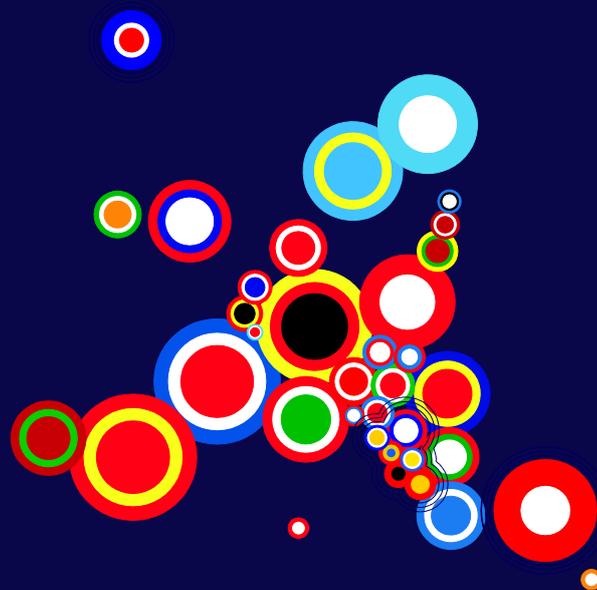




**INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)
2014-2020**

**REPUBLIC OF NORTH
MACEDONIA**

Sector Reform Contract
"EU for YOUTH"



Action Summary

This Action will support the Government of North Macedonia in improving the employment of young people. The Action will invest in the vocational qualification, skills and preparedness of young people to enter labour market. It will upscale selected Vocational Education Training Centres into centres of excellence able to ensure modern work-based learning practices and quality education. Further, the Action will support the smooth transition from school to work, through implementing a Youth Guarantee scheme for young people, neither in employment, nor in education or training. The Action will result in increased employment rate for young women and men.

Action Identification	
Programme Title	IPA 2019 Action Programme for the Republic of North Macedonia
Action Title	Sector Reform Contract for Employment and Education
Action Reference	IPA 2019/041-263/07.03/MK/Youth
Sector Information	
NEAR Sectors	Education, Employment and Social Policy
DAC Sector	11330 - Vocational training 16020 - Employment creation
Budget	
Total cost (VAT excluded)¹	EUR 16.5 million
EU contribution	EUR 16.5 million Sector Reform Contract : EUR 15 million Technical assistance : EUR 1.5 million
Management and Implementation	
Method of implementation	Direct management
EU Delegation in charge	Direct Management by the EU Delegation to the Republic of North Macedonia
Implementation responsibilities	Implementation responsibilities concerning the Sector Reform Performance Contract (SRPC) and the technical assistance are to be shared between the Ministry of Labour and Social Policy and the Ministry of Education and Science. Financial execution of the SRPC: Ministry of Finance
Location	
Zone benefiting from the action	The Republic of North Macedonia
Specific implementation area(s)	The Republic of North Macedonia with a primary focus on the NorthEast, Polog and SouthWest + Prespa regions
Timeline	
Deadline for conclusion of the Financing Agreement	At the latest by 31 December 2020
Contracting deadline	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 114(2) of the Financial Regulation
End of operational implementation period	6 years following the conclusion of the Financing Agreement
End of operational implementation period	12 years following the conclusion of the Financing Agreement

¹ The total action cost should be net of VAT and/or of other taxes. Should this not be the case, clearly indicate the amount of VAT and the reasons why it is considered eligible.

Policy objectives / Markers (DAC form)			
General policy objective	Not targeted	Significant objective	Main objective
Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	x
Aid to environment	x	<input type="checkbox"/>	<input type="checkbox"/>
Gender equality (including Women In Development)	<input type="checkbox"/>	<input type="checkbox"/>	x
Trade Development	x	<input type="checkbox"/>	<input type="checkbox"/>
Reproductive, Maternal, New born and child health	x	<input type="checkbox"/>	<input type="checkbox"/>
RIO Convention markers	Not targeted	Significant objective	Main objective
Biological diversity	x	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	x	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	x	<input type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	x	<input type="checkbox"/>	<input type="checkbox"/>

LIST OF ACRONYMS:

EESP	Education, Employment and Social Policy
ERP	Economic Reform Programme
ESRP	Employment and Social Reform Programme
ETF	European Training Foundation
ILO	International Labour Organisation
IMF	International Monetary Fund
IPA	Pre-Accession Assistance
MTBP	Medium Term Budget Program
NES	National Employment Strategy
NIPAC	National IPA Coordinator
PAF	Performance Assessment Framework
PAR	Public Administration Reform
PISA	Programme for International Student Assessment
PFM	Public Finance Management
PPPs	Public Private Partnerships
SAA	Stabilisation and Association Agreement
SRPC	Sector Reform Performance Contract
SSO	State Statistical Office
TA	Technical Assistance
VET	Vocational Education Training

RATIONALE

1.1. PROBLEM AND STAKEHOLDER ANALYSIS

1.1.1 Key problems/needs

In the employment area, the country faces significant challenges. The **unemployment** rate of population between 15 and 64 is high, reaching 22.4% in 2017. The **rate of activity** of population aged 15-64 was 65.3% in 2017, but was significantly lower for women (78.4% - men, and 51,7% - women). The **employment rate** is 50.5%, showing equally discrepancies between men (60.5%) and women (40.3%). The proportion of **long-term unemployment** is high (17.4%) and 56.4% of the long-term unemployed persons remain unemployed for more than 4 years.²

The unemployment rate has higher impact on the young generation - the unemployment rate of young people (15-29) is 39.2% of the youth labour force. Youth unemployment is particularly higher for uneducated or low educated people compared to those with completed secondary and tertiary education. The most frequent occupations are the ones requiring workers with secondary education. In 2016, 136,000 young people were classified as Not in Employment, Education or Training. Of these, 80,000 were unemployed and 56,000 were inactive. Young women are more likely to be not in employment, education or training (34% women compared to 22.7% men). In addition, there are regional disparities as the rate is the highest in the Northeast (40.7%), followed by the Polog (37.6%) and Southwest region (34.7%). Polog region has the highest rate of inactive young people who are not in employment, education or training, followed by the Skopje, Northeast and Southwest regions. Here as well women are most impacted.

Long-term unemployed young people represent the largest share (43.4%), followed by a 26.2% of youth with family and care responsibilities. The number of those not in employment, education or training is more significant in the 25-29 category of age, among women and with completed secondary education.

In these circumstances, the challenges, among others, that the labour market must face are the following:

- Addressing inactivity and unemployment among the most vulnerable categories of persons, such as youth, and especially young person not in employment, education or training, long-term and unskilled unemployed people, and
- Further strengthening of the capacities and improving the quality of work and services of the public employment services
- Adapting the educational system to the needs of the labour market, with a special focus on strengthening the quality and performance of the Vocational Education Training (VET) sector.

The **education** system comprises a mix of pre-school, elementary (6-15 years), secondary (15-18/19 years) and higher education. Elementary and secondary education are compulsory and free of charge. The level of public spending on education in 2016 was 3,8% of the GDP, which represents a decrease compared to previous years. Despite a significant improvement in recent years, the data from the State Statistical Office show that the percentage of persons, so-called early school leavers in 2016 is 9.9%. Only 23.6% in 2016 of children on age 0-5 years attend pre-schools institutions. In higher education, the tertiary attainment of students in 2016

² State Statistical Office, Labour Force Survey 2017, <http://www.stat.gov.mk/Publikacii/2.4.18.03.pdf>

is 29.1 % (33.8% women and 24.5% men). In general, the education system suffers from important deficiencies as outlined in the 2015 Report from the Programme for International Students Assessment (PISA)³ the country ranks fourth worst out of 70 evaluated countries.

The situation in VET reflects the general weaknesses of the education system, despite the potentially high relevance of VET to the labour market. Statistical data shows that during the last years, most of the job vacancies were created in the sectors of processing industry, construction, transport and warehousing, administrative and supporting activities and art, entertainment and recreation. Around 53% of new jobs require secondary vocational education whereas 34% relate to lower levels of education. It is expected that most of the vacancies will appear in the processing industry (40%) and trade (9%) at the levels of secondary/vocational (62%) and higher education (10%).

So far, 113 new occupational profiles and 69 new standards of qualification have been developed and adopted to bring them closer to the labour market needs. In 2017, the Strategy for Adult Education 2016-2020 was adopted. The verification of programmes for adult education is ongoing and the Centre for Adult Education has approved more than 300 programmes for adult education.

However, vocational education is not sufficiently attractive, except certain vocations in the field of healthcare, economics and law. Modern system of post-secondary education is still lacking and capacities of VET system to ensure inclusive education are very limited. The business sector expressed the need for adapting the qualifications and profiles produced by VET to the real requirements of the market. An OECD survey (Competitiveness in South East Europe, 2018) shows that, the vocational education is attracting disadvantaged students who have fallen behind at school. Especially, there is a need to undertake appropriate measures that would lead to gradual change of the perception and interest among young people in favour of the vocational education, and raise VET attractiveness for students. In addition, VET can support adult education and provide a second chance for early school drop-outs.

Raising the attractiveness and relevance of VET education requires the creation of flexible learning pathways that integrate formal and informal learning, increasing the share of students in work-based (in-company) learning and reinforcing the cooperation between VET providers, higher education institutions, businesses and local and social partners

1.1.2 Main stakeholders

The main stakeholders are the following:

- **Ministry of Labour and Social Policy**, which is the leading institution with respect to the elaboration, management, coordination, monitoring and evaluation of employment and social policy and is responsible for Chapter 2, “Free movement of workers” and Chapter 19 “Social Policy and Employment” of the EU Acquis. The Ministry coordinates other relevant institutions and bodies in the implementation of employment and social policies and ensures a participatory process, usually by establishing strategy related coordinative bodies.
- **Ministry of Education and Science**, which is the leading institution in charge of all aspects of education policy and is responsible for Chapter 25, “Science and research” and Chapter 26, “Education and culture” of the EU Acquis. At present, no specific job

³ The country currently participates in the test assessment for 2018. The report from PISA 2018 is expected to be published in 2019

positions are foreseen to coordinate and monitor the implementation of the Education Strategy. However, in the Ministry there is a Unit for Strategic Planning that coordinates the preparation and implementation of the Ministry of Education and Science Strategic Plan which is in accordance with the Government Programme and Education Strategy.

