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Instrument for Pre-Accession Assistance (IPA)

MULTI-ANNUAL INDICATIVE PLANNING DOCUMENT (MIPD)

2009-2011

THE REPUBLIC OF MACEDONIA

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Executive Summary

The overall objective of pre-accession assistance is to support the country's efforts to comply with the Copenhagen accession criteria and to help prepare the country to meet the challenges of future EU membership. Against this background pre-accession assistance for the period 2009-2011 is concentrated on three 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

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

Institution Building is the core activity of *component I*. Within this component, further support will be provided to meet the "political criteria", reflecting the key priorities set out in the Accession Partnership. Key challenges to be supported through financial assistance are: the further improvement of governance and the rule of law, the full implementation of the *Ohrid Framework Agreement*, the need to create a stable and professional civil service, to fight corruption, to ensure full independence, efficiency and accountability of the judiciary and to strengthen civil society dialogue. Furthermore, pre-accession assistance aims at supporting economic development and social cohesion and it will help the country with adopting the *acquis* as well as with building institutional and administrative capacity to transpose, implement and enforce Community standards. And finally, pre-accession assistance shall help prepare the country for decentralised management of EU funds.

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 programmes with Albania, Bulgaria, Greece and the participation in the ERDF European Territorial Co-operation transnational programme "South-East Europe", while continuing to develop bilateral CBC programmes with the other Western Balkan neighbours.

Through IPA components III to V, EC assistance will help to prepare the beneficiary for participation in the **Community's cohesion and rural development policy** from the date of accession. Owing to limited financial resources, support under *component III* is concentrated in the early years on the transport and environment sectors, while regional competitiveness will be added from 2010 onward. In the transport sector support will help to complete corridors VIII and X. In the environment sector the priorities are targeted at introducing waste water collection and treatment systems; an integrated waste management system that meets EU requirements. *Component IV* will support activities in the area of employment, education and social inclusion. For employment, the aim is to modernise and improve services delivered by the Employment Service Agency and to support measures to improve the functioning of the labour market. Activities related to education are aimed at modernising education and training systems and providing access to education for minority 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 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 are aimed at progressively upgrading the agricultural production and processing sector to Community standards and at improving employment and income opportunities in rural areas.

The present MIPD 2009-2011 is based on an indicative financial envelope of 272.8 million euro.

Table 1 - Total indicative allocations for the covered period and per component (in percentage ranges).

COMPONENT	2009	2010	2011	TOTAL
I – Institution building	46.5%	39.3%	35%	40%
II – Cross-border cooperation	6.8%	6.2%	5.9%	6%
III – Regional Development	25.4%	31.9%	35.5%	31.5 %
IV – Human Resources Development	8.6 %	9.1%	9.5%	9%
V – Rural Development	12.5%	13.5%	14.2%	13.5%
TOTAL	100%	100%	100%	100%

Section 1 – Assessment of past and on going assistance

1.1 – Introduction

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

The candidate status has an important implication for pre-accession assistance. As a candidate country, the Republic of Macedonia has access to all five IPA components (subject to certain conditions). Furthermore, the European Commission will confer the management of IPA funds on the national authorities once the relevant structures and systems are in place and all conditions are met. However, until the conferral, the IPA components I and II will be implemented in a centralised but de-concentrated manner, i.e. by the EC Delegation¹. Components III to V can only be implemented once the EU has conferred the management of EU funds on the government.

Although the basic framework for setting out the priorities of EU assistance is the enlargement package, in particular the Accession Partnership, the coherence of the MIPD with the beneficiary country's own needs and priorities (as e.g. outlined in the National

¹ A small share of the funds is managed centrally by the European Commission in Brussels.

Programme for the Adoption of the Acquis, the National Development Plan, the National European Integration Strategy, the Ohrid Framework Agreement and sectoral strategy documents) has been ensured through consultations with the national authorities, which fully endorse this MIPD.

1.2 - Overview of past and ongoing assistance and lessons learned

1.2.1 – Overview of EC past and ongoing assistance

Since the independence of the country, the EC has substantially supported the Republic of Macedonia through various programmes, such as ECHO, Obnova, PHARE and the Emergency Response Programme. Macro-financial assistance has been also provided in the form of balance-of-payments support. In 2001, CARDS was launched to focus on political, institutional and economic transition. In 2007, with a view to streamline all pre-accession assistance in a single framework and under the same regulation, the new Instrument for Pre-accession Assistance (IPA) replaced CARDS and the other pre-accession programmes. The total assistance of the EC to the country since 1992 amounts to more than 1.1 billion euro.

CARDS

The EU's main institution for managing CARDS in the region - the European Agency for Reconstruction (EAR) - efficiently delivered substantial assistance. Starting its operations in 2002, the EAR took over responsibility for the previous programmes and moved forward the implementation of CARDS. The assistance portfolio managed by the Agency in the country amounts to some €326 million. By October 2008, more than 98% of this total had been contracted, and more than 92% disbursed. The EAR was discontinued at the end of 2008. All CARDS files, including Neighbourhood/CBC-Programs as from 2004, are now under the responsibility of the EC Delegation.

Following the crisis of 2001, EC 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. As the country's political and economic stability improved after the crisis, the scope of the financial assistance was widened to include institution-building in the key areas of the EU *acquis communautaire*. Four priority areas were 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 2: 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	67.6
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

*including EAR running costs

Assistance in the area of *democracy and the rule of law* has contributed to sound implementation of the Ohrid Framework Agreement, which stipulates equitable representation of the country's ethnic communities in the public administration and requires transfer of some responsibilities to local self-government units. EC support to the public finance and harmonisation of the administrative structure with the *acquis* has improved the public accountability of the country and its planning capacities. Support to Civil Society has contributed to improve 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, substantial support to the SME sector and to the adoption of the internal market *acquis* helped to improve the investment climate. Some progress can also be reported in the food safety, veterinary and phytosanitary sectors. Infrastructure projects helped to improve water supply and sewage systems, while roads and border crossings were upgraded. Support was provided to the development and implementation of employment action plans and improved vocational education and training systems. The Tempus programme has provided since 1997 considerable support to the modernisation and reform of the higher education system. In the field of *justice and home affairs* EC assistance contributed to strengthening capacities and structures of the judiciary, e.g. through the establishment of the Judiciary Training Institute and support to the Public Prosecutor's Office. CARDS 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 into line with EU standards.

EC 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 aimed at sustainable development.

IPA

The IPA 2007 national programme on transition assistance and institution-building was aimed at supporting the accession process in the field of democracy and the rule of law. Building on previous CARDS achievements, the programme provides support to the police reform, which has been given the highest priority, as well as judicial reform, and the revision and implementation of the public administration reform strategy, including equitable representation and civil society issues. It further targets at capacity-building for decentralised management of EU funds.

