

ANNEX

Instrument for Pre-Accession Assistance (IPA)

Multi-annual Indicative Planning Document

(MIPD)

2011-2013

Republic of Macedonia

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Executive summary

The purpose of this Multi-Annual Indicative Planning Document (MIPD) is to set out the EU's priorities for assistance to the Republic of Macedonia for the programming period 2011-2013.

The MIPDs are based on the needs identified in the Accession Partnership of the country as well as the latest progress report (adopted on 9 November 2010 as part of the Enlargement Package) and with the country's own strategies. The Government of the Republic of Macedonia, local stakeholders, EU Member States and other donors have all been consulted in the design of this MIPD.

The Commission has taken a number of steps to enhance the strategic nature of this process over the last few years and to strengthen the link between the priorities established in the progress reports and the programming of assistance. To better illustrate this focus, and to strengthen ownership by the beneficiary countries, the Commission will increase its use of a sector-based logic in its planning of pre-accession assistance.

To increase the impact of IPA assistance and to give greater focus to achievable results, the Commission has decided to concentrate its efforts on targeted sectors. A sector approach should facilitate cooperation among donors and beneficiaries, where possible under the lead of the national authorities, eliminating duplication of efforts and leading to greater efficiency and effectiveness. This in turn should allow all stakeholders to focus increasingly on the impact of our combined efforts.

The following priorities for IPA support over the period covered by this MIPD have been identified:

- Support the economic and social development of the country
- Improve good governance and reduce corruption
- Ensure non-discrimination and respect of human rights

To achieve the priorities selected for support in the programming period 2011-2013, the Commission will focus its assistance primarily on the following sectors:

- Public administration
- Justice, home affairs and fundamental rights
- Private sector development
- Agriculture and rural development
- Transport
- Environment and climate change
- Social development

1. IPA STRATEGIC OBJECTIVE

The overall objective of EU financial assistance to the Republic of Macedonia is to support its efforts for reform and towards compliance with EU law in order that it may become fully prepared to take on the obligations of membership to the European Union.

The Europe 2020 strategy offers the enlargement countries an important inspiration for reforms. The Republic of Macedonia is invited to consider the priorities of the strategy and adapt main objectives to the national context. Enlargement policy also supports the Europe 2020 strategy by extending the internal market and enhancing cooperation in areas where cross border cooperation is key.

2. STRATEGIC PLANNING OF IPA ASSISTANCE

2.1. Country challenges and needs assessment

The Republic of Macedonia is a small, landlocked country in the heart of the Western Balkans. It is nestled between Greece, Bulgaria, Serbia, Kosovo and Albania. Its territory (26,000 square kilometres) occupies a traditional trading route between the northern and southern as well as eastern and western Balkans. It has a strong multi-ethnic character, with the population of just over 2 million including six main non-majority ethnic communities.

Independence from the Yugoslav Federation was achieved in 1991. The new Constitution established a parliamentary democracy. Following conflict between the ethnic communities in the country the Ohrid Framework Agreement (OFA) was adopted in 2001 to ensure the proper functioning of institutions and the integration of the non-majority communities. In 2009 the European Commission found that the country sufficiently met the EU political criteria and recommended to start accession negotiations. In this context the challenge for the future is to consolidate public governance in line with European best practice by, in particular, strengthening the functioning of parliament, the judiciary and public administration. The full implementation of OFA also remains a crucial objective.

The country is a transition economy and is making progress towards establishing a functioning market economy. Despite the global economic crisis the economy is stable with a moderate budget deficit of 2 % and a growth forecast of 0.5 %. However extensive reforms are needed to address structural weaknesses such as an unfavourable environment for business, legal uncertainty and administrative complexity. Unemployment is very high and foreign direct investments remain low.

GDP per capita is 32% of the EU-27 average and unemployment is estimated at over 32%¹. Looking forward, a prudent fiscal policy is needed to maintain macro-economic stability and to promote growth and jobs. It is also important to improve the business environment to make it more attractive for investors and to increase competitiveness. Flanking measures to support employment including active labour market measures should be undertaken.

Economic and social disparities between regions are relatively high despite the small size of the country. In particular, the differences in infrastructural endowment and income levels between the capital and rural areas are significant. GDP per capita is twice as high in the capital region. Labour mobility is low despite significant differences in unemployment rates between regions. Infrastructure needs to be developed to build links with the wider region as

¹ http://www.stat.gov.mk/english/statistiki_eng.asp?ss=07.01&rbs=1

well as within the country, thus supporting trade, investment and factor mobility. Socioeconomic development, in particular as regards vulnerable groups and the less developed and rural regions, is a priority.

2.2. National strategies

The National Strategy for European Integration represents an overall umbrella for integration of the country into the EU. The National Programme for the Adoption of the Acquis (NPAA) is the national key document reflecting the main priorities of the EU integration process. It comprises the plans for harmonisation of the national legislation with the EU legislation and the necessary institutional reinforcement including the resources required for the proper implementation of legislation.

The NPAA identifies a series of measures, in the short and medium term, to be taken as regards the political, economic and policy criteria for membership of the European Union. In particular, measures are identified as regards public governance, the rule of law and fundamental rights, economic development, agriculture, transport, environment and employment and social policy. In this regard it is in line with the Accession Partnership and the key findings of the last Progress Report.

A number of relevant national sectoral strategies exist, addressing the challenges mentioned before, outlining clearly agreed policy objectives, indicative budget and action plans. In agreement with the national authorities, a stronger linkage to the following strategies shall thus be pursued in the next programming period: Public Administration reform Strategy (2010-15), Strategy of the Reform of the Criminal Legislation (2007-11); National Action Plan for implementation of the Penitentiary system reforms (2009-14);, the revised National Employment Strategy, National Transport Strategy (2007-17), National Strategy for Agriculture and Rural Development 2007-2013 and National Strategy for Sustainable Development (2008-30). The State Anti-corruption programme will be updated over the course of 2011.

The Commission shall further assess other sectoral strategies, such as the National Strategy for Poverty reduction and Social Inclusion (2010-20), National Strategy for SMEs development (2011-13), and National Strategy for Environmental Investments (2009-13), in terms of their content and appropriateness to be considered under progressive sector approach support.

2.3. Relations with the EU

The country has long standing relations with the EU, having been the first to sign a Stabilisation and Association Agreement in 2001. It achieved candidate status in 2005 and in November 2010 the Commission reiterated its recommendation to open accession negotiations with the country. It takes a unanimous decision by the Member States to start the accession negotiations. Such a decision has so far not been taken.

Due to its geographical location, the reform and development process of the country will also bring benefits to the European Union. As it is at the junction of north-south and east-west trading routes in the Balkans, the inter-connection of energy and transport infrastructure networks will strengthen the links of neighbouring Member States. Consolidation of the rule of law and further progress in the fight against organized crime and corruption will contribute to security of EU citizens by reducing drugs trafficking and money laundering. Also, the largest investors into the country are from the European Union. Therefore the integration into

the internal market, the improvement of the business environment and economic growth will bring benefits to European Member States.

Visa free travel to the Schengen zone was granted to citizens of the Republic of Macedonia in December 2009. This decision was based on substantial progress in reforms aiming to align with the EU acquis in the areas of justice, freedom and security.

EU financial assistance has played a key role in supporting the reform and development process in the country. The CARDS programme from 2000-2006 made a major contribution to justice and home affairs issues and local and municipal infrastructure development. Subsequently, the IPA programme which started in 2007 has provided support in particular for police reform, customs, statistics and decentralisation.

IPA assistance helps the country to carry out reforms which are important for accession preparations, as per the membership criteria, but also for the economic and social modernisation of the country. IPA assistance often can provide with the necessary expertise to kick start and complete accession-related reforms and helps to implement the reforms faster and more efficiently than would have been possible otherwise.

2.4. Lessons learned

The most extensive practical experience lay with the European Agency for Reconstruction, which was closed in 2008, as regards the CARDS programme and at present lies with the Delegation of the European Union as regards the IPA programme. As the IPA programme is in its early phase of implementation, early lessons learnt are more connected with meeting the accreditation criteria for sound financial management and control systems, meeting all project's conditionalities and ensuring national co-financing.