- **Ministry of Finance**, which is responsible for the financial execution of the IPA 2019 Action Programme and this Action Document.
- **Employment Services Agency**. The Agency is funded directly from the State Budget and unemployment insurance contributions and is accountable to the Government. However, the annual plans for active employment programmes according to which the employment services agency operates are mainly structured to meet the employment policy goals set by the Ministry of Labour and social Policy. For the unemployed, the agency provides different types of services, such as job counselling, mediation in employment, labour market information, trainings and other employment measures.
- **Vocational Education and Training Centre (VET Centre)**. The main tasks of the Centre relate to analysis and research in the sphere of VET, development of occupation and educational standards and curricula, teachers training, counselling and mentoring, international cooperation and support to social partnership.
- **Centre for Adult Education**. The main tasks of the centre are to support the development of training programmes and to accredit its content.
- **Relevant Civil Sector Organisations , academia, economic and social partners.**
- **Private sector organisations and employers.**

The end recipients are young job seekers, disadvantaged youth, teachers, students, and employers.

1.2. RELEVANCE WITH IPA II STRATEGY PAPER AND OTHER KEY REFERENCES

The **Stabilisation and Association Agreement (SAA)** of March 2001, signed between the EU and the country, reflects an explicit commitment for cooperation in the social and employment sector (Article 90), as well as in the education and training sector (Article 91).

The **IPA II Indicative Strategy Paper (2014-2020)** identifies the Education, employment and social policies sector as one of the sectors to be supported by the IPA II. The overall objectives of IPA II assistance are to ensure more inclusive and effective labour market, higher quality of education and a modern and flexible social protection system. The present Sector Reform Contract has been designed to fully respond to some of these objectives by strengthening the education and training system and equal participation in labour market society, especially for the young people.

The Sector Reform Contract is also in line with the Commission strategy for "**A credible enlargement perspective for an enhanced EU engagement with the Western Balkans**" (COM(2018)65), where it is mentioned the need of further efforts to address high unemployment, especially among the young, as well as to reinforce the social dimension and social policy in the region.

The **European Commission annual Report 2019** indicates under *Chapter 19: Social policy and employment*, that labour market inclusion and poverty remains a serious problem and confirms the support for this action, through the Youth Guarantee.

This Sector Reform Contract aligns with the targets for education, employment and inclusion from the **EUROPE 2020 European strategy for smart, sustainable and inclusive growth**, namely (i) raise the employment of the population aged 20-64 from the current 69% to at least 75%; (ii) and reduce the share of early school leavers to 10% from the current 15%.

The **Southeast Europe Strategy 2020** of the Regional Cooperation Council is linked to the Sector Reform Contract, since one of the pillars of the strategy is Inclusive Growth, which objective is to bring to the forefront skills, job creation and inclusive labour market participation, health and wellbeing.

It is also in line with the **Economic Reform Programme (ERP) 2019-2021**, which presents the medium-term macroeconomic and fiscal framework, as well as the sectoral structural reforms for promoting both competitiveness and growth. In the ERP, there are two specific measures focused in this Sector: *16: Further development of the qualification system and 17: Youth Guarantee*.

The Government's principal planning document for the Education, Employment and Social Policy Sector is the **Employment and Social Reform Programme (ESRP)**, adopted by the Government in August 2017. It outlines two reform priorities:

1) Labour market and Employment with a focus on:

- Improvement of economic development and job creation;
- Improvement of the unemployment situation, especially with the most vulnerable categories (youth, long-term unemployment and others);
- Tackling informal employment;
- Improving quality of work and services of the public employment service.

2) Human Capital and Skills, with a focus on

- Ensuring fully inclusive education and equal access to education for all;
- Implementation of the National Qualification Framework for lifelong learning;
- Basis for ensuring quality in the system of education and training;
- Strengthening of the employability of the work force and building learning pathways in the context of lifelong learning.

Finally, this Sector Reform Contract is in line with the other key government's planning documents as the **Comprehensive Education Strategy 2018-2025**, the **National Employment Strategy 2016-2020**, the **National Strategy on the Alleviation of Poverty and Social Exclusion 2010-2020**, and the **Youth Strategy 2016-2025**.

1.3. SECTOR BUDGET SUPPORT READINESS

1.3.1 Macroeconomic Stability

The real GDP growth accelerated further and achieved annual growth in 2018 at 2.7%, up from 0.2% in 2017. The growth was driven by drastically increase in exports – 15.3% y-o-y, whereas investment grew only modestly – 1.6% in annual terms. Imports grew by 9% y-o-y. The economic growth largely benefited from the higher household spending and public consumption, which increased in particular due to higher public wages.

The unemployment remains high though improved in 2018. The unemployment rate dropped to 20.7% in 2018, which is a 1.6pp decrease from the previous year. The situation of young workers (15-24years) improved. Their unemployment rate stood at 44% in fourth quarter and

45.4% for the whole year (-2.8pp) of 2018. Nevertheless, the issue of the high unemployment among women and young people needs to be addressed by the government.

In 2018, total revenues grew by 4.9% y-o-y, while total expenditures were up by 1.8% y-o-y with a significantly stronger growth in the second half of the year. The revenue growth was driven by higher income from taxes and social contributions. Current expenditure increased by 6.4%, mainly due to a surge in social transfers and higher subsidies to corporates, while capital spending saw a significant drop of 38.8% y-o-y. As a result, the budget deficit was reduced to 1.8% of GDP, lower than the target of 2.7% of GDP. However, deficit calculations do not include the financing for the public enterprise for state roads which remained off-budget.

General government debt achieved 40.5% of GDP in 2018, increased by 1.2 pp from a year before. The central bank's foreign currency reserves increased by 23% in 2018 representing 5.2 months of imports.

Current account deficit slightly deteriorated at the end of 2018 and stood at 0.3% of GDP, which is still an improvement by 1% to the previous year (1.3% of GDP in 2017). The trade balance improved and stood at -16.2% of GDP in 2018 as a whole, compared to -17.9% in 2017. Net FDI inflows amounted to 5.8% of GDP in 2018, markedly higher than one year earlier (2.3% of GDP), and significantly larger than the current account deficit.

Inflation is currently no issue in North Macedonia. Average consumer price inflation in 2018 stood at 1.5% (+0.1pp compared to 2017), mainly driven by higher food prices (+0.6%). Following a revision in December, the central bank continued to reduce the key policy rate, by 25bps on 13 March, to a new historical low of 2.25%. The Denar continued its limited fluctuation around 61.5 MKD/EUR, closing the year at 61.51 MKD/EUR.

Financial sector remains stable with acceleration of credit growth to the private sector. Capital adequacy of the banking sector remained robust, with the ratio of regulatory capital to risk weighted assets at 16.5%, well above its level one year earlier. The ratio of non-performing to total loans (financial and non-financial sector) declined further, by 1.1pp y-o-y, to 5% in 2018.

On 8 March 2019, Standard and Poor's Global Ratings affirmed its BB-/B sovereign credit rating with a stable outlook for the country. The rating agency stressed the need for timely implementation of structural reforms, including strengthening of institutions. It also underlined the risks of off-budget activities to debt sustainability.

On 23 January 2019, the Executive Board of the International Monetary Fund (IMF) concluded the 2018 Article IV Consultation with North Macedonia. IMF welcomed the revival of reforms following the restoration of political stability, which has resulted in renewed confidence and a pickup in economic activity. Overall, IMF noted the considerable improvement in financial sector regulation and supervision over the past decade, but underlined the need to further strengthen the financial stability framework along the lines identified in the recent Financial Sector Assessment Program. It also called for a multi-pronged strategy to address labour market weaknesses that hinder growth. Moreover, active

labour market policies should continue to target youth and the long-term unemployed but with a greater emphasis on building skills and facilitating education-to-work transition. The efforts should continue in order to raise female labour force participation. IMF urged the authorities to maintain an unwavering commitment to implementing key institutional reforms that strengthen governance, reduce corruption, and ensure an effective rule of law. These will prove instrumental to improving the investment climate and reducing widespread informality, as well as unlocking EU accession negotiations.

In conclusion, the government remains committed to address the main obstacles to macroeconomic stability, demonstrating a positive direction of change and satisfactory progress, which is also noted by international organisations: IMF and Standard and Poor's Rating Agency. Thus, the macroeconomic stability criterion can be considered fulfilled.

1.3.2 Public Finance Management

Significant and wide-scale reforms are on-going in Public Finance Management (PFM) system in the country covering all sectoral sub-areas on central and local level. However, key weaknesses still remain to be addressed, including: 1) PFM legal framework is not fully harmonised and there are insufficient institutional capacities to provide for its efficient implementation; 2) lack of medium-term budgetary framework and improved budget classification 3) fiscal consolidation and discipline are not yet fully developed and implemented; 4) lack of an efficient revenue system which introduces citizens'-oriented services and decreases the risks for corruption and fraud; weaknesses in tax collection and fight against tax evasion 5) uneven and inefficient internal control framework across the public administration 6) lack of harmonised public procurement legal framework and weak capacities of contracting authorities and business operators (including in concessions, public-private partnerships (PPPs) and review procedures).

The government demonstrated strong political commitment to PFM reforms and recognised the existing weaknesses in the sector. The 2018 - 2021 PFM Reform Programme and 2018 Action Plan can be considered as relevant to address those deficiencies. The programme's objectives, priorities, monitoring, reporting and performance assessment framework are relevant to provide for the successful implementation of the priorities defined based on clear indicators, targets and deadlines. In addition, the **relevance** of the programme is checked based on quarterly monitoring and flexible approach in updating and developing annual action plans. However, there are potential risks in ensuring necessary human and financial resources; streamlining the co-ordination with other national policies - incl. Public Administration Reform (PAR). A more proactive involvement of civil society, international partners, universities and businesses in the budget process still has to be achieved. PFM donors' co-ordination remains a challenge.

The **credibility** of the PFM Reform programme is to a certain extent ensured by the commitment shown by all actors' involved (state administration, Parliament, State Audit Office etc.) which has been also demonstrated during the PFM policy dialogue. In addition, the PFM Council, chaired by the Minister of Finance, re-confirms the political commitments to the reforms. The monitoring and reporting system has started to operate as envisaged in the Programme (the PFM Council, the PFM Sector Working Group, priority coordinators and measure leaders). There are many strategies on sub-system level which are already adopted and implemented by individual institutions; however, problems exist in maintaining their continuous co-ordination with other strategies on national level.

Sequencing and prioritisation of reforms is ensured through the implementation of 2018 Action Plan, covering responsible key bodies, concrete timeframe, deadlines and sources of financing (national and external). Key programme components will be funded by the IPA following the project approach. In addition, national funds needed have been allocated accordingly in 2018 Annual budget. However, at this stage full assessment of the credibility is not possible, taking into consideration that the programme is only in its initial phase of implementation.

Ensuring transparent and accountable management of public finance is well recognised by the national authorities as a key instrument to **fight against fraud and corruption**. There are no clear links between the National Anti-Corruption Strategy and the PFM Reform Programme; however, activities are implemented in the field of anti-fraud, strengthened internal control, improved inspection and sound external audit. In addition, a National Anti-fraud Strategy has been developed and adopted by the Government in December 2018. It is harmonised with and directly linked to the measures of the PFM Reform Programme.

The **institutional weaknesses and capacity** strengthening needs of PFM system are addressed to a great extent by the PFM Reform Programme. However, the system suffers from a lack of transparent and merit-based recruitment procedures, systematic training needs' analyses and scarce financial resources allocated to improving skills of staff. There is a need for further integrating PFM reforms with PAR. Modernisation in the technical solutions and IT systems could improve the PFM system effectiveness. This has been also reflected in the PFM Reform Programme.

Progress has been made in improving the overall **budget cycle** management process which is streamlined in the new draft Budget Law by introducing new medium-term budgetary framework, improved budgetary classification, fiscal rules, fiscal council, a registry of public entities etc. For the first time during the past few years the Fiscal strategy (2019-2021) has been adopted prior to the legal deadline (end of May) thus providing for enhanced budgetary consultations. Its content and structure have been improved by covering medium-term baseline scenarios, macro – fiscal risks as well as analysis of possible market effects. Fiscal transparency evaluation has been carried out by IMF in 2018 and Public Investment Management Assessment is planned to be launched by the end of 2019. There are considerable delays in finalising the PFM IT integrated model and there is a risk in failing to ensure the efficient functioning of the PFM sub-systems.

The **public procurement system** in the country has been characterised by constant legal amendments which has reduced the level of alignment with the *acquis* and lead to distortion of fair completion on the market. It remains inefficient and with high potential risk for fraud and corruption. These deficiencies have been addressed by the new Public Procurement Law, which is expected to ensure the transposition of the 2014 package of EU public procurement Directives, to bring significant improvements in the remedies system, to improve the effectiveness of the public purchase, to introduce modern procurement concepts (such as green procurement) and to strengthen the value-for-money selection criteria. The preparation of implementing regulations (by-laws, instructions) has not started yet and there are limited administrative capacities of contracting authorities and operators especially in regard to concessions and PPPs. The review system is not yet efficiently operational. The upgrade of the e-Procurement system with e-Catalogue and e-Market could be an adequate response to the efficiency challenges, providing also for more transparency in state purchase.

An efficient **revenue system** which introduces citizens'-oriented services and decreases the risks for corruption and fraud still remains to be established in the country. Currently, the system faces problems in regard to tax collection, fight against tax evasion, efficient implementation of anti-fraud measures and integration of the IT business processes. The

following challenges are identified: establishment of sound legal basis as per EU best practices, building up administrative capacities of revenue authorities, simplifying and digitalising of revenue procedures, and increasing the public trust. These priorities have been addressed by the new draft Tax Reform Strategy (2019 -2021) which has been finalised but yet to be adopted. The new taxation model (progressive taxation) has been defined but not yet launched and its economic effects are yet to be assessed.

Main problems in **internal control** system that need to be addressed by the government are: insufficient coherent implementation of the Public internal financial control legislation across public administration; insufficient transparency and sound financial management; limited capacities of internal auditors and financial controllers in budget users on central and local level to carry out efficiently their tasks as per best EU practices. Various methodological tools have been elaborated (guidelines, instructions, manuals etc.), however, their implementation in practice remains limited. Clear lines of delegation of responsibilities, risk assessment and management, improved transparency and managerial accountability are still a challenge. The quality of external audit and follow-up of SAO recommendations by the government and Parliament is inefficient. These weaknesses are currently addressed by the government with the preparation of new draft Law yet to be adopted. A new Public internal financial control Policy Paper has been elaborated and adopted by the Government in March 2019.

Delegation's conclusion on PFM eligibility: The PFM eligibility criterion is met and a Sector Reform Programme Contract (SRPC) could be prepared based on:

- High-level political commitment has been demonstrated by the Ministry of Finance and by the government towards significant improvements in the PFM system.
- 2018-2021 PFM Reform Programme, 2018 Action Plan and 2019 Action Plan address major deficiencies of the system.
- The legal and institutional framework needed is established to a great extent and it will support the measures included in the PFM programme.
- There are sub-systems strategies which are currently implemented and good monitoring, co-ordination, and performance assessment mechanisms exist to assess progress made in the reforms.

1.3.3 Budget transparency and oversight

Improvement of the budget process and ensuring an efficient and transparent management and oversight of public finances are among the key priorities of the Government. The extent and ease with which citizens can access comprehensible information on budget cycle and contribute to the process is still insufficient. Budget transparency, as the full disclosure of all relevant fiscal information in a timely and systematic manner, remains a challenge. Budget oversight, though legally regulated and defined, is not efficiently implemented.

- Budget Transparency

Currently, the Ministry of Finance prepares only a Medium-Term Fiscal Framework (MTFF), which sets out aggregate fiscal targets and projections. There is no Medium Term Budgetary Framework (MTBF) and no Medium-term expenditure framework (MTEF) which should be prepared on annual basis. Programme classification has to be improved and clear programme indicators defined.

The budget information available is not well organised since there are various publications which are difficult to trace among the sites and portals of the key bodies involved in the budget cycle - Ministry of Finance, Government, budget users, Parliament etc. Modernisation

and integration of the PFM IT model, which will have a positive impact on the quality of the data available, is not finalised yet. In addition, improved transparency could be ensured through the introduction of one single entry point and software solutions with possibilities for tracking data per year/programme/institution. Currently, insufficient data are available on preparation and execution of the budget and follow-up of audit reports.

In regard to comprehensiveness and transparency of budgetary data provided, the current annual budget law includes a considerable amount of fiscal information, though significant gaps remain, namely: lack of information on deficit financing, no information on financial assets, lack of comparative data on the prior year's outturn, breakdown of the current year's budget by functional and administrative classification and no estimates of the budgetary impact of major revenue policy changes. The Ministry of Finance provides very detailed information on the annual budget and its final accounts for the central government, but the presentation and format of the data is not easy to follow. Although budget users are required to report details of their financial assets and liabilities, this information is not included in the consolidated statements on revenues and expenditures produced by the Ministry of Finance. Other areas where improved transparency should be pursued include the full publication of medium-term expenditure plans consistent with overall fiscal projections, the publication of strategies for the development of the main public services, together with targets and reports on the extent of their achievement, the publication of the criteria for the evaluation of public investment proposals, and the publication of public investment programmes including the costs and expected benefits. Budget users' procurement plans, which are currently neither consolidated nor published, should be collected by PPB and published on their website. Transparency should be underpinned by the publication of full information about the structure of the public sector on central and local level.

Since the country was rated among the group of states that provide minimum budgetary information to public (2017 Open Budget Index - index value 37), the government invested some efforts to address the weaknesses identified: improvement of the composition of spending, prioritisation of investment projects according to their productive potential; enhanced transparency on the cost-benefit analyses prepared; more timely and detailed data on planned and executed capital expenditure; provision of comprehensive data on the debt of public companies and contingent liabilities thus ensuring efficient prevention and management of arrears. Control on guaranteed and non-guaranteed borrowing by state-owned enterprises and municipalities are not at an adequate level. In general, a more rigorous fiscal discipline and consolidation have to be applied. The Ministry of Finance produces pre-budget statements but fails to make it available to the public in a timely manner. There is no mid-year review and the executive's budget proposal is published, however, containing minimal budget information.

The government provides some opportunities for the public to engage in budget process; however, those are not sufficient. Such opportunities should be provided throughout the budget cycle by the executive, the legislature, and the State Audit Office.

In order to address these deficiencies of the system, the government has launched wide-scale reforms during the past year. The Ministry of Finance started to publish Citizen's budget (two published so far – for the re-balance in 2017 and for 2018 Annual budget). Public consultations have been organised on 2018 Annual Budget by involving general public, civil society, IFIs, businesses and academia. In addition, progress has been made with the preparation of the new draft Budget Law covering new medium-term budgetary framework, improved budgetary classification, fiscal rules, fiscal council and a registry of public entities. The full assessment of these reforms will be possible once new Budget Law is enforced.

- Budget oversight

There is no efficient budget oversight in the country enhancing the independent role of the Parliament in the budget process and promoting collaboration with executive power, development partners, CSOs and the media. While there are some positive trends during the past year, Parliamentary scrutiny still remains inefficient with limited capacity for substantial discussion of budgetary information. This is partially due to the complex and unclear presentation of the budget structure which does not allow for sufficient analysis. The Parliamentary debate is of limited quality due to prevailing parties' vested interests rather than an objective and meaningful dialogue. At present, Fiscal Strategy and Annual Budget are not subject to serious plenary discussions in Parliament which brings additional constraints to efficiency of the budget cycle process. The time allocated for this discussion is usually less than the international standard of three months, which has to be streamlined.

The oversight carried out by the State Audit Office (on the management of public funds) still has some weaknesses, namely: the Audit Office Annual Report is discussed in Parliament only marginally; there is no substantial parliamentary debate of individual audit reports; there is no systematic follow-up of State Audit Office's recommendations both by the executive and by the Parliament; audit coverage is only 43 % (in 2018) of the expenditure of central government entities; audit reports are published on its website, however, communication of audit recommendations to media and general public is not efficient. The capacity of the Parliament as a whole to process budget-related information and audit reports in short deadlines needs to be significantly strengthened.

Delegation's conclusion on budget transparency and oversight eligibility: There is a reasonable ground to consider that the PFM eligibility criterion is met and SRPC could be prepared based on:

- High level political commitment has been demonstrated by the government towards significant improvements in the PFM system. This has been also confirmed both by SAO and Parliament.
- 2018-2021 PFM Reform Programme, 2018 Action Plan and 2019 Action Plan address major deficiencies of the system including weaknesses in budget transparency and oversight. There are human and financial resources allocated through various projects and technical assistance as well as through national budget in order to ensure improved efficiency. The first Annual Monitoring Report on the implementation of the PFM Reform Programme was elaborated and discussed with all relevant stakeholders within the framework of the 3rd PFM Policy Dialogue meeting held in December 2018.
- There is a good coordination established in the PFM sector and channelled through the PFM Sector working group established to embed the PFM policy dialogue. There is a positive trend in increasing the involvement of civil society, businesses, academia etc. as correctives both in the budgetary cycle as well as in the oversight processes.

1.3.4 Sector policy

The strategic framework was developed further to extensive analysis and data collection and included assessment of the effectiveness and impact of the previous sector policies. The strategic framework was subject to extensive and open public consultation including all stakeholders, including national institutions, civil society and business associations.

The overall sector strategy is presented in the **ESRP**, adopted in August 2017. The ESRP clearly sets the long-term objectives and priorities in the sector. It aligns all sub-sector national strategies in the area of education, employment, social and health protection,

including the National Employment Strategy and the Comprehensive Education Strategy. The first part of the ESRP provides in-depth analysis of the social, employment and education sector in the country, the second part of the ESRP clearly sets the long-term objectives and priorities in the sector. Three main policy reform areas have been identified in the ESRP:

1. Labour market and employment;
2. Human Capital and skills, and
3. Social inclusion and social protection.

The Programme defines 105 measures within 23 specific objectives/results. The Action Plan includes also a set of indicators, targets, source of verification, responsible institutions and estimated budget. With clear established and measurable objectives, results and targets, the ESRP is a strategic document of new generation for the country, responding to the EU standards for policy framework. Its objective is to ensure the cross-section between the reforms in the labour market area (detailed in the Strategy on employment), in the education area (detailed in the Strategy on Education) and the social protection area (where numerous subject-tailored strategies exist) thus turning into the principle umbrella strategic framework, mapping out the major lines for the development of the human capital in the country.

The current ESRP presents the sector objectives and measures until 2020 but negotiations for extending the timeframe of the strategy until 2022 and including the Youth Guarantee as a specific measure have been launched in May 2019. The revision of the ESRP is expected to be concluded by October 2019. This will make the ESRP fully inclusive umbrella document covering the whole sector.

The present SRPC will focus on two of the three priorities of the ESRP:

1). Labour Market and Employment

- Unemployment situation, especially with the most vulnerable categories such as youth, long-term unemployed and other;
- Quality of work and services of the public employment service.

2). Human Capital and Skills

- Inclusive education and equal access to education for all;
- Implementation of the National Qualification Framework for Lifelong learning basis;
- Employability of the work force and learning pathways in the context of the lifelong learning.

This choice is based on the need to limit the Action to a few key results that have to be achieved in the next mid-term period, and which are cornerstones for the improvement of the overall situation in the sector. It also reflects the consultations with the other donors and partners in the sector working group and the attempt to achieve synergy of the donors' funding. Finally, the limitation is also linked to the need of financial proportionality of the EU aid (EUR 15 M) to the overall cost of the ESRP (EUR 437 M).

In terms of **policy relevance**, the Employment and Social Reform Programme, as well as the related strategies, correspond to the enlargement objectives, commitments and obligations deriving from the Chapters 19 (Social policy and employment) and 26 (Education and culture) and Europe 2020. Although the Programme and strategies respond logically to the country's needs, it incorporates some international trends in employment (innovative services), quality of education (education based on competence/outcomes) and relevance of education (education should respond to needs of individual, society and economy).

In terms of policy **credibility**, before the sector strategies were adopted, legislative and operational changes were put in place to lay foundation for the implementation of the

strategies. From 2007, the *Operational Plans for Active Employment Services and Measures* are created on annual basis, which change the way labour market active programmes are being implemented with the purpose of ensuring direct employment through different programmes. In 2018, the government adopted the Youth Guarantee Implementation plan as a pilot action in 3 municipalities and included a separate strand in the Operational Plan thus earmarking funds for fighting youth unemployment. In 2019, the Youth Guarantee will be rolled-out in the whole country. Based on an evaluation of the different programmes, the legislation was amended and from 2015 the Employment Services Agency applies a new tool for profiling of the unemployed people.

As regards **adult education**, the Law on Adult Education and the Law on Vocational Education and Training regulate the activity. One of the key institutions in respect to the activities related to adult education and training is the **Centre for Adult Education**. The Centre for Adult Education, in cooperation with the European Training Foundation (ETF), has developed the “Concept-Paper for Non-Formal Adult Education and Informal Learning” and with the support of UNDP – a “Concept-Paper for Primary Education for Adults”. The Minister of Education and Science adopted both concepts in September 2015.

As a result of the Concept-paper for non-formal adult education and informal learning, in November 2015, the Centre for Adult Education, began with the preparation of the “System for Validation of Non-Formal Education and Informal Learning”.

In terms of **budget availability**, the Action Plan of the ESRP establishes the total funds required for the implementation of the Programme, including both the national budget required, as well as additional funds that will be provided from other sources (World Bank, European Union, European Investment Bank, Council of Europe Development Bank, loans and assistance from other bilateral donors).

The implementation of the ESRP is supported by the implementation of two other key strategies, which breakdown the priorities outlined in the ESRP in more detailed activities and measures and assign responsibilities to specific entities. Namely, these strategies are:

- The *National Employment Strategy (NES) 2016-2020*, which was adopted in October 2015. The NES was elaborated with the support and expertise of the International Labour Organisation (ILO), the World Bank, and UNDP. The National Employment Strategy consists of two sections, the first of which is the analysis of the labour market situation and environment. Section Two covers the identification of problems and challenges. The implementation of the strategy is coordinated by the Ministry of Labour and Social Policy, which established an Action Plan 2018-2020 and Operational Plans for Active Employment Services and Measures.
- The *Comprehensive Education Strategy 2018-2025*, which was adopted in January 2018. It is based upon an extensive review of the education system and thorough analysis undertaken with support of ETF and World Bank as well as EU IPA experts. The Action Plan specifies 133 measures in the seven main pillars of education system: 1. Pre-school education; 2. Primary (general) education; 3. Secondary general education (grammar schools, art schools and schools for children with special education needs); 4. Vocational education and training; 5. Higher education, research and innovation; 6. Adult learning and education; 7. General/Common priorities in the education system. It also details the implementation methods, deadlines, responsible institutions, instruments for monitoring and indicators, as well as procedures for reporting and evaluation of effectiveness of planned strategic measures. In respect of VET the Strategy Section 5.4 (on VET) draws from analysis including the ETF Torino Process, IPA Needs Analysis on Reform of 2-

and 3- years vocational education and training programmes according to the labour market needs and World Bank VET sector analysis for 4 year VET.

The ESRP as well as the employment and education strategies have separate reporting mechanisms, involving all relevant national authorities. The reporting is explained in each of the Strategies. In reality, the reporting on the education and employment strategies feeds the reporting on the ESRP, which only captures the most important activities, measures and priorities thus facilitating the understanding of the stakeholders and general public on the sector reforms.

The institutional monitoring on strategy implementation is in the mandate of the Ministry of Labour and Social Policy for employment and social protection and in the Ministry of Education for the education strategy. The monitoring is done on regular basis by assigned units/departments, which collect, systematise and check information on strategy implementation coming from the responsible entities. The capacities of these units are being constantly upgraded and they will also benefit from the complementary support planned under the SRCP. These units also prepare information to Government on particular issues as well as the regular annual reports.

As regards the public monitoring, one single platform is established - Sector Working Group on Education, Employment and Social Policy. It is integrated into the sector approach framework and involves all stakeholders (administration, civil society, including business organisations and donors). Their mandate covers the definition and monitoring of the implementation of sector priorities. This Sector Working group, as well as all other working groups established for the remaining 9 sectors, are involved in the development of the performance assessment framework (PAF), being elaborated with the EU support. The PAF will back-up the monitoring of ESRP (and the other strategies) implementation through bringing and visualising into one single space the indicators on the education and employment sectors, already included in the strategic framework.

Delegation's conclusion on sector policy criteria: There is a reasonable ground to consider that the eligibility criterion related to the relevance and credibility of the sector policy framework is met:

- There is strong high level political commitment to progress quickly with the sector reforms.
- Significant financial resources have been allocated under 2018 and 2019 (draft budget) for the implementation of the planned interventions for improving the education and for enhancing youth employment.
- There is a strong coordination established in the sector and channelled through the established sector working group chaired by 2 ministers and involving all national stakeholders, donors and international partners and civil society.
- There is a good progress in establishing a performance assessment framework which would allow follow-up of the sector reforms in a participatory way, based on evidence and transparency of both the results of the efforts and of the use of public funds for sector reforms.

1.4. LESSONS LEARNED, LINK TO PREVIOUS/OTHER FINANCIAL ASSISTANCE AND INTERVENTIONS BY OTHER COOPERATION PARTNERS

The EU allocated over EUR 100 million for Human Resource Development in the country for the period 2007 - 2020. The IPA I Operational Programme "Human Resource Development" (OPHRD) 2007-2013 was subject to a mid-term evaluation and project level evaluations were also undertaken by the Operating Structure.