As regards *acquis*-related activities, substantial support will be given to the tax administration in order to strengthen regulatory bodies and administrative capacities and to support the country's efforts in complying with EU standards, in particular in the areas of insurance supervision and energy, with a view to contributing to better services for consumers as well as to improving the business environment. Further activities address the need for better statistics in line with EU standards, alignment of the national customs legislation with the *acquis*, and reinforcement of border controls.

In line with the projects on IPA 2007 and building on previous CARDS achievements, the National Programme for Component I for 2008 envisages strengthening the administrative capacity of the relevant institutions to ensure sound and efficient management of EU funds. It further aims at providing technical and material assistance to prioritised institutions, including

the Parliament, the Directorate for Personal Data Protection, the Ombudsman and the Unit for the implementation of the Roma Strategy, that have a key role in ensuring appropriate levels of transparency and accountability and protecting the fundamental rights of the citizens. Also, the national programme foresees assistance to foster civil society development and dialogue.

Concerning *Socio-Economic criteria*, EC assistance aims at strengthening the competitiveness of the economy and further improving the investment climate and business environment by providing support through Turn around Management (TAM) and Business Support Services (BAS).

In reference to *Ability to assume the obligations of EU membership*, support is given in the area of free movement of goods, the public procurement system, the Customs Administration and to specific areas to contribute to the development of the agricultural sector in the country.

Building on IPA 2007 experience, Project Preparation and Support Facility proved crucial in creating proper documentations for the EC assistance and its allocation remains the same for 2008. Both national programmes under IPA Component I – TAIB 2007 and 2008 support the participation of the country in a series of Community Programmes which are deemed essential for the country's further cohesion process. Support for programming needs of the country under five components of IPA is also envisaged.

Under IPA *Component II*, the different CBC programmes for the Republic of Macedonia for the period 2007-2009 have been adopted. They will be implemented through calls for proposals to promote sustainable development in the cross border area. Mirroring Structural Funds' Territorial Cooperation, this overall objective will be realised through specified priorities and measures involving economic, environmental and social development aspects. Technical assistance is foreseen to provide support to the structures of management and implementation of the programme.

Under IPA *components III, IV and V*, EU assistance will help to prepare the beneficiary to participate fully in 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 development and employment the strategic planning and management principles that guide the implementation of EU structural instruments.

1.2.2 – Overview of relevant IFI, multilateral and bilateral past and ongoing assistance

Since the crisis in 2001, the country has received significant attention from international agencies. All major International Financial Institutions (IFIs) are present in the field, such as the World Bank, which is the country's largest creditor, the IMF, whose multi-annual Stand-By Arrangement was in place from 2005 to 2008, the EIB and the EBRD. Member States as well as other countries (e.g. USA, Norway, and Switzerland) also provide significant financial support. IFI and bilateral financial assistance has not only decisively contributed to stabilising and improving the political, economic and social situation in the country but has also complemented the EU accession agenda, which is recognised by all members of the donor community.

In the area of public administration reform several donors are active. For instance, the UK supports the Government by enhancing administrative capacities in particular for EU integration. The Government of Norway, through the NORMAK project office, is providing support to policy development capacities in several state administration bodies. The French Government provides training support to government officers. The UN system (particularly

the UNDP) provides overall coordination support to the government as well as capacity-building. The Netherlands provide assistance to the State Audit Office and to the customs administration in the area of inward processing, simplified procedures, risk analysis, transit and development of an IT strategy. Public administration reform in the fiscal sphere is supported by the IMF and the Netherlands. As regards judicial reform, the country receives substantial support from a wide range of international community donors, in particular the World Bank.

In order to improve the business environment, including the financial sector, widespread support is given by the World Bank, the EBRD and USAID. Germany supports the country in complying with the *acquis* regarding the insurance supervision legislation and the establishment of the Insurance Supervision Agency. In improving the protection of property rights in the country, which is essential for a sound business environment and for attracting foreign direct investment, the World Bank has undertaken a number of projects to support the reform of the (real) cadastre. Complementary assistance has been provided by the Netherlands and by Sweden supporting capacity-building and training in the field of land management, real-estate registration and cadastre.

In the field of educational development, the Netherlands have initiated a series of projects aimed at improving the quality of learning and participation in education at school level by strengthening and modernising planning. Furthermore, a special attention is given to improve the situation for Roma by helping to reduce drop-out rates of Roma children in primary education. There is also valuable support in this area by USAID and the Roma Education Foundation.

In the areas of transport and environment major players are the World Bank, GEF, EBRD, the German KfW Development Bank, and KfW-Austria. Efforts in the environment sector focus particularly on environmental infrastructure development, such as solid waste and wastewater treatment, and trans-border water issues, as well as support to the development of the National Environment Investment Strategy. Through the KfW Development Bank, Germany supports the urban and rural water supply and wastewater disposal systems. At the same time, the institutional capacities of the beneficiaries are strengthened through appropriate accompanying measures. Sweden has assisted several pilot municipalities in developing local environmental action plans establishing methods and approaches adopted by the respective ministry and used all over the country.

Sweden, with its large portfolio in the area of agriculture, has provided continued support to the development of well-functioning and market-oriented farmers' organisations, and strengthening the federation of farmers, including policy development, institutional strengthening and business development, as well as support to the national agricultural advisory system (MAASP). In addition, Sweden has established good cooperation between the statistical offices of both countries, which has helped to improve agricultural statistics. The German commitment to development in the agricultural sector aims at the careful handling of water resources in the reconstruction and development of existing irrigation systems in selected programme areas.

Donor coordination needs to be further strengthened. After promising initiatives in 2006 and early 2007, the regular meetings organised by the administration stopped taking place. The Government's Secretariat for European Affairs took again the lead for overall donor coordination by organising a meeting in December 2008 with representatives from bilateral and multilateral cooperation institutions. It became clear that before entering into discussions at sectoral level, agreement had to be reached among beneficiaries and donors on guiding

principles. These were laid down by a working group of donors (EC, WB, UN, Austria, Sweden, US and Switzerland) and the SEA plus the Ministry of Finance. The core of these is the future use of a 'Programme-Based Approach' (PBA) which reflects the definitions by the OECD and the elements of the Paris Declaration on Aid Effectiveness and ensures that its implementation reflects, complements and enhances the beneficiary's effort to join the EU. The government also expressed its commitment to improve effectiveness of foreign assistance through a significantly strengthened government led coordination mechanism, driven by the EU accession process.

