

COMMISSION DECISION

C(2007) 1853 of 30/04/2007

on a Multi-annual Indicative Planning Document (MIPD) 2007-2009 for the Republic of Macedonia

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA)¹, and in particular Article 14(2)(a) thereof,

Whereas:

- (1) Regulation (EC) No 1085/2006 creates a coherent framework for Community assistance for candidate countries and potential candidate countries. Article 6 (1) of that Regulation requires that the assistance shall be provided on the basis of multi-annual indicative planning documents established by country in close consultation with the national authorities.
- (2) In accordance with Article 6 (3) of Regulation (EC) No 1085/2006 assistance for countries listed in Annex I to that Regulation shall be based on the European Partnerships and cover the priorities and overall strategy resulting from a regular analysis of the situation in the country and on which preparation for further integration into the European Union must concentrate.
- (3) Republic of Macedonia is listed in Annex I to Regulation (EC) No 1085/2006.
- (4) The Council adopted on 30 January 2006 the European Partnership with the Republic of Macedonia².
- (5) This Decision is in accordance with the opinion of the IPA Committee set up under Article 14 of Regulation (EC) No 1085/2006,

¹ OJ L 210, 31.7.2006, p.82

² Council Decision 2006/57/EC of 30 January 2006 on the principles, priorities and conditions contained in the European Partnership with the Republic of Macedonia (OJ L35, 7.2.2006, p. 57-72)

HAS DECIDED AS FOLLOWS:

Sole article

The Multi-annual Indicative Planning Document (MIPD) for the years 2007-2009 for the Republic of Macedonia attached to the present Decision is hereby adopted.

Done at Brussels, [...]

For the Commission

[...]

Member of the Commission

EN

ANNEX

Multi-annual Indicative Planning Document (MIPD)

Republic of Macedonia

Preface

The main objective of the **Instrument for Pre-Accession Assistance (IPA)**¹ is to help the country to face the challenges of European integration, to implement the reforms needed to fulfil EU requirements and progress in the Stabilisation and Association Process and to lay the foundations for fulfilling the Copenhagen criteria for EU membership.

The IPA instrument consists of five components (IPA-I) the Transition Assistance and Institution Building component²; (IPA-II) the Cross-Border Cooperation component which applies to border regions between beneficiaries from member states, candidate states and countries in pre-accession status; (IPA III, IV and V) the Regional³, Human Resources⁴ and Rural Development⁵ components which are planned for Candidate Countries.

The basic policy documents for setting down the priorities for programming of assistance under IPA are the European Partnership, the Enlargement Strategy Paper, which presents the Commission's overall enlargement policy for the candidate and potential candidate countries, as well as the annual Progress Report on advances made on the road towards the EU, including implementation and enforcement of EU standards. IPA will allow flexibility in order to respond to possible new priorities identified in annual Progress Reports of the Commission.

This **Multi-annual Indicative Planning Document (MIPD)** is the strategic document for IPA. It is established for a three year rolling period, with annual reviews. It follows the **Multi-annual Indicative Financial Framework (MIFF)** which indicatively allocates funds per beneficiary and per component. It draws on the pre-established IPA components.

The priorities set out in the MIPD components will serve as a basis for the annual programming of EU funds in 2007, 2008 and 2009.

¹ Council Regulation (EC) No 1085/2006 of 17 July 2006, Official Journal L210, page 82.

² The Transition Assistance and Institution Building Component translates the priorities set out in the European Partnership in 3 sub-components: Political requirements where EC assistance will be used to support a stable, modern, democratic, multi-ethnic and open society based on the rule of law. Special impetus will be given to Public Administration and Judiciary Reform; Socio-economic requirements where EC assistance will be used in support of the development of the socio-economic environment; European standards where EC assistance will support and accompany the country in its European integration plan (legal approximation, administration needs and requirements for decentralised management of EU funds).

³ The Regional development Component supports policy development as well as preparation for the implementation and management of the European Regional Development Fund and Cohesion Fund.

⁴ The Human Resources Development Component supports policy development and the preparation for the implementation and management of the European Social Fund.

⁵ The Rural Development Component supports policy development as well as the preparation for the implementation and management of the Community's common agricultural policy.

Executive Summary

The overall objective of pre-accession assistance is to support the country's efforts to comply with the Copenhagen accession criteria. Thus, the country has to establish stable institutions guaranteeing democracy and the rule of law, it has to operate a functioning market economy and it must adopt and implement the *acquis* and show its ability to assume the obligations of EU membership. This also involves preparing for the implementation of the Community's cohesion policy and rural development instruments by introducing strategic planning and management principles which guide the implementation of EU structural instruments.

Pre-accession assistance for the period 2007-2009 is thus concentrated on four strategic areas:

1. Support to *Institution Building*
2. Improve cross-border cooperation
3. Prepare for participation in the Community's cohesion and rural development policy
4. Prepare for decentralised management of EU funds

Building on past and ongoing financial assistance and drawing on the European Partnership's recommendations the MIPD identifies priorities for making the overall strategy operational.

Institution Building is the core activity of *component I*. Support will be given to improving governance and the observance of the rule of law as well as enhancing economic development and social cohesion. Furthermore, pre-accession assistance will support the country in adopting the *acquis* as well as with building institutional and administrative capacity to transpose, implement and enforce Community standards.

Assistance to ***Cross-border cooperation*** (CBC) under *component II* aims at fostering good relations between regions and countries and familiarising future member states with rules and procedures governing the European Territorial Cooperation objective under Structural Funds. The MIPD foresees continuing CBC with Greece and Bulgaria and developing bilateral CBC-programmes with the other neighbouring countries.

EU assistance shall help to prepare the beneficiary for participation in the ***Community's cohesion and rural development policy*** from the date of accession. This is to be done through IPA components III to V. Support under *component III* is concentrated on the transport and environment sectors. In the transport sector support is aimed at helping to complete corridors VIII and X. In the environment sector the priorities are targeted at introducing waste water collection and treatment systems meeting EU requirements. *Component IV* will support system actions and pilot projects in the area of employment, education and social inclusion. As for employment, initiatives shall contribute to further developing employment services, supporting employment strategy implementation and tackling the labour market situation of the most vulnerable. Activities related to education aim at modernising education and training systems and providing access to education for ethnic communities. In the field of social inclusion, assistance is aimed at fostering the integration of disadvantaged people and enhancing the participation of civil society. *Component V* sets out priorities for the sustainable development of rural areas and on the implementation of the *acquis* concerning the common agricultural policy and related policy areas, such as food safety, veterinary and phytosanitary matters. In particular, the envisaged activities aim at progressively upgrading the agricultural production and processing sector to Community standards and to improving employment and income opportunities in rural areas.

And finally, across the various components, pre-accession assistance shall prepare the country for ***decentralised management of EU funds***.

The present MIPD is based on an indicative financial envelope of 210.4 million euro.

Section 1 – Assessment of strategic priorities and objectives

1.1 – Introduction

At the European Council of December 2005, the Republic of Macedonia was granted "candidate country" status. This decision reflects the progress achieved so far by the country towards membership of the European Union. It constitutes a milestone on the path to accession, as well as a new challenge. However, turning a membership perspective into reality is a process which will take more time and significant efforts. The decision to open accession negotiations will be taken only once the country has reached a sufficient degree of compliance with the accession criteria.

Candidate status has an important implication for pre-accession assistance. As a candidate country, the Republic of Macedonia will have in principle access to all five IPA components (subject to certain conditions). However, currently the implementation of pre-accession assistance is delegated by the European Commission to the European Agency for Reconstruction (EAR) in Skopje. Under IPA, the intention is that the European Commission will confer the management of the EU pre-accession funds on the national authorities once the relevant structures and systems are in place and all the conditions are met.

Although the basic source for setting down the priorities of EU assistance is the enlargement package, in particular the European Partnership, coherence of the MIPD with the beneficiary country's own needs and priorities has been ensured through consultations with the national authorities, who agreed on the present MIPD.

1.2 - Objectives of pre-accession assistance

In view of the candidate status, the overall objective of pre-accession assistance to the Republic of Macedonia is to support the country's efforts to comply with the accession criteria. These comprise the political and economic criteria as well as the ability of the country to assume the obligations of EU membership. Part of the last involves preparing for the implementation of the Community's cohesion policy by introducing into the national framework for economic and social development those strategic planning and management principles which guide the implementation of EU structural instruments.

In order to define strategies which effectively contribute to the achievement of the overall objective, the MIPD is based on the assessment of needs and challenges and on priorities identified in the Progress Report and the European Partnership, taking into account past and ongoing EU assistance as well as the beneficiary's *National Plan for Adopting the Acquis*. It is clear from these documents and the needs assessment, that although the country has achieved a high degree of macroeconomic stability and made significant efforts in improving the rule of law and to align the country's legislation with the *acquis*, which resulted in granting candidate status to the country, still some major deficiencies exist in all of these areas.

The rule of law is gradually being consolidated. Important efforts at reforming the public administration, the judiciary and the police have been made since the crisis in 2001. The decentralisation process has moved forward. Overall, the implementation of the Ohrid Framework Agreement has remained a crucial factor for the country's stability. The functioning of the economy is impeded by institutional weaknesses, such as the slow and cumbersome administrative procedures lacking in transparency, shortcomings in the judiciary

and limited progress in land and property registration. Therefore, steps remain to improve the efficiency and accountability of the police and the public administration as a whole. The judiciary and the police reform will have to be fully implemented and will require sustained commitment. Corruption remains widespread, which negatively affects many aspects of economic, social and political life. Thus, the fight against corruption needs further strengthening. Pursuing the implementation of the Ohrid Agreement and the Stabilisation and Association Agreement are also key issues for progressing in the European integration process.

Significant efforts have been made to align the country's legislation with the *acquis*, particularly in areas related to the internal market and trade. However, further efforts to align with the *acquis* have to be made. The country needs to intensify its efforts in particular as regards agriculture, competition, environment, justice, freedom and security. The telecommunications market has not yet been liberalised and intellectual property rights are not yet adequately protected. Furthermore, the country faces major difficulties in implementing and effectively enforcing the legislation.

Despite macroeconomic stability, the economy faces serious deficiencies in a number of areas which have to be addressed by EU assistance where appropriate. The country's endowment of transport infrastructure needs to be completed at the level of the major corridors, to facilitate external trade and movement of persons. Thus, upgrading the transport infrastructure is of vital importance for the country's economy. The environmental standards are low. As identified in the European Partnership, investments are particularly needed in waste water treatment systems. As regards the labour market, official data show low employment rates and high unemployment, in particular long-term and youth unemployment. Significant employment disparities exist, geographically and by ethnic origin. Thus labour market institutions must be strengthened to help tackling especially the weakest to be reintegrated into the labour market. Furthermore, insufficient investment has had a negative impact on the overall quality of education, and the participation rate in higher education is still relatively low, thus lowering the long-term growth prospects of the economy as a whole. Thus, investing in human capital is essential for the country to catch up with EU levels.

The agriculture sector is dominated by very small and highly fragmented family farms, engaged mainly in subsistence agriculture, while only a small surplus is marketed locally. Economies of scale are thus not exploited. The agricultural sector remains relatively problematic for several reasons, such as lack of irrigation, land fragmentation and lack of proper management systems in general.

As EU assistance will be implemented under the decentralised implementation system once the Commission has conferred its management to the national authorities, the country has started to install the relevant institutions and structures. Yet, this process is only beginning, and the national administration is not yet endowed with the necessary capacity to assume full responsibility for the decentralised management of EU funds.

To summarize, pre-accession assistance shall help the country, above all, to advance along the road to EU integration and support the country's efforts to comply with the Copenhagen criteria. Against this background pre-accession assistance shall help to overcome the deficiencies that have been identified. In doing so, assistance will focus on:

- improving governance and the observance of the rule of law, in particular through support to the public administration reform, the judicial reform and the reform on police;

- supporting economic development and enhancing social cohesion; in particular by strengthening the business environment, especially as regards the SME sector and by supporting the implementation of national and regional development plans;
- adopting the *acquis* as well as administrative capacity-building for transposing, implementing and enforcing the *acquis* in line with the priorities identified in the European Partnership
- preparing the country for the implementation of the Community's cohesion policy, in particular by focusing in the field of transport and environment as well as education, employment and social inclusion;
- preparing the country for the implementation of the Community's rural development policy, in particular by focusing on investments in agricultural production to restructure and upgrade the sector to Community standards and on investments to develop and diversify economic activities in rural areas;
- capacity building of national administrations to assume full responsibility for the decentralised management of EU funds.

Furthermore, certain cross cutting issues, which are outlined in annex A, will have to be reflected in all activities programmed under IPA.

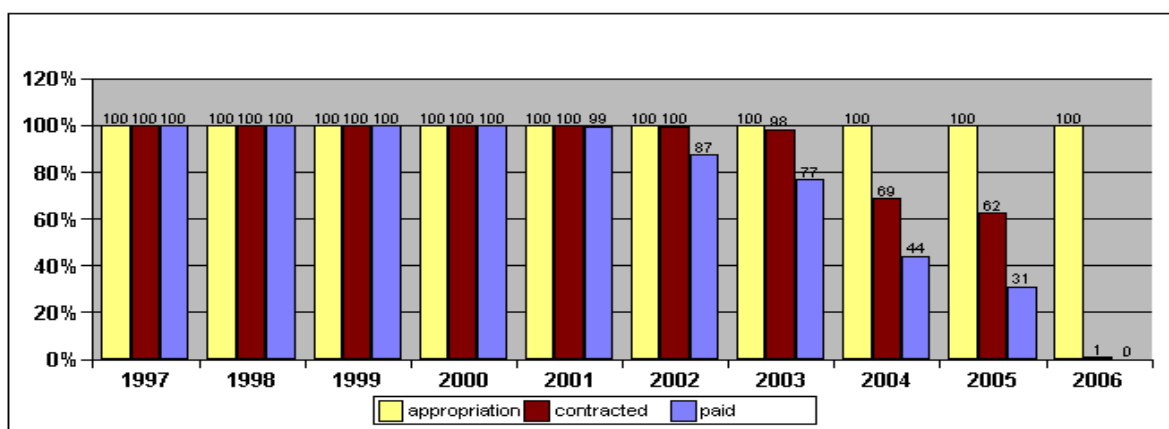
1.3 - Overview of past and ongoing pre-accession assistance

1.3.1 - Past and ongoing EU assistance: an overview

Over the past decade the EU has delivered substantial support to the Republic of Macedonia through various programmes such as ECHO, Obnova, PHARE or the Emergency Response Programme. The EU also provided macro-financial assistance in the form of balance-of-payments support. In 2001, CARDS was launched to focus on political, institutional and economic transition. The total assistance of the EU to the country since 1992 amounts to more than 800 million euro.

The EU's main institution for managing assistance in the region - the European Agency for Reconstruction (EAR) - has been efficient in delivering substantial amounts of assistance. Starting its operations in 2002, the EAR took over responsibility for the previous programmes and took forward the implementation of CARDS. The EU assistance portfolio managed by the Agency in the country amounts to some €326 million. By the end of 2006 more than 80% of this total had been contracted, and more than 70% disbursed.

Graph 1: EU assistance portfolio managed by the EAR



After the crisis of 2001 EU assistance was directed mainly at rehabilitation and reconstruction of infrastructure as well as at police activities. The extensive support to the Police Reform has contributed significantly to the stabilisation process. A reform process was initiated, staff has been trained on both national and sub-national level, equipment and infrastructure has been provided. As the country's political and economic stability grew in recent years, EU financial assistance responded by widening its focus to include institution-building in the key areas of the EU *acquis communautaire*. EU assistance has been delivered within four priority areas identified in the Country Strategy Paper 2002-2006: Democracy and the rule of law, Economic and social development, Justice and home affairs, and Environment and natural resources.

Table 1: CARDS allocations 2002–2006 to the Republic of Macedonia (in euro mn)

Sector	2002	2003	2004	2005	2006	Total
Democracy and the rule of law	17	12	11.5	17	10.1	56.6
Economic & social development	11.5	11	15	8.6	13.1	59.2
Justice and home affairs	7	12.5	24	9.5	7.6	60.6
Environment and natural resources	~	1	2	2	1.3	6.3
Other	6	7	6.5	7.9	7.9	35.3
Total allocation	41.5	43.5	59	45	40	229

Assistance in the area of *democracy and the rule of law* has resulted in sound implementation of the Ohrid Framework Agreement, which stipulates equitable representation of the country's ethnic communities in the public administration and aims at transferring responsibilities to local self-government units. EU support to the public finance and harmonisation of the administrative structure with the *acquis* has improved the public accountability and its planning capacities. Support to the Civil Society has contributed to improved inter-ethnic relations and to a livelier NGO sector.

In the field of *economic and social development*, pre-accession assistance through capacity-building in key institutions, and substantial support to the SME sector and to the adoption of internal market *acquis* has helped the investment climate to improve. Assistance to the rural sector has led to improved capacities within the national administration regarding policy development, improved budgeting capabilities including the monitoring of budget

implementation. Furthermore, the phytosanitary inspectorate and the veterinary sector have been substantially upgraded, thus contributing to improved food safety standards and agricultural trade. Assistance in infrastructure projects has resulted in improved water supply and sewage systems as well as in upgraded road infrastructure and border crossings. Financial support has contributed to the development and implementation of employment action plans and improved vocational education and training systems. The Tempus programme has provided considerable support to the modernisation and the reform of the higher education system. Since 1997, Tempus has funded over 100 university cooperation projects in the areas of curriculum development, university management and structural reform.

In the field of *justice and home affairs* EU assistance contributed to strengthening the judiciary capacities and structures, e.g. via the establishment of the Judiciary Training Institute or support to the Public Prosecutor's Office. Pre-accession assistance resulted in an enhanced police reform process, improved policing capacities as well as increased border security. With CARDS support the national Asylum Seekers Centre has been constructed and migration legislation and procedures have been brought in line with EU standards.

EU assistance in the area of *environment* has resulted in further approximation of national legislation to EU standards and in the elaboration of a coherent environmental strategy aiming at sustainable development. Environmental investments also helped mitigating pollution stemming from old environmental problem areas and from industrial sites.

Building on the experience gained from programming and implementing EU funds in the country the following lessons have been learned:

- Implementation of assistance has required a level of flexibility commensurate the with administration standards in the country. In particular, challenges were faced during the implementation of assistance as regards **absorption capacity**, where national institutions were endowed with inadequate staff, both in terms of quality and quantity. Thus, absorption capacity must be taken into account when programming assistance and targeted support to improving the capacities of public administrations is needed.
- Limited **budgetary resources** to maintain material investments or to cover regular operational expenses and insufficient working space to accommodate staff and equipment represent bottlenecks to efficient implementation of pre-accession assistance. Therefore, programming on the one hand has to consider scarce budgetary resources and on the other hand, the country has to allocate sufficient resources to complement EU assistance.
- The national government experienced difficulties in fulfilling their commitments regarding staffing, budget availability or completion of legal approximation prior to project deployment. **Increased ownership** of EU assistance to the country is essential for the effective programme implementation. It is necessary taking into account the country's own needs (e.g. as outlined in respective national documents). However, co-financing requirements shall also contribute to increased ownership Political will and coherent decision-making on behalf of the beneficiary is essential in rectifying shortcomings and in ensuring sustainability in the implementation of pre-accession assistance. These issues have to be addressed during programme planning and implementation and have to be backed up by a regular dialogue between the relevant Commission services and the beneficiary.
- **Donor coordination** is of great importance to avoid any overlap of assistance (as discussed in more detail under 1.3.2).

- Harmonisation of legal instruments across different sectors was not always an easy task. However, strong horizontal alignment (across sectors and stakeholders) could be achieved by **improving the coordination efforts among the ministries** and relevant departments.

Overall, sound vertical alignment of programme development (from design to implementation) with strong attention to the conditionalities for successful implementation of the programmes proved to decrease the risks related to the difficulties described above.

1.3.2 - Relevant IFI and bilateral assistance

IFI and bilateral financial assistance to the country is substantial. All major IFIs are present in the field, such as the World Bank as the country's largest creditor, the IMF with its multi-annual Stand-By Arrangement, the EIB, the EBRD etc. In addition, Member States as well as other countries (e.g. US, Norway, Switzerland) also provide significant financial support. Clearly, IFI and bilateral financial assistance has not only decisively contributed to stabilise and improve the political, economic and social situation in the country but has also complemented the EU association agenda, which is recognised by all members of the donor community.

With IFI and bilateral assistance being channelled into all possible areas (partly covered also by past EU assistance and the present MIPD) the biggest challenges to the programming of EU financial assistance was and is to avoid overlaps and to ensure that different but related activities are aligned. In the past it proved to be rather difficult to obtain a clear and comprehensive picture of all donors' activities in the country, despite close cooperation with the donor community. Nonetheless, coordination has improved with initiatives taken by the beneficiary and the large stakeholders, including the Commission and the EAR, to enhance the exchange of information. The past EU programmes were developed in close cooperation with the national authorities and other international agencies to ensure that the activities closely corresponded to the needs of the country. Together with the Secretariat for European Affairs, the Commission and the EAR have actively sought to streamline EU support through an intensive dialogue also with the EU member states and other multilateral and bilateral donors. Relevant information has been exchanged on both programming and operational level. This holds also true for the present MIPD which has been consulted with the IFIs and other bilateral donors. Furthermore, the European Commission together with the World Bank have set up a Joint Office for South East Europe to support their role as joint coordinators of international assistance for the reconstruction and development of the country.

As a result, with improved coordination a greater synergy could have been achieved. In order to continue adequate coordination of assistance among major IFIs and other donors, regular meetings should be envisaged, both in the beneficiary country as well as at the Headquarters in Brussels.

Section 2 – Pre-accession assistance strategy for the period 2007-2009

2.1 Strategic Choices

In translating the objectives set out in Section 1.2 into specific priorities for assistance within the 3 year horizon of this document, a number of elements need be taken into consideration. These include, among others, sequencing, programme maturity, absorption capacity, the availability of funds and alternative sources of financing, and the synergies that may be developed with the activities of other donors. In many cases, these issues can only be assessed at the programming stage. Nevertheless some general strategic choices can already be identified in this document.

Based on the assessment of strategic needs and priorities set out in section 1 the pre-accession assistance strategy for the period 2007-2009 is concentrated on four areas of activity:

1. Support Institution Building
2. Improve cross-border cooperation
3. Prepare the beneficiary for participation in the Community's cohesion policy and rural development instruments
4. Prepare for decentralised management of EU funds

In the planning period 2007-2009 the major share of IPA assistance will be oriented towards **Institution Building**, which is delivered through *component I*. The funds under this component are quite substantial and allow supporting a wide range of activities. Nonetheless, the strategic choice is to concentrated around two areas of intervention, which are included in the priorities identified in the European Partnership: (i) implementation of sectoral reforms and (ii) adoption and implementation of the *acquis*.

(i) Assistance will be provided to consolidate the sectoral reforms (i.e. public administration reform, judicial reform, police reform, etc.) that have been adopted and to ensure their effective enforcement. The implementation of these reforms is also essential to improving the economic development in the country, which is hampered by cumbersome procedures, inefficient administration and corruption. Given the limited absorption capacity of the public administration in the country priority will be given to supporting the institutions that are directly concerned by the reforms. Other assistance and capacity building provided to the institutions involved in the implementation of components III, IV, and V will be covered under component I, providing it is *acquis*-related and reflects European Partnership priorities.

(ii) As regards the adoption and implementation of the *acquis*, and with a view to helping the country complying with the Copenhagen criteria, priority will be given to areas, where the harmonisation of the legislation is an obligation linked to the implementation of the Stabilisation and Association Agreement and where the volume of legislation to be harmonised is particularly large and where harmonisation requires costly investments that must be spread over many years.

Cross-border cooperation, managed through *component II*, will, most of all, concentrate on creating closer links between border regions, supporting joint environmental protection activities and improving the potentials for tourism. Furthermore, through participation in the European Regional Development Fund transnational and interregional programmes, pre-

accession assistance is aimed at familiarising future member states with rules and procedures governing the European Territorial Cooperation objective under Structural Funds.

Through the IPA *components III to V*, EU assistance will help to prepare the beneficiary to take full ownership of the *Community's cohesion policy and rural development instruments* from the day of accession. Therefore, it is necessary to introduce into the national framework for economic and employment development the strategic planning and management principles that guide the implementation of EU structural instruments. Since the volume of funds available under these components for the period 2007-2009 is relatively small, it is essential to ensure a strong concentration in order to achieve some impact in the areas of intervention. For these reasons, and in view of other sources of funding available, in the period covered by the current MIPD, support under *component III* will be concentrated exclusively in the transport and environment sectors, and be delivered through a single operational programme. Support for a regional competitiveness programme under *component III* will be considered in a subsequent phase, in the light of the funding available, the management structures in place and the progress made in improving the business environment, particularly for SMEs. *Component IV* will support system actions and pilot projects in the areas of employment, education and social inclusion. And *component V* is aimed at, step by step, upgrading the agricultural production and processing sector to Community standards, and at improving employment and income opportunities in rural areas.

As a candidate country, the Republic of Macedonia will have access to all five IPA components. The funds will be implemented under the decentralised implementation system once the Commission has conferred its management to the national authorities.⁶ The national administration must be endowed with the necessary structures as well as the management expertise and capacity to assume full responsibility for the decentralised management of IPA funds. Until then, *components I and II* will be implemented under centralised management, while for *components III, IV and V* implementation of operations and disbursement of funds may not start until decentralised management has been conferred by the Commission. Thus, assistance channelled through the various components shall help to establish these structures and to develop accountable administrations and institutions, with appropriate capacity, including internal controls and audits.

All these activities need to be closely coordinated in order to avoid overlapping; this holds especially true for measures related to decentralised management of EU funds or Institution Building in areas such as transport, environment, employment or education. Measures should rather be complementary, not only in relation to each of the components but also in relation to other donors' activities. It is important to take into account funding from other donors in order to maximise the synergies among the various forms of assistance. With this in mind, close coordination among all actors, internally (Commission services) as well as externally (other donors and the beneficiary), has already been established through regular meetings and consultation.

Monitoring and evaluation arrangements will be established in line with provisions of the IPA Implementing Regulation.

2.2 Multi-annual planning by component

⁶ See Art 13 of the IPA Council Regulation.

The following section will present component by component the pre-accession assistance strategy for the period 2007-2009, including also financial indications in percentages. As outlined in the Multi-Annual Indicative Financial Framework (MIFF), the nominal allocations for each component for the period 2007-2009 are:

Table 2: Republic of Macedonia: Multi-Annual Indicative Financial Framework*

Component	2007	2008	2009	Total
I – Institution Building	41.6	39.9	38.1	119.6
II – Cross-border cooperation	4.2	5.3	5.6	15.1
III – Regional Development	7.4	12.3	20.8	40.5
IV – Human Resources Development	3.2	6.0	7.1	16.3
V – Rural Development	2.1	6.7	10.2	19
Total	58.5	70.2	81.8	210.5

* Figures are in current prices

Component I – Transition Assistance and Institution Building

1. Current situation

The European Partnership and the Commission's Opinion on the application of the Republic of Macedonia for membership of the European Union, both issued in November 2005, underlined the substantial reforms that the country undertook after the crisis in 2001. The country has stable democratic institutions and has shown a strong commitment to the implementation of the Ohrid Framework Agreement and the Stabilisation and Association Agreement (SAA). There are no major problems in the area of respect for fundamental rights. Public services are gradually changing the way they provide services to the public, notably through decentralisation and the introduction of e-government services. The functioning of the police and judiciary are changing in order better to guarantee the rule of law. The country has made significant efforts to align its legislation with the *acquis*, particularly in areas related to the Internal Market. And last but not least, the economy has achieved a high degree of macroeconomic stability.

Nevertheless, many challenges in implementing the necessary political, institutional and economic reforms remain, such as:

- Implementing fully the SAA and the Ohrid Framework Agreement;
- Further improving the functioning of the judicial system and the police;
- Strengthening the rule of law and upgrading the fight against corruption;
- Pursuing vigorously the economic reforms and overcoming institutional weaknesses, in particular so as to attract investment by curbing administrative red tape and creating a level playing field for business;
- Improving the functioning of the public administration and its capacity to implement the community *acquis*.

2. Major areas of intervention and goals

Given the candidate status of the country, pre-accession assistance is aimed at supporting the country's efforts to comply with the Copenhagen Criteria. *Component I*'s major task is to provide for the *Institution Building* needed to meet this objective. Against this background, financial assistance will support the following major areas of intervention:

1. Good governance and the rule of law
2. Economic development and social cohesion
3. Ability to assume the obligations of EU membership
4. Support to programming and participation in Community Programmes and Agencies

3. Main priorities and objectives

EU financial assistance will support the country's efforts to follow the recommendations identified in the European Partnership and in the beneficiary's National Plan for Adoption of the *Acquis* (NPAA), in a sustainable manner in the medium-term future. Building on

achievements realised under CARDS assistance, the main objectives of EU assistance through IPA in the major areas of intervention can be specified as follows:

3.1. – Good governance and the rule of law

In order further to improve the country's alignment with the political criteria, and taking into account commitments made under the SAA, EU assistance will continue to help to advance **public administration reform** by supporting the implementation of a comprehensive Public Administration Reform strategy, which will streamline administrative procedures and improve the capacity of the public administration. Support will continue to the decentralisation process. In addition, it remains important to improve equitable representation in the public administration in line with the constitutional and legal provisions deriving from the *Ohrid Framework Agreement*. It is also imperative to continue to fight corruption at all levels of the administration. Furthermore, in order to follow the EU's *Public Internal Financial Control* (PIFC) model, it is essential further to enhance financial management and financial control procedures and to establish appropriate monitoring and evaluation systems through coherent legislation and adequate institutional capacity.

In the field of **justice and home affairs**, EU assistance to the judiciary will help to complete the implementation of the *Strategy and Action Plan on Judicial Reform*, and possibly to further develop it, as well as to support further reform efforts and to improve the overall functioning of the judiciary. Specific elements of the Judicial Reform Strategy that may need further attention include efficiency of the court system, the *Training Academy* for judges and prosecutors, and the Administrative Court and the basic courts that have specialised departments for cases of organised and serious crime. Possible weaknesses of the new system of enforcement of civil judgements may also need to be addressed.

On police reform it will be necessary to support completing the implementation of the *Action Plan for the Reform of the Police*, to ensure consistency and continuity of approach, to consolidate progress already made and to maintain momentum. Support to the Police Reform process should directly address the three pillars of the National Police Reform Strategy: (1) support to the organisational and institutional reform of the police services, in line with the strategic recommendations of preceding advisory missions, the national strategies that have been adopted (Police Reform, Border Management) and the Action Plans deriving from them, (2) tactical level support to the development and functional consolidation of technical and management capacities, and (3) operational level support to the operational policing structures. In addition, significant further efforts are necessary in order to step up the fight against organised crime, including trafficking in arms and drugs. Continued efforts have to be undertaken to adopt and implement a strategic plan for the development of administrative structures and capacities for the management of *migration and visa issues*, as well as guidelines for processing asylum cases. IPA funds will also assist the country's efforts to complete the implementation of the **Integrated Border Management** Strategy and Action Plan.

IPA funds will be implemented under the **decentralised implementation system** once the Commission has conferred its management to the national authorities. To this end, assistance for establishing the necessary structures has already been foreseen in past CARDS programmes. Nonetheless, it will be necessary to continue this support. Therefore, IPA pre-accession assistance will give attention to developing accountable administrations and institutions (e.g. agencies), with appropriate capacity, for the decentralised management of EU funds.

3.2. - Economic development and social cohesion

Economic development and social cohesion are supported by pre-accession assistance through various channels. First, activities related to supporting the ability to assume the obligations of membership (see below) add essentially to enhanced development and cohesion by introducing European standards into national legislation and thus upgrading the framework for the functioning of the market economy. Second, the activities envisaged under *components III -V* have a direct impact on economic and social cohesion. Third, measures to improve legal certainty and the rule of law will improve the business environment and thus also contribute to more growth and jobs. Against this background, the following areas of assistance shall be seen as complementary action to the activities in the other sections of *component I* as well as those foreseen under *components III, IV* and *V*.

EU assistance will aim at strengthening the **competitiveness** of the economy and further improving the **investment climate** and business environment, in particular by supporting small businesses and the implementation of the European Charter for SMEs, improving administrative procedures and by completing the registration of all land and real estate as well as strengthening the cadastre. Furthermore, well-regulated and properly controlled and supervised financial markets (e.g. insurance and banking sectors, stock market, etc.) are essential to sustainable growth and a prerequisite for attracting domestic investment and FDI.

It is essential to help improve the administrative capacity, on both central and local levels, in the area of **fiscal policy** (e.g. tax collection, expenditure control, etc.) and it may be necessary to prepare for the IT interconnectivity to the EU tax systems.

In order to improve **trade** and the external economic situation of the country, it is necessary to help facilitate trade and to strengthen the country's administrative capacities for formulating and implementing a comprehensive trade policy and to enhance the regulatory framework for trade and provision of services, focusing on priorities established by the WTO, the SAA and bilateral/regional trade agreements.

Financial support to capacity-building in the field of **regional policy** will facilitate the implementation of national and regional development plans.

3.3. - Ability to assume the obligations of membership

The focus of assistance in this area will be on the adoption of the *acquis* including building institutional and administrative capacity for transposing, implementing and enforcing the *acquis* according to the priorities identified in the European Partnership.

In the field of **internal market and competition** areas of attention include strengthening the administrative capacity needed for quality infrastructure (e.g. standardisation, metrology and market surveillance); implementation of the Community rules on the co-ordination of social security schemes; further alignment with EU legislation in the fields of occupational health and safety and labour law; adoption of legislation on the recognition of foreign professional qualifications and development of the relevant administrative structures; support to the creation of an independent postal regulatory authority; developing enforcement capacity in the areas of anti-trust, state aid, protection of competition and of intellectual property. The need for support to strengthen the administrative capacity in the area of public procurement in order to better enforce procurement legislation has to be assessed. Particular attention should

be paid to improving quality of financial services and addressing the issue of money laundering.

The implementation of the EU framework for *information society and media* will require the administrative capacity of the regulatory authorities to be closely monitored and, where necessary, upgraded.

In the area of *statistics* substantial improvement is needed to enable the production of statistics of good quality and their dissemination. Areas of specific interest include national accounts statistics and the underlying basic statistics on national and regional level. The Introduction of *European System of Accounts* 1995 (ESA 95) standards is important in order to ensure that statistics are in accordance with EU requirements. In addition, attention may be given to further development of the statistical infrastructure.

Strong emphasis will be placed on measures and activities to address *consumer and health protection*, including through the implementation of international agreements in the field of public health. With regard to *environmental protection*, particular attention will be given to the strengthening of administrative capacities and to the incorporation of environmental protection requirements into other sectoral policies, e.g. through the development of environmental impact assessments, including compliance of agriculture and industry with key parts of the *acquis* in the environmental sector.

With regard to the *customs union*, it is necessary further to align the customs legislation and procedures with the *acquis* and to strengthen the customs administration in order to ensure its proper functioning. EU assistance may support appropriate measures which aim at establishing interconnectivity with the computerised systems of the EU.

Component I will also have to provide for *Institution Building* aspects of sectors covered by other components in order to complement activities within those components.

- In the area of *transport* and *energy*, support will be given to reorganising and strengthening the public administration and institutions in the transport and energy sector and to implementing the requirements of the Energy Community Treaty and the European Common Aviation Area Agreement and, where appropriate, support will be given to the participation of the country in the SEE-FABA initiative⁷
- As regards *social policy, employment and education*, the capacities in central and local state institutions need further strengthening. Special attention may also be given to the development of a national strategy on social inclusion, to actions related to the Joint Inclusion Memorandum (JIM), Joint Assessment Paper (JAP) and to the implementation of the national Roma strategy.
- In the field of *agriculture and rural development* the capacity of the administration to enforce the management mechanisms of the Common Agricultural Policy needs to be further upgraded. With regard to *food safety, veterinary and phytosanitary policy*, support will be given to the adoption of the *acquis* and to upgrading the laboratory sector, including inspectors and staff.

⁷ Support to nuclear safety and radio-active waste management will be foreseen within this MIPD. However, due to the need to develop harmonised approaches it will be programmed under the Multi Beneficiary IPA programme where it will be described in more detail.

3.4. – Support to programming and participation in Community Programmes and Agencies

For the preparation of projects and tenders a special facility shall ensure smooth programming and the maintenance of high quality in delivering IPA funds. This facility may also be used in urgent and unforeseen cases where EU assistance is required.

The EU agreed in the Thessaloniki Agenda to open participation in *Community Programmes* to the Western Balkan countries, following the approach used in the past for candidate countries. The Commission proposed concrete steps in its Communication of 3 December 2003⁸, underlining the need for a selective and gradual approach. As participation in Community programmes can entail sizeable expenditure for a partner country, IPA support may be used to prepare for participation and to co-finance the costs.

4. Expected results and time-frame

EU assistance will help to address the priorities within an appropriate period of time. However, given the number of priorities and their complexity, some of them may only be implemented in the medium or even in the long term. Nevertheless, it is expected that the country will make considerable progress within the scope of this MIPD to the extent that by the end of it:

- ✓ the implementation of public administration reforms will have advanced significantly;
- ✓ the SAA and the Ohrid Framework Agreement will have been fully implemented;
- ✓ the Strategy on Civil Society as well as the Roma strategy are being implemented;
- ✓ the functioning of the judicial system and the police will have substantially improved;
- ✓ the investment climate and business environment will have further improved and will be more conducive to FDI and local economic activity (in particular with regard to SMEs);
- ✓ markets will have become more efficient and competitive as a result of closer compliance with the EC *acquis* and EU best practice (e.g. market for electronic communications, energy market, financial services, general service activities, etc.);
- ✓ the transposition of the Community *acquis* will have been largely completed in the area of the Internal Market, transport and energy, taxation and Customs Union and be well advanced in other major areas of EU legislation;
- ✓ the functioning of the public administration and its capacity to implement the community *acquis* will have significantly improved, and the country will have started to establish a credible track record of implementation in key areas of the *acquis*.

The principal means for assessing the achievement of these expected results will be the annual Progress Reports.

5. Type of assistance to be provided

Support to *Institution Building* shall be implemented using a combination of contracting tools. Financial support will continue to be provided in principle through services, in particular

⁸ Communication of the Commission “Preparing for the participation of the Western Balkan countries in Community programmes and agencies” [COM (2003) 748 of 3.12.03] – accessible on the internet at: http://europa.eu.int/comm/external_relations/see/docs/com03_748_en.pdf

technical assistance, through either service contracts, grant agreements, twinning or a small-scale framework facility, as applicable. Where appropriate, this will be supplemented by supplies, works or other actions necessary for the provision of equipped operational facilities.

6. Financial indications

The following table presents the financial indications for each major area of intervention.

Table 3: Financial indications – *Component I "Institution Building"*

Good governance and the rule of law	25 % - 40 %
Economic development and social cohesion	10 % - 25 %
Ability to assume the obligations of membership	35 % - 50 %
Programming Support	5 % - 15 %

Component II – Cross Border Co-operation

1. Current situation

In the past, the Republic of Macedonia has benefited from Community assistance to participate in two cross-border cooperation (CBC) programmes: since late 1990s, with Greece in the context of the INTERREG II and III A programme (which became a "Neighbourhood Programme" in 2004–06) and since 2004 with Bulgaria in the context of the PHARE/CARDS Neighbourhood Programme. In addition, from 2004, the Republic of Macedonia received CARDS support to participate in the INTERREG III B CADSES transnational programme.

Implementation of relevant projects has been severely hampered by the delays that accumulated in setting up the necessary joint management structures. The process of developing the call for proposals-guidelines for applicants and the filling of posts for the Joint Technical Secretariats proved to be extremely time-consuming. Therefore, only by the end of 2006 will the first projects enter their implementation phase. It is expected that CBC under IPA will benefit from the existing institutions in the case of the Republic of Macedonia, Bulgaria and Greece. However, no CBC programmes have so far been implemented at borders with neighbouring Western Balkan countries

2. Programmes under IPA Cross-border Co-operation Component

It is foreseen to continue cross-border cooperation at borders with current and prospective Member States, i.e. the CBC programmes with Greece and Bulgaria. At "cruising speed" IPA CBC programmes will operate on both sides of the border on the basis of *one* set of rules, under a single management structure, for the purpose of financing genuinely joint projects for the common benefit of the two parties. Eligible regions (NUTS level III regions, or equivalent, along the border) are as follows:

Table 4: CBC with **Greece**

<i>Greece</i>	<i>Republic of Macedonia</i>
Pella	Jugostočen
Serres	Vardar
Florina	Pelagonija
Kilkis	

Tabel 5: CBC with **Bulgaria**

<i>Bulgaria</i>	<i>Republic of Macedonia</i>
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Kyustendil	Severoistočen
Blagoevgrad	Istočen
	Jugostočen

Component II will also support cross-border cooperation programmes to be initiated at all borders between the country and adjacent Western Balkan countries. The list of eligible areas, selected according to the IPA implementing rules, will be established in the relevant IPA CBC programmes. In addition, building on the experience gained in the context of the CADSES programme, *component II* funds are available to support, as appropriate, participation in the relevant Structural Funds transnational programmes (and, as appropriate, interregional programmes) where the country is eligible (e.g. "Europe South-East" transnational programme).

3. Major areas of intervention and goals.

Building on initial achievements under CBC activities supported in the period 2004-2006, the MIPD 2007-2009 will continue the support to regions and sectors targeted earlier, including the following:

CBC with Bulgaria

- Strengthening cooperation among local/ regional authorities, associations, NGOs and enterprises from neighbouring regions;
- Small infrastructure to improve potential for tourism or local/ regional transport and communication, including environmental aspects;
- People-to-people action;
- Technical Assistance/ Information dissemination

CBC with Greece

- Economic development of eligible border regions;
- Upgrading of tourism and transport infrastructure, as well as environmental improvements;
- People-to-people action;
- Technical Assistance/ Information dissemination

CBC with Neighbouring Western Balkan countries

- Environmental Protection (natural parks, lakes, rivers);
- Infrastructure (Border crossings, transport and environmental infrastructure);
- Economic development of border areas;
- People to people action;
- Technical Assistance

4. Main priorities and objectives

The cross-border programmes involving Republic of Macedonia are likely to cover the following main objectives, depending on the outcome of programme preparations and negotiations between the participating countries.

CBC with Bulgaria

- To improve and extend existing or create new links among local/ regional administrations, associations, NGOs or enterprises to enhance economic and social development of eligible border regions;
- To improve tourism and transport infrastructure with a view to increase the potential for the development of tourism as well as, in line with or apart from it, to contribute to the protection of the environment.
- To intensify contacts at local level among citizens from inside and outside the EU;
- To help with programme implementation and to contribute to timely delivery of results.

CBC with Greece

- To reduce the gap in economic development between border regions and other parts of the country by creating additional job opportunities as a result of cooperation among economic actors;
- To enhance the tourism potential of the border region and to increase the number of foreign visitors, as well as to improve environmental standards;
- To intensify contacts at local and regional level among citizens inside and outside the EU;
- To help with programme implementation and to contribute to timely delivery of results.

CBC with Neighbouring Western Balkan countries

- To continue or to start activities aiming at protecting defined areas against environmental threats and degradation;
- To achieve a secure and efficient border management by providing necessary upgrades of infrastructure;
- To improve local infrastructure in the environmental sector;
- Enhancing competitiveness of local enterprises;
- Intensification of contacts among citizens from border areas.

5. Expected results and time frame

As the CBC programmes with Bulgaria and Greece are very similar in structure, due to comparable situations in the border area, the expected results can be summarized in the following way:

- Closer economic cooperation is expected to enhance the competitiveness of enterprises, create new business opportunities and to increase employment;
- Better administrative cooperation facilitates business development and contributes to avoiding counter-productive competition among border regions;

- Enhancing knowledge of neighbouring regions by contacts between their inhabitants and setting up social networks shall contribute to preventing tensions and to fostering mutual understanding;

CBC with Neighbouring Western Balkan countries

- Reduced level of water pollution and progress with reforestation;
- Less time-consuming border passing and acceleration of freight transport;
- Reduction of pollution by wastewater-treatment and better supply of fresh water;
- Opportunities for economic growth and increase in employment;
- Operational Management structures established, to manage future programmes.

6. Forms of assistance to be provided

As regards CBC programmes, the identification of suitable joint projects to be financed should primarily take place through a competitive joint call for proposals agreed between participating countries. Pre-identification of projects with a genuine cross-border value by the CBC Joint Monitoring Committee is also possible. In the case of the transnational programmes of the European Regional Development Fund (ERDF), the participation of the country will follow the implementing rules of those programmes.

7. Financial indications

Within the *component II* funds, the following indicative amounts are earmarked for CBC with Member States, the neighbouring Western Balkan countries and for the possible participation of the country in the ERDF transnational/interregional programmes.

Table 6: Indicative financial allocation by country and year (in EUR million)

<i>CBC programmes</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>Total</i>
with Bulgaria	0.7	1.3	1.3	3.3
with Greece	0.8	1.3	1.5	3.6
with neighbouring Western Balkans countries and ERDF programmes	2.7	2.7	2.8	8.2
TOTAL	4.2	5.3	5.6	15.1

Table 7: Indicative financial allocation by major area of intervention

<i>CBC-Programme</i>	<i>Bulgaria</i>	<i>Greece</i>
Economic development	40% - 60%	30% - 50%
Tourism / Infrastructure	30% - 50%	20% - 40%
Building cross-border networks	10% - 20%	10% - 20%
Technical assistance	Max. 10%	Max. 10%
TOTAL (€ million)	3.3	3.6

As regards CBC with neighbouring Western Balkan countries a more detailed breakdown of figures for the programmes will be worked out in the context of the first yearly IPA programming (2007).

Components III and IV – “Chapeau” section

One of the key objectives of IPA assistance under *components III* and *IV* is to support candidate countries in policy development, as well as preparation for the implementation and management of the Community’s cohesion policy, in particular in their preparation for the European Regional Development Fund, the Cohesion Fund and the European Social Fund. In accordance with Article 158 of the Treaty, the EU structural instruments have as objective to strengthen economic and social cohesion by reducing regional disparities and the backwardness of the least developed regions. In this regard the approach to be followed in the programming of *components III* and *IV* must take account of the framework and guidelines for the EU Cohesion Policy for the period 2007-2013 as established in the “Community Strategic Guidelines on Cohesion”.

As the *Guidelines* point out, in pursuing economic development, two complementary sets of conditions need to be satisfied. The first is the existence of a suitable endowment of both basic infrastructure and a labour force with appropriate levels of skills and training. The second is that research and innovation should be accorded high priority and that information and communication technologies should be widely accessible. The volume of funds available under IPA for *components III* and *IV* is not sufficient to have by itself a significant, direct, macro-economic impact on national development indicators. It is essential therefore to ensure a strong concentration and synergies with other funding, in order to achieve some impact in the areas of intervention. However, even with a high degree of focus, the direct impact of the programme will be limited.

The resources under *components III* and *IV* should be utilised, first and foremost, to introduce into the national framework for economic and employment development the strategic planning and management principles guiding the implementation of EU structural instruments, also via a learning by doing process. Therefore, in the period covered by the current MIPD, support under *component III* will concentrate exclusively in the transport and environment sectors, delivered through a single operational programme. Support for a regional competitiveness programme will be considered in a subsequent phase, in light of the funding available, the capacity of the management structures and the general improvement of business environment, particularly for SMEs. Such future programme could also consider existing research and technological capacity and means to enhance the cooperation between the private sector and research and technology institutions. Support to improve capacity of regional actors and to improve business environment will be available also under *component I*. The principle of coherence between interventions under *components III* and *IV* will also be taken into consideration, both at strategic level (also in the context of the strategic coherence framework) and at the level of implementation of the two components.

During a transition period which should be as short as possible, it is intended to implement *components III* and *IV* under a Decentralised Implementation System (DIS), with ex-ante controls on procurement performed by the EC Delegation and utilising the Central Finance and Contracting Unit (CFCU) as Implementing Agency. However, one of the main purposes of *components III* and *IV* is to prepare for future effective delivery of Structural Funds upon accession. Therefore effective steps for putting in place the respective management and control structures are necessary to achieve this goal. Requirements under articles 53 and 164 of the EC Financial Regulation 1605/2002 will have to be implemented before the Commission may confer decentralised management of *components III* and *IV*, which will be the essential basis for future shared management under Structural Funds rules.

Component III – Regional Development

1. Current Situation

Transport

The geographic location of Republic of Macedonia places it at the crossroads of South-eastern Europe, making it an important transit route for land traffic between Central Europe, the Aegean Sea, the Black Sea and the Adriatic Sea. This location contributed to the development of international traffic on two typical corridors which cross the country along two main axis: North-South (Corridor X) and East-West (corridor VIII), recognised as pan-European corridors, linking to the Trans European Transport Networks.

The total length of Corridor X within the territory of the Republic of Macedonia is 172 km. The road corridor is motorway for the majority of its length, except for two stretches linking to the Greek border (33km) and to the Serbian border (7,3 km) which remain to be completed. The primary railway line is completed (215 km), electrified and equipped with all necessary security and communication systems.

The total length of Corridor VIII in the territory of the Republic of Macedonia is 304 km. The road infrastructure is composed primarily of 108km of motorway and 178 km of highway. The existing railway line has a length of 339 km but is not connected with the railway network in the neighbouring countries of Albania and Bulgaria. The two missing connections are 86 km towards Bulgaria and 66 km towards Albania. Both countries have railway connections nearing the Macedonian borders.

The Ministry of Transport and Communications is the institution in charge of transport policy, but several other independent bodies and public institutions are in charge of various areas of the transport sector. The Fund for National and Regional Roads is in charge of road planning, construction, maintenance and financing. Its investment budget has increased significantly in real terms over recent years, funded mainly through loans, while the road maintenance budget remained constant in absolute terms and is "transferred" to Makedonijapat, a state company which is in charge of maintenance of the main roads, on direct contract with the Fund.

The rail system is operated by Macedonian Railways, a public sector enterprise which generates important deficits. The company is heavily indebted and if its management structures are not significantly reformed it will continue to generate significant operating losses which must be born by the government budget, at the expense of capital expenditures.

Environment

With a surface area of 25,713 km² the topography of the Republic of Macedonia is characterised by high mountain massifs with 14 mountain peaks higher than 2,000 meters and 30% of the land area above 1,000 meters. 39% of the country's surface is covered by forests and woodland and 23% is arable land. The country's rivers feed into three

separate basins: the Aegean Basin (80% of the country), the Adriatic Basin and the Black Sea basin. The largest river, the Vardar, has a length of 301 km in the country's territory, crosses to Greece and flows to the Aegean Sea. The country has three large tectonic lakes (Ohrid, Prespa and Dojran) covering a total area of 666 km², located in border areas shared with Albania and Greece. In addition there is a large number of glacial lakes in high mountains and artificial lakes spread all over the country.

Industrial and agriculture facilities and urban centres are major sources of water pollution. The rate of wastewater treatment is extremely low; consequently surface-water and ground water pollution affects large parts of the country. The Vardar River which supplies 75% of the country's total water resources is heavily polluted by untreated industrial and urban waste water, affecting the country but also Greece and the Aegean Sea.

Approximately 70% of the urban population is connected to drinking water, 60% is served by sewage connections but only 6% is connected to the 3 existing water treatment plants serving agglomerations with a population above 10,000. The percentage of connection to the public water systems in the municipalities is between 82-100%. In rural areas the percentage is very low and it varies from 10-100%. Only 12 cities have specially built sewerage systems. The city of Skopje has built a special sewerage for waste and atmosphere waters. 60% of the households are connected to the public sewerage system, 21% have sceptical manholes. The rest households release their waste waters without any control.

Air pollution poses as a serious environmental problem, caused by industry (e.g. metallurgic and chemical industries, thermal power plants) and traffic. Half of the country's urban population is affected by poor air quality.

Solid waste also represents a serious environmental challenge. There are 55 municipal registered landfills out of which only Drisla (Skopje Region) is managed relatively in an appropriate way. Industrial solid waste usually is stored in industrial landfills together with the remaining waste from the processes or on communal landfills. The only waste incinerator currently in operation is not compliant with EU directives. There are two additional incinerators which are not in operation. Municipal solid waste management practices are inadequate and casual waste disposal sites lacking minimum environmental safety requirements are widespread. Improper disposal of industrial and hazardous waste constitute also a serious problem. There is high risk of contamination of ground water, surface water and soil, threatening human and animal health and biodiversity throughout the country, including in a number of protected areas.

The Ministry of Environment and Physical Planning is the Government department responsible for the development and implementation of environmental policy, as well as coordination with other departments having environmental responsibilities. The Government has recently adopted a package of legislation and strategies aiming to implement an environmentally sound development policy. This has contributed significantly to the approximation to EU standards. However, institutional and administrative capacity to implement and enforce laws, policies and strategies is limited, and need to be upgraded.

2 Major Areas of Intervention

2.1 Transport

As a landlocked country, the Republic of Macedonia depends heavily on reliable transport infrastructure linking to neighbouring countries, and through them to other economic centres of the world. Improving the country's connectivity is important therefore to its economic and social development, but also to promote effective regional exchanges and trade and a stronger integration in South East Europe.

The effective, efficient and safe movement of passengers and goods across international borders also depends on the level of interoperability between organisational and technical systems on both sides of the border. Delays due to incompatibility between procedures and systems can represent considerable financial, security and safety costs and represent serious obstacles to the development of regional and extra-regional exchanges. Investments in transport infrastructure serving international traffic should be accompanied therefore with measures to put in place management systems and norms which are in line with European standards, aiming to overcome border-crossing organisational and technical obstacles, in coordination with the neighbouring countries concerned.

The European Partnership sets out a number of short-term and medium-term priorities regarding transport policy. A number of these priorities concern legislation alignment and the adoption of the *acquis*. IPA support to the implementation of these priorities will be provided under *component I*. Other priorities however require infrastructure investments in the rail and road sectors, as well as in the reform of management structures, namely:

- Implementation of the Memorandum of Understanding on the Development of the South East Europe Core Regional Transport Network;
- In the rail sector, establish a regulatory body that is independent from the infrastructure manager and railway undertakings.

The MOU signed in June 2004 between the representatives of the countries and of the administrative entities of the Western Balkans and the Commission expressed a firm political intent to co-operate on the development of infrastructure on the South East Europe Core Regional Transport Network and to enhance policies which facilitate its development. That includes maintenance, reconstruction, rehabilitation, upgrading and new construction of main and ancillary infrastructure as well as its operation and use, with a view to fostering the most efficient and environmentally friendly transport modes on a regional scale.

The MOU also committed the participants to jointly develop and implement an annual and multi-annual rolling action plan, in order to provide a platform for a most efficient use of funds and know-how provided by public and private sources, and committed that task to the South East Europe Transport Observatory, (SEETO). The MOU also acknowledge the need to maximise the involvement of the private sector and international financial institutions in the development, operation and use of the Network, including their involvement in stakeholder's dialogue during the planning and implementation stages of project studies.

Pursuant to the mandate received from the parties to the MOU, SEETO developed a "Five year Multi Annual Plan 2006 to 2010", identifying the key issues to be addressed and priority projects for the development of the Network. Four of these priority projects concern rail and road Corridors VIII and X in the territory of the Republic of Macedonia.

This plan will be updated by a new multi-annual plan covering the years 2007-2011.

Having regard to the above framework, IPA assistance under *component III* will be targeted to the development and implementation of infrastructure investments which contribute to the completion and efficient and safe operation of corridors VIII and X forming an integrant part of the Network, with priority to those projects which are particularly relevant and pertinent to international exchanges and traffic in the longer term (forecast for 2020) and to strengthen integration and cohesion into neighbouring countries and with the EU.

2.2 Environment

Republic of Macedonia recognises that environment protection and nature conservation are fundamental constitutional values which everybody has the responsibility to protect and improve. The preservation of the country's rich natural resources, especially fresh water and biological and landscape diversity are regarded as important values for the sustainable development and preservation of the quality of life.

The European Partnership sets out the following short-term and medium-term priorities:

Short-term:

- improve the implementation of legislation and environmental monitoring;
- strengthen the Environmental Inspectorate and other enforcement bodies. Establish a credible enforcement record. Ensure that fines and other sanctions are effectively applied and have a dissuasive effect;
- strengthen administrative capacity at national and local levels and start the preparation of strategic plans, including financing strategies;
- develop an environmental investment strategy based on estimates of alignment costs.

Medium-term:

- integrate environmental protection requirements into other sectoral policies, in particular through the development of environmental impact assessments;
- increase investments in environmental infrastructure, in particular waste water collection and treatment, drinking water supply, tackling air pollution and waste management;

Financial and technical support to assist the country to implement the first five priorities may be provided partially through *component I*. Assistance under *component III* will be limited therefore to the implementation of some of the investments listed under the sixth priority, with particular emphasis to waste water treatment and waste management where the needs for public sector investments will be higher.

The second National Environmental Action Plan adopted in March 2006 provides the strategic framework for IPA assistance under this component. Furthermore, the EU CARDS regional funded project "Priority Environmental Investment Projects" provided useful analysis to support environmental infrastructure investment planning, including in the identification of key environmental priority projects, in particular regarding the waste water sector.

Projects selected need to be closely linked to the implementation of environmental plans for the relevant sectors (water, waste, etc.) and based on a strategic, integrated and phased approach. This approach requires the drawing up of an overall investment strategy for the environment, in which prioritisation in project identification and complementarity with other sources of funding are key elements. In addition, the respect of general principles of

environmental policy and conventions, the polluter pays principle and financial sustainability also need to be taken into account.

There should be complementarity with the activities related to the environmental *acquis* that will be covered by *component I*.

3. Main Priorities and objectives

3.1 Transport

The estimated cost of investment needs (uncommitted projects) to complete corridors VIII and X, is in excess of €1,650 M. It will be important therefore to establish a strong coordination with all stakeholders, including external donors and IFIs, with a view to maximise complementarities and additionality in the use of limited resources. Private sector involvement also need do be actively sought, particularly through public-private partnerships (PPPs), to complement and replace public financing whenever feasible. In the long term, IPA investments in the transport sector should contribute to a more balanced sustainable development of the country, in neighbouring countries and the EU at large, in terms of economic, environmental and social impact, namely:

- improving economic efficiency of trade and exchanges (passengers and goods) with neighbouring countries, the EU and at global level, namely through cost and time savings to users;
- enhancing economic and environmental sustainability of the country's transport system, including reduction of pollution and other negative environmental impacts, namely through charges to users, reduction of congestion and routing of traffic to environmentally friendlier modes of transport;
- improving transport safety and security, namely through the reduction in the number and severity of accidents caused by domestic and international traffic, and reduction of security incidents to international traffic and operators;

Investment in new infrastructure will need to be placed in the context of a policy dialogue for the transport sector, engaging the Government and key stakeholders at national and regional level, including neighbouring countries and donors. This dialogue should seek to adopt a coherent institutional and sector strategy which provides the framework for investment prioritisation, financing and operating of transport infrastructure. Investment in new road infrastructure should also be accompanied by the establishment of a stable and predictable flow of funds to the road sector and the definition of a clear financial and operational framework for road maintenance which ensures the long term sustainability of investments in accordance with European best practices, including respect for competition rules.

Selection of projects should be based on sound economic analysis, to maximise value for money, including appropriate project design, user charges definition and efficient management practices, all of which are at the base of long term success of public and private ventures. Investments in transport infrastructure must also be accompanied by the adoption of transport legislation aiming to improve the functioning of the transport market, by promoting safe, efficient, environmentally sound and user friendly transport services.

Priority should be given to projects which will be ready to start before 2010 (for completion before 2017) and which address the most pressing bottlenecks in terms of congestion, poor

quality infrastructure or poor environmental standards and which generate the highest economic and social returns.

3.2 Environment

The Government has estimated the capital costs of the investments needed to comply with EU legislation at €230M for urban waste water and €130M for municipal solid waste. These requirements are far greater than the budgets currently available from national or international sources. It will be necessary therefore to exercise strong coordination with other donors, to prioritise investments within a well defined strategy, in line with the National Environmental Action Plan.

Having regard to the limited amounts available and to the need to concentrate resources in order to achieve a measurable impact, IPA assistance to the Environment sector under this component necessarily will be limited during this period to one or two infrastructure projects - selected, inter alia, on the basis of implementation readiness and contribution to the priorities indicated above – as well as preparatory studies to implement future capital investments, with or without IPA funding.

In general the projects should be selected in a way that complements or enhances other measures in the sector already taken in order to increase the impact of the EU assistance. Namely, in the water sector, investments should take into account the river basin approach in accordance with the Water Framework Directive and other water related legislation. In some cases it might be possible to proceed in several phases if the project is part of an overall programme covering a clearly specified period (e.g. urban waste water treatment plants providing secondary treatment as a first stage, followed by tertiary treatment at a later stage over the lifetime of the investment programme).

Regarding the waste water sector, in order to most efficiently distribute the available resources investments should take into consideration the following factors:

- increasing the sewerage network connection rates and construction of wastewater treatment plants in settlements where sewerage networks are already well developed and where adequate management capacity and structures are in place;
- increasing the efficiency and reliability of public sewerage and wastewater treatment systems, including their financial sustainability and effective application of the polluter-pays principle;
- reduction of losses in water supply systems;
- repairing existing sewerage networks suffering from significant permeability, which affects drinking water sources;
- ensuring the compatibility, operating and efficiency of investments through constructing secondary and tertiary sewage treatment facilities in independent stages;
- Ensure that polluters adopt the Best Available Techniques (BAT) to limit pollution, in compliance with the IPPC directive.

Regarding solid waste, the identification of priorities in this sector should be based on the waste acquis and in particular they need to fit in the waste plans that are mandatory according to Art. 7 of the Waste Framework Directive (75/442/EEC). Measures should aim at reducing the amount of waste to be sent for landfill by introducing recycling and segregation systems. A strategic and integrated approach needs to be taken by concentrating initially on measures

that provide the maximum environmental improvement for the limited available funds. Investments should in particular be targeted for:

- introduction of recycling and segregation systems;
- closure of non-compliant landfills and the construction of new landfills, including the rehabilitation of the contaminated sites, to comply with EU requirements;
- setting-up municipal waste and hazardous waste collection and disposal systems and facilities compatible with EU requirements; adequate facilities for incineration of municipal waste and hazardous waste should also be considered;
- disposal of packaging waste, batteries and oils in accordance with the relevant Directives.

Investment in these sectors must concentrate on those areas where the impact (in terms of population served) is the largest, where project implementation capability can assure adequate delivery and where projects cannot be financed predominantly from other sources (e.g. IFI, private funds, national budget and other public funds). Projects must also have a sufficient scale to have a significant impact in the field of environmental protection

Prioritisation is a key issue in identifying environment projects to be financed under IPA. The following criteria should be taken into account:

- link to the implementation of environmental plans and sectoral strategies for the environmental acquis;
- integrated approach;
- major impact on the population;
- lack of financing capacity;
- respect of general principles of environmental policy/conventions;
- institutional capacity;
- polluter pays principle;
- financial sustainability;
- adequate complementarity with other financial source.

The projects financed with IPA assistance, namely in the transport and environment sectors, must be implemented in accordance with the relevant acquis, in particular the Environmental Impact Assessment Directive (85/337/EEC, as amended) and the Habitats and Birds Directives (92/43/EC and 79/409/EEC).

4 Expected results and time-frame

In addition to the specific results expected through investments in the environment and transport sector, a core objective of *components III* and *IV* is to support beneficiary countries in the areas of policy development and project implementation and management, with a view to a successful participation in the Community's Cohesion policy and its instruments, namely the Cohesion Fund and the European Regional Development Fund. A key expected result of IPA support under *component III* will be the acquisition of investment planning, implementation and management capacity, through technical assistance interventions and through a process of "learning by doing", and the improvement of capacity to prepare, implement and manage large-scale infrastructure projects in the environment and transport

sectors following a Structural Funds and Cohesion Fund approach, in particular at beneficiary level. Following sector specific results are expected:

Transport

- existing deadlocks along corridors VIII and/or X will be relieved and deficiencies repaired;
- links with the neighbouring countries and with the European Union will be improved,
- overall efficiency, sustainability and safety will be improved;
- travel times and cost for freight and passengers will be reduced;
- new jobs will be created;
- external and internal trade and passenger overland traffic will be facilitated.

Environment

- introduction of waste water and solid waste collection and treatment systems meeting EC requirements;
- introduction of solid waste disposal systems and infrastructure compliant with EU requirements;
- closure of non-compliant landfills, with priority to those posing a risk to human health, to the contamination of natural resources, and which threaten natural habitats and biodiversity;
- improvement of environmental protection, to the benefit of human and animal health and preservation of natural resources, natural habitats and biodiversity;
- improvement of efficiency and sustainability of waste water and solid waste collection and treatment systems;
- creation of new jobs in the environment sector;
- enhanced management capability.

5 Forms of assistance to be provided

The above priorities and objectives shall be implemented through one single operational programme which, for the period 2007-2009, will focus on transport infrastructure, particularly on the continuation of the Development of the South East Europe Core Regional Transport Network (corridors VIII and X). This focus is in line with the political priorities set out in the European Partnership and the MOU signed in June 2004 between the representatives of the countries and of the administrative entities of the Western Balkans and the Commission. It is also consistent with the relatively advanced stage of project preparation, including with previous EU funding, and with commitments undertaken by other donors.

Part of the operational programme will cover also support for clearly targeted investments in the environment sector, with focus on waste water treatment and solid waste management, where the impact to the population and natural environment is the greatest. Over the period 2007-2013 the percentage of resources allocated to the environment sector will be progressively aligned with other candidate countries, in line with the needs of the country, the development of adequate strategies and investment planning and the capacity to prepare and implement infrastructure investments in the environment sector.

6 Financial Indications

The following table presents the financial indications for each major area of intervention.

Table 8: Financial indications – *Component III "Regional Development"*

Environment	20 % - 30 %
Transport	70 % - 80 %

Component IV – Human Resources Development

1. Current situation

Employment

Republic of Macedonia, which entered independence with an unemployment rate of approximately 24%, underwent a difficult transition period which resulted in a difficult labour market situation, characterised by low activity and employment rates and high unemployment, and in increasing poverty levels. The restructuring of the economy led to an overall decline in labour demand, as the low growth dynamics and the poor business environment failed to create a sufficient number of job opportunities. The transition has brought about little changes in the employment sectoral structure and in labour reallocation from less to more productive jobs. Foreign and local investment, with exception of textile and steel industries, has been low due to the high level of political instability in the country and the Balkans in general. A high tax burden on registered labour and the lack of flexibility of the labour legislation to allow for part-time and fixed-term jobs are other major reasons for the low job creation. So far employment growth appears to be driven mainly by the restructuring processes and is hardly responding to the acceleration of economic activity.

As a result, the activity rate has remained particularly low (some 56% of the labour force - 2004), especially among women and, even more, ethnic minorities. The employment rate has basically stagnated at an extremely low level, around 35%, varying according to the education level⁹ and ethnical origin. Compared with 2004, the number of employed persons increased however by 4.3% in 2005. In terms of gender, in 2004 the employment rate of men (44.4%) was about 16 percentage points higher than women's one (28.8%).

Officially registered unemployment was estimated at 37.3% (in 2005, and 39.3% in 2004), with limited gender disparities¹⁰. Unemployment is especially widespread among young people (unemployment rate of about 71% in 2004 for people aged 15 to 24), whose employment rate is also extremely low (11.5% in 2004), and among people with low education. Long term unemployment is particularly high (33.5% in 2004, about 85.4% of total unemployment¹¹), also because of lack of resources for implementing a preventive approach and for policies to get long term unemployed closer to the labour market.

However, officially registered unemployment also includes a significant number of people who register as unemployed mainly to be included in the free health insurance system¹². Official labour market data contain a high degree of uncertainty also due to the significance of the grey economy, which according to rough estimates accounts for more than 30% of GDP. Disincentives associated with taxation, high non-wage labour costs, the over-regulated

⁹ People who completed lower secondary education or less (2003): employment rate of 20.7%, 29.2% (men), 14.1% (women). People who completed tertiary education: 63.6%, 62.8% (men), 64.4% (women).

¹⁰ A difference of about one percentage point in 2004.

¹¹ Those unemployed for less than one month account for only 1% of the registered unemployed.

¹² 359.989 unemployed persons are registered in Employment Service Agency (ESA); 242.678 of them were health insurance beneficiaries at the end of 2005. According to estimates, making the free health insurance independent from being registered as unemployed could reduce the number of registered unemployed by 70.000 – 120.000 units, bringing the unemployment rate down to about 24-30%.

economic system, the system of incentives and sanctions (the administrative capacity of the labour inspectorates needs to be significantly strengthened) are often quoted among the main reasons for informal work.

The foreseen employment growth (1.25% in 2006 and 1.5% in 2007), given the increase in labour supply, is expected to bring limited improvements as for the unemployment levels (36.5% in 2005, forecasts for 2006 and 2007 respectively 35.6% and 34.4%).

Notwithstanding its limited size, the country presents significant geographical employment disparities. The employment rate in 2002 ranged from 43.2% (South-Eastern region) to 18.5% (Polog region). In 2004, out of the then 123 municipalities (84 since 2005), one quarter had an unemployment rate higher than 50%¹³. Regional unemployment is particularly high in rural areas¹⁴ (hosting about 40% of the population) and in areas dependent on industries especially hit by restructuring. One of the reasons for regional disparities is also the low geographical mobility, often due to an inefficient rental housing market and lack of information on job opportunities elsewhere in the country.

Primary responsibility for employment policy rests with the Ministry of Labour and Social Policy. Implementation is done mainly via the Employment Service Agency (ESA). Employment policy reforms started only very recently. In addition to a revision of the labour regulations, the employment policy is being re-focused on active labour market measures for job creation, for activation of jobless people and for human resource development. There is a need to modernise the administration in this field and to provide adequate resources. The most urgent initiative is the re-organisation of the health insurance system to remove the incentive for large numbers of non-jobseekers to register as unemployed.

Education

Almost half of the population in the country (49.39%) and about 42% of unemployed have not gone beyond primary education. The enrolment ratio for primary education is high, which is reflected in relatively high literacy rates. However, insufficient investment during the last two decades has had a negative impact on the overall education quality and relevance and the participation rate in higher education is still relatively low. International assessments of student competencies at various levels, e.g. PISA, point to the relatively low efficiency of the education system. The percentage of early school leavers was about 32% in 2002. Access and permanence in education is lower for minorities and in particular for the Roma population, which records the highest percentage of early school drop-outs. There are also differences between urban and rural areas. The Tempus programme enabled some progress in reforming the higher education system. The National Parliament completed (June 2006) the first reading of the new Law on Higher Education, supposed to ensure the implementation of the Bologna Declaration principles¹⁵,

The relations between the initial and the continuous vocational education and training are weak. The country has made efforts to develop its initial vocational education and training

¹³ The majority from the Skopski and Pelagoniski regions, peaking in the Zelino municipality (almost 80%).

¹⁴ Even within urban and rural areas unemployment rates differ widely, with rates between 27 % and 59 % in urban areas and 24 % and 67 % in rural areas.

¹⁵ Especially with regard to issues such as a single credit transfer system; a higher education system featuring three cycles; quality assurance; compulsory issuance of diploma supplements and the development of lifelong learning principles.

(VET) system¹⁶: Reforms and programmes, such as the "Development of education together 2005-2015" national programme and the Law on Higher Education, have been launched in recent years to address these aspects, but need to be successfully implemented.¹⁷ Only about 50% of the labour force reached secondary education and the majority in this group (some 65%) attended vocational training. The share of university graduates in the labour force is about 15%. There is then a need for raising skills and for adult education, currently under-developed. The participation rate of people aged 25-64 in education and training was below 2% in 2003.

Educational programmes have become outdated and there is a mismatch with respect to labour market needs. Unemployment rates among secondary school-leavers are then high and job search periods long. The difficulties in the labour market have resulted in an increase in the number of students and also in the emigration of the highly educated ones.

Social inclusion

Poverty in the country has been increasing in the past, also because of a low level of employment coupled with growing inequality. According to the World Bank indicator¹⁸, in 2003 21.7% of the population was living below the poverty line (20.4% in Skopje, 22.3% in rural areas). About 51% of the population suffers from various forms of poverty.

Living conditions differ significantly by area according to the ethnical origin, linked to a participation in the labour market which varies substantially: ethnic Albanians (about 25% of the overall population), ethnic Turks (3.9%) and Roma (2.7%; 6.8% according to unofficial figures) score very low employment rates and high unemployment rates. An overall strategy for social inclusion is to be developed.

2. Major areas of intervention and goals

The pillars of the *component IV* intervention will be:

- A. Employment - attracting and retaining more people in employment.
- B. Education and training - investing in human capital through better education
- C. Social inclusion - promoting an inclusive labour market

The *component IV* objective of preparing for the management of structural funds will be pursued by a learning-by-doing process across the three pillars and by specific technical assistance interventions (complementary to the ones funded within *component I*), so to strengthen the administrative capacity for preparation, management, implementation, monitoring, audit and control of ESF-type measures at both national and regional levels.

3. Main priorities and objectives

¹⁶ The secondary VET system is currently being transformed, redefining its role, the structure and curricula of lower vocational education and reforming post-secondary education, to improve labour market relevance and information on skill needs, as well as the overall quality of education.

¹⁷ The decentralisation process in education started in July 2005 and the Ministry of Education has to ensure smooth and gradual transfer of responsibilities to local authorities over the next years.

¹⁸ Data on poverty as measured using the international poverty line of PPP-corrected US \$4.30 per day. Poverty Assessment for 2002-2003. The World Bank, October 2005.

The identification and description of the main priorities takes the funding available for the period into account.

A - Employment - attracting and retaining more people in employment

- *Further developing the employment agency and improving the employment services:* This system intervention is essential to provide an adequate framework for labour market policies and measures. It will also build on the results of previous and current assistance.
- *Supporting the implementation of the employment strategy and JAP:* IPA can intervene to support the implementation of the national action plan for employment (NAPE) and, when concluded, the Joint Assessment Paper (JAP), involving all relevant stakeholders and also by appropriate capacity building for analysis, implementation and assessment.
- *Tackling the labour market situation of young people, women and long term unemployed:* Pilot projects can be launched to address the difficult employment situation of young people, to raise the employment participation by women and to favour (re)insertion of long term unemployed, in particular via job creation initiatives and preventive measures.
- *Turning the informal into formal:* The size of the grey economy calls for pilot initiatives and interventions, including a more strategic approach, the involvement of social partners and the reinforcement of labour inspectorates.

B - Education and training - investing in human capital through better education and skills

- *Modernising the educational and training system:* IPA will intervene to support the implementation of the reforms in this area, also by fostering the involvement of relevant stakeholders, in particular to enhance the quality and the promotion of knowledge, research and innovation to obtain a better match between education and labour market needs, and with a view to innovation and the knowledge-based society by fostering the involvement of relevant stakeholders.
- *Enabling access to quality education for ethnic communities:* A specific priority concerns ensuring access to education, and to quality education, to all ethnic communities, in particular ethnic Albanians and Roma.
- *Developing adult education and lifelong learning:* Pilot projects, also in terms of studies and consultation of different stakeholders, in particular social partners, can be founded to pave the way to the lifelong learning strategy and favour its implementation.

C - Social inclusion - promoting an inclusive labour market

- *Fostering social inclusion of people and areas at disadvantage:* IPA will intervene in this field, also in the context of the implementation of the Joint Inclusion Memorandum (JIM), in particular with a view to integration of people at disadvantage in employment and to support a strategic multi-dimensional approach to social exclusion and poverty.
- *Integration of minorities:* The difficult social situation of minorities, in particular ethnic Albanians and Roma, calls for specific interventions in this field, e.g. via pilot projects.
- *Empowering relevant actors:* IPA can intervene to enhance the active participation of the civil society, including NGOs and social partners, in the decision-making process and its capacity to contribute effectively in the definition and implementation of social inclusion policies, also by promoting partnership, networking and project management skills.

4. Expected results and time-frame

One core objective of IPA component IV is to prepare for effective ESF implementation and management: a key expected result is hence the acquisition of experience in this field, both by a learning by doing process and by specific technical assistance interventions.

The other core objective is to support policy development in the employment and social fields, in particular in the areas covered by the ESF regulation. Within the limitations implied by the level of IPA funding, the support to the priorities listed under section 3 should then contribute to:

- *Through assistance to systems:* Improved capacity of institutions and relevant actors in the areas of employment, education and training and social services, in terms of good policy and programme design, implementation, monitoring and evaluation.
- *Through assistance to persons:* Enhanced employability, social inclusion and human capital of people who benefit from the interventions, in particular of young people and women.

The results are expected to be achieved gradually along the IPA programming period, following the implementation process of component IV interventions.

5. Programmes to be implemented and the type of assistance to be provided

Component IV will be implemented through a single Operational Programme.

Interventions will be implemented in close coordination with the Tempus programme, part of the 2007-2009 Multi-Beneficiary MIPD. Dissemination and exchange of best practices in the targeted areas will be further enhanced.

6. Financial indications

The table below lists the indicative financial weight for major area of intervention.

Table 9: Financial indications – *Component IV "Human Resources Development"*

Employment	40-50%
Education and training	30-40%
Social inclusion	20-30%

Component V – Rural Development

1. Current situation

Agriculture plays an important role in terms of employment and economic output. According to the State Statistics office of the country the gross value added of agriculture, including forestry and hunting, accounted for 11.4% of total GDP in 2004. In 2005, 19.5% of the population was employed by activities related to agriculture, hunting and forestry. The actual figures might be even higher, as almost half of the population live in rural areas.

Half of the country's area is agricultural land (1.26 million ha), out of which 560 000 ha is cultivated land and 704 000 ha permanent pastures. Subsistence and semi-subsistence farming is a significant feature of the country's agriculture which is dominated by small and highly fragmented family farms. The average size of agricultural land per household is 1.4 ha and it is made up of small parcels of land of 0.3-0.5 ha and used mainly for self-sufficiency and only small surpluses are marketed locally. Individual farmers own or lease 80% of cultivable land and the rest is owned by the state and leased by agricultural enterprises and farmers. In terms of quantities produced, private holdings are more important than agricultural enterprises.

Republic of Macedonia is a land-locked country with three different climate types: Mediterranean in the southern areas and following the flow of the Vardar River, mountainous as well as continental moderate climate which covers the most important share of the area. The performance of agricultural sector is constrained by several factors and the development of the sector has not been among the key priorities addressed since the country became independent. Considering the importance of the sector in terms of GDP and employment, the Government expenditure in the sector is rather low. Before the membership of the WTO the country's policy in the agricultural and food sectors was based on high import protection and restrictive trade barriers. The state interventions were criticized for lack of coherence causing income insecurity for farmers. After joining the WTO the country has introduced a new methodology for delivering budgetary support based on payments per ha and/or per animal head. The biggest recipient sectors are barley, lamb, cattle breeding, maize and establishment of new vineyards and orchards.

However, a more strategic approach is needed in order to tackle the most pertinent problems. Primary production is hindered by such constraints as inefficient use of land due to land fragmentation and a large share of abandoned arable land, lack of irrigation and dependency on weather conditions due to low technology production systems and lack of quality inputs such as fertilizers. Agricultural enterprises face various constraints such as lack of collection, distribution and management systems for fresh products. The quality of the products suffers from a lack of infrastructure for processing, labelling, packing and marketing.

The country is a WTO and a CEFTA member and has signed ten FTAs, including one with EFTA. It is also a member of CEFTA and has concluded an SAA with the EU. According to the SAA the country has unlimited duty-free access to the Community for its exports of all basic agricultural products with some exceptions (beef, wine and sugar under tariff-rate quota). However, the country is having only one dairy and eight slaughterhouses that are granted a license to export to the EU and therefore the capacity to benefit from the free trade agreements is low. Instead of benefiting from the agreements the country is facing pressure, for example, as regards large imported quantities of cereals. The EU 25 is the most important

trading partner for the country. The main other trading partners are Serbia and Montenegro, Croatia, Bosnia and Herzegovina, and Turkey.

Apart from the problems in the agricultural sector, development in rural areas is constrained by lack of basic infrastructures and services. Rural areas suffer from poverty, high unemployment and lack of alternative living sources to agriculture. Agricultural sector is also challenged by such environmental issues as agricultural land management and land preservation, treatment of agricultural and animal waste, water management, lack of proper irrigation systems and lack of training for farmers on environmental issues.

As a consequence of the various constraints facing the agricultural sector the Republic of Macedonia is a net importer of agricultural and food products. However, the situation has improved and the country is moving towards a positive balance with the EU with regard to basic agricultural products. In 2005 the EU exported to the Republic of Macedonia around 130 million € of basic agricultural products, where the country exported to the EU around 114 million €.

Despite constraints, the agricultural sector has many advantages due to the climatic and geographical conditions that are favourable especially for horticultural crops and lamb. The soil is fertile, the country is having a range of micro-climates and natural upland pastures. The country's competitive advantages in agriculture lie in labour-intensive sectors and the most performing sectors are tobacco, lamb, beverages (wine, mineral water and spirits), vegetables and fruits. Those products are also the country's main agricultural exports. FDI has been mainly directed towards breweries and tobacco manufactures.

2. Major areas of intervention

Component V has the specific triple long-term objectives of preparing the agri-food sector to meet the requirements of the EU *acquis*, helping the beneficiary country to get ready for effective implementation of programmes under the European Agricultural Fund for Rural Development (EARDF) upon accession and contributing to the sustainable development of rural areas. Therefore the main policy objectives under *component V* are:

Priority axis 1: to improve market efficiency and the implementation of Community standards regarding public health, environmental protection, animal welfare and occupational safety.

Priority axis 2: to launch preparatory actions for implementation of agri-environmental measures and the "Leader-approach" in order to contribute to the sustainable development and to the development of public-private partnerships in rural areas. However, considering complexity involved in preparation of such measures their implementation shall be launched at later a stage, most probably after the year 2009.

Priority axis 3: to contribute to the development of the rural economy.

These policy objectives are addressed by specific measures which are presented in this document and are to be further detailed in subsequent programming.

3. Main priorities and objectives

3.1. Horizontal issues:

The European Partnership identifies a number of short and medium-term priorities for the agricultural and rural development sectors as well as for the improvement of food safety. In the short-term the country should speed up the registration of agricultural land in the real estate cadastre, it should adopt the necessary legislation and set up suitable administrative structures to operate EU instruments related to rural development, including preparations for setting up an implementing agency. In the medium-term the country should develop an overall strategy on rural development and complete preparations for the implementing agency. These issues need to be addressed already at an early stage in order to make use of the pre-accession assistance provided for by *component V*.

Implementation of pre-accession assistance requires well functioning inspection services (in the field of public health, environmental protection, animal and plant health, animal welfare and occupational safety). Such services must be able control the respect of Community standards of projects supported under *component V* and to issue supporting documents required for the application of support. Therefore, the legislative framework must be in place in this particular field. Moreover, the administrative services under those sectors to be supported under IPA have to be functional to the extent necessary when programme implementation starts (to be addressed under *component I*).

In addition, given the experience from implementation of the SAPARD-Programmes¹⁹ it is strongly recommended that the country ensures the capacity of the extension services to be able to assist the potential beneficiaries in applying for assistance and considers whether specific actions are needed in order to facilitate the access to credits for beneficiaries. Considering human and budgetary resources required to set up a relatively complex implementation system, it is recommended to focus on a few clearly defined activities in the beginning of the implementation of assistance. The scale of measures can be widened after the first years of implementation upon the negotiations between the Government and the Commission or, alternatively, some of these measures could be addressed by national schemes or schemes supported by other IFIs. Therefore, a close cooperation and coordination between the Government, the IFIs and the Commission is of utmost importance.

Technical Assistance may be granted for activities related to preparation, monitoring, evaluation, information and control activities which are necessary for the implementation of assistance. In elaboration of the rural development programme the experience achieved as a result of implementation of national rural development schemes and the projects of the IFIs and the EU shall be taken into account and integrated into IPA-programming along with the experience achieved in SAPARD-countries²⁰. These experiences are to be viewed also in the ex ante-evaluation of assistance. The ex ante-evaluation is to be carried out in parallel with the elaboration of the rural development programme.

3.2. Priority axes

The following priorities are to be implemented from the very beginning of programme implementation. It has to be noted that *priority axis 2* will be implemented at later stage.

Priority axis 1:

¹⁹ Pre-accession assistance for agriculture and rural development for the years 2000-2006.

²⁰ In Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Romania and Bulgaria.

Under priority axis 1 the potential key issues to be addressed are:

- Investments in agricultural production to restructure and upgrade the sector to Community standards and to increase competitiveness. Moreover, the agricultural production sector should be developed to deliver products in satisfactory quantities and quality.

The ultimate goal of the pre-accession assistance under *component V* is to prepare the agricultural sector for the EU accession and therefore the upgrading of the farms and the food establishments to meet the EU environmental, hygiene, food safety and animal welfare standards is of high importance. Support granted towards the achievement of these objectives should mainly be concentrated on sectors where the related *acquis* standards to implement are particularly comprehensive and demanding like in the dairy, meat, rendering and fish sectors. In those sectors an in-depth analysis must be carried out. Investments in food processing establishments should mainly target SMEs and should focus specifically on the weakest links in the production, processing and marketing chain of each sector chosen according to *acquis* relevance. Support of investments under *component V* should be linked to the national plan for upgrading of establishments. Establishments already certified for EU markets are not beneficiaries under IPA. Investments in farms should target those farms which are active in the most EU *acquis*-relevant sectors.

The economic viability of the beneficiary when the investment is concluded must be proved. Specific details defining the type of eligible beneficiaries will be defined in the framework of the rural development programme. To achieve the priorities of pre-accession assistance, the priorities in the agri-food sector as detailed in the National Strategy for European Integration²¹ and considering the situation in the agricultural sector as detailed in this document the measures to be implemented under the *priority axis 1* shall be as follows: "Investments in agricultural holdings to restructure and to upgrade to Community standards" and "Investments in processing and marketing agriculture and fishery products to restructure and to upgrade to Community standards".

Priority Axis 3:

Under *priority axis 3* the potential key issues to be addressed in country are:

- Investments to develop and to diversify economic activities in rural areas will help rural population to build up economic activities (on and off farm) creating additional income sources and employment opportunities in rural areas.

Considering the high unemployment level in the country and the fact that the future reorganisation of the food industries might result in negative employment effects it is suggested that the measure "Diversification and development of rural economic activities" will be implemented in order to achieve the goals of the *priority axis 3*. Moreover, given the need to improve the rural infrastructures in the country it should be considered whether the infrastructures could be supported under the national schemes or support programmes of IFIs.

²¹ In the National Strategy for European Integration the objectives for the development of the agriculture sector are detailed as follows: 1. Enhancing the capabilities of Macedonian agriculture to compete in the integrated regional markets in the European Union and in South-East Europe; 2. Increasing the efficiency of agricultural production, processing and marketing; 3. Establishment of appropriate, effective public and private institutions to support agricultural development; 4. Increase of agricultural revenues; 5. Securing access for consumers to healthy and safe food; 6. Optimal utilisation of the country's limited land resources, forests, and water in an environmentally acceptable manner; and 7. Establishing sustainable rural communities through continuous rural development.

4. Expected results and time frame

Considering the triple objective of *component V* the expected results are as follows:

Priority axis 1:

- Improved income of the agricultural producers;
- A better use of production factors on agricultural holdings;
- Improved production conditions in terms of compliance with EU standards;
- Increased added value of agricultural and fishery products through improved and rationalised processing and marketing of products;
- Increased added value and competitiveness of agricultural and fishery products through compliance with EU quality, health, food safety and environmental standards;
- Improved competitiveness of the food processing industry in selected sectors;
- Improved processing and/or marketing of quality agricultural products as well as better preparation of the implementation of CMOs in the beneficiary sectors through the setting up of producer groups.

Priority axis 3:

- Improved quality of life of the beneficiary rural population;
- Increased income of the beneficiary rural population through the development and diversification of on-farm and/or off-farm activities;
- Creation of new employment opportunities through the development and diversification of on-farm and/or off-farm activities.

Specific objectives for *priority axis 2* will be identified along the negotiations to be taken place at later stage. Specific indicators to assess output, results and impact of assistance will be defined at programme level and will be covered by ex ante-evaluation.

5. Forms of assistance to be provided

IPA funds under *component V* will be implemented through the rural development programme which will address the main priority axes and a selected set of measures under each priority. It is expected that a large number of applications will be generated under the programme which will require sound management of a substantial number of projects. As under all rural development programmes, such projects are generally relatively small. Consequently, assistance will be implemented by the beneficiary country in the framework of a system which is fully decentralised subsequent to an ex-ante audit performed by the Commission prior to the conferral of management of aid and with ex-post control by the Commission. To this end the country has to set up a managing authority to be responsible for the elaboration of the rural development programme, the efficiency and correctness of the related co-ordination as well as reporting on the monitoring and evaluation of pre-accession assistance. A sectoral monitoring committee shall be set up in order to monitor the implementation of assistance by the National Fund and the implementing agency. Financial assistance under *component V* will be consistent with the principles applied to EU rural development programmes. Assistance will mainly be granted in the form of support for private investments undertaken by natural or legal persons such farmers, food processing and marketing enterprises, co-operatives and producer groups.

6. Financial indications

The table below lists the indicative financial weight for major area of intervention.

Table 10: Financial indications – *Component V "Rural Development"*

Priority axis 1	50 % - 80 %
Priority axis 2*	
Priority axis 3	20 % - 50 %

*At present stage the allocation for *priority axis 2* is not defined and it will be subject to negotiations at later stage.

INDICATIVE ALLOCATIONS TO MAIN AREAS OF INTERVENTION	
<i>Republic of Macedonia</i>	
Component I (Transition Assistance and Institution Building)	
Good governance and the rule of law	25 % - 40 %
Economic development and social cohesion	10 % - 25 %
Ability to assume the obligations of membership	35 % - 50 %
Programming Support and Participation in Community Programmes and Agencies	5 % - 15 %
Component II (Cross-Border Co-operation)	
CBC with Bulgaria	22 %
CBC with Greece	24 %
CBC with neighbouring CCs/PCCs and participation in ERDF transnational/interregional programmes and ENPI sea basins programmes (as appropriate)	54 %
Component III (Regional Development)	
Environment	20 % - 30 %
Transport	70 % - 80 %
Component IV (Human Resources Development)	
Employment	40 % - 50 %
Education and training	30 % - 40 %
Social inclusion	20 % - 30 %
Component V (Rural Development)	
Priority 1	50 % - 80 %
Priority 2 (not foreseen for the present MIPD)	
Priority 3	20 % - 50 %

Annex A

CROSS CUTTING ISSUES

The major cross cutting issues to be tackled in the Republic of Macedonia are:

- **Civil Society** will be supported by the European Initiative for Human Rights and Democracy and the IPA financial framework. Civil Society is understood including employer's organisations, trade unions, associations of local self-governments as well as any other non-governmental organisation. A justified balance has to be kept between Western Balkans' regional activities for civil society and specific activities along the national IPA programmes.
- **Environmental considerations** will be duly reflected in all IPA financed activities, in particular for projects requiring environmental **impact assessments**.
- **Equal opportunities and non-discrimination** will be respected as regarding gender as well as minorities and vulnerable groups at the programming and implementation stage, particularly in relation to socio-economic support programmes.
- Furthermore **minority and vulnerable groups' concerns** will be reflected in all activities programmed under IPA, in particular when it concerns public services, legislative matters and socio-economic development.
- Specific action instruments for the **good governance**, with particular attention to **fight against corruption**, will be incorporated on a horizontal basis.