As regards pre-IPA assistance, an evaluation was carried out covering CARDS assistance to the Republic of Macedonia for the period 2000-2006, with a special focus on the Economic Development, Local and Municipal Development and Justice and Home Affairs (JHA), three sector that received a substantial part of the overall CARDS budget (more than 50%). The evaluation concludes that relevance and impact of the assistance are satisfactory, while efficiency and effectiveness could be improved. Sustainability is the weakest aspect of the CARDS programmes in the country. Involvement of beneficiaries in the programming phase was frequently not sufficient, resulting in some cases in a lack of ownership, that also had an impact on the sustainability of the projects. No detailed analysis of needs and resources performed in the design phase often resulted in delays and non replicable interventions at the implementation stage.

A Country Programme interim evaluation covering the 2006 CARDS national programme and the IPA 2007 Component I has been recently completed. The evaluation focused on the intervention logic of assistance, its efficiency and effectiveness as well as impact and sustainability. The findings confirmed most of the points mentioned above. More specifically, as regards the intervention logic of assistance, the conclusion is that objectives in strategic programming documents are not clearly prioritized and supported by measurable impact indicators. Furthermore, the project selection process is not always supported by an objective mechanism to determine the most relevant and cost-effective project proposals. In general, the interventions used were appropriate to deliver the planned outputs and their contribution to the programming objectives was found to be broadly positive and adequately sequenced but not sufficiently prioritized. Finally, the evaluation concludes that the main obstacles to

achieving impact and sustainability of assistance are low administrative capacity, lack of national ownership of projects and insufficient political support for specific policy areas.

The European Commission has followed up on these findings with the national authorities and has been trying to systematically address the lessons learned by improving programming and project design, providing training and capacity building and ensuring a stronger link between existing nationally-owned strategies and EU assistance programming documents. Furthermore, this MIPD identifies clear priorities and a limited number of sectors to benefit from assistance and aims to provide for a better definition of specific and achievable objectives, supported by measurable results indicators.

2.5. Needs assessment and consultations with stakeholders and donors

The European Commission has been actively working together with the Secretariat of European Affairs (SEA) of the country to shift towards a sector-based approach. In 2009, a Joint Working Group, composed of selected donor and Government representatives led by the SEA, prepared an action plan on introducing the Programme Based Approach (PBA). PBA is defined as a way of working based on the principle of coordinated support for a locally owned program of development, focusing on a set of sector or thematic outputs and outcomes.

The PBA covers seven priorities such as: Business environment, competitiveness and innovations in the field of Industry, Human Capital in the field of Employment, Agriculture in the field Forestry, Environment in the fields of Water Management and Solid Waste Management, Good Governance - Public Administration Reforms, Justice and Home Affairs and Local Self-Government and Decentralisation, and the process to manage the transition to a PBA from a project by project approach initiated.

The country participated in the workshop that the European Commission organized in March 2010 in Sarajevo in order to discuss the new sector based approach and its implications for the MIPD 2011-2013. During May 2010, the SEA organized a number of meetings with members of the Programme Based Approach (PBA) working groups, dedicated to the preparation of the MIPD for all five IPA Components. Furthermore, in July 2010, the Commission, supported by the SEA, held consultations in Skopje on this issue with the Member States accredited to the country, the International Financing Institutions (IFIs), non member states and UN agencies, as well as national Civil Society Organisations.

The two rounds of consultations with the stakeholders, held in Skopje in 2010, clearly underlined that the support for a better and more coordinated planning and programming of EU assistance was needed. In particular, it was made clear that the sector approach, despite all its complexities, would enhance the quality of EU financial assistance and increase its impact within the country.

Given the high number of areas that remain to be addressed under the NPAA and Accession Partnership, this MIPD still covers a wide range of areas. However, an effort has been made to make priorities more specific and focused and to only include areas where concrete support projects are likely to materialise in the coming years, moving away from an approach of listing all potential reform needs. This will make the MIPD more realistic, strategic and relevant and will allow an assessment in the future on whether the intended results have been achieved. The current MIPD presents a step in the direction of a more sector based approach, based on closer links to national reform strategies and the extensive national consultative PBA process, which is expected to be further developed in the future.

2.6. Selected priorities for EU assistance

The following priorities for IPA support over the period covered by this MIPD have been identified:

- Support the economic and social development of the country
- Improve good governance and reduce corruption
- Ensure non-discrimination and respect of human rights

Since achieving candidate status in 2005 the Republic of Macedonia has consolidated the functioning of its democracy and the stability of institutions guaranteeing the rule of law and respect of fundamental rights. This work needs to be continued.

The European Commission's 2010 Enlargement Strategy paper found that the Republic of Macedonia continues to sufficiently fulfil the political criteria. Following substantial reforms in 2009, further progress has been made, although at an uneven pace, as regards the reform of the parliament, the police, the judiciary, public administration and respect for and protection of minorities. The country needs to make further progress in relation to dialogue among political actors, judiciary and public administration reform, the fight against corruption, freedom of expression and improving the business environment. Implementation of the legislation is essential.

The country fulfils the commitments under the Stabilisation and Association Agreement. On this basis, the Commission in October 2009 made a proposal on the transition to the second stage of the Association, pursuant to Article 5 of the SAA.

The strategy for financial assistance is based on the needs of the country deriving from the national reform strategies able to address the overall political, economic and social situation and on its efforts and commitment to prepare for membership in the EU.

The choice of priority sectors in the MIPD has been made by taking into account, on the one hand, the sectoral challenges for the country to fully meet the Copenhagen criteria for membership and, on the other hand, the capacity to pursue relevant national reform strategies. Moreover, these areas which will lead to mutually beneficial results for the country and for the EU have been identified.

Building on the preparatory work undertaken in the framework of the PBA process and the consultations with relevant stakeholders, the Government welcomed the shift of the MIPD towards a more strategic- programming, which ought to minimize the extent of putting forward stand-alone and fragmented projects. To ensure a good level of ownership, the selected sectors are directly derived from the priorities in the NPAA. The objectives within the sectors were discussed and agreed with the country.

At the same time, not all sectors can be funded under the MIPD in the next three years. Some issues are not covered by this MIPD as funding had been allocated under previous IPA programmes, by other donors or because addressed by national funds. The chosen sectors reflect areas of most urgent need for IPA support in the next three years. Many sectors have been left out because funding has been allocated under the 2007-2009 and 2009-2011 MIPD, or by bilateral and multilateral donors. It is expected that few of the national priorities will be addressed by national funds as well, increasing the elements of ownership and accountability.

Strengthening rule of law and public governance is a strategic priority because it provides the basis for all other policy development. A sound governance framework will build the capacity of democratic institutions by establishing processes of decision making and storing knowledge and expertise. It is also essential to the good functioning of a market economy based on transparent and predictable rule of law and administration. A modern administration will be responsive and accountable to civil society and to individual citizens. As such, good quality public governance is necessary for a future Member State of the European Union, so that it will be able to fulfil the demands of membership.

Economic and social development is also a strategic priority. The country's GDP per capita is 32% of EU -27 GDP whilst unemployment and the poverty rate are over 30 %. Therefore the people of the country have the overriding aspiration to improve their standard of living and to gain economic security. On the doorstep of the EU, it is important for the country to establish its economic future. In turn, this will help alleviate some of the political and ethnic tensions within the country which currently are magnified by economic inequalities. Deepening economic links with the wider region will also help to strengthen political relations.

3. MAIN SECTORS FOR EU SUPPORT FOR 2011 – 2013

To achieve the priorities selected for support in the programming period 2011-2013, the Commission will focus its assistance on the following sectors:

- 1 Public Administration Reform,
2. Justice, Home affairs and Fundamental Rights,
3. Private Sector Development
4. Agriculture and Rural Development,
5. Transport,
6. Environment and climate change,
7. Social development

In the sectors Agriculture/Rural development, Transport, Environment, and Social development assistance will continue to be provided under the Operational Programmes for IPA component III, IV and V, which are already in place. In addition, complementary assistance will be provided under IPA component I. Otherwise, component I will mainly focus on public governance, rule of law, fundamental rights, and economic development, contributing towards the country's ability to assume the obligations of Membership. However, even outside these sectors support is not excluded in case of urgent need, maintaining an adequate level of flexibility.

In line with the Europe 2020 Strategy, the Republic of Macedonia also needs to ensure that the challenges linked to climate change are addressed, in particular by reducing the emission intensity of its economic development. The aim to reduce greenhouse gas emissions shall be taken into account in all relevant sectors of the MIPD, in particular in the sector of Transport, Environment and Agriculture. Furthermore, all financial assistance must comply with the principle of sustainable development and meet the requirements of the relevant EU environment *acquis*, in particular the EIA as well the Birds and Habitats directives".