The SRC builds upon lessons learned under previous IPA I and II and other bilateral assistance in the sector, namely:

- Need to focus primarily on young people with very low employment chances and high risk of getting marginalised⁴ thus acting more on prevention side,
- Need to strengthen the sector approach,
- Synergy of donors' funding is vital for increasing the impact of the EU funding,
- EU funds should ensure continuous investment in administrative capacity.

The OPHRD 2007-2013, implemented through a decentralised management system, can be considered as a pre-cursor of the sector approach, introduced with IPA II. The established Operational programme defined clear objectives, measures, activities and targets and was subject to regular monitoring. Under IPA II the country established a national sector coordination framework based on enhanced sector policy definition, sector coordination and monitoring, all encompassed by a strong sector policy dialogue channelled through the established sector working group. This approach allows education, employment and social protection to be considered in their cross-section creating a system integrator and improving the sector governance. The SRC is thus another tool to support the synergy of the various measures in education and employment area with the objective to decrease the fractioning of the system and to increase the efficiency of the EU and public funds spent.

So far, significant EU (and other donors) funds were used for piloting of various concepts, relying on the beneficiaries to roll out the changes in the whole system and make use of projects' achieved results. The Sector Reform Contract will provide an opportunity for the country to use EU funds for going beyond piloting and ensuring real quality service for the young people in the country. The national authorities have already learnt a lot from the implementation of IPA I in respect of work done on occupational standards development, qualification standard review, curriculum reform for VET, modularisation and VET school cooperation with employers as well as in the domain of youth employment and activation measures. The IPA II actions pursue a well thought through sequencing whereby AD2017 advances and realises recommendations from IPA I interventions and the AD2019 includes investments not provided through AD2017 but complementary and supportive of the IPA II programme priorities for the sector aligned with those of the Strategic Framework.

Important know-how was already transferred from EU to the country on how to design and implement active labour measures, to support social entrepreneurship; to enhance youth employment and activate long-term unemployed and women; to optimise the education system and the internal control systems, to enhance Lifelong Learning and modernise the vocational education and training and adult education; to address social exclusion, etc. The SRC complements work of other donor and development partners; there has been extensive donor consultation through the Sector Working Group structure. ILO carried out an evaluation of a number of active labour market measures, and the results of this assessment

⁴ data and statistics to describe the scope of the problem and what has been achieved so far provided in Section 1.1.1.

influenced the decision on which active labour market measures to focus. Currently ILO is in the process of finalising a review/assessment of the Youth Guarantee pilot that will be available during summer 2019.

Now the SRC is an opportunity to implement what has been learnt and what has been planned. It is therefore a test for the established models and capacities and will further extend the ownership over the reform process.

2. INTERVENTION LOGIC

2.1. DESCRIPTION OF OBJECTIVES, MAIN ACTIVITIES AND EXPECTED RESULTS

The **overall objective** is to support the Government of North Macedonia in improving the employment of young women and men.

The target employment rate (15-29) is set at 33,3% while starting level in 2017 is 30,2%. Particularly important is the young women employment rate, which is extremely low compared to the average EU rate i.e. for age group 15-24 – 12.2% (EU average – 33%) and 41.6% for women age 24-29 (EU 74.3)

In order to achieve this objective, the Action will support the efforts of the Government of the North Macedonia to improve the employability of young people and in raising their motivation and preparedness to enter on the labour market.

1. The EU will therefore contribute to achieving the following specific objectives: To improve the quality, relevance and inclusiveness of the national vocational education and training system.

The investments will allow the vocational education and training system in the country to start offering high quality education, which is relevant to the current labour market trends and which allows people with special needs to benefit as well. This will result into increased motivation of the VET students to pursue career in the acquired qualification, which will reflect into an increase in the VET enrolment rate and respectively into a decrease of early leavers from education and training. In parallel, the new inclusive teaching framework would allow increase in the enrolment rate of students with special needs).

2. To improve employment opportunities for young women and men.

The investments will allow young (inactive) women and men to benefit in a more personalised way from various active employment measures based on their individual needs and capacities and with the support of professional guidance and intermediation. This will result into a significant number of young persons finding a path ahead on the labour market, as entrepreneurs or in the education system.

These specific objectives will be achieved through **attainment of the following key results/induced outputs:**

1. *Improved offer of accredited VET programmes and providers.*

Three Regional VET centres will be established which will provide high-quality VET education, streamline innovations in the education process and enable young people enter the labour market with high qualification. The VET Centres are also expected to have the capacity to multiply their positive experience in the VET country system and serve as a driver in VET sector.

The VET centres will be selected with the support of the ETF mapping out the potential in the VET sector and on the grounds of criteria such as current reasonably high performance level, private sector engagement and local support.

The EU support builds upon IPA 2017 intervention, which provides technical assistance to the country in the field of VET, namely capacity building of education institutions and relevant municipalities, development of a rationalisation plan for VET schools, and alignment of VET and Adult Education systems with EQAVET. Selected VET Regional Centres will be established and equipment procured. The training programmes, tools and methods will be upgraded to provide for a range of qualifications relevant to the demand of the 21st century business, to ensure a flexible approach and modularisation, as well as a mix of core skills, technical skills and capabilities needed at each critical life and employment stage. The vocational education, to be offered in the VET Centres should serve all levels (vocational training, three-year vocational education for occupation, technical education, post-secondary education, trainings) and various participants such as students in the regular formal secondary education, adults and persons with special educational needs. The process will be supported by implementation of activities for validation of non-formal and informal learning (VNIFL). Based on the revised VET Curricula, specific VET curricula for students with special needs (SEN students) will also be developed. Sectors/programmes for professional career and orientation support to graduates will be established. The relations between the VET schools and the private sector will be extended ensuring better compliance of the teaching programmes and process with the needs of the relevant business in terms of skills and capacities.

The VET management structure and organigrammes will be improved to ensure VET schools are completely equipped with support staff and professional services' specialists (e.g. IT administrators, career advisors, etc.), necessary to implement the new VET curricula, requirements and objectives. Stereotyping is frequently found in vocational guidance and counselling and it discourages young women from taking training programmes that would lead them to higher long-term earnings and improved employability. This action will ensure that the VET Curricula is gender sensitive.

2. *Competences of staff of the regional VET centres aligned with Human Resource management plan and accreditation criteria.*

Training and capacity building measures will need to upgrade teachers' professional expertise in order to ensure that the skills they give to their learners are in line with the needs of the contemporary workplace. This actually involves the integration of innovations and entry of new technologies in the education process, which requires a new level of teachers' knowledge on current technologies in the selected domains. In addition, there is a need to improve the skills in applied and workplace situated pedagogies and in using modern teaching methods. Special focus needs to be put on upgrading teaching styles including specific skills for teaching adults and for working with children and adults with special needs. Also emphasis will be given to gender equality issues, particularly on gender based violence and sexual and reproductive rights. Female education is closely correlated with smaller family size, more decision-making responsibility, and higher possibility of employability and income.

The planned investments should equally improve the management culture and knowledge, including skills for strategic planning and programming, fundraising, communicating and promoting VET, effectively interacting with business and local governments.

The Regional VET Centres' capacities to operate partnership platforms for involving business and municipalities in school management and training programmes will need to be strengthened as well. Capacity building measures need to target school management and key partners, namely business and municipalities, which need to be involved in school management. Specific focus will be put on training of in-company mentors and upgrading the understanding of their roles and responsibilities as regards the young trainees and apprentices. Training of the municipality staff will also be required to make the local authorities more engaged and committed to VET and better support the cooperation between schools, municipalities and local companies.

3. *Youth Guarantee implemented*

The Action will support the implementation of the Youth Guarantee in the country with a focus on 15-29 years old persons who are not in employment, education or training (NEETs⁵). The Youth Guarantee will be implemented, in line with the ESRP Objective 3.1.2.1 on youth employment and Objective 1 of the Employment Strategy targeting support to vulnerable groups, in the underdeveloped regions – NorthEast, Polog, SouthWest + Prespa, where urgent measures are needed. This will serve as an extended pilot exercise allowing modular activation of the Youth Guarantee across the country territory in the following years. 5266 young people were enrolled in the 2018 pilot Youth Guarantee scheme, and as outlined in the Economic Reform Programme 2019 – 2021, the planned coverage of participants in all employment centres is 9500 annually, out of which it is estimated that one third will be included in active programmes and measures for employment, for which approximately EUR 4.2 million.

The Youth Guarantee will be implemented by the Employment Service Agency, and in particular by its offices in the three targeted regions. Investment will be made in strengthening their structural and organisational capacity to allow the smooth implementation of the Youth Guarantee. The foreseen activities include refurbishment and technical and material upgrade of the agency offices, which will host the Youth Guarantee with the objective to ensure client-friendly work environment and the needed IT tools for smooth operations. Improvements in the management structure and human resources will be coupled with intensive capacity building measures to ensure the human resources necessary to run the Youth Guarantee in the selected locations are in place and they are sufficiently qualified to implement the required services. 140 persons engaged in the implementation of Youth Guarantee, located in 10 Youth Guarantee centres, will be trained.

The reform aims to reach out non-registered NEETs in their direct environment and to activate them. Outreach activities consist of mapping of young NEETs and of available services and programmes; identification, delivery of services to contact and attract disengaged young people, provision of individualised support by youth workers; registration of the young people with the Employment Service Agency as job seekers, referral to and registration in the Youth Guarantee scheme.

⁵ NEETs may be 1) unemployed youth who are without employment, but are available and actively looking for work, 2) inactive youth who are neither employed nor unemployed, that is, those who are not looking for work or 3) those that have not received any education or training in the past four weeks.

Young people registered in the Youth Guarantee will be offered employment services and active employment measures: career counselling, orientation and motivation trainings, job search assistance, employment mediation, labour market measures leading to employment such as recruitment subsidies, self-employment and start-ups loan programmes, delivery of skills training programmes such as trainings for in-demand occupations, training for known employer, advanced IT skills, internship programme targeting young people, etc.

A total of 9,700 young persons (age 15-29) are expected to benefit of the Youth Guarantee in the targeted regions.

The **direct outputs** of the sector reform contract and the complementary support involve:

- Improved policy dialogue on sector reforms between the different stakeholders;
- Improved system for monitoring of the sector reforms contributing to better steer for the reform and to evidence based decision making;
- Improved capacity of the Ministry of Education and Science and Ministry of Labour and Social Policy, implement and monitor the Education, Employment and Social Policy reform agenda;
- Increased awareness of the reforms in the Education, Employment and Social Policy sector among the main stakeholders, as well as the wider public in general.

The indicators designed to follow the sector reform contract progress derive from the national sector strategies, namely the Employment and Social Reform Programme (ESRP), National Employment Strategy 2016-2020 and the Comprehensive Education Strategy 2018-2025. The range includes impact indicator such as the employment rate of young women and men, which is also affected by general macro-economic conditions, beyond the control of the Ministry of Education and Science and Ministry of Labour and Social Policy. At the process, outcome and output levels the indicators measure e.g. the reduction of the early leavers rate, the number of participants registered and completing Youth Guarantee, the establishment of regional VET centres, the number of VET and Youth Guarantee staff trained and the modernisation of Employment Services Agency centres. The indicators are designed to monitor the immediate effect of the country's efforts to intervene on the labour market by correcting disbalances primarily linked to young generation. The variable tranche indicators are selected from these areas.

The SRPC will be implemented through the following activities over the period 2019-2022:

- Implementation of the sector reform contract by the national authorities and regular and transparent reporting on the achievements.
- Policy dialogue on the ongoing reforms in sector Education, Employment and Social Inclusion, with a primary focus on the reforms targeting the employment perspectives for young women and men.

The policy dialogue is channeled through the established Sector Working Group on Education, Employment and Social Inclusion, co-chaired by the Minister of Labour and Social Policy and the Minister of Education and Science. The Sector Working Group involves as well the remaining national stakeholders, donors, business and civil society organisations active in the sector. The mandate of the established Sector Working Group is broad – it involves the establishment of sector priorities, sector and donor coordination in the implementation of national sector policies, reporting on sector targets.

The Sector Working Group will also channel the dialogue with the EU Delegation, present in the country EU Member States and other donors active in the sector to analyse results

and failures, further align activities with objectives to improve synergy of interventions and craft policy-focused messages.

In addition, the bilateral policy dialogue between the EU Commission/Delegation and the Government will be strengthened, especially in the context of an improved accession perspective for the country and review of the requirements under Chapters 19, 25 and 26. This dialogue will also integrate the discussions on the national capacities required for implementation of the sector reforms and the obligations linked to the respective negotiation chapters.

- Sustaining the dialogue with the Government in the areas of public administration reform and justice and home affairs, which are crucial for 1). improving the standards for policy making and policy implementation and reporting, 2) ensuring the real implementation of the adopted rules and laws, 3). strengthening the protection of human and minority rights and 4) promoting gender equality.
- Extending the dialogue between the Commission/ EU Delegation and the Government in the areas of competitiveness, innovation and agricultural development with the objective to support the national efforts to boost national economy, which in its turn could result in creation of more and better jobs and improved quality of life. Particular focus needs to be paid on improving the ecosystem for business and creation of opportunities for young entrepreneurs put in place their ideas and create working business models.
- Transfer of EUR 15 million of the budget support in tranches over the period 2019-2023.
- Regular monitoring of budget support eligibility criteria.
- Provision of technical assistance to national authorities to strengthen their capacity for implementing sector reforms.

2.2 COMPLEMENTARY SUPPORT

The accompanying technical assistance will strengthen the capacities of the Ministry of Education and Science and the Ministry of Labour and Social Policy to effectively develop, budget and implement sector policies, monitor the implementation and report on results of sector reforms. Since numerous players are active in the sector (including national bodies, local government units, social and economic partners, businesses, international agencies/organisations and civil society organisations), there is a general need to improve the quality of coordination. Against this background, the complementary support will cover the following needs:

- Development of the institutional capacities and human resources within both ministries and delegated agencies and services for evidence-based policy making, monitoring and reporting. This activity will need to support the implementation of the sector Performance assessment framework (to be operational in 2019) and also focus on possible upgrade in the indicators, statistical and administrative sets of data. It will also support the regular reporting exercise on sector reforms by improving the skills for collection, processing, structuring and visualisation of data.
- Develop the capacities of the national institutions for financial planning and procurement in order to support the implementation of the sector reform contract and make sure that all needed procurement procedures are implemented in time and the needed works and supplies are completed to allow the enable effective interaction with the young women and men included in the project activities;

- Support for effective communication approach promoting the opportunities for young women and men and creating interest for joining the services. The communication should have a strong outreach and be integrate in social and conventional media, print materials, public campaigns on VET and Youth Guarantee, job fairs at national, regional and local levels.
- Support for systematic application of tracer system methodologies for all VET providers and Youth Guarantee and employment generation programmes.
- Support for reinforcement of the participation of municipalities, business and social partners and civil society organisations at local level in in improving the quality of the services for young people through transfer of EU experience.

The complementary support component should be contracted as early as possible from the start of the Sector Reform Contract to reflect the importance of institutional support for the implementation of the sector reforms.

2.3 RISK MANAGEMENT FRAMEWORK

A detailed analysis of all possible risks in the various systems of the country is presented in the Risk Management Framework provided in the annexes. All risks identified in the Risk Management Framework will be monitored and assessed annually.

Overall, with regards to the current track record of the country and the serious investments of the Government in adjusting all key systems to the EU standards, the most important risks include:

- Numerous long-lasting and large in scope reforms with high impact on citizens, risk to create resistance of the society and the professionals in the concerned sectors. This risk is even more present in society which is deeply divided such as the Macedonian one. The support of the international community and the civil society for the ongoing reforms is crucial. In this context, the opening of negotiations for EU membership is the strongest mitigation tool. The smooth operations of the sector working groups channelling the sector policy dialogue is also a mitigation measure as they involve all stakeholders in ongoing monitoring and communication to citizens on progress of the reforms.
- Labour market depends equally on supply and demand side. The proposed action primarily focuses on employability and preparedness of young people to join the labour force. At the same time the national economy of North Macedonia remains a modest job creator and even weaker in terms of "good quality" job offers. Therefore, it is important that the EU supports not only the social side but also the economy, the entrepreneurship and the indigenous business creation efforts. IPA 2019 package contains EUR 14 million action for business development but more investments are necessary in business environment and technologic innovation to increase the dynamics in economic development. NATO membership and eventual opening of negotiations for EU membership remain crucial for encouraging investments and ensuring economic growth.

From more technical perspective, the last years audits⁶ and evaluations of the Youth Guarantee in EU Member states outline two key risks, which need to be followed in North Macedonia as well. The most important relates to the possible inadequacy of funding, which has been detected in many EU Member states. In North Macedonia, this element needs to be carefully addressed as well. Moreover, the ongoing social protection reform only in the first 5 years of 2019 increased significantly the number of young women and men who should/could

⁶ For example (but not only) ECA Special Audit Report on Youth Guarantee, 2015, https://www.eca.europa.eu/Lists/ECADocuments/SR15_03/SR15_03_EN.pdf

be included in the Youth Guarantee, almost doubling the expected number of participants in Youth Guarantee. So far, no increase in the Youth Guarantee budget has been planned, which risks leaving many of the applicants out of the scheme, thus creating frustration and negative image.

As regards the expected results and targets of the Youth Guarantee, North Macedonia will largely benefit from the EU experience in measuring results and impacts. The country will use the established Comprehensive Youth Guarantee performance framework based on robust methods and reliable data. The only methodological issue remaining for the country is the interpretation of the "good quality offer", which in the context of North Macedonia may not be fully applicable.

As regards VET, the major risk is the municipal level resistance to reform process. This is being mitigated through consultation meetings with municipal level stakeholders and the initiation of reform of the VET Law to clarify roles and responsibilities regarding central and local government for management and financing of VET Regional centres.

3. IMPLEMENTATION

3.1. ROLES, RESPONSIBILITIES AND POLICY DIALOGUE

The Sector Working Group in Employment, Education and Social Inclusion, is the sector policy dialogue structure bringing together the relevant national institutions, the donors and civil society active in the sector. The Sector Working Group operates effectively since 2017 and is a good channel for the EU to pass strong and streamlined messages and guide the sector policy dialogue. It has a large mandate from identification of priorities to coordination to review of sector reforms progress.

The Sector Working Group is co-chaired by the Minister of Education and Science and the Minister of Labour and Social Policy and is institutionally supported by the NIPAC office. It also involves, the Ministry of Finance, the Employment Service Agency, the Vocational Education and Training Centre, the Centre for Adult Education. The Secretariat of the SWG comprises assigned officials from the Ministry of Education and Science and the Ministry of Labour and Social Policy and the Secretariat for European Affairs (having the Governmental mandate for donor coordination). The Sector Working Group benefits from contribution from all relevant Directorates and Departments at the Ministry of Education and Science and Ministry of Labour and Social Policy. It meets at least once every three months on average and operates according to the adopted Rules of Procedure within the NIPAC sector coordination framework.

The EU Delegation, the donors and foreign partners participate and support the Sector Working Group through advice, sharing of knowledge and information. This is the platform which also embeds the donor coordination.

Since March 2018, non-state actors are part of the Sector Working Group, but with limited engagement in the process. As of 2019, a complex EU-supported mechanism will be put in place to structure the participation of citizens' organisations and improve the contribution of civil society to sector reforms.

The Sector Working Group on Education, Employment and Social Policy is the main platform channelling the IPA programming in the sector, including the preparation of this SRPC. It is the main policy dialogue instrument also with view to the implementation of the sector reforms, channelling the discussions of the stakeholders on the progress, achievements, risks, indicators as well as on the donors support for reform process.

3.2. IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING

The Action will be implemented under direct management mode. It involves two contracts:

1. A Sector Reform Performance Contract with the Government of North Macedonia, amounting to EUR 15 million.
2. Complementary support, provided in the form of a technical assistance through a service contract, and amounting to EUR 1.5 million.

3.2.1 Disbursement of sector budget support

- The general conditions for disbursement of all tranches include:
 - Satisfactory progress in the implementation of the Employment and Social Reform Programme and continued credibility and relevance thereof;
 - Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances;
 - Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme;
 - Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

The chosen performance indicators and targets to be used for disbursements will apply for the duration of the action. However, in duly justified circumstances, the Ministries of Labour and Social Policy and of Education and Science may submit a request to the Commission for the targets and indicators to be changed.

Note that any change to the targets should be agreed ex-ante at the latest by the end of the first quarter of the assessed year. The agreed changes to the targets and indicators shall be agreed in advance and may be authorised in writing (either through a formal amendment to the financing agreement or an exchange of letters).

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement. ***3.2.2 Budget Support details***

The disbursement plan envisages 4 annual payment tranches:

- The fixed tranches amount to 30% of the total SRPC value. This substantial amount is based on:
 - providing incentives to support the sector reforms and the planned activities, particularly on the background of advanced 2019 budget approval procedure (the 2019 State Budget contains only small funds for the planned activities; the substantial increase of the national funds for the three areas covered under the SRPC are expected in 2020).
 - estimated moderate risks in the macroeconomic and public finance management areas, as well as the well progressing PFM reform programme.
- The second, third and fourth tranches (respectively 2021, 2022 and 2023) are payable upon the progress of the contract.

The fixed tranche shall be requested upon the signature of the Financing Agreement, provided that the general conditions for disbursement mentioned in 2.2 are met.

The disbursement of annual variable tranches will occur provided that the general conditions for disbursement mentioned in 2.2 are met. Once this level of compliance is confirmed, the annual variable tranches will be calculated according to the disbursement procedures specified in Annex 2.

Budget support is provided as direct untargeted budget support to the national Treasury. The crediting of the transfers in EUR disbursed into MK DENAR will be undertaken at the appropriate exchange rates in line with the relevant provisions of the Financing Agreement.

3.2.3 Complementary support

The amount allocated for complementary support is EUR 1.50 million. One service contract shall be implemented under direct management by the EU Delegation after PRAG-based procurement procedure.

4. MONITORING AND EVALUATION

4.1 MONITORING AND REPORTING

Progress in the implementation of the SRC will be monitored through the defined indicators.

These indicators are also to be integrated into the PAF being prepared with EU support and expected to be put in place in 2019. The PAF is sector-based and integrates macro indicators (outcome and impact levels) and micro indicators (output level). PAF is developed as a web-based application (to be backed up by a GOV decision on responsibilities and deadlines) allowing regular electronic input of data, data processing and data analytics. The PAF data will be used in the Sector Working Group on **Education, Employment and Social Policy**, which is also the inclusive platform of all stakeholders to monitor the implementation of the sector priorities.

The day-to-day technical and financial monitoring of the implementation of the action will be a continuous process and part of the Government's responsibilities. To this aim, the Ministry of Education and Science and Ministry of Labour and Social Policy, with the support of the Sector Working Group - Education, Employment and Social Policy, shall establish a permanent internal, technical and financial monitoring system and elaborate regular annual progress reports as a part of the reporting to the Sector Working Group Education, Employment and Social Policy. Every report shall provide an accurate account on the implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes), as measured by corresponding indicators, using as reference the list of performance indicators used for disbursements. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. A final report, narrative and financial, will cover the entire period of the action implementation.

For the disbursement of the fixed and variable tranches, the Ministry of Education and Science and Ministry of Labour and Social Policy, in cooperation with the Ministry of Finance, shall make available the following documents:

- The annual report and any other related documentation produced in the framework of the implementation of the ESRP and its action plans;
- Report on progress regarding the implementation of a credible stability-oriented macroeconomic policy;

- The annual monitoring report and any other related documentation produced in the framework of the monitoring of the implementation of the PFM Programme 2018-2021 strategy and its annual action plans.

For the disbursement of the variable tranches documents not later than 31 May 2020, 2021 and 2022, as well as the documents required as source of verification to demonstrate the achievement of the targets set out in Annex 2 will also be provided.

The documents will be presented and discussed at the Sector Working Group - Education, Employment and Social Policy sessions.

The general eligibility criterion related to the education and employment policy, notably satisfactory progress in the implementation of the ESRP, as well as the achievement of the targets for the disbursement of the variable tranches, will be monitored by the EU Delegation and the geographical Unit of DG NEAR.

The general edibility criterion related to macro-economic stability will be monitored by the EU Delegation and the geographical Unit of DG NEAR with the support of DG ECFIN, in particular through the annual assessment of the country's macroeconomic and fiscal programmes. In this assessment, the recommendations by ECOFIN Council Ministerial Meeting will also annually issue country-specific policy guidance for North Macedonia will also be considered. Policy dialogue in the context of the relevant stabilisation and association agreement sub-committees with the Government will also assess overall macro-economic and fiscal performance. Finally, third party assessments will be also taken into consideration, such as the reports from IMF for Article IV consultations.

The general eligibility criteria related to progress in the implementation of the PFM strategy and progress for budget transparency will be assessed by the EU Delegation and the geographical Unit of DG NEAR. This assessment will be also based on the PFM policy-dialogue channelled through the established Sector Working Group on PFM, chaired by the Minister of Finances and also comprising donors and international organisations and civil society. The Sector Working Group on PFM, similar to the Sector Working Group **Education, Employment and Social Policy** meets several times during the year (at least once every three months) on operational level and on policy level within the framework of the PFM policy dialogue meetings held twice a year.

The Commission may undertake additional verification missions and monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews.

Two annual monitoring missions, managed by the European Commission, will supervise the implementation of the budget support programme.

The part of complementary support technical assistance will be subject to regular monitoring of performance, which will be an on-going process.

Optionally, the SRC may be included in the external monitoring (Result Oriented Monitoring System-ROM) by independent consultants hired by the European Commission. If applicable, this monitoring begins at the sixth month of implementation of activities under the project and ends no later than six months before the end of the operational implementation phase.

4.2 EVALUATION AND AUDIT

The SRC will be subject to the sector evaluation planned under IPA 2019 annual programme, which will also cover the evaluation of the technical assistance.

The Commission shall inform the implementing partner at least 2 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project

5. CROSS-CUTTING ISSUES

5.2 EQUAL OPPORTUNITIES AND GENDER MAINSTREAMING

The country has established a legal and strategic framework that is favourable to promoting gender equality. The Law on Equal Opportunities of Women and Men (adopted in 2006 and amended in 2012) requires public institutions to ensure equal rights and opportunities for women and men and to integrate gender into their policies, strategies and budgets through specific measures to reduce gender inequality. The Strategy on Gender Equality for 2013-2020, adopted in 2013 was the first Government strategy that introduced gender-responsive budgeting. The Strategy was further complemented by the National Strategy on Equality and non-Discrimination 2016-2020 which covers all aspects of discrimination including gender. The new Law on Prevention and Protection against Discrimination was adopted 2018. In December 2017, the Government ratified the Istanbul Convention on preventing and combating violence against women and domestic violence. The National Action Plan on Gender Equality 2018-2020 was adopted end April 2018. Key national sector documents, such as the ESRP, Education and Employment strategies, identify a number of objectives and measures to address the gender equality. In particular pragmatic measures have been designed to close the gender pay gap, to support female participation and employment. Gender sensitive data relating to employment, unemployment, education and training are available and are in use in policy making, although improvement in collection and availability of data disaggregated by gender, ethnicity, and disability in the sector, still needs to be ensured. There is a strong governmental commitment to implement the planned measures encouraging girls' education and in support of women's participation in labour market, including women's entrepreneurship. There is also a commitment to revision of school text books to assure they are reflective of the principles of gender equality, multiculturalism, respect of differences and democratic values.

At the same time, the institutional capacity in advancing the agenda of gender equality is lagging behind. Institutional responsibility for mainstreaming the gender equality has been given to the Parliamentary Commission for Equal Opportunities and a Government inter-sectoral gender equality advisory group, supported by the Department for Equal Opportunities of Women and Men at the Ministry of Labour, and Social Policy coordinators for equal opportunities, located in every line Ministry. The Gender Equality Unit in the MLSP is also understaffed and disposing with limited capacity. At local level, the legal provisions require the establishment of Equal Opportunity Commissions and appointing gender equality Coordinators in each local self-government unit. However, in very few municipalities this requirement has been addressed and even where it has been addressed no real capacity has been built to create, implement and monitor gender equality aspects in municipal operations.

On this background the Action will address an important part of the challenges as regards the gender equality agenda in the country. Since inactive NEETs are predominantly women, by

rolling out the Youth guarantee for NEET, the action is expected to support them in continuing their training and qualification, in gaining life skills and finding jobs or applying their entrepreneurship skills. This will strengthen the self-esteem and independence of girls and young women and will contribute to acquiring a stronger role in society. The action is therefore expected to have a strong impact on promoting gender equality in a pragmatic way.

Moreover, the Action enhances equal opportunities and non-discrimination principles as per EU standards. It focuses primarily on the under-developed regions, lagging behind in providing equal opportunities for their local communities compared to capital. Poverty reaches 40% in NorthEast and Polog Regions. The significant regional disparities in North Macedonia create a fragile and unfavourable socio-economic situation, which cannot be addressed through partial stand-alone measures. This is why, the IPA 2019-2020 package for North Macedonia, proposes an integrated and systemic approach to regional development by 1). stimulating the labour market (through this Action investing in new and better targeted active labour measures focused on youth, women and ethnic groups), 2). activating the economic growth and job creation (through investments in agriculture and private sector development), and 3). involving local communities in fighting economic backsliding and exclusion (through the social inclusion package and transfer of successful EU practices for regional development). This approach has the potential to create an economic and job creation driver and decreasing the poverty in the regions, thus enhancing in practice the concept of equal opportunities for citizens independent of their physical location, origin and background.

5.3 ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

The country is in relatively early stage of aligning policies and legislations with the *acquis* on environment and climate change and the implementation of the already aligned legislation is lagging behind. Administrative capacity and financial resources remain inadequate to create a real change as regards low carbon development and the reduction of pollution levels. The country will have to address environmental challenges through significant investments and capacity-building efforts, including a better mainstreaming of environment and climate change agenda across all sectors.

Some steps were achieved in 2018 as regards mainstreaming of environmental issues in the employment sector. Notably, in line with the objective of the National Employment Strategy to promote green jobs, and based on the conclusion of the 59th session of the Government for developing youth policies, an inter-institutional working group was established for linking "green jobs" with youth employment measures. It has the mandate to propose a national definition for green jobs as a well as a roadmap for its integration in the national legal framework, defining green jobs in the national qualification of occupations in the country, determining green jobs according to the Employment Services Agency list of skills needed on the labour market and determining jobs on the same list for which additional training is needed in order to become green jobs. This process will benefit and enrich the employment and educational measures for young people.

The Action does not pursue specific objectives as regards environment and climate change but its implementation will partially contribute to a better understanding of the environmental challenges and the impact on environment of various technologies. More specifically, the Regional VET Centres are expected to promote innovations and entry of new technologies in various domains and respectively to adapt the education process to these new technologies which will obligatory be all environmentally-friendly.

5.4 ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)

Civil society has been recognized as a partner in supporting democratic processes and an important element in the system of checks and balances. The legal framework that supports the civil society functioning is adequate, guaranteeing the freedoms of association, assembly and expression. State funding amounts to EUR 4 million annually. Yet, civil society relies largely on foreign donations. The share of individual and corporate donations in civil society funding is still low due to complex legal procedures. Since mid-2017, the climate in which civil society organizations operate in the country has improved and the government has shown commitment to dialogue and involve CSOs in the policy formulation. In May 2018 a Council for cooperation with civil society was established as an advisory body to the government channelling the state-civil society dialogue. Yet, the legal, financial and policy framework needs to be strengthened. A long-term strategic framework for cooperation with civil society and a sustainable policy for state financing of CSOs need to be agreed. The Government Body for Cooperation with CSOs, established in 2005 within the General Secretariat should be strengthened in terms of mandate, budget and capacity in order to perform the role of a technical secretariat for the Council for cooperation and to promote effectively an environment enabling the civil society development.

Some progress has been achieved in the last years also in self-organisation of the civil society. The dynamics in sector networking was improved with EU support and through the established resource centre for civil society. The civil society gradually increases its participation in the established Sector working groups, which proved to be an excellent sector dialogue platform involving all relevant stakeholders. An EU project starting in 2019 will further upgrade the capacities of civil society to participate in a more constructive and structured way in the sector policy dialogue and will ensure feedback also from grassroots and CSOs working in the field and out of Skopje, whose voice is rarely being heard even in the civil society sector itself. Thus the current Action will benefit of this new level of interaction between civil society and state, which will be of crucial importance for the policy making and monitoring in the sector Education, Employment and Social inclusion, involving the majority of the CSOs established in the country. On the other hand, channelling of the monitoring of the Action through the Sector Working Groups will allow the respective CSOs to better follow the sector reforms, as well as to provide structured feedback to the Sector Working Group on how the reforms are being implemented on the ground.

Apart of the policy dialogue, it is also expected that the Action provides an excellent opportunity for specialized civil society organisations to participate in the activities and eventually to benefit from EU funding. This concerns particularly 1). Specific business associations which will be associated in the management of the VET centres (depending on the domain of activity) and 2). CSOs providing employment-related services e.g training, intermediation, etc, which are expected to be integrated in the Youth Guarantee programmes on site.

5.5 MINORITIES AND VULNERABLES GROUPS

The strategic and legislative framework for ensuring the rights and the inclusion of minorities and vulnerable groups in all aspects of life is complete. The Strategy on Gender Equality is now complemented by the National Strategy on Equality and non-Discrimination 2016-2020, which covers all aspects of discrimination including gender. The new Law on Prevention and Protection **against** Discrimination covers '*...race, skin colour, national or ethnic origin, sex, gender, sexual orientation, gender identity, belonging to a marginalized group, language,*

nationality, social background, education, religion or religious belief, political conviction, other beliefs, disability, age, family or marital status, property status, health status, personal capacity and social status, or any other grounds ...' This Law, for the first time, introduces sexual orientation and gender identity among the grounds for discrimination in the country, proving that way a higher protection from discrimination for the LGBTI persons in the country. The Law sets the basis for establishment and mandate of a Commission for Protection against Discrimination that is to be an autonomous and independent body. As regards the *people with special needs*, the country has ratified the UN Convention on the Rights of Persons with Disabilities and established an UN Convention Committee for Implementation and a National Monitoring body. However the implementation of the Convention has been slow. A significant input is expected from the adopted in 2018 National Strategy on Deinstitutionalisation 2018-2027 and action plan, which structures the measures for deinstitutionalisation and community based social services. *As regards* protection of *the ethnic minorities*, the overall framework is in place. The 2001 Ohrid Framework Agreement and relevant constitutional amendments frame inter-ethnic relations. At present the Government is working at the elaboration of a strategy on inter-culturalism that will improve the relationships among the different communities in the Country. The Roma Inclusion Strategy (2014-2020) and corresponding action plans for education, employment, health, housing and Roma women is also under implementation.

The ESRP, along with the national employment and educational strategies, provide a set of measures to push forward the inclusion of persons with disabilities, Roma and other ethnic groups, in the economic and social life of the country. It also introduces specific indicators - disaggregated by gender, ethnicity, and disability - to measure the impact of actions undertaken on the various groups of beneficiaries.

This Action will support the national authorities in implementing the objectives of the ESRP and therefore in enhancing the participation in the labour market and in education of people with special educational needs and people of minority origin i.e. Roma, Albanians, Turks, etc. The Regional VET centres will provide specific educational programmes for students with special needs and at least 35% of their staff will be trained to work with such young women and men. One of the objectives of the action is to increase by 5% the enrolment of students with special need in the Regional VET Centres, thus showing that quality education can change the status of any person. The Youth guarantee in its turn, will also particularly target the young people with special needs and women, who are the biggest part of the NEETs, discouraged and inactive. Moreover, since close to 75 % of Roma youth are NEETs, it is expected that the Action will also provide a significant push to the labour market integration of young Roma. Therefore, the Action will have a long-term and visible impact on inclusion of persons with disabilities, Roma communities and vulnerable groups in the economic and social life.

6. SUSTAINABILITY

The main factors of sustainability include:

- The nature of the action - It will provide opportunity for a considerable group of disadvantaged young people to develop in education and on the labour market. Young people who lost perspective, ambition and motivation will be re-activated, re-motivated and encouraged to join the economic and social life of the country. This is the most significant sustainability aspect as it invests into the social and human capital.
- In addition, the sustainability can be also measured through the improved capacities of the national authorities to run large-scale programmes in education and labour market

areas. The experience in Youth guarantee will be used for the roll-out of the programme throughout the whole country already in 2019. Particularly important will be the role of the RVET centres as future drivers in VET sector reforms. The knowledge and experience acquired are expected to serve in very close future for improving other VET providers and for regaining confidence in vocational education.

- There is a clear political commitment to the Action priorities – rollout of the youth guarantee and dramatic improvement in VET - which have been recognised as country priorities and included in the key strategic documents of the current government. Moreover, these priorities are included in the highest level policy documents (ERP and ESRP) framing the bilateral sector dialogue with EU. Since the EU accession has been recognised as the most important country priority, this approach provides for additional assurance that all efforts will be invested to achieve the action objectives.
- There is already good level of sector policy coordination channelled through the Sector Working Group on **Education, Employment and Social Policy**, which involves all stakeholders and is also very committed to follow the implementation of the Action. Moreover, the VET attracts considerable interest on behalf of several key donors (SwissAid, USAID, kFW), launching their support measures in very close future. Having a strong donor community interested in seeing results and progress, increases significantly the perspectives for strong impact and sustainability of the action. The development of the performance framework, as well as the communication on the Action, are expected to improve the transparency on sector reforms, to provide ongoing information on results, success and challenges, and to nourish the policy dialogue. This in its turn will increase the political and societal buy in for the reform and improve the sustainability prospects.

7. COMMUNICATION AND VISIBILITY

Communication and visibility are tools for raising the public awareness on sector reforms as well as instruments for gaining public support for the intended changes and reaching out the biggest possible number of potential beneficiaries of the planned measures. Therefore communication will be given high importance during the implementation of the Action.

A Communication and Visibility Plan will be elaborated at an early stage and will be further implemented with the support of the envisaged technical assistance (complementary support). It will involve both the national authorities and the European Commission / EU Delegation to Skopje.

The resources and capacity of the national authorities will be used in the communication exercises. Currently, the Operational Plan for Active Employment Services and Measures has a chapter and funds dedicated to communication. Both ministries have PR Departments and functional websites in Macedonian and Albanian language, where well structured information on the targeted sector reforms and Action activities will be published. Both ministers will have an important role in communication of the reforms.

All visibility and communication actions shall focus on results and changes achieved and shall demonstrate how the EU support brings the country closer to the EU standards. The communication policy applied must ensure that the added value and impact of the EU's interventions are understood by the citizens and that EU funds are managed and used in a transparent, efficient and effective way for the benefit of the country as a whole.

All necessary measures will be taken to respect the EU communication and visibility rules.

Promotion of the action will be also achieved through the visibility and communication strategy "EU for YOU", of the EU Delegation, based on sector campaigns, which target the citizens at large outlining the benefits of the EU aid for the country in a communicative, comprehensible and interactive style. In addition, all EU projects are promoted through the Delegation web-site. As of 2018, the EU Delegation together with NIPAC launched the IPA Visualization Map (<https://euprojects.mk>) providing information on all IPA projects in the country.

8. PRECONDITIONS

The following preconditions will apply to this Action:

- The Republic of North Macedonia will revise the current Employment and Social Reform Programme (ESRP) in order to 1). Include the Youth Guarantee under the priority measure for youth employment, and 2). To extend the time horizon of the ESRP to end of 2022. This revision will be completed by end 2019. Failing to comply with this, the Sector Reform Performance Contract will not be signed.