these areas. With respect to freedom of expression and the media, assistance will support building up technical capacity and provide training and expertise to the relevant media bodies and institutions in order to develop investigative journalism, improve professional journalistic standards and develop a system of self-regulation. Support in this respect will be based on, among other things, the "Guidelines for EU support to media freedom and media integrity in enlargement countries, 2014-2020". Support will also be extended to the strengthening of inter-community relations.

On **home affairs**, assistance will be given to improving the efficiency and professionalism of the police and other law enforcement agencies; strengthening internal and external oversight of the Ministry of Interior; strengthening the material and human capacity for prevention and repression of crime including organized crime, various forms of trafficking, terrorism, economic and cyber-crime; improving the institutional capacities for effective seizure and confiscation of assets; enhancing the efficiency and transparency of special investigative measures; increasing the use of financial investigations; supporting the establishment of a national intelligence model; improving the management and implementation of all aspects of asylum policy, including improved capacity of the Asylum Unit of the Ministry of Interior, the Administrative Court and reception and accommodation facilities; strengthening the material and human capacity to detect and prevent irregular migration, as well as assistance to asylum seekers and victims of trafficking; improving the surveillance and detection capacity

of the border police regarding all forms of cross-border crime; setting up a basis for the future Schengen Information System and strengthening the inter-institutional, cross-border and international cooperation in these areas.

Indicators (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria (European Commission)
- Composite indicator Access to Justice (WJP) and Judicial independence (WEF)
- Composite indicator Global Corruption (TI) and Control of Corruption (WB)
- Composite indicator Freedom of Press (FH) and Press Freedom (RWB)

2.3. Types of financing

Reforms will be supported through Twinning, service, supply, works and grant contracts, implemented under direct and/or indirect management. TAIEX can be employed for ad hoc and short-term technical assistance. The use of budget support can be considered once the necessary conditions have been met. IPA multi-country programmes can complement reforms in all areas.

2.4. Risks

Lack of sufficient human and material capacities, independence of institutions, separation of powers, freedom of expression and media, as well as respect for the rule of law in general can be mitigated through continuing to put these issues high on the EU agenda, e.g. in the context of the HLAD. A lack of sector cooperation and coherence in the reform process can be addressed by assisting the government in the formulation and implementation of comprehensive sector strategies and through the use of the sector approach.

3. Environment and climate action

3.1. Needs and capacities in the sector

Reforms in the sector of environment and climate action are of key importance for the country's accession process and should lead to a cleaner and safer environment and improved quality of life, as foreseen by the Europe 2020 Strategy.

Progress has been made on alignment with the EU environmental and climate *acquis*, however, the implementation in all areas of the environment and climate action is still at an early stage. The administrative capacity in the sector remains largely insufficient both at national and at local level.

The country needs to continue aligning with and implementing the relevant EU *acquis*. Substantial financial resources and investment in environmental infrastructure and technology are needed, in particular in the waste and water sectors. The estimated cost of compliance with relevant legislation is EUR 2.3 billion⁸ (over EUR 1,000 per capita and around 37% of annual GDP), yet the overall budget of the Ministry of Environment and Physical Planning for 2013 is only EUR 15 million (0.34% of the state budget).

⁸ Cf. National Strategy for Environmental Approximation, 2007-2015

Under IPA I, around EUR 100 million have been programmed for this sector. Italy, Switzerland, UNDP, Kreditanstalt für Wiederaufbau (KfW), WB and other international organisations and bilateral donors are also providing assistance to this sector. Donor coordination remains important, even though donor assistance is likely to decrease in volume and scope.

There are several planning documents for the sector, notably the National Strategy for Environmental Approximation and the Second National Environmental Plan, which is a basis for the Strategy for Environmental Investment and various sector strategies for water, waste, air, and environmental monitoring. The 2nd National Communication on Climate Change presents the objectives for climate change mitigation and adaptation actions, providing a detailed analysis of policy options.

The Ministry of Environment and Physical Planning is in charge of formulating, implementing and monitoring the environmental and climate change policies. Municipalities implement a part of the legislation. In addition to the Environment Ministry, a number of other ministries and bodies are directly responsible for environmental matters, including the Ministries of Health, Transport and Communications, Economy, and Agriculture, as well as the Protection and Rescue Directorate. Sector coordination between the relevant institutions needs to be enhanced on central and local level and be equipped with an adequate monitoring framework. The capacity to produce good environmental statistics, both historical and projected data, needs to be developed.

Overall, the sector is at an advanced stage of readiness for the sector approach.

3.2. Objectives, results, actions and indicators

The overall **objective** of IPA II assistance in this sector is to prepare the country for EU accession and to support reforms in areas of environment and climate action, which should lead to a cleaner environment and improved quality of life. This will contribute to ensuring sustainable growth and the shift to a low-carbon, climate-resilient and resource-efficient economy.

The **results** to be achieved include:

- Environment and climate action legislation aligned with EU *acquis*
- Environment legislation implemented and administrative capacity strengthened
- Water and waste management improved, including the infrastructure, in line with EU requirements
- Air plans for all or most agglomerations developed and under implementation
- Natura 2000 sites identified and selected, based on sound scientific data
- Sustainable development and climate mitigation and adaptation measures introduced
- Resilience to climate change impacts and capacity for disaster risk reduction enhanced

As regards harmonisation of environment and climate **legislation**, support will be provided for capacity building to align, implement and enforce horizontal, environmental and climate action legislation. Support will also be provided for raising public awareness and promoting public participation.

In the area of **water quality**, support will be provided for the preparation of river basin management plans; for improving the quality of surface, ground waters and drinking water; and for the establishment of systems for drinking water quality control and for flood management.

In the area of **air quality**, support will focus on the preparation of air quality plans, capacity-building to implement and enforce air quality legislation, and on improved monitoring and reporting on air quality.

As regards **waste management**, assistance will be provided to support the implementation and enforcement of waste management legislation, in particular the Waste Framework Directive; to support investments in wastewater collection and treatment for large agglomerations (10,000 inhabitants and more) in sensitive areas and in compliance with the UWWTD 91/271/EEC; and to support investments in integrated waste management systems on regional level, compliant with the Waste framework Directive 2008/98/EC.

In the area of **nature protection**, support will be provided for the establishment of the Natura 2000 network based on sound scientific data. As regards reduction of industrial pollution and industrial disaster risk, support will focus on the implementation of the Industrial Emissions Directive and the Seveso Directive. In the field of **energy**, support will be granted to the implementation of the strategies on energy efficiency and renewable energy.

As regards **climate action**, assistance will be provided for the transposition and implementation of legislation, especially for the monitoring, reporting and verification of greenhouse gases (GHG) emissions, fluorinated gases, ozone-depleting substances, vehicle efficiency and fuel quality standards, and for carbon capture and storage. Support will also be given to renewable energy and low-emission technologies, to disaster risk reduction activities to facilitate the country's integration to the Union Civil Protection Mechanism, to implementing measures for sustainable use of natural resources, to climate and disaster resilience of investments, to industry compliance with environmental standards, and to the greening of the industry, including monitoring of environmental and health risk factors.

Indicator (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria (European Commission)

3.3. Types of financing

Reforms will be supported through Twinning, service, supply, works, and grant contracts, implemented under direct and/or indirect management. TAIEX can be used for ad hoc and short-term technical assistance. The use of budget support can be considered, once the conditions have been met. WBIF and the 'Joint Assistance to Support Projects in European Regions' (JASPERS) can be used to support investment related activities. The 'Environment and Climate Regional Accession Network' can contribute to strengthening capacity-building in the sector. Multi-country assistance can be used in all areas, including for civil protection and disaster prevention.

3.4. Risks

A lack of administrative capacity and resources to implement and enforce environmental and climate action legislation at central and local level put the sustainability of projects and investments generally at risk. The implementation of the previously developed administrative capacity programmes will therefore be closely followed. Insufficient financial resources to implement and co-finance activities need to be dealt with by raising the capacity for mid-term budget planning, and by ensuring adequate financial resources for the environment and climate action sector. Stakeholders are not yet sufficiently involved in the decision-making process and further steps should be taken to strengthen the current inclusive approach.

Domestic political support for the development of the sector should increase. Difficulties in the sector can be addressed through highlighting them in the EU's dialogue with the country.

4. Transport

4.1. Needs and capacities in the sector

The country's geographical location has contributed to the development of international traffic along two Pan-European Corridors: X (North-South) and VIII (East-West). The transport sector encompasses rail, road, inland waterways, civil aviation and intermodal transport modes. Road traffic – by amount and number of goods and passengers – is dominant over rail traffic. The country has two international airports (Skopje and Ohrid), both operating under 20-year concessions. Inland waterway traffic is functional only on Ohrid Lake and contributes directly to tourism development.

The establishment of an integrated transport system will improve economic growth and increase the competitiveness of companies and economic growth through improving the mobility of people and goods through improved transport networks and services. The improvement of the railway infrastructure should furthermore contribute to a reduction in CO₂ emissions.

The legal framework and accident prevention measures are largely in place but further alignment is needed especially in the area of road safety, road maintenance and railway legislation. Support for regulatory bodies and committees must improve further to allow for a fully independent functioning.

The Ministry of Transport and Communications is in charge of devising and implementing the national transport policy, national strategies and action plans. The State Transport Inspectorate, the Railway Safety Directorate and the Captaincy-Ohrid, within the Ministry, are responsible for supervising the implementation of relevant laws and rules. Railway infrastructure and transportation are managed by two state-owned public enterprises and the national road network is managed by a public enterprise for state roads.

The National Transport Strategy, 2007-2017, foresees the implementation of necessary reforms in the sector in accordance with the National Programme for the Adoption of the *Acquis*. The strategy defines the main investment priorities in the sector, focusing on construction, reconstruction, rehabilitation and modernisation of the road and railway infrastructure along the SEETO Comprehensive Network with a view to fully connecting the country to the Trans-European Transport Networks.

On average, the Government is spending 7% of GDP on transport. Under IPA I around EUR 109 million have been programmed for this sector. This included support for developing Corridor X-road with substantial support from the national budget, EIB and EBRD. EBRD and WB are also supporting the local and regional road network rehabilitation programme. In addition, EBRD provides support for the railway sector and air navigation services.

IPA II assistance can build on a project pipeline established under IPA I and on the National Transport Strategy, which provides a good basis for the sector approach. National capacities for strategic planning, institutional coordination, and a monitoring framework will need to be enhanced and established. Overall, the sector is at an advanced stage of readiness for the sector approach.

4.2. Objectives, results, actions and indicators

The overall **objectives** of IPA II assistance in this sector are to support the development of a more modern, safer and more environment friendly transport network, support the alignment of the transport legislation with the EU *acquis* and its implementation and benefit the country's socio-economic development.

The **results** to be achieved include:

- Strengthened administrative capacity and implementation of national legislation on transport and alignment with EU transport *acquis*.
- Improved rail and road infrastructure systems in urban areas, including along SEETO comprehensive networks
- Increased cooperation with neighbouring countries on transport issues
- Reduced CO₂ emissions from transport
- Increased road safety

Alignment with the **EU *acquis*** and development of necessary institutional structures for implementation and enforcement will be supported. Support for setting up the necessary infrastructure for accelerating the development of intermodal transportation will be provided.

Project documentation for completion of the SEETO Comprehensive network will be developed. Support will be provided for the consolidation of transport policy in the country and involvement of non-state actors in this process as well as for the development of green urban transport and to reduce the levels of carbon dioxide in the transport sector.

In the area of **road infrastructure**, assistance will be provided for the construction and/or reconstruction, rehabilitation and modernisation of road infrastructure, with a special emphasis on improvement of road safety, while ensuring all possible synergies through a roll-out of intelligent transport systems in the road sector (cost reduction). Support will also be provided for co-operation between all countries involved in the development of the main corridors, especially concerning cross-border freight transport. Support will also be extended to the development of adequate operations and maintenance plans for the existing and newly-built road network for all road categories.

As regards **railway infrastructure**, support will be provided for the construction and/or reconstruction, rehabilitation and modernisation of rail infrastructure, with a special emphasis on the improvement of rail safety and railway electrification, closing missing links to neighbouring countries, and on making rail a competitive and attractive mode of passenger transportation.

Overall, the sector is at an advanced stage of readiness for the sector approach.

Indicators (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria (European Commission)
- Logistics performance indicator, score (WB)

4.3. Types of financing

Reforms will be supported through Twinning, service, supply, works, and grant contracts, implemented under direct and/or indirect management. TAIEX can be employed for *ad hoc* and short-term technical assistance. WBIF and JASPERS can be used to support investment related activities. Regional cooperation and coordination can further be supported through relevant regional institutions and fora, such as SEETO, and through multi-country IPA assistance.

4.4. Risks

Lack of financial resources to implement the large scale projects can be mitigated through coordinating investments with IFIs through WBIF, and with neighbouring countries through relevant fora, with the aim of leveraging funds, pooling resources and agreeing on priorities. Lack of strategic planning and maintenance plans can be mitigated through the sector approach, technical assistance and policy dialogue.

5. Competitiveness and innovation

5.1. Needs and capacities in the sector

Improving the socio-economic development through fostering economic growth and creating employment is a priority objective of the European Commission and the Government. Assistance in this sector will help to improve the conditions for competitiveness, innovation and job creation. The focus is on the creation of a competitive and export-oriented economy based on knowledge and innovation.

The country's own strategic efforts should be seen in the context of the EU's enhanced economic governance approach as of 2014. The Republic of Macedonia will therefore prepare biennial Competitiveness and Growth Programmes starting from 2015. All Western Balkan countries will furthermore produce country "action plans" for the implementation of SEE 2020 strategy, which will be updated and monitored on an annual basis.

With regard to the **legal and institutional environment**, some success has been achieved in attracting foreign direct investment, while noticeable improvements have been made in the regulatory environment for starting and operating businesses. Some progress has been made on free movement of goods, labour, services and capital.

In order to further support growth and business development in the country, efforts are needed to continue to build up an efficient judicial system and public administration, strengthen agencies and regulatory bodies, and strengthen institutions responsible for quality infrastructure, market surveillance, as well as protection of intellectual property rights. Efforts should be directed at rendering the labour market more flexible, at boosting skills and productivity, at promoting the health and wellbeing of the workforce, at linking the public sector and universities with the business sector, and at building up research excellence. Further *acquis* alignment is needed, as well as sustainable institution building for private sector development, improvement of contract enforcement and security of property rights, in order to enhance legal certainty for economic operators and attract foreign direct investment.

The **competitiveness of the private sector** requires strengthening through different measures. Small and medium-sized enterprises (SME) represent 99% of all companies, account for 75% of employment and are key to competitiveness. However, the policy framework for SME support services remains incomplete. Currently, there is limited donor or public support through the Agency for Entrepreneurship which provides co-financing for business services. Support specifically targeted at start-ups, spin-off companies and innovation, technology transfer, commercialisation of innovation, accelerators and business incubators is insufficient. Additional micro-lending, guarantee schemes, and other types of financial and non-financial support for SME development and innovation are needed. Sources of external finance for SMEs, including bank lending, have significantly decreased due to the crisis. Additional

sources for financing, especially for micro-companies, only amounted to about 2.5% of GDP in 2010 and should be further developed. Support for contributing to favourable conditions for external equity financing⁹ should be envisaged. SME guarantee funds could be created or reinforced to further private sector investments.

SMEs also need to develop the necessary capacities to cope with market pressures from the EU and the region, including by stimulating innovation through take-up of information and communication technologies. Support for company expansion should be reinforced. Subsidised advisory services supported both financially and professionally, should become the main form of government support for SMEs. The voucher system of subsidised counselling services should be reinforced financially with extended areas of intervention (innovative voucher, creative industry voucher, green voucher, energy efficiency voucher).

The country is categorised as a “modest innovator” in the European Commission's Innovation Union Scoreboard. The share of R&D expenditure in GDP is rather low at 0.22% (2010). However, innovation is seen as one of the key drivers of competitiveness and requires additional support. The government has taken the first steps by adopting the National Innovation Strategy in 2013, followed by a Law on Innovation and an innovation fund. The Government is supporting research and development activities to achieve innovation, and in order to be competitive in the export markets. The innovative capacities of SMEs are being supported through the Fund for Innovations and Technological Development. However, more efforts are needed in order to achieve a greater impact on SMEs' innovation capacities and activities. Public-private consultation fora and partnerships should be developed and strengthened. The implementation of the regional R&D for Innovation Strategy is an opportunity for prioritising investments in this area.

Concerted efforts are needed to strengthen **local and regional competitiveness**. The country's competitiveness is affected by regional disparities and rural depopulation. The Government has undertaken some actions to ensure stability, reduce poverty and increase competitiveness through support for key sectors such as tourism, and created opportunities for new investments by supporting the establishment of industrial zones and tourism development zones. Further efforts are needed to reduce disparities and contribute to a better investment climate through developing better quality local services and infrastructure in more deprived sectors and regions.

Under IPA I, around EUR 23 million have been programmed for this sector. IPA II assistance to this sector will increase sharply and be programmed in line with the key national sector strategies, including the Industrial Policy Strategy 2009-2020, the National Strategy for Innovation (2012-2020), the National Strategy for Sustainable Development (2008-2030), the National Programme for Improvement of Competitiveness, the National Strategy for Tourism Development (2011-2015), the Strategy for Rural Tourism Development 2012-2017 and the National Programme for Scientific Research and Development (2013-2017), as well as the Regional R&D Strategy for Innovation. A new SME development strategy will be developed in 2014, to present the key activities related to SME support and development, as well as a strategy for development of tourism. Involvement of non-state actors and the citizens needs to be ensured through systematic social dialogue and public-private partnerships. The overall institutional sector framework, however, will require further strengthening, to implement the

9 Cf. SME Policy INDEX, December 2012.

sector approach. It is necessary to consolidate and make coherent use of the various strategies in this sector. Overall, the sector is at an early stage of readiness for the sector approach.

5.2. Objectives, results, actions and indicators

The overall **objectives** of IPA II assistance in this sector are to strengthen the legal, institutional and research environment for business operations, including the implementation of the internal market *acquis*, improve the competitiveness and innovation of the economy at national and local level, increase FDI, increase research and development activities, strengthen export and diversification, and support a more sustainable economic growth and real convergence with the EU.

The **results** to be achieved include:

- Improved legal and institutional framework and functioning of businesses
- Improved governance and business-related infrastructure, including at local level
- Strengthened evidence-based decision-making by policy makers
- Better access to finance and advisory services for businesses
- Increased and diversified export potential for businesses and access to new markets
- Strengthened capacities and skills of management and staff in companies
- Improved cooperation among universities, industry and government
- Enhanced research and innovative capacities for competitive business environment
- Increased public-private partnerships in the area of research and innovation
- Enhanced links between FDI and domestic companies

Support will be provided for the preparation and implementation of the biennial Structural Reform and Competitiveness Programmes.

The **environment for business operations** will be strengthened through support for the improvement of the legal, regulatory and institutional environment, through simplification of legislation, a reduction in and streamlining of administrative procedures. Capacity building will be extended to public administration and other relevant business support bodies to provide for more efficient services to businesses; for better contract enforcement; for better access to finance; for reduced market distortions; for protected private property; and for improved cadastre functioning and industrial property rights. Networking will be supported, to provide improved business support services, as well as information and training related to sustainable growth, innovation and export. Assistance will further support evidence-based decision making; administrative registers and accounting standards; establishment of necessary administrative preconditions for free movement of goods and services; and improved monitoring and evaluation mechanisms. Moreover, assistance will be aimed at further developing mechanisms for cooperation between the private and public sector; at including universities and research centres; as well as at establishing and developing technology transfer institutions and R&D institutions. The principles of equal opportunities and non-discrimination will also be promoted.

The **competitiveness of the private sector** will be developed through improving access to finance; through supporting the implementation of the National Programme for Improvement of Competitiveness, the National Strategy for Innovation and the implementation of the Small Business Act; through supporting advisory services and trainings for companies to increase their competitiveness; through innovation and export potentials; through strengthening research and development activities through investment and capacity building and linking R&D institutions with the business sector; through supporting international knowledge exchange, business networking and clustering; through supporting the restructuring and

modernisation of companies for creation of diversified and value added products; and through supporting the implementation of sector development programmes, such as the Programme for SME development, or tourism.

Local and regional competitiveness will be developed through supporting the comparative advantages of municipalities through integrated development programmes, which could include assistance for capacity-building and investment-related activities; through supporting the modernisation and diversification of local and regional economic structures and safeguarding and creating sustainable jobs; through supporting SMEs and other relevant stakeholders; and through supporting the implementation of the Law on Regional Development.

Indicators (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria (European Commission)
- Distance to frontier, Doing Business – score (WB)

5.3. Types of financing

Reforms can be supported through Twinning, service, supply, works, and grant contracts, implemented under direct and/or indirect management. TAIEX can be used for ad hoc and short-term technical assistance. The use of sector budget support can be considered, once the conditions have been met. Access to finance for SMEs and innovation, including equity funding, could be facilitated through specific lending facilities or through national windows in existing mechanisms, such as the European Fund for Southeast Europe (EFSE) and the Western Balkans Enterprise Development and Innovation Facility (EDIF). WBIF can be used to leverage loans for infrastructure related investments. Multi-country IPA assistance can complement national programmes. CEFTA will continue to play an important role in the area of trade. Competitiveness can also be supported and coordinated through relevant regional fora, such as the South East Europe Investment Committee (SEEIC).

5.4. Risks

Insufficient capacity of local and regional stakeholders to prepare and implement projects can be addressed through capacity-building of the relevant institutions. Insufficient Government commitment to pursue reforms in specific areas can be addressed through giving these areas prominence in the political dialogue.

6. Education, employment and social policies

6.1. Description of the needs and capacities in the sector

Unemployment has remained high for the last 20 years. In 2013 total unemployment stood at 29% of the labour force, one of the highest unemployment rates in the region and well above the EU average of 9.7%¹⁰, with youth and women particularly affected. The labour market is characterised by persistently low rates of economic activity and employment. Fostering

¹⁰ Cf. Eurostat

employment, developing the educational system, and supporting social and economic inclusion, including of minorities and vulnerable groups, is therefore a priority objective of IPA II. Combined efforts from all actors are needed to achieve these objectives and contribute to sustainable economic growth.

Women, particularly those belonging to minority communities, represent the most socially excluded groups. The participation of women in the labour market remains particularly low. Gender stereotypes existing in the society help to preserve a structural gender gap in economic, political and social areas. Empowerment of women requires improvements in education, health, and economic participation. Gender-based violence and gender-selective abortions remain issues of concern.

In order to achieve an inclusive and effective **labour market**, it is vital to ensure policy coherence between addressing the structural weaknesses of the entire labour market, addressing unemployment through adequate policies, including in particular active labour market measures, while targeting especially young people and women, through ensuring the right education and vocational training, prolonging active employment, modernising the social security system, fostering social dialogue, strengthening the administrative capacity and observing the labour laws.

Since quality **education** is at the heart of economic growth and development, the most pressing challenges are to address the needs of the private sector and to focus on solutions to tackle youth unemployment and an aging population. Delivering the right skills for employment and increasing the efficiency and inclusiveness of the education and training system must be supported by strong collaboration between all relevant stakeholders. Access to enterprise training is good, with a well-developed training network, operated by the employment authorities, but it is not clear to what extent this meets the specific needs of small businesses since the government lacks systematic information on their skills needs. A significant mismatch remains between demand and offer on the labour market. Assessment of training needs should become a regular practice and be carried out systematically. Additional attention need to be paid to initiatives that help combat discriminatory practices, improve working conditions for and health of the workforce, promote gender equality and economic inclusion and wellbeing. It is crucial that basic school education is improved and that the country continues to reform its higher education in line with the Bologna process. Higher quality education will benefit the country's competitiveness and economic growth. The five key indicators of the Education and Training 2020 strategy should be tracked so as to trace progress and draw comparisons with EU Member States. The quality of statistical data on education needs to improve. The country should participate actively and constantly in the Open Method of Coordination, and in the various networks and working groups. The Erasmus+ programmes provides opportunities to improve the national educational system at all levels and should be seized.

Being a requirement for an active and productive workforce, for societal development, and for sustainable economic growth, attention should also be paid to **social protection** and the health and well-being of the population and the labour force.

Under IPA I, around EUR 60 million have been programmed for this sector. With this assistance, improvements have been made in the policy framework, creating a set of strategies tackling all aspects in the areas of employment and in Vocational Education Training (VET) in the context of Lifelong Learning and social policy.

IPA II assistance will be programmed along the key national sectorial strategies, including the National Employment Strategy, and the National Programme for Development of Education (2005-2015), the VET strategy 2013-2020, and the National Strategy for Alleviation of

Poverty and Social Exclusion. The European Commission's "Employment and Social Reform Programme" will present policy reforms and measures covering three areas: labour market and employment policies, human capital and skills development policies and social protection and social inclusion.

The implementation capacity within the Ministry of Education and Science and the Ministry of Labour and Social Policy, as well at governmental level in the National Economic Council, needs to be strengthened through a coherent monitoring and evaluation policy, as well as through the involvement of non-state actors and citizens in reform processes through a functional social dialogue and good coordination between public-private spheres.

The sector is at an early stage of readiness for the sector approach.

6.2. Objectives, results, actions and indicators

The overall **objectives** of IPA II assistance in this sector are to reduce the high rate of unemployment, increase labour market participation, in particular of young people and women, increase access to quality education and training, improve skills matches and establish a modern and flexible social protection system.

The **results** to be achieved include:

- A more inclusive and effective labour market
- Improved match between skills demand and supply
- A more modern social protection system
- Increased number of statistical indicators for policy makers
- Improved basic school and higher education

Employment will be strengthened by supporting the implementation of the employment policy at national and local level; by supporting active labour market measures, particularly for young people and women; by supporting transformation of informal or undeclared work into regular employment; by stimulating self-employment, social entrepreneurship and promotion of entrepreneurship; by strengthening administrative capacity (reinforce public employment services, support labour inspectorate, etc.); by supporting the improvement of working conditions, labour standards and observance of health and safety at work; by supporting capacity building for monitoring and evaluating the health and socio-economic indicators, influencing the productivity of the workforce; and by supporting the social dialogue and strengthening the capacities of the social partners.

Education and training will be strengthened for building skills for jobs and growth through supporting an increase in the quality of education and facilitating access to education for all; through supporting comprehensive EU Lifelong Learning, including mobility and support services contributing to a knowledge based economy; through supporting digital training; through promoting entrepreneurial learning; through supporting the development and implementation of a National Qualification Framework; through strengthening and modernising the VET and adult education systems; through supporting equal access to quality education and training based on inclusiveness; through strengthening the cooperation between educational institutions; and through supporting social partners and the private sector.

Social policy will be strengthened through supporting reforms for the modernisation of social protection and health care systems; through supporting better access to quality social and care service, including health care services, in particular for vulnerable groups, such as Roma; through supporting an improvement in the access of young people and women to the labour market and thus to social protection mechanisms; through supporting an improvement in the

access to affordable early childhood education and care services; through strengthening policies to support parents' access to the labour market; and through supporting capacity building for monitoring and evaluating the social inclusion and wellbeing of the young people, women and vulnerable groups.

On a **horizontal level**, assistance will be provided to strengthening mechanisms of inter-institutional cooperation at central and local level; to strengthening mechanisms of cooperation between private sector and the social partners; to reforming the legislative framework and support capacity building of relevant institutions; to supporting equal opportunities and non-discrimination, with an emphasis on mainstreaming gender equality; to supporting measures aimed at strengthening inter-community relations through inter-community dialogue and interaction, and cultural, social and economic co-operation; and to extending the quality and scope of statistical indicators in all areas, in line with EU standards.

Indicators (for details see Annex 2, table 2):

- Progress made towards meeting accession criteria (European Commission)
- Employment rate 15-64 years, total % (Eurostat)

6.3. Types of financing

Reforms will be supported through Twinning, service, supply, works, and grant contracts, implemented under direct and/or indirect management. TAIEX can be used for ad hoc and short-term technical assistance. The use of sector budget support can be considered, once the conditions have been met.

6.4. Risks

Insufficient government commitment, financial capacities and ownership to pursue reforms in the specific areas can be mitigated by emphasising reforms in the political dialogue. Lack of leadership, administrative capacities and coordination among beneficiary institutions can be mitigated through mediation and capacity-building assistance.

7. Agriculture and rural development

7.1 Needs and capacities in the sector

Agriculture has traditionally been one of the most significant branches of the country's economy, with its share in the GDP of about 10% (15% if the agro- food industry is included). 44% of the country's area is agricultural land (1.12 million hectare), of which 46% is cultivated and the rest is permanent pastures. The sector provides income and employment to 21% of the workforce, but the real contribution probably exceeds this figure as the rural population (44% of the total population) relies on farming as a major form of income. Agricultural products represent 15% - 17% of the country's exports, although the country remains a net importer of agricultural and food products, which accounted for about 15.4% of total imports in 2012. The share of agro-food and fishery products exported to the EU in total exports of these products in 2012 was 39% (EUR 187.5 million), while the share of imports from the EU in total agro-food and fishery products in 2012 was 45% (EUR 306.9 million).

These figures make agriculture and rural development, along with hunting, forestry and fisheries, the third largest sector of the economy after industry and services. However, the agricultural sector faces serious challenges. Subsistence and semi-subsistence farming,