In some sectors such as public administration, justice, home affairs, environment, transport or employment, one or several comprehensive national strategies are in place that will allow the EU to increasingly use a more sector-based logic in its planning of pre-accession assistance. In all cases, the selected areas allow for a better targeted approach that aims to deliver the expected results and meet the envisaged objectives:

1. The continuation of reforms in the field of Public Administration remains a key medium-term strategic priority of the Government. Support will be aimed at building a transparent, professional and independent public administration. In the forthcoming period, the focus would be set on full compliance with the latest amendments to the Law on Civil Servants, and the implementation of the updated Public Administration Reform Strategy. This is crucial for the consolidation of democracy, providing efficient public services to citizens, and ensuring transparent and predictable environment for business and investment. In this context active citizenship will also be encouraged through the further development of consultation mechanisms of the Government and local self-government with the civil society;
2. The Accession Partnership underlines the importance of continuation of the fight against organised crime and corruption, training, strengthened rule of law, cooperation among police bodies and other law enforcement agencies, as well as implementation of the National Action Plan for development of established system on Integrated Border Management.

In terms of the **Justice and Home Affairs**, the legislative framework envisaged by the 2004 Strategy for Judicial Reform is largely in place. The focus should be on further strengthening of the efficiency and independence of the judicial system, establishing an adequate recruitment procedure for the graduates of the Academy for training of judges and public prosecutors. Further efforts are particularly needed with regards to the criminal procedure reform, prison reform and the fight against money laundering, organised crime and corruption. Focus should be given to greater implementation and proper enforcement of the legislation.

In the field of **Fundamental rights**, the focus will be on strengthening institutions and ensuring adequate implementation of legislative and policy measures. The protection of minorities, on the basis of the full implementation of the Ohrid Framework Agreement, will continue to be of primary importance. On the occasion of the 10th anniversary of the OFA account needs to be taken of the achievements realised and the ongoing challenges. Additional efforts are also necessary to address more effectively the situation of vulnerable groups, such as the Roma. Freedom of expression in the media is also crucial in a modern European democracy and therefore needs to be adequately addressed in the coming years.

3. **Economic development** is crucial to bring the country closer to the EU policies and parameters of the Europe 2020 Strategy in terms of innovation, education and employment.

The sector deals with the general business environment and the underlying EU internal market principles, which need adequate and consistent consideration in the context of enlargement. Issues like financial services, intellectual property, public procurement or company law are covered by specific articles of the Stabilisation and Association Agreement (SAA), with important obligations and deadlines. The proposed priorities in this area aim to incorporate key aspects that characterize the

existence of a functional market economy, and thus have impact on the economic growth and private sector development. Promoting investment and low-carbon development, enhancing competitiveness, enhancing research and innovation capacity, improving statistics, as well as supporting the good functioning of the regulatory bodies are all key priorities for the country's economic development.

4. The main goal for **Agriculture and Rural Development** is to reinforce the ability of the agricultural sector to compete in the integrated regional markets of the European Union and South-Eastern Europe, through measures for increasing the efficiency of agricultural production, processing and marketing, contribute to the gradual alignment to the EU standards and acquis, and to build viable rural communities through sustainable rural development, which are also prepared to adapt to the effects of climate change. The Food Safety policy of the country is one of the Government priorities, including three main objectives: food safety and protection of human health; consumer protection; and, application of the EU standards.
5. **Transport**, with a focus on the improvement of the connectivity of the Republic of Macedonia to neighbouring countries and to the EU, and on the enhancement of the economic and environmental sustainability of the road and rail transport system.
6. **Environment** and climate change, key areas for sustainable development and for the improvement of the quality of life in the country. Having in mind the existing problems - mostly related to implementation of the legislation in water and waste management, industrial pollution, risk management, mitigation of and adaptation to climate change - the administrative capacity in the sector is insufficient, particularly in terms of qualifications to implement and enforce the EU Directives.
7. **Social development** is fundamental in order to bring the country closer to the EU policies and parameters of the Europe 2020 Strategy. The objectives identified in the human resources development sector for the period 2011-2013 will be a continuation of the ones foreseen for the period 2007-2011, namely regarding investment in skills and training, more and better employment, and social inclusion.

Assistance to support these seven above mentioned sectors will be provided under the five components of the IPA programme, and it will be implemented via technical assistance, twinning, works and supply contracts as well as grants. Also, IPA funds will be used to continue supporting the participation of the country in Union Programmes.

According to the Multi-annual Indicative Financial Framework for IPA for the years 2011-2013², the Republic of Macedonia will receive an indicative allocation of €320,311,407 of pre-accession funds. The planned allocation per sector and per year is presented below:

² COM(2010) 640 10.11.2010

In € million

Indicative Financial Allocation per Sector (€ million)			
2011-2013	Period 2007 - 2010	Period 2001 - 2013	
Public Administration Reform	28.00	21.33	7 %
Justice, Home Affairs and Fundamental Rights	44.00	24.38	8 %
Private sector development	45.50	45.71	15%
Agriculture and rural development	46.40	67.04	22 %
Transport	52.50	60.95	20%
Environment and climate change	28.30	54.85	18%
Social development	37.30	30.47	10%
TOTAL	282.00	304.76	100%

* Total without allocations for IPA Component II, Cross-border cooperation

The financial assistance will be implemented through the relevant IPA components as follows:

In € million

IPA Component	2011	2012	2013
Transition Assistance and Institution Building	28.80	28.20	27.94
Cross-border Cooperation*	5.12	5.18	5.24
Regional Development	39.30	42.30	51.80
Human Resources Development	8.80	10.38	11.20
Rural Development	16.00	19.00	21.03
TOTAL	98.02	105.07	117.21

* IPA Component II, Cross-border cooperation, is dealt with in a separate MIPD

Financial allocations are indicative and may vary according to actual financial needs identified at time of programming.

In addition, IPA may finance actions that fall outside the scope of these sectors such as, but not limited to: i) project/sector programme identification and preparation; ii) *acquis* related actions that need to be adopted/implemented according to an established timetable (e.g. negotiating framework or NPAA); iii) participation in Union Programmes and Agencies to which the country becomes eligible unless they are included in one of the sectors chosen above; iv) as well as support measures for the implementation, monitoring, evaluation and audit of IPA programmes.

Support to the priority areas Justice and home affairs, Public administration, Environment and Climate Change, Social development and Agriculture and rural development could benefit from the experiences and best practices in reforms and transition in different Member States. These are compiled in the "European Transition Compendium" (ETC).³

The European Commission Communication on the Enlargement Strategy and Main Challenges (2007-2008), and in the last Strategy Documents (2008, 2009 and 2010), underlined the importance of civil society being able to play its role in a participatory democracy. The "*Civil Society Facility*" (CSF), financed under both the IPA Multi-beneficiary and the IPA national programmes, was set up as the tool to financially support the development of civil society. The CSF includes actions to strengthen freedom of expression, as it represents a basic precondition for a functioning democracy. An adequate legal framework allowing media to operate freely needs to be put in place. A network of technical assistance desks (TACSO) has been established in the Western Balkans. This network became operational in autumn 2009. Also, Local Advisory Groups have been established consisting of representatives from the EU delegations, governments, civil society and other donors.

The Commission aims to allocate indicatively around 3-5% of the overall assistance for the three years to civil society support.

In line with the recommendations of the 2010 ELARG strategy, fighting corruption is a crucial challenge for most of the countries in the enlargement process. Tangible results and credible track-record in the fight against corruption are important elements for moving forward in the stages of the EU accession process. Financial assistance will pay particular attention to this aspect, as corruption remains prevalent in many areas and needs to be tackled.

Equal opportunities and non-discrimination will be respected as regarding gender at the programming and implementation stage, particularly in relation to socio-economic support programmes. Minority and vulnerable groups' concerns will be reflected in all activities programmed under IPA, in particular when it concerns public services, legislative matters and socioeconomic development.

3.1. Public Administration Reform

3.1.1. Description of sector

A Public Administration Reform Strategy was first adopted by the Government in 1999 and a Civil Servants Agency (CSA) was established under the Law on Civil Servants in 2000. The CSA is responsible for the overall implementation of the Law and coordinates the implementation of the Strategy for Training of Civil Servants (2009 – 2011). Although some

³ http://ec.europa.eu/europeaid/who/partners/eu-12-member-states/index_en.htm

progress has been made, the implementation of the Law on Civil Servants and human resource management policies need to be further strengthened within both the individual ministries and other state administration bodies. Concerns remain regarding the undue political interference in the public service. Further efforts are needed to ensure transparency, professionalism and independence of the civil servants.

Continuation of the Public Administration Reform (PAR) has been listed among the key strategic priorities of the Government⁴ for 2011. The 1999 Strategy was updated in 2010 with EU assistance, covering the period 2010-2015. A corresponding Action Plan was developed. The work on the implementation of the Strategy is co-ordinated by the Committee on PAR headed by the Prime Minister. The Ministry for Information Society and Public Administration is foreseen to be responsible for the implementation of the reform.

The 2010 National Programme for Adoption of the *acquis communautaire* with regards to the administration reforms intends to continue with the implementation of the Public Administration Reform.

At the Stabilisation and Association Committee held on 3-4 June 2010 in Skopje, the European Commission noted that the public administration reform merits its own point in the SAA Committee agenda, being one of the key priorities of the Accession Partnership. And because of its cross-cutting impact and its importance for economic development the European Commission clearly highlighted PAR as one of the main areas that will remain a challenge for the country in the foreseeable future up to the accession and beyond. A Special Group on PAR has been set up for the first time in the region under the SAA structures, to be holding regular meetings dedicated exclusively to this topic. The Group held its first session in September 2010, and is foreseen to meet twice a year.

No comprehensive exercise has been carried out so far to identify the extent and nature of corruption in the public sector. The statistics system relevant for the monitoring of anti-corruption policies is still insufficiently developed. Transparency of public expenditure is not satisfactory. The law on public access to information for example does not expressly provide that the content of the public contracts is indeed public; this leads to divergent interpretations throughout the administration.

As underlined by the Accession Partnership, institutional structures and administrative capacity in the areas of programming, project preparation, monitoring, evaluation and financial management and control need to be improved. This will enhance the ministries' capacity to implement EU pre-accession programmes and to prepare the implementation of the Union's cohesion policy.

Maturity and pluralism of the civil society is needed as motor for, and guarantor of, all reforms and freedoms in the country. In that context, further implementation of the Government's strategy and action plan for cooperation with Civil Society Organisations (CSO) is to be pursued, as well as striving to improve the consultation mechanisms of the Government and local self-government with the civil society.

⁴ Decision for Determining the Strategic Priorities of the Government of Republic of Macedonia for 2011, Official Gazette No. 58, 27.04.2010

3.1.2. Past and ongoing assistance (EU and other donors)

The CARDS programme managed by the European Agency for Reconstruction has extensively supported the establishment of an efficient public administration the development of local government and the decentralisation process through traditional TA projects, twinning and supply contracts. Several programmes helped the government increase the representation of minority communities in the civil service. IPA has provided substantial support: assistance to the tax reform since 2007 aiming at improving the quality of services towards the taxpayers, strengthening the administrative and operational capacity of the Customs Administration. In reference to the ongoing support to the civil service, assistance was provided to the Civil Servants Agency (CSA) for the implementation of the national system for training coordination. Support under IPA 2007 for strengthening the capacity of the General Secretariat of the Government - Sector for Policy Analysis and Coordination was crucial for designing the 2010-2015 Strategy for PAR.

No division of labour has been so far specifically established among donors. Nevertheless, the EU is the lead donor and PBA coordination mechanism is in place since 2009. UK, Germany, Norway, Netherlands, France, USAID, World Bank, SIGMA and UNDP have also been providing assistance through individual projects.

The EU aims to transfer the management of IPA funds to the national authorities under the Decentralised Implementation System (DIS) once they have developed the necessary capacity to assume this responsibility. For decentralised management of pre-accession programmes the country has received support under CARDS to establish an institutional set up and develop a system with internal control rules of procedure and personal responsibilities. In 2009, the EU already conferred management powers of IPA funds to the national authorities with ex – ante control for IPA Regional Development and Human Resources Development Components, and without ex – ante control for IPA Rural Development Component.

3.1.3. Sector Objectives for EU support over next three years

The overall goal of EU support to the sector is to improve the efficiency and effectiveness of the civil service at both central and local level and to reduce corruption.

As the European Commission clearly highlighted in several occasions Public Administration Reform is one of the main areas that will remain a challenge for the country in the foreseeable future up to the accession and possibly beyond. Therefore, EU financial support in this sector shall be maintained, based on the revised National Strategy and the priorities identified in the *acquis* chapters as well as the political criteria.

The main specific objective for EU assistance in forthcoming period is to implement the new and updated comprehensive Public Administration Reform Strategy (2010-2015), including among others: the implementation of the law on administrative procedures and the law on free access to information in line with European standards, as well as enhancing capacity of State Audit Office to carry out full range of government auditing.

Professionalization of the public administration is at the heart of the reform, following the adoption of amendments to the Law on Civil Servants, and the new Law on Public Servants (2010); which defines status, duties and responsibilities of the civil servants, salaries, recruitment, promotion and termination procedures, as well as performance appraisal of civil servants.

It is important to further support the development of strategic planning capacities and improving accountability and transparency of the public sector as well as broad participation of civil society. Also, the EU aims with its support to raise the quality of public spending and to get improvements in the field of taxation and public procurement, both at central and local level

To promote an active role of civil society in the decision making process, is a key objective identified in the Accession Partnership. Even though involvement of Civil Society Organisations in policy making and in legislative drafting progressed in the country to a moderate extent, there is still a considerable space for furthering the implementation of the Government's strategy and action plan for cooperation with Civil Society Organisations in the coming years.

Indicators to assess the impact of EU support include, inter alia

- Civil service reform indicator based on survey planned by the Commission (DG ELARG/SIGMA)
- Transparency indicator based on the Commission's (DG Info) benchmarking of e-government (on-line availability and on-line sophistication of public services)
- Reduction in the turnover of staff in public sector
- Decrease of complaints on recruitment procedures for not being in line with principles of merit-based and apolitical administration
- Capacity of Ministries to develop, assess policies, and cost proposals improved
- Cooperation strengthened between the relevant ministries /institutions and the Ministry of Finance for better links between policy priorities and the budget
- Capacities developed to elaborate coherent medium term expenditure framework and multi-annual budget planning
- Creation of spaces and mechanisms for public participation in policy formulation.
- Strengthened institutional and human capacities for legislative work by the Parliament central and local administrations
- Complete conferral of management for DIS achieved and contracting rates of IPA assistance improved compared to the previous 3 year period.
- Reduction in the need for external expertise to develop programming and implementation of donor assistance
- Number and type of cases received by the Ombudsman and recommendations.
- More transparency and efficiency of competitive public procurement
- Better implementation of the Programme for Employment of Community Members

3.1.4. EU assistance per IPA component

Assistance will be provided mainly under IPA component I, to support a variety of areas, such as furthering PAR and implementing the responsibilities of the relevant institutions dealing with public/civil service, improving medium term budget planning and budgetary execution at both central and local levels, and implementing the new Law on protection and prevention against discrimination.

Some complementary assistance will be provided under component IV, in particular, for modernisation and strengthening of public bodies and social partners in the area of preparing and managing policies for employment and social inclusion.

3.2. Justice, Home Affairs and Fundamental Rights

3.2.1. Description of sector

Fulfilment of the judicial and police reforms is a key criterion for accession of the country to the EU. The Accession Partnership outlines a series of priorities to be addressed in the judicial sector, including strengthening the independence of the judicial system, implementation of anti-corruption legislation and reforms of the prosecution. Democratic control and separation of powers are essential to sustain an independent judiciary and the rule of law, which in turn are required for effective protection of human rights

The legislative framework envisaged by the 2004 Strategy for Judicial Reform is largely in place. The National Programme for the Adoption of the *acquis* (NPAA) 2010, with regard to the judiciary reforms, foresees activities for strengthening independence and impartiality, efficiency and professionalism of the judicial function, improving the budgetary framework and human resources management, further development of the system of free legal aid, and modernization of the IT infrastructure in the judiciary in line with the EU standards. The backlog of old court cases continues to be a major problem.

Corruption remains prevalent in many areas and continues to be a serious problem. With respect to the anticorruption policy, the accent is on the preparation and implementation of the new State programmes for prevention of corruption and prevention of conflict of interests. Indeed, implementation of the anti-corruption legal framework remains deficient, the case-law on corruption is inconsistent, and the number of cases in recent years in which a conflict of interest was found and action taken is still low.

The Law on Police has been implemented, notably through the appointment of regional and local police commanders, and police reform has been further pursued through the adoption of the Law on Internal Affairs. Continuation of the fight against corruption and organised crime is identified as a key strategic priority of the Government for 2011. In order to make fight against organised crime more efficient and effective, the development of crime intelligence model as a core concept and methodology to tackle organised crime is needed. Implementation of the European Crime Intelligence Model would shift perspective from a reactive policing to a problem solving approach, based on analysis, by developing action plans and involving multiple actors - both private and public partners. A contribution of higher analytical quality, produced in a way corresponding to the methods used by the EU Member States, would also raise the quality of the EU Organised Crime Threat Assessment.

The Accession Partnership, among others, underlines also the importance of strengthened cooperation among police bodies, and other law enforcement agencies, implementation of the National Action Plan for development of an established Integrated Border Management.

The degrading conditions and the dire state of some prisons, in particular Idrizovo and its closed ward, remain of serious concern. The Progress Report 2010 notes that prisons continue to face overcrowding and an inadequate healthcare system. The capacity of the prison inspection service is largely insufficient. Although the government adopted an updated action plan for 2010 for the construction, refurbishment and maintenance of prisons and a loan of € 46 million from the Council of Europe Development Bank (CEB) was concluded for some reconstruction projects, most of them are underfunded and cannot cover their basic maintenance expenses.

Strengthening the implementation of the Ohrid Framework Agreement, signed in 2001, is recognised as a priority of the Government. It remains indispensable to building a peaceful, just and cohesive multi-ethnic society, based on the principle of mutual tolerance. As the Commission Progress Report notes increased efforts are needed in particular in the promotion and protection of human rights of different vulnerable groups (socially excluded persons or persons living in risk) and protection of minorities.

3.2.2. Past and ongoing assistance (EU and other donors)

The largest portion of assistance available to this sector is provided by the European Union, which implemented programmes in the following fields: legislative reforms in integrated border management, immigration and asylum, fight against crime and corruption, upgrading the country's border posts, providing support to institutions, such as the Parliament, the Directorate for Personal Data Protection, the Ombudsman and the Unit for the implementation of the Roma Strategy, that have a key role in ensuring appropriate levels of transparency and accountability and protecting the fundamental rights of the citizens.

In addition to the EU assistance, the following donors are also active supporters of the judiciary sector: the OSCE/Rule of Law Department, the Netherlands, Norway, Sweden, World Bank, and USAID.

3.2.3. Sector Objectives for EU support over next three years

The global objective for the coming years is the consolidation of the rule of law in the country through judiciary and penitentiary system reforms, as well as capacity-building to confront organized crime and corruption, in both public and private sectors. The objective also includes the improvement of the protection of human rights and minorities rights. Better rule of law will mean contributing to improved business environment, increasing growth and competitiveness.

The EU assistance aims particularly at further strengthening the independence, efficiency, effectiveness and accountability of the judiciary. The priorities of the Accession Partnership, NPAA and Progress Report together with the strategies and action plans in place, namely the Strategy of the Reform of the Criminal Legislation (2007-11) and the National Action Programme for implementation of the Penitentiary system reforms (2009-14), will provide the basis for the programming of EU funds.

Successful completion of the criminal procedure reform, strengthening the police investigation in the pre-trial period, improvement of recruitment procedures for the graduates of the Academy for training of judges and public prosecutors are key objectives for EU support in the medium term. Also, it is urgent to support the improvement of material conditions and living standards of staff and inmates in prisons, in accordance with EU standards.

The EU will support the continuous country's efforts to fight organised crime, including money laundering and trafficking of human beings and drugs, This support will include among others training for judiciary and law enforcement officials in order to increase their capacity, to mount proactive investigations (including financial investigations) and to protect witnesses. The EU will also support preparation and implementation of the new State programmes and enforcement of existing legislation to fight against corruption and conflict of interests.

In line with the NPAA, with regard to the Human Rights and Protection of Minorities, the implementation of international and European legal standards on human rights, including freedom of expression, remains a key objective for EU support until 2013.

Implementation of the Ohrid Framework Agreement, which sets the framework for inter-ethnic relations, will continue to be a priority for the EU, and achieve concrete results in the fields of equitable representation, decentralisation and education.

Indicators to assess the impact of EU support include, *inter alia*

- Reduction in the length of court proceedings and reduction in backlog of cases
- Increased and effective use of special investigative means
- Number of successful prosecutions for cases of organised crime, corruption, money laundering and trafficking of human beings and drugs
- Trainings organized (and number of trained participants) for law enforcement and Judiciary
- Increased amount of recovered proceeds from crime
- Number of cases of conflict of interest investigated by the State Commission for Prevention of Corruption and their follow-up
- Positive reports on implementation of the Ohrid Framework Agreement.
- Conditions in prisons improved,
- Completion of the legislation framework covering, inter alia, non-discrimination among different ethnic groups and equal treatment
- Decrease of libel, defamation and insult charges with heavy fines.
- Continued sound management of the visa free travel arrangements, preventing any abuse
- Reduction of the length of procedure to cross borders, both for trade and travellers

3.2.4. EU assistance per IPA component

The main support under this sector is provided under IPA component I, with a focus on taking forward judicial reform and the protection of fundamental rights, as well as capacity-building to confront organized crime and corruption. This will notably include support for the independence and impartiality of the judiciary, prison reform as well as protection of

vulnerable groups. Within this large sector, cooperation will equally focus on home affairs issues such as the police investigation in the pre-trial period and border management.

Support will be provided to the processes of implementing the regulatory and institutional framework related to international human rights; harmonization and enforcement of the national legislation in line with the UN Conventions and the European Court of Human Rights.

The promotion of the active participation of civil society in policy making will also be addressed. In that sense, the *Civil Society Facility* will encompass all national programmes as well as the IPA Multi-beneficiary assistance, by providing small, operational grants to better reach out to community-based organisations, and establish twinning-kind arrangements and partnerships between stronger, already established organisations to become mentors and facilitators for smaller organisations

IPA Component I shall co-finance the participation of the country in the EU Agency for Fundamental Rights and as well as other Programmes and Agencies for which a MoU will be signed additionally.

3.3. Private Sector development

3.3.1. Description of sector

The sector deals with the underlying internal market principles and key aspects that characterize the existence of a functional market economy. As a candidate country, the Republic of Macedonia, has to align its regulatory systems (legislation and related enforcement) with the *acquis* in order to be able to fully participate in the internal market at the time of their accession.

As regards general business environment, the starting position is challenging, characterized by very low levels of foreign direct investment, very high unemployment and almost no investment by public or private sector in research. The greatest business obstacles are problems with access to financing for SMEs, anti-competitive behaviour, corruption and the deficient functioning of the judiciary. Therefore, promoting investment and low-carbon development, access to financing for the private sector, enhancing innovation and competitiveness, improving the quality of human capital, as well as consumer policy, and functioning of regulatory bodies are all key priorities for the country's private sector development. In that context, a new NDP would be needed in order to have an overall development strategy, allowing for proper utilisation of the sector strategies (National Strategy for SMEs Development, Industrial Policy Strategy, National Programme for market surveillance, National strategy on research and innovation, etc) that may be considered suitable as a country-owned policy framework, to start moving to a better targeted EU support to the sector.

One of the issues that negatively influence the economic development is the informal (grey) economy. A large informal economy causes losses in revenues from tax evasion, distortions of the labour market, hides the true unemployment figures and encourages unfair competition. According to the State Statistical Office, the "grey" economy in the country was around 20% of GDP in 2008 - while the ILO assessed the real size of the shadow economy as 40%, and informal employment as high as 60% of formal employment.

Robust, comparable and reliable statistics are an indispensable tool for policy making, whereas measuring their effects, in turn, is an essential basis for the development of sound policies.

Official statistics play a dual role in the Stabilisation and Association Process, and in the EU accession process. Firstly, an individual chapter of the *acquis* defines the harmonisation of statistics with EU standards and rules that have to be implemented in the pre-accession period. Secondly, official statistics serve other policy areas and chapters by providing data for further policy creation, monitoring changes and impact assessments. A good progress has been observed in improving sector statistics and aligning classifications with the *acquis*, nevertheless further efforts are still needed regarding macroeconomic and agricultural statistics.

3.3.2. Past and ongoing assistance (EU and other donors)

Private sector development has been mostly supported through EU assistance, including projects under CARDS programmes and regional projects. IPA has funded several relevant programmes, aiming at strengthening government administrative capacity for protection of competition, for modernising the Employment Service Agency and for coordination of social security systems and participation in EURES (European Employment Services Network) in the framework of the Freedom of movement of workers.

In particular, in business development and competitiveness, considerable assistance is available through bilateral donors like USAID, the UK, and GTZ, as well as the IFIs, mainly the World Bank, IMF, and EBRD.

3.3.3. Sector Objectives for EU support over next three years

Despite improvements, the general economic and business environment in the country remains rather challenging. The overall goal of EU support in the coming years is to increase the standard of living of the citizens and to secure the physical and human capital necessary for the development of the country. Further measures are needed to ensure the country readiness to cope with competitive pressures and internal market forces within the European Union.

Productivity and investment rates of domestic and foreign companies should increase the development of SMEs and an economy based on knowledge and innovation promoted.

Specific objectives identified for the next three years are ambitious: ensuring correct implementation and enforcement in all areas of public procurement legislation, anti-trust and State aid; supporting the improvement of public statistics, strengthening the institutional and legal framework for SMEs related public policies – namely through the implementation of the National Strategy for SMEs Development (2011-2013), development of public services to businesses (e.g. investment and export promotion agencies, one stop shops for business registration), and designing a research and innovation policy in support of the country's competitiveness.

Another specific objective of the EU assistance is the reinforcement of capacities displayed by the institutions involved in the implementation of all horizontal framework legislation (standardisation, accreditation, metrology, and market surveillance, etc); the judiciary and the regulatory bodies and different inspectorates; more concretely, further support to the State Market Inspectorate will be given in the process of implementation of the National Programme for market surveillance. Further harmonisation with EU legislation is foreseen as regards financial services, audiovisual policy, as well as full implementation of the Action plan for harmonisation with the Services Directive. Further IPA assistance shall be considered to strengthen the capacities of the institutions involved in consumer protection and

enforcement of intellectual property rights, cooperation and coordination between them as well as support for raising awareness of those rights.

Indicators to assess the impact of EU support include, *inter alia*

- Increase in investment rates of domestic and foreign companies
- Improved access to investment finance for SMEs
- Increase in public/private investment in R&D and innovation
- Action plan on strengthening research and innovation capacity
- Improved protection of intellectual property rights, including increased level of awareness among businesses and consumers
- Increased administrative capacities of financial sector supervisors
- Action Plan for harmonisation with the Services Directive implemented
- Implementation of the audiovisual media services directive
- Improved macro-economic statistics
- Better ranking of the country in the World Economic Forum (WEF) global competitiveness report 2012-13

3.3.4. EU assistance per IPA component

Components I and III shall reinforce each other to achieve the objectives of general economic development. Support under "Regional competitiveness" of the Component III Operational Programme will be considered based on the preparedness of the country and the progress demonstrated in the implementation of the other two sectors currently supported under IPA Component III (transport and environment). Such support needs to be anticipated by strengthening the management structures and by improving the business climate, particularly for SMEs. In that context, Component I support will mainly aim at pursuing the process of further harmonization with EU internal market *acquis* and improving the general business environment. Further alignment with the action lines of the European Higher Education Area and further investments in science and research development will also be at the core of the reform process supported by IPA. Participation in European education and research programmes and networks will be further encouraged and supported.

Besides, any investment in human capital through better education, training and access to the labour market, like the type of interventions financed under IPA Component IV, shall obviously also help the economic development of the country.

3.4. Agriculture and Rural Development

3.4.1. Description of sector

Agriculture has traditionally been one of the most significant industries of the country's economy. Unlike some of the transitional economies, in which the agriculture suffered loss of its importance in certain periods, the agriculture of the Republic of Macedonia has constantly

maintained its position in the economy during the overall transition. Nowadays, the sector is facing major challenges and structural reforms in the country. An eventual decline in agriculture, food-production and associated industries, as well as the effects of climate change, could have significant adverse consequences in rural areas as well as represent a threat to the overall economic and social stability of the country. Strengthening the competitiveness of the national agribusiness is therefore the focal point for its survival. This must be supported through well targeted agriculture and rural development policies and programmes and by modernization of the relevant public institutions.

An important factor for the modernisation of the agricultural sector is its gradual alignment to the EU *acquis* and the relevant standards in the food safety, veterinary and phyto-sanitary field. Building of administrative capacity in the relevant national institutions to conceive and implement agriculture and rural development policies and programmes upon accession will also be of crucial importance for the future development of the sector.

3.4.2. Past and ongoing assistance (EU and other donors)

The largest portion of assistance available to this sector has been provided by the European Union, starting from the previous CARDS programmes in 2001, to the recent projects included within the IPA programme. Other active supporters in the sector are the World Bank, OSCE, SIDA and USAID.

Assistance under the IPA component V for Rural Development (IPARD) is delivered based on a multi-annual programme covering the period 2007-2013, which was adopted by the European Commission in February 2008. Funding is mainly granted in the form of support for private investments undertaken by natural or legal persons like farmers, food processing and marketing enterprises, etc. Furthermore, it is provided on the basis of decentralised management without ex-ante controls. Therefore, implementation of the IPARD Programme could only start after the European Commission's decision to confer management to the structures comprising the IPARD management and control system in December 2009.

3.4.3. Sector Objectives for EU support over next three years

The overall objective is to contribute to the sustainable development of the agricultural sector as well as the implementation of EU standards and *acquis* concerning the common agricultural policy and related policy areas like food safety, veterinary and phyto-sanitary issues, including adapting to climate change.

Moreover, through IPA support the EU is helping the beneficiary country to get ready for the effective use of the European Agriculture Rural Development Fund (EAFRD) upon accession, as well as to contribute to the sustainable development of the economy in the rural areas.

The IPARD Programme also envisages the possibility to introduce other areas of intervention such as support to producer groups, preparatory actions for the implementation of agri-environmental measures and development of local development strategies, similar to the LEADER approach.

Therefore, the assistance, as described in the IPA Rural Development Programme for Component V, shall contribute to achieving the following main concrete objectives: firstly, to improve market efficiency and implementation of EU standards in the fields of environmental protection, public health, animal and plant health, animal welfare and occupational safety. It will be addressed through measures "Investment in agricultural holdings" and "Investments in processing and marketing of agricultural products" and "Setting-up of producer groups".

Secondly, to launch preparatory actions for implementing the agri-environmental measures and local rural development strategies. It will be addressed through measures "Actions to improve the environment and the countryside" and "Preparation and implementation of local rural development strategies" to be further detailed in subsequent programming and to be implemented after 2010. And, thirdly, to contribute to the development of the rural economy through establishing micro- and small- enterprises in rural areas. It will be addressed through measure "Diversification and development of rural economic activities".

A set of indicators to measure the achievement of targets and the output, results and impact achieved under IPA Component V have been developed as part of the IPARD programming exercise and the related ex-ante evaluation of the IPARD Programme. The indicators provide a good basis for the monitoring and evaluation during the ongoing implementation of the Programme and will be further adapted to the needs of the programme during the ongoing evaluation process. The sectoral IPARD Monitoring Committee will check progress against the detailed indicators identified at measure level and the targets set.

Indicators to assess the impact of the EU support include, *inter alia*:

- Improved income of the IPARD beneficiary;
- Increased added value of agricultural products through improved and rationalised processing and marketing of products.
- Improved processing and/or marketing of quality agricultural products as well as preparation for the implementation of Common Market Organisation (CMOs) in the beneficiary sectors through the setting up of producer groups (in case of successful accreditation of measure "Support for the setting up of producer groups" after 2010).
- Increased participation of local actors in the development and implementation of rural development strategies
- Increased income of the beneficiary rural population through the development and diversification of on-farm and/or off-farm activities;
- Compliance of food processing establishments with EU standards;
- New employment opportunities created through the development and diversification of on-farm and/or off-farm activities;

3.4.4. EU assistance per IPA component

Main EU assistance will be provided under the IPA Rural development Component. This component has the main goal to facilitate the preparation of the beneficiary country for the participation in the Common Agricultural Policy (CAP) and related policies respecting the related EU standards while at the same time assisting the country with getting ready to effectively implement EU rural development programmes upon accession.

In close coordination with the on-going assistance under IPARD 2007-2013, IPA Component I will provide significant support for further capacity building of the competent authorities for food safety, veterinary and phyto-sanitary policies, as well as legal approximation on the various parts of the Common Agriculture Policy of the EU, that are considered as medium term priority for the country.

3.5. Transport

3.5.1. Description of sector

The geographical location of the Republic of Macedonia has contributed to the development of international traffic in its territory on two Trans National Axes: North-South (Corridor X) and East-West (Corridor VIII) linked to the regional Trans European Transport Networks. Indeed, road transport accounts for the largest share of total carriage of goods and passengers, but the country inherited inadequate infrastructure that aggravated by continuous under-investment.

In that sense, the National Strategy for Sustainable Development (2008-2030) aims at offering practical guidelines for the public and private sectors on how to plan and implement sustainable infrastructure development and encourage an increase in domestic and foreign investments.

The main goals for the development of the sector are defined in the National Transport Strategy (2007-2017) as follows: promotion of the economic growth by building, enhancing, managing and maintaining transport services, infrastructure and networks to maximize their efficiency, environmental protection, improvement of the safety of journeys and increased social inclusion by connecting distant and disadvantaged communities and improving the transport network accessibility.

3.5.2. Past and ongoing assistance (EU and other donors)

Substantial EU assistance has been provided in this sector to the country since 2001 for institution building and legislative alignment. The EC has provided support to the transport sector, by financing, for example, the preparation of the National Transport Strategy (2007-2017), the Road Investment Plan and the Study for Restructuring the Road Sector through the 2006 CARDS Programme. Through IPA Component I is provided to the strengthening of administrative capacities of the State Transport Inspectorate for effective enforcement of the road transport legislation.

However, the implementation of the Operational Programme for Regional Development under IPA Component III, adopted by the Commission in November 2007, started only in late 2009 when the Financing Agreement was signed and the management powers were conferred

3.5.3. Sector Objectives for EU support over next three years

To promote sustainable development of the Republic of Macedonia through minimizing the adverse effects of transport on the environment, to reduce greenhouse gas emissions and to help connecting national economic centres with Europe and the neighboring countries are the main goals for EU support until 2013. Furthermore, EU support aims at strengthening regional cooperation in the framework of the South East Europe Transport Observatory (SEETO)

The specific sector objective is the upgrading and modernization of infrastructure leading to the completion and efficient and safe operation of regional Corridors VIII and X.

As indicated in the National Transport Strategy (2007-2017), investment in transport infrastructure shall also be accompanied by the establishment of a stable and predictable flow of funds to the road and rail sectors, as well as defining a clear financial, operational and institutional framework for road and railways maintenance, ensuring long-term sustainability

of investments in accordance with European good practices, including respect for competition rules. Investment in infrastructure should be placed in the context of a policy dialogue for the transport sector, engaging the Government and key stakeholders at national and regional level in the process, including neighbouring countries and donors. This dialogue shall seek to provide the framework for investment prioritization, sound financing and operating of transport infrastructure.

The EU support shall also be targeting the completion of the 1st phase of the European Common Aviation Area (ECAA) agreement, and the regulatory alignment with single European sky within the ISIS Programme (Implementation of the Single European Sky In South East Europe), as well as the relevant training of the staff.

Indicators to assess the impact of EU support may include, *inter alia*

- Completion of planned sections of transport Corridors VIII and X
- Adoption / implementation of relevant legislation
- Completed first phase of ECAA agreement

3.5.4. EU assistance per IPA component

Whereas IPA Component I finances legislative alignment and capacity building, at central and local level, for the transposition and management of the relevant *acquis* in transport, under Component III, large infrastructure investments are foreseen.

The Regional Development Component (IPA Component III) is the largest of the five components from which the Republic of Macedonia benefits. The strategy for EU assistance which was identified in the previous MIPD, focusing on sustainable development of the country and its regional integration, shall be maintained for the transport sector during the rolled over period 2011-2013.

IPA assistance under Component III will thus be targeted to the development and implementation of road and rail infrastructure investments that shall contribute to the completion and safe operation of regional Corridors VIII and X, forming an integrant part of the South-East Europe Core Regional Transport Network.

Assistance must comply with the principle of sustainable development and meet the requirements of the relevant environmental *acquis*, in particular directives on EIA, Habitats and Birds (in order to avoid negative impacts on potential *Natura 2000* sites).

3.6. Environment and climate change

3.6.1. Description of sector

Environment protection and nature conservation are recognised as fundamental constitutional values, which everyone has the responsibility to protect and improve. The situation in the Republic of Macedonia is similar to almost all other countries in the region and faces the environmental liabilities from the past.

The country lags behind in sanitation and water-supply infrastructure. Taking into consideration all existing treatment plants, the total rate of population served by wastewater treatment is estimated at approximately only 12,5%. Industrial and urban wastewater is

discharged as untreated or insufficiently treated, including the sewage from the city of Skopje to the Vardar/Axios river, whose pollution is affecting not only the country but also the Aegean Sea. Furthermore, the three large cross-border lakes Ohrid, Prespa and Dojran are the highest priority concerning nature protection. The oldest waste water treatment plants in the country are precisely those at the lakes; their treatment processes are now clearly outdated and the infrastructure is insufficient for assuring sustainable utilisation of water resources.

In view of that situation, particular emphasis needs to be put on waste water collection and treatment, drinking water supply, and waste management, as highlighted by National Strategy for Environmental Investments (2009-2013).

The most problematic areas related to implementation of legislation are water and waste management, nature protection, energy, industrial pollution, risk management, and mitigation of and adaptation to climate change. Furthermore, the administrative capacity, both at central and at local level, is also insufficient, particularly in terms of qualifications to implement and enforce the EU legislation on environment, energy and climate change.

3.6.2. Past and ongoing assistance (EU and other donors)

Substantial EU assistance has been provided in this sector to the country since 2001 for institution building and legislative alignment. As an example, the first National Waste Management Plan (2006 – 2012), was developed in 2005 and financed from CARDS 2001. However, the implementation of the Operational Programme under IPA component III started only in late 2009, once the Financing Agreement was signed and the management powers were conferred.

IPA Component I helps central and local level government to strengthen the administrative capacities for environmental management, through drafting of laws and implementing regulations aligned with the EU Environmental Directives

Many donors, apart from the EU, have been and are currently involved in providing substantial support in the area of environment, where donor coordination still needs to be considerably improved. The WB, SIDA and UNDP/GEF are very active in the fields of protected areas and renewable energy sources.

3.6.3. Sector Objectives for EU support over next three years

The overall goal of EU support to the sector is to help creating a cleaner, safer environment for citizens of the Republic of Macedonia and to contribute to enhanced mitigation of and adaptation to climate change. Subsequently, EU support aims at supporting full compliance with all relevant Directives and environmental legislation, plus the necessary associated physical investments.

The main specific objective is to help reducing the volume of untreated municipal wastewater discharged to rivers and reduce negative impact on quantity and quality of water resources, nature and health of population with the construction of modern waste water treatment plants and rehabilitation/extension of the sewerage network. Since planning and preparation of infrastructure investment is lagging behind and the funding remains too low compared to the needs in the sector, the objectives as identified in 2007 for the Operational Programme of IPA Component III are still valid.

Furthermore, support will continue for legislative alignment with the *acquis*, namely in the fields of waste management, water quality, nature protection, energy, industrial pollution

control, risk management, climate change, and to significantly improve environmental monitoring; all that without forgetting the strengthening of administrative capacities of the State Environmental Inspectorate and other enforcement bodies, at central and local level.

Incorporation of environmental protection requirements and climate change considerations into other policies, e.g. through the development of environmental impact assessments and strategic environmental assessments, including compliance of agriculture and industry with key parts of the *Acquis* in the environmental sector, will also be supported.

Indicators to assess the impact of EU support may include, *inter alia*

- Development of a realistic project pipeline for infrastructure investment until 2013
- Adoption / implementation of legislation in the line with relevant *acquis*
- Capacity building and training delivered to sanitation inspection authorities
- Adequate staffing and capacity building provided to the State Environment Inspectorate and other enforcement bodies
- Regional Waste Management Plans prepared
- Pollution reduced in Vardar/Axios river
- Population benefiting from improved waste management systems
- Further implementation and enforcement of the Energy Community requirements

3.6.4. EU assistance per IPA component

Whereas IPA Component I finances legislative alignment and capacity building, at central and local level, for the transposition and management of the relevant *acquis*, under Component III, large infrastructure investments are foreseen.

The strategy for EU assistance which was identified in the previous MIPD in line with the priorities set out in the Accession Partnership, focusing on sustainable development of the country, shall be maintained for the environment sector over the rolled over period 2011-2013. IPA assistance under Component III, as described in the current Operational Programme, will be targeted to the development and realisation of investments that shall contribute to upgrade sanitation and waste water treatment, where the needs for public sector investments are higher.

The requirements of the relevant environmental *acquis*, in particular directives on EIA, Habitats and Birds (in order to avoid negative impacts on potential *Natura 2000* sites) shall be respected. Furthermore, as a member of the Energy Community, the country will have to implement parts of the *acquis* on renewable energy and energy efficiency.

Having in mind that over the period 2007-2013, assistance under IPA Component III shall be gradually rebalanced by putting more emphasis on the environment sector, the percentage of resources allocated thereto shall be progressively aligned with other candidate countries, in line with the needs of the country, with the development of adequate strategies / investment planning, and with the capacity to prepare and implement infrastructure investments in the environment sector.

3.7. Social Development

3.7.1. Description of sector

Vast investment in social development is a critical pre-condition for transition to a knowledge-based society, for decreasing present and preventing future discrepancies on the labour market, to improve access to health care, for ensuring conditions for higher life quality and greater social cohesion. The social situation in the Republic of Macedonia is indeed characterised by a low employment rate of 38.5%, a high unemployment rate of 32% and poverty estimated at 31% of the population. Economic and social differences between cities are also evident and the inequalities between urban and rural centres are further widening. Regional unemployment is particularly high in most rural areas. Low geographical mobility of the population is another reason for regional unemployment variations as well as the lack of information on job opportunities elsewhere in the country.

Analyzed by profiles, most vulnerable groups are multi-member households, bearing in mind the fact that 54 % of the poor people live in households with five and more members. The poverty rate for the unemployed is 40.5%. The percentage of long term unemployed persons has increased steadily since 1996, being a real challenge for employment, labour market and social protection policies with all the negative effects such as deterioration of human capital, discouragement and de-motivation.

One of the burning issues of the country's human development is obviously the shortage of formal employment opportunities. That points to an underutilisation of human capital, hindering its economic growth. Hence the main goal of all government priorities should be to stimulate job creation, by addressing the skills gap -discrepancy between the small demand and big supply of (unqualified and semi-qualified) labour force- by reducing rigidities and administrative barriers in the labour market, and improving efficiency of the main responsible institutions. Equally, investments in human capital through better education and training are needed, in order to improve quality of the whole education system ensuring, on the long-run, greater educational attainment of the population. Education of the household head also influences poverty, namely 56.7% of the poor currently live in households where the head of the household has no or at most primary education.

The Government has made significant progress in the design of employment policies. A National Employment Strategy (2006-2010) and related Action Plans have been developed in accordance with the EU Employment Guidelines.

Furthermore, the area of social inclusion as a specified priority field of intervention is confirmed with the recent approval of the National Strategy for Reducing Poverty and Social Exclusion (2010-2020); according to the State Statistical Office, 2009 saw a record-high percentage of citizens who live below the poverty line (2.4%-increase compared to 2008). The poor living conditions, low education level, and above all, the long-lasting poverty affect also the health situation of the majority of the poor. Therefore poverty reduction cannot rely exclusively on the economic policy, but also on complex, well-coordinated national measures in several areas.

3.7.2. Past and ongoing assistance (EU and other donors)

Under CARDS the EU supported a wide range of activities in the social sector – local infrastructure projects, design of vocational education and training (VET) programmes, promotion of good human resources practices in enterprises, development and implementation of the National Action Plan for Employment 2005, including equipment and training for staff

of employment bureaux. Other projects aimed at increasing support to small and medium-sized companies in an effort to create jobs.

The implementation of the Human Resources Development Operational Programme (IPA Component IV) started only with the Commission decision for conferral of management at the end of 2009. Under, IPA Component IV, the first direct grant to the Employment Service Agency (ESA) for an amount of EUR 1.300.000, was finally signed in November 2010, representing an important milestone for the implementation of the Operational Programme.

Apart from the IPA programme, there have been a number of other donor activities present in the country supporting the development of the human capital and job creation, namely Norway, Japan, the Netherlands, Germany and UNDP.

Considering the presence of many donors in the sector, the Government has made efforts through the Programme Based Approach (PBA) - 'Human Capital' area to ensure efficient donor coordination in order to avoid possible overlapping and alignment with the national priorities, which can be further enhanced”

3.7.3. Sector Objectives for EU support over next three years

The overall goal is to improve the standard of living of the citizens and to bring the country closer to the EU policies and parameters of the Europe 2020 Strategy. The EU will continue its support for preparation to manage the Cohesion Fund and the European Social Fund (ESF).

The EU support in the next period will be testing the capacity to move towards a more strategic approach in the employment and education sectors. The main objectives of EU assistance are: to promote life-long learning, to advance in the mutual recognition of professional qualifications, to modernise the employment services, the education and training system, and to fight social exclusion.

To modernise the education and training system, including the development and mainstreaming of entrepreneurship learning in education, in order to improve its adaptability to the labour market needs remains a key objective of EU assistance in the coming years. Promoting life-long learning will aim more specifically to enable equal access to quality education for all, irrespective of ethnic origin, and integration of all ethnic communities in the educational system with special focus to Roma.

It is necessary to increase the quality and range of the educational system with a goal of promoting knowledge-based society and to strengthen institutional capacities for promotion of science, research, cooperation between universities, research centres and industry, and further integration in the European research networks.

In order to fight social exclusion, the EU will support the improvement of the efficiency of social services by training professionals and volunteers who work in the field of social services, health care and education, and by increasing the involvement and activation of persons at risk of exclusion with the aim to recover and/or improve their key skills, education, and retraining and to facilitate their access to the mainstream activities.

Indicators to assess the impact of EU support include, *inter alia*

- Strengthened capacities for implementation, monitoring and evaluation of the employment policies

- Modernisation of 3 and 2 years Vocational Education Training (VET) curricula according to the labour market needs
- Development of social inclusion policies and budgetised action plans for the benefit of the most vulnerable groups
- Increased efficiency of social services providers
- Reduced geographical and gender inequalities in terms of access and quality of education
- Improvement of the GINI coefficient (inequality) for the country – currently 0.39-
- Capacity building provided to institutions responsible for the future management of the ESF
- Deployed pilot projects for development of local action plans for employment
- Decrease of the long-term unemployment rate
- Increase of the employment rate
- Systemic approach to adult education achieved
- Number of adopted standards for vocational qualifications

3.7.4. EU assistance per IPA component

IPA Human Resources Development (component IV) will provide the main assistance to the sector, as identified in the current multi-annual Operational Programme, in particular, on enhancing employability, social inclusion, capacity building of relevant stakeholders, implementation of active labour market policies targeted at disadvantaged people and further effective preparation for management and implementation of ESF assistance. Two types of activities are envisaged- Assistance to Systems in the area of Employment, Education and Social Inclusion, and Assistance to People.

Interventions to be programmed under the IPA component I under the sectors *Justice and Fundamental Rights* and *Private sector development* shall complement the strengthening of institutional capacities to fully implement the legal provisions and reforms in the educational, social inclusion and employment sector.

LIST OF ABBREVIATIONS

CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CAP	Common Agricultural Policy
CEB	Council of Europe Development Bank
CSA	Civil Servants Agency
EBRD	European Bank for Reconstruction and Development
EIA	Environmental Impact Assessment
EIB	European Investment Bank
ESF	European Social Fund
EU	European Union
GDP	Gross Domestic Product
IFI	International Financial Institutions
ILO	International Labour Organisation
IPA	Instrument for Pre-accession Assistance
IT	Information Technology
MIPD	Multi-Annual Indicative Planning Document
MoU	Memorandum of Understanding
NPAA	National Programme for Adoption of Acquis
NDP	National Development Plan
OFA	Ohrid Framework Agreement
PAR	Public Administration Reform
PBA	Programme Based Approach
PHARE	Poland and Hungary Assistance for the Restructuring of the Economy
SAA	Stabilisation and Association Agreement
SEETO	South East Europe Transport Observatory
SIDA	Swedish International Development Cooperation Agency
SIGMA	Support for Improvement in Governance and Management
SME	Small and Medium-sized Enterprises

UN	United Nations
UNDP	United Nations Development Programme
VET	Vocational Education and Training