Donor coordination and consultation on the part of DG ELARG and the Delegation is taking place not only at the level of annual and multi-annual programming of IPA but also as regards the present MIPD 2009-2011. The skeleton of the draft document has been presented to the donor community in coordination meetings held in Skopje and in Brussels in October 2008. Furthermore, IFIs and Member States (as well as the beneficiary) have been given the opportunity to send written comments on the draft MIPD to the Commission. Comments have been incorporated into the draft MIPD in the most appropriate manner.

Last but not least, the European Commission organised a Donor Coordination Conference in Brussels in October 2008, where the Commission and Member States, together with the IFIs and non-EU donors, agreed to an active and affirmative approach concerning the need for enhanced donor coordination in the region. It was agreed that the Multi-Annual Indicative Planning Documents (MIPDs) could become a strategic instrument for donor coordination and that the consultation on the 2009-2011 MIPDs will be used as a key tool to determine areas of common interest and possibilities for sector coordination and division of labour. The results and plans for action stemming from such consultation were reported at the donor conference that was held in April 2009 in Albania.

1.2.3 – Lessons learned

Drawing on the experience gained from programming and implementing EU funds in the country, and on monitoring and ex-post evaluation reports, the following lessons have been learned:

- Implementation of assistance has required a level of flexibility commensurate with the administration standards in the country. In particular, the implementation of assistance faced challenges 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 sustainability represent bottlenecks to efficient implementation of pre-accession assistance. Therefore, on the one hand programming has to take account of scarce budgetary resources and on the other hand, the country has to allocate sufficient resources to complement EU assistance.
- **The beneficiary country needs to assume a high level of ownership** of EU assistance to programme implementation. It is necessary to take fully into account the country's own needs (e.g. as outlined in the relevant national documents) during programme planning and implementation. Co-financing requirements shall also contribute to increased ownership. Political will and coherent decision-making on the part of the beneficiary are essential to

rectify shortcomings in the implementation of pre-accession assistance and to ensure sustainability. .

- Although political will was often expressed at the highest levels, the national government experienced difficulties in **fulfilling the commitments** it had made in advance of project implementation, e.g. staffing, budgetary allocations, and completion of enactment of key legal provisions or administrative implementation arrangements (such as building permits). During implementation of IPA projects the fulfilment of the conditions will be closely checked to ensure that commitments are met before projects are launched and during their implementation.
- **Donor coordination** is of great importance in the preparation of programmes assistance. Recent proposals by the international community call on the Government of the country to establish the management capacity to coordinate donor activities. The Government's Secretariat for European Affairs role in leading overall donor coordination has improved since the end of 2008 and needs to be further strengthened; while the individual ministries would need to take the lead in managing sector-level coordination. The EC welcomes the efforts to apply the 'Programme-Based Approach' (PBA). It remains important, however, to continue reinforcing coordination on all levels and to ensure a smooth mechanism to solve emerging implementation issues.
- At national level, strong horizontal alignment (across sectors and stakeholders) could be achieved by **improving the coordination efforts among the ministries** and relevant departments.
- Both monitoring reports and practical experience show that to reduce the risk of creating backlogs, as regards the programming, **project maturity and strong conditionalities** are the key aspects of programming. Conditions should reflect the prerequisites for successful project implementation, such as the availability of personnel, co-financing, premises and material.

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

Section 2

Pre-accession assistance strategy for the period 2009-2011

2.1 Introduction

In this section strategic objectives and choices for IPA assistance over the period 2009-2011 are developed. This MIPD is based on the priorities identified in the Progress Reports and the Accession Partnership, and takes into account past and ongoing EU assistance, as well as the beneficiary's planning documents, such as the *National Plan for Adopting the Acquis*, the *National Development Plan* and the *Pre-Accession Economic Programme*.

The MIPD has been drafted in cooperation with all relevant stakeholders. Close coordination has been ensured through regular exchange of information, notably with the beneficiary, and

through meetings and consultation in Skopje with all Member States, the donor community and representatives of civil society.

EC assistance for all five components of IPA will be implemented under the *decentralised implementation system* once the European Commission has conferred its management on the national authorities. To this end, substantial assistance for capacity-building across the relevant structures is being provided through CARDS and IPA programmes. The application for the conferral of management powers with ex-ante controls, at least for Components I and III, is expected to be submitted to the Commission at the beginning of 2009.

2.2 Strategic objectives and choices for IPA assistance over the period 2009-2011

2.2.1. Strategic objectives for IPA assistance over the period 2009-2011

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 this last involves preparing for the implementation of the Community's cohesion policy by introducing strategic planning and management principles which guide the implementation of EU structural instruments.

Support to the improvement of governance and the rule of law needs to continue. Significant further efforts are needed to create a stable and professional public administration, particularly in terms of management of human resources and public finance. Continuous efforts towards achieving full independency, efficiency and accountability of the judiciary are necessary. In addition, a more comprehensive approach to fighting corruption is required. Overall, some further progress has been made in implementing anti-corruption policy. The legal and institutional framework has been strengthened and implementation has improved. However, further steps are necessary, in particular as regards implementing provisions on financing of political parties and election campaigns. Equally, further efforts are needed to implement fully the *Ohrid Framework Agreement*.

Significant efforts have been made to align the country's legislation with the *acquis*, particularly in areas related to the internal market. The country needs to intensify its efforts, in particular as regards agriculture, competition, environment, transport, justice, freedom and security. The country faces difficulties in implementing and effectively enforcing the legislation.

Furthermore, the economy faces deficiencies in a number of areas which have to be addressed through 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 people. The environmental standards are still very low. As the Accession Partnership underlines, investments are particularly needed in waste water and solid waste treatment systems. In the labour market, official data show low participation and high unemployment, in particular as regards long-term and youth unemployment. Significant employment disparities exist, geographically and by ethnic origin. Thus labour market institutions must be strengthened to help especially the weakest to be (re)integrated into the labour market. Furthermore, insufficient investment has had a negative impact on the overall quality of education, while the participation rate in higher education is still relatively low, which lowers the long-term growth prospects of the economy as a whole. 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.

EC assistance will be implemented under the decentralised implementation system once the Commission has conferred management on the national authorities. To summarize, pre-accession assistance will help the country, above all, to advance along the road to EU integration by supporting the country's efforts to comply with the Copenhagen criteria. Against this background pre-accession assistance will help to overcome the deficiencies that have been identified, by focusing in particular on:

- improving governance and the observance of the rule of law, in particular through support to public administration reform, the fight against corruption, judicial reform and reform of the police;
- supporting economic development and enhancing social cohesion; in particular by strengthening the business environment, especially the SME sector, developing an integrated research policy and by supporting the implementation of national and regional development plans;
- transposing the *acquis* as well as developing administrative capacity to implement and enforce the *acquis*, in line with the priorities identified in the Accession Partnership;
- preparing the country for the implementation of the Community's cohesion policy, in particular by focusing on the fields 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 investment to develop and diversify economic activity in rural areas;
- further strengthening the capacity of national administrations for the decentralised management of EU funds.

In addition, cross-border co-operation will be supported in order to contribute to closer links between border regions and to help improve cultural, economic and social development in the border regions.

Furthermore, certain *cross-cutting issues*, which are outlined in *Annex 4*, will be reflected in all activities programmed under IPA.

2.2.2. Strategic choices for IPA assistance over the period 2009-2011

In translating the objectives set out above into specific priorities for assistance within the three-year horizon of this document, a number of elements need be taken into consideration. These include, among others, the lessons learned, as outlined above, sequencing, programme maturity, absorption capacity, availability of funds and alternative sources of financing, and 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 made in this document.

Drawing on the assessment of strategic needs and priorities set out in the section above the strategic choices for the period 2009-2011 are concentrated on three 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

In the planning period 2009-2011 the major share of IPA assistance will be oriented towards ***Institution-Building***, which is delivered through *component I*. The funds under this component are substantial and allow a wide range of activities to be supported. Nonetheless, the strategic choice is concentrated around three areas of intervention, which are included in the priorities identified in the Accession Partnership: (i) implementation of sectoral reforms; (ii) transposition and implementation of the *acquis* and (iii) support to the implementation of decentralised management of EU funds.

- (i) Assistance will continue to support the consolidation and enforcement of sectoral reforms (i.e. public administration reform, judicial reform, police reform, etc.) that have been adopted.
- (ii) As regards to transposition and implementation of the *acquis*, and helping the country to comply with the Copenhagen criteria, priority will be given to areas where the harmonisation of legislation is an obligation linked to the implementation of the Stabilisation and Association Agreement, where the volume of legislation to be harmonised is particularly large, or where harmonisation requires costly investments that must be spread over many years.
- (iii) As a candidate country, the Republic of Macedonia has access to all five IPA components. Management of the funds will be implemented under the decentralised implementation system once the Commission has conferred its management on the national authorities. 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. Thus, assistance will help to develop further the capacity of the established DIS-structures and to develop accountable administrations and institutions, with appropriate capacity, including internal controls and audits.

Cross-border cooperation, managed through *component II*, will concentrate primarily on creating closer links between border regions, supporting joint environmental protection activities and improving the potential for tourism. Furthermore, through participation in the European Regional Development Fund trans-national 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 participate fully in the ***Community's cohesion policy and rural development instruments*** from the day of accession. Although the volume of funds available under component I for the period 2009-2011 is slightly decreasing on the account of the increase of funds for IPA Components III to V, it is still essential to ensure a strong concentration of priorities to be covered under institutional building in order to achieve greater impact in the specific 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 initially on the transport and environment sectors, and be delivered through a single operational programme. From 2010, it is envisaged to expand the scope of the assistance to activities fostering regional competitiveness. *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. Additionally, activities 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 should*** start already in 2009 to prepare their implementation after 2009.

All these activities, including the IPA Multi-Beneficiary Programmes², need to be closely coordinated in order to avoid overlapping and to ensure complementarities, not only in relation to each of the components but also in relation to other donors' activities, thus contributing to the implementation of the Paris Declaration for donor coordination.

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

2.3 Multi-annual planning by component

This section presents component by component the pre-accession assistance strategy for the period 2009-2011. As outlined in the Multi-Annual Indicative Financial Framework, the nominal allocations for each component for the period 2009-2011 are:

Table 3: The Republic of Macedonia: Multi-Annual Indicative Financial Framework*

COMPONENT	2009	2010	2011	TOTAL
I – Institution building	38.1	36.3	34.5	108.9
II – Cross-border cooperation	5.6	5.7	5.8	17.1
III – Regional Development	20.8	29.4	35	85.2
IV – Human Resources Development	7.1	8.4	9.4	24.9
V – Rural Development	10.2	12.5	14	36.7
TOTAL	81.8	92.3	98.7	272.8

* As adopted by Commission Decision COM (2008) 705 final of 5 November 2008. Figures are in current prices.

2.3.1 Component I – Transition Assistance and Institution Building

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 1'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) Political criteria
- (2) Socio-economic criteria

² In response to the international financial crisis, IPA regional and horizontal programmes can contribute to assist the candidate and potential candidate countries in managing its financial and economic consequences.

- (3) Ability to assume the obligations of membership
- (4) Support to programming and participation in Community programmes and agencies

Compared to the previous MIPD for the period 2008-2010 the major areas of intervention remain unchanged, as the overall objectives have not changed significantly. Taking into account the new time horizon, the key priorities as set out in the recent Accession Partnership and the country's own needs, as well as building on past and ongoing EU assistance, in particular the new IPA programmes, some minor modifications have been made as regards the strategic choices under this component. However, the majority of strategic objectives and choices remain unchanged, reflecting the medium-term nature of this document.

Thus, the main priorities of EU assistance through IPA in the major areas of intervention can be specified as follows:

2.3.1.1. Political Criteria

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. The emphasis will be on assisting (1) the implementation of a sound human resource management strategy, including a merit-based career system, and ensuring the implementation of the code of ethics, (2) the development of strategic planning capacities, (3) the development and implementation of sound public financial management and control systems, and (4) improving accountability and transparency. Support to the decentralisation process will continue. 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 and to provide for the protection of the EU financial acquis. More concretely, the fight against corruption as regards taxation benefited from closer cooperation with the public, resulting in an increase in the number of misdemeanour and criminal cases initiated by the Public Revenue Office. In this sense, significant efforts have been made to curb corruption, and need to be continued, mainly through the continuation in the alignment of the national legislation with the acquis and the criminalization of corrupt practices. An important element throughout the support provided to Public Administration Reform is to increase transparency and to improve civil society inclusion and participation. Support to "good governance" may also include capacity-building of democratic state institution, such as the Parliament.

In the field of ***judiciary***, EU assistance will help to complete the implementation of the *Strategy and Action Plan on Judicial Reform*, and possibly to develop it further, 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 need further attention include the independence and efficiency of the court system, the Public Prosecutor's office, the Administrative Court and the basic courts that have specialised departments for cases of organised and serious crime, the implementation of the juvenile justice system, and the *Academy for Training of Judges and Prosecutors*.

Despite ongoing IPA activities in support of the ***police reform***, it will be necessary to continue 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. In addition, significant further efforts are necessary in

order to step up the fight against organised crime, including trafficking in human beings, 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.

As regards ***human rights and the protection of minorities*** (beyond the scope of the *Ohrid Framework Agreement*), special attention shall be given to the implementation of the Roma Strategy and where appropriate, support given to access to education, justice and social welfare for members of all communities.

As the country is on its way towards accession, it is imperative in terms of sustainability and public acceptance to ensure that this process is managed in a democratic and transparent way, by seeking the broad participation of ***civil society*** in the overall process. Therefore, pre-accession assistance shall help to strengthen civil society dialogue and development. This will be done by treating civil society as a cross-cutting issue in the various projects (see Annex 4), but also by activities directly supporting civil society development. In particular, attention will be given to the implementation of the civil society strategy, and strengthening the capacities of the civil society organisations.³

More emphasis will be laid on the protection of ***cultural heritage*** in the context of the "Ljubljana Process". The new phase of the 2003-2010 Council of Europe and European Commission joint action "Integrated Rehabilitation Project Plan / Survey of the Architectural and Archaeological Heritage" (IRPP/SAAH) in the countries of South-East Europe, promotes regional co-operation and encourages the recognition of our shared European heritage by fostering reconciliation, cultural diversity, intercultural dialogue and economic complementarities in this part of Europe.

The "Ljubljana Process" aims at ensuring public and private funding for a significant number of the 26 "Consolidated Projects" among the 186 monuments on the Priority Intervention List, selected by national authorities because of the quality of the rehabilitation process carried out so far, their symbolic, historical and cultural value, and the economic potential of the projects.

IPA funds will be implemented under the ***decentralised implementation system*** (DIS) once the Commission has conferred its management on the national authorities. The necessary framework for DIS was established in the course of 2006 and 2007. After the adoption of the IPA Implementing Regulation (EC) No. 718/2007 of 12 June 2007, the country designated the necessary different bodies and authorities, ensuring that appropriate segregation of duties applies to the bodies and authorities under points (a) to (g) of Article 21, paragraph 1, in accordance with Article 56(2) of Regulation (EC, Euratom) No 1605/2002. The relevant Implementing Agreement and Operational Agreements between DIS structures have been developed and endorsed by the National Authorizing Officer (NAO), the Manuals of Procedures and Operational Guidelines have been signed, and capacity building is still delivered via intensive training and coaching.

The country's progress along its "DIS-roadmap" is on-going. The compliance assessment review phase by an external auditor started on 4th of August 2008, and was finalised in December 2008, with positive conclusions regarding Component I, III and IV.

³ Further cooperation with civil society organisations will be ensured through other IPA Components where assistance to various civil society organisations and associations is envisaged to be provided through calls for proposals. In addition, civil society is expected to benefit from other EU funded programmes, including the IPA Multi-beneficiary programme and the European Initiative for Democracy and Human Rights.

The national accreditation to the Operating Structures for IPA Component I and III was issued by the NAO on the 15th January 2009, and submission of application for conferral of management will immediately follow. Application for Component IV is expected shortly afterwards, once the national authorities have resolved the shortcomings identified in the compliance assessment report. After verification audits by Commission services, in order to formally complete the national accreditation, a Commission Decision would be prepared to grant DIS under Article 14 of the IPA IR, while maintaining Commissions ex-ante controls.

2.3.1.2. Socio-Economic criteria

Economic development and social cohesion are supported by pre-accession assistance through various channels. First, activities supporting the ability of the country to assume the obligations of membership (see below) add to enhanced development and cohesion by supporting the education⁴ and research framework and introducing the European *acquis* into national legislation and thus upgrading the framework for the functioning of the (market) economy. Second, activities envisaged under **components III -V** have a direct impact on economic and social cohesion. Third, measures to strengthen 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 those activities in the other sections of *component I* to 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 land and real estate as well as strengthening the cadastre. Furthermore, it is crucial to assist the country in establishing well-regulated and properly controlled and supervised financial markets, as they are essential to sustainable growth and a prerequisite for attracting investment. The support to innovation and strengthening the technological capacity of private and public sectors is also important. So far, IPA support has been given to improve supervision in the insurance and support the regulatory bodies in the energy sector.

In the area of **fiscal policy**, continuous assistance aimed at further improving the administrative capacity, on both central and local levels, (e.g. tax collection, expenditure control, etc.) may be envisaged.

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 laws and plans.

⁴

This includes financial assistance given through the Component I to TEMPUS in 2007 and 2008, which is programmed under the IPA Multi-beneficiary programme (where related activities are described in more detail).

2.3.1.3. 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 Accession Partnership. *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 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, 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 and further support to other regulatory and supervisory bodies in the area of financial services; developing enforcement capacity in the areas of anti-trust, state aid, protection of competition and of intellectual property, including the geographical indications. The need for support to strengthen the administrative capacity in the area of public procurement has to be assessed. Particular attention should be paid to improving the quality of financial services and addressing the issue of money laundering.

In order to implement effectively the EU framework for ***information society and media*** and the country's sectoral policies in this area, the administrative capacities within the public administration need to be closely monitored and, where necessary, upgraded. Capacity building is also needed for the regulatory bodies in order to enable them to properly carry out their functions.

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 transposition of the *acquis* and its implementation, in particular as regards controls and laboratories.

In the area ***energy***, support will be given to reorganising and strengthening the public administration and relevant institutions in the sector, to improving energy efficiency and the use of renewable energy sources, and to implementing the requirements of the Energy Community Treaty. Where appropriate, support will be given to the participation of the country in the ISIS initiative⁵

In the area of ***transport***, assistance will also be provided to implementing the European Common Aviation Area Agreement and the commitments made in the framework of the South East Europe Core Regional Transport Network as well as the addendum for a South East European Railway Transport Area. Support to regional infrastructure investments in accordance with the SEETO multi-annual plan 2008-2012 shall be foreseen. When applicable,

⁵ Support to nuclear safety and radio-active waste management will be foreseen within this MIPD. However, owing to the need to develop a harmonised approach across the region, it will be programmed under the Multi Beneficiary IPA programme, where it will be described in more detail.

assistance will be given to implement the foreseen Treaty establishing a Transport Community in South East Europe.

The **research** capacity needs to be strengthened, and actions need to be taken to facilitate integration into the European Research Area.

IPA is supporting the production of **statistics** of good quality and their dissemination. Continuous assistance in the area of statistics may be foreseen, especially to further development of the statistical infrastructure.

As regards **social policy, employment and education**, the capacities in central and local state institutions need further strengthening. Special attention should be given to enhance the mechanisms for efficient social dialogue.

IPA funds may assist the country's efforts to complete the implementation of the **Integrated Border Management** Strategy and Action Plan.

With regard to the **customs union**, it is necessary to further align the customs legislation and procedures with the acquis and to strengthen the customs administration in order to ensure its proper functioning.

With regard to **environmental protection**, particular attention will be given to the strengthening of administrative capacities including inspection capacities, to the alignment of legislation with the acquis (mainly concerning the sectors of water, nature, and air quality) 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.

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 and further strengthening of the administrative capacity in this area**

2.3.1.4. Support to programming and participation in Community Programmes and Agencies

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 2003⁶, 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. So far, the Government has expressed interest in participating, inter alia, in the following Community Programmes: 7th Research Framework Programme, PROGRESS, Competition and Innovation Framework Programme, Europe for Citizens, Culture, Life+, Media 2007, Life-long Learning, Youth in Action, Fiscalis, Customs, Prevention of and Fight Against Crime and the second Programme of Community Action in the field of Health 2008-2013. For some of these programmes, Memoranda of Understanding have already been signed and entered into force and the entry tickets for participation have been paid. Furthermore, the Government intends to participate in

⁶ 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

a series of Community Agencies (i.e. Cedefop, CPVO, EU-OSHA, ECDC, EMEA, EFSA, Eurofund, EMSA, EMCDDA, FRA, EEA, ERA, EASA).

For the preparation of projects and tenders a special facility will 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.

2.3.1.5. Expected results by the end of the period covered and measurable indicators

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, i.e. by end of 2011:

- the implementation of public administration reforms will have advanced significantly;
- the SAA and the *Ohrid Framework Agreement* will have been implemented by 2010;
- the *Strategy on Civil Society* will be implemented;
- the *Roma Strategy* will be implemented in line with the *Roma Decade*;
- 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*;
- A professional public administration is substantially established, where administrative functions are separated from the political ones, career development is merit-based and the code of ethics is respected; and
- The key laws and organisational structures for sound public financial management have been established and are operational.

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

2.3.1.6. Financial indications

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

Table 4: Financial indications – Component I " Transition Assistance and Institution Building"

POLITICAL CRITERIA	30 % - 45 %
SOCIO-Economic criteria	10 % - 25 %
ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP	30 % - 45 %
SUPPORTING PROGRAMMES	5 % - 15 %

2.3.2 Component II – Cross Border Co-operation

The Republic of Macedonia has benefited from Community assistance to participate in cross-border cooperation (CBC) programmes since late 1990s: first, 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 country received CARDS support to participate in the INTERREG III B CADSES trans-national programme. Implementation is on going and funds are still available in the Greek and in the Bulgarian CARDS CBC 2005 Programmes. The 2006 CBC programme only concerns Bulgaria and it still has to be fully contracted by the EC Delegation (after having taken over the responsibility from the European Agency for Reconstruction in September 2008).

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 the first projects entered their implementation phase. It is expected that CBC under IPA will benefit from the experience of existing institutions in the case of the former Yugoslav Republic of Macedonia, Bulgaria and Greece. However, under the IPA 2007 and 2008 Component II, CBC programmes at borders with the Western Balkan neighbours were limited to one single programme at the border with Albania.

2.3.2.1 Programmes under IPA Cross-border Co-operation Component

It is foreseen to continue cross-border cooperation at borders with current Member States, i.e. the CBC programmes with Greece and Bulgaria. These programmes operate on both sides of the border with *one* set of rules, for the purpose of financing genuinely joint projects for the common benefit of the two parties and through one multi-annual financing decision when the participating countries adopt the integrated approach.

The programme with **Bulgaria** is being implemented in shared management (under the sole responsibility of the Bulgarian managing authority, the Directorate General Programming of Regional Development at Ministry of Regional Development). The Commission adopted on 14 December 2007 the CBC Programme 2007-2009 between Bulgaria and the former Yugoslav Republic of Macedonia, the Financing Agreement was signed in October 2008 allowing both parties now to move forward with joint implementation.

The programme with **Greece** will be implemented under the so called transitional approach, (as laid down in Art. 99 of the IPA Implementing Regulation) which means in shared management on Greek side where the Managing Authority is the Ministry of Economy and Finance in Thessalonica, and in centralised management on the other side of the border (to become decentralised management upon conferral of management powers for Component II to the Republic of Macedonia by the Commission). The first Financing Agreement for the year 2007 was finally signed on 31 December 2008 and implementation, which may have enormous positive implications at all levels, must start soon.

Eligible regions (NUTS level III regions, or equivalent, along the border) are as follows:

Table 5: CBC with Bulgaria

<i>Bulgaria</i>	<i>The Republic of Macedonia</i>
Kyustendil	Northeast
Blagoevgrad	East
	Southeast

Table 6: CBC with Greece

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

Table 7: CBC with Albania

<i>Albania</i>	<i>The Republic of Macedonia</i>
Korce	Pelagonia
Diber	Southwest
Elbasan	Polog

As mentioned above, *Component II* also supports programmes at borders with the Western Balkan neighbours. In 2007, it was decided that since the conditions were not in place to support CBC with Kosovo⁷ and Serbia, the funds would be re-allocated to Component I, and only the CBC programme between the Republic of Macedonia and **Albania** was prepared and approved in December 2007. The Financing Agreement signed on 28th March 2008 foresees an execution under centralised management. Despite the difficulties for setting up joint implementing structures, both countries have reiterated their commitment to take action and organize a first joint meeting in 2009 and launch the first call for proposals as soon as possible.

In addition, building on the experience gained in the context of the CADSES programme, *component II* funds are financing the participation of the Republic of Macedonia in the trans-national programme "South-East European Space", under the European Territorial Co-operation objective of the Structural Funds.

⁷

Kosovo under UNSCR 1244/99

2.3.2.2. Major areas of intervention and goals

Building on initial achievements under CBC activities supported in the period 2004-2006, the MIPD 2009–2011 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;

CBC with Greece

- Economic development of eligible border regions for the promotion of entrepreneurship, the enhancement of human resources, the development of sustainable tourism and the protection of public health through cross-border activities.
- enhancement of the environmental resources and cultural heritage of eligible border regions

CBC with Albania

- Fostering cross-border economic, environmental and social development.
- Supporting the establishment of joint actions and strategies aiming at protecting and valorising the natural resources of the region.

Participation in the ERDF South-East Europe transnational programme

- Environmental protection (natural parks, lakes, rivers);
- Infrastructure (Border crossings, transport and environmental infrastructure);
- Economic development of border areas;

All programmes will include People-to-people actions and Technical Assistance/ Information dissemination activities.

2.3.2.3. Main priorities and objectives

The cross-border programmes aim to contribute to sustainable development, stability and prosperity of the border areas in the mutual interest of the citizens and institutions of two countries. The following are the main concrete objectives, agreed between the participating countries:

CBC WITH BULGARIA

- To 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 helping creating additional job opportunities as a result of cooperation among economic actors;
- To enhance the potential for tourism of the border region and to increase the number of foreign visitors, as well as to protect public health through cross-border activities.
- To promote common actions for the protection of the natural and cultural environment
- 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 Albania

- To support economic development with an emphasis on tourism: tourism activities extended, alternative types of tourism and small infrastructures developed.
- To promote sustainable development with an emphasis on protection, promotion and management of natural resources and ecosystems: joint environmental policies established; civil society involved in policy making; sustainable management of natural resources guaranteed.
- To intensify cultural exchange through people-to-people and institution-to-institution actions.
- To help the programme implementation and to contribute to timely delivery of results

CBC with the Western Balkan neighbours and participation in the ERDF

Only a single CBC programme, between the Republic of Macedonia and **Albania**, has been prepared. Indeed, since the conditions were not met in 2007 and 2008 to start supporting cross-border activities with Kosovo⁸ and Serbia, funds were re-allocated to Component I. In the course of 2009 it will be assessed whether preparations can start for future joint cross-border programmes at those border areas.

The following remain the main common objectives:

- To continue or to start activities aiming at protecting defined areas against environmental threats and degradation;

⁸ Kosovo under UNSCR 1244/99

- To achieve a secure and efficient border management by providing necessary upgrades of infrastructure;
- To improve local infrastructure and services in the environmental sector where these have a clear trans-national dimension;
- Enhancing competitiveness of local enterprises;
- Intensification of contacts among citizens from border areas;
- To help with programme implementation and to contribute to timely delivery of results.

2.3.2.4. Expected results

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

Regarding the CBC with the Western Balkan neighbours and participation in the ERDF

- Reduced level of water pollution and progress with reforestation;
- Less time-consuming border passing and acceleration of freight transport;
- Increased awareness of environmental issues
- Opportunities for economic growth and employment created;
- Operational Management structures established, to manage future programmes.

2.3.2.5. 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 trans-national programmes of the European Regional Development Fund (ERDF), the participation of the country will follow the implementing rules of those programmes.

2.3.2.6. Financial indications

Within the *component II* funds, the following indicative amounts are earmarked for CBC with Member States, the Western Balkan neighbours as well as for the participation of the country in the ERDF trans-national programmes.

Table 8: Indicative financial allocation by country and year (in EUR million)

CBC PROGRAMMES	2009	2010	2011	TOTAL
WITH BULGARIA	1.3	1.4	1.4	4.1
WITH GREECE	1.5	1.5	1.5	4.5
with neighbouring Western Balkans countries, Serbia and Kosovo ⁹ borders and ERDF programmes	2.8	2.8	2.9	8.5
TOTAL	5.6	5.7	5.8	17.1

As regards future CBC with the Western Balkan neighbours Kosovo¹⁰ and Serbia, the beneficiary countries will decide jointly with the European Commission when to start the programming process and what will be the concrete allocation of funds per border.

Table 9: Indicative allocation per programme by major area of intervention

CBC-Programme	Albania	Bulgaria	Greece
Economic development	90%	40% - 60%	30% - 50%
Tourism / Infrastructure		30% - 50%	20% - 40%
Building cross-border networks	Max 10%	10% - 20%	10% - 20%
Technical assistance		Max. 10%	Max. 10%

2.4 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”.

⁹ Kosovo under UNSCR 1244/99

¹⁰ See footnote 9 *supra*

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 in the transport and environment sectors, delivered through a single operational programme for the period 2008-2009. From 2010, support for regional competitiveness activities will be considered in light of the funding available, the capacity of the management structures and the general improvement of business environment, particularly for SMEs. Such future initiatives 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 Department (CFCD) as Operating Structure. 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.

2.4.1 Component III – Regional Development

a) Main areas of intervention, objectives and choices

The Strategy for assistance under *Component III*, which was identified in previous MIPD in line with the priorities set out in the Accession Partnership for the former Yugoslav Republic of Macedonia, will be maintained for environment and transport sector over the rolled over period 2009-2011. This strategy foresees support under *Component III* in the **environment and transport** sectors in order to contribute to the sustainable development of the country, i.e. to environment protection as well as to the country's economic and social development, and its regional integration.

It is intended in a subsequent phase to identify priorities for enhancing **regional competitiveness** which will constitute an additional area of intervention from 2010 in the

light of the funding available within Multi-annual Indicative Financing Frameworks. Support to fostering regional competitiveness will lie within the scope of the Strategic Coherence framework¹¹ elaborated by the beneficiary country taking into account the Community priorities as well as the national priorities for the period 2007-2013.

Assistance provided under *Component III* will comply with sustainable development principles and meet relevant environmental norms, in particular directives on EIA, Habitats and Birds (in order to avoid negative impacts on potential Natura 2000 sites) and the relevant environmental *acquis*.

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 Accession 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:

- Continue 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.
- Main objectives for transport sector under *Component III* remain:
- 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.

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 South East Europe Core Regional Transport Network, with priority to those projects which are particularly relevant

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Accepted by the services of the Commission on 13 August 2007

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.

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 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.

Environment

The 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. Environmental protection shall also concern its neighbourhood since *inter alia* the Vardar/Axios 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 in particular the Aegean Sea.

Assistance under *component III* will address the Accession Partnership priority consisting on increasing investments in environmental infrastructure, in particular waste water collection and treatment, drinking water supply, tackling air pollution and waste management, the others priorities being partially addressed through *Component I*. Particular emphasis will be put on 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 Programmes* (PEIP) 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. The PEIP programme has been developed and implemented within the framework of the *Regional Environmental Reconstruction Programme for South Eastern Europe* (REReP).

Investments in the environment sector will be planned based on the integrated and strategic approaches, in particular in line with the river basin approach and waste management

planning. 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 environmental protection of the national population as well as the adjoining Member States' and other countries' population, the polluter pays principle and financial sustainability also need to be taken into account. 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.

Regional competitiveness

Priorities for regional competitiveness, remaining to be programmed, aim to improve the attractiveness of regions through development of local infrastructure and services which contribute to facilitate establishment, development and expansion of new and existing business. Enhancing regional competitiveness will improve business and investment climate at national and sub-national levels, in particular in disadvantaged regions. Indeed, the analysis of the available disaggregated economic data demonstrates significant disparities among regions, particularly comparing Skopje region with others. Further support is needed in the area of SME's and entrepreneurship promotion, ICT services and infrastructures, R&D investments and infrastructures, and human capital.

To be considered from 2010, support under regional competitiveness needs to be anticipated by strengthening the management structures and by improving the business environment, particularly for SMEs. *Component I* has already started to stimulate social and economic cohesion through institutional building at local level as well as support to small-scale infrastructure projects in municipalities. This kind of activities should inter alia be taken over by the future priorities to be prepared in order to improve living standards and reduce regional disparities. Improving services will generate local employment and contribute significantly to a better investment climate.

To the end of programming the regional competitiveness support, consultations should take place between the Commission and the beneficiary's authorities at local and national level in coordination with *Component I* and *IV*.

Table 10 - Regional disparities, 2002

	Population	Employed	Unemployed	GDP per capita (PPP in \$)	Country's average	Average GDP per capita growth rate 1998-2002

The Republic of Macedonia	2022547	460544	38.1 %	6850	100 %	5.2
Pelagonia						
Vardar	238136	62551	39.9 %	6905	101 %	2.4
North-East	133180	31672	43.9 %	5591	82 %	2.3
South-West	172787	30841	48.7 %	3541	52 %	-1.0
Skopje	219741	39589	42.4 %	4192	61 %	2.8
South-East	578144	154914	30.4 %	11964	175 %	8.7
Polog	171416	50559	34.4 %	6050	88 %	4.1
East	305930	35638	49.9 %	3076	45 %	1.4
	203213	54779	34.5 %	5104	75 %	1.9

b) Programmes to be implemented

The above objectives for the environment and transport sectors will be implemented through the current operational programme "Regional Development" aiming at supporting the sustainable development of the Republic of Macedonia.

Adopted by the Commission by decision of 29 November 2007, the operational programme "Regional Development" was elaborated by the national authorities, in close consultation with the relevant stakeholders at national and sub-national level in the basis of the Strategic Coherence Framework.

The current operational programme foresees that assistance in the transport sector should focus on the continuation of the development of the South East Europe Core Regional Transport Network (corridors VIII and X). The priorities shall be progressively shifted from corridor X to corridor VIII as well as from road to rail. Concerning assistance in the environment sector, clearly targeted investments should 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, assistance under *Component III* will be rebalanced from transport sector to environment sector. 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.

In a second phase from 2010, it is envisaged to widen the scope of the assistance in order to encompass additional activities aiming at fostering regional competitiveness. The identification of the priorities to be implemented in the area of regional competitiveness will start in 2009 with possible support provided by *Component I* for institutional building.

c) Expected results by the end of the covered period

In addition to the specific results expected through investments in the environment and transport sector, a core objective of *components III* 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.

Results to be achieved in the area of regional competitiveness still need to be identified in coherence with the objectives that will be defined during the year 2009.

d) Financial indication

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

ENVIRONMENT	35 % - 45 %
TRANSPORT	35 % - 45 %
COMPETITIVENESS	20 % - 30 %

2.4.2. COMPONENT IV – Human Resources Development

a) Main areas of intervention, strategic objectives and choices

There are three main areas of intervention: employment, education and social inclusion.

Overall objective

The overall objective of the Human Resources Development component is to foster the development of human resources, in particular by improving the quantity and quality of human capital, leading to more and better jobs, higher growth and development and increased national competitiveness at international level. Drawing on the current labour market situation, the employment sub-component is aimed at improving labour market functioning and employment possibilities, especially for vulnerable groups (young persons, older workers, females, minorities and long-term unemployed), as well as speeding the transition of the grey economy employment into the formal sector.

Competitiveness of firms in today's era of knowledge-based economy depends on the quality and quantity of country's human capital. In this regard, the education sub-component should improve quality of the education system ensuring, on the long-run, greater educational attainment of the whole citizens. In addition, education system reforms should increase responsiveness of this system to the labour market needs, demands and changes. Education and training systems should stimulate young people to engage in sciences, enhance the learning of entrepreneurship and its inclusion as key competence in education curricula.

Main objective in the area of the social inclusion sub-component is to improve quality and efficiency of the social system, including policy and institutions, in terms of fast integration of disadvantaged persons including people with mental illness in the society (and labour market) and reduction of poverty. It should also prepare the country to actively participate in the Open Method of Coordination after the EU accession. A starting point for fulfilment of these objectives is preparation of a national strategy for social inclusion, which will set objectives, and define measures and activities needed to accomplish the objectives. It will be prepared in close consultation with all relevant stakeholders, including NGOs.

In addition, the Human Resources Development component should prepare the country for efficient implementation and management of funds from the European Social Fund (ESF). Therefore, this component is expected to improve national experience in this field through learning-by-doing actions and special interventions by technical support. In addition, the experience gained through the use of IPA funds will support the development of the employment and social policy, especially in areas covered by the ESF Regulation.

Choices

The IPA Regional Development and Human Resources Development components are to support candidate countries in policy development, as well as preparation for the implementation and management of the Community's cohesion policy, in particular European Regional Development Fund, the Cohesion Fund and the European Social Fund. The EU structural instruments should strengthen economic and social cohesion by reducing regional disparities and the backwardness of the least developed regions.

The SCF takes into account the framework and guidelines for the EU Cohesion Policy for the period 2007-2013 as established in the Community Strategic Guidelines on Cohesion, as well as the MIDP. It also draws on the guidelines and priorities defined in the renewed Lisbon Strategy. The adopted approach is also coherent with the *National Action Plan for Employment (NAPE)*, the *National Employment Strategy (NES)*, the *National Strategy for Development of Education 2005-2015*, and the future *Joint Inclusion Memorandum*.

b) Programmes to be implemented

The Human Resources Development Component for period 2007-2013 will be implemented through a single Multi-annual OP (adopted with Commission Decision dated December 7th 2007), covering the three separate pillars of intervention of this component: employment, education and training, and social inclusion.

- Priority axis 1: Employment - Attracting and retaining more people in employment

The aim is to modernise and improve services delivered by the Employment Service Agency (ESA) and develop and implement better active approaches for addressing the labour market malfunctioning.

- Priority axis 2: Education and training – Investing in human capital through better education and training

This priority axis aims at modernising the education and training system, *including the development and mainstreaming of entrepreneurship learning in education*, in order to improve its adaptability to the labour market needs, as well as promoting life long learning. In addition, the priority will ensure equal access to quality education for all, irrespective of ethnic origin.

- Priority axis 3: Social inclusion – Promoting an inclusive labour market

Axis 3 should foster social inclusion by services for persons at disadvantage in the labour market, training professionals and volunteers involved in this field, and enhanced linkages between all partners. In addition, this priority axis will aim at strengthening the civil society capacity to provide (quality) social assistance. Intervention in this axis will also include support to the preparation process of the Joint Inclusion Memorandum (JIM) and its subsequent implementation, key to an overall guidance and coordination of social inclusion policies.

- Priority axis 4: Technical assistance

The aim is to achieve efficient implementation, monitoring, evaluation and expenditure verifications of the OP, as well as to support preparatory activities for the future management of the ESF.

c) Expected results by the end of the covered period and measurable indicators

The following results should be achieved through Human Resources Component OP:

- Enhancement of employability, social inclusion and human capital of people who benefit from interventions, specifically the following groups: young, elderly, women, long-term unemployed, persons with disabilities, including people with mental illness, and minorities.
- Strengthening the capacity of bodies, institutions and important stakeholders in the areas of employment, social inclusion and education and training in terms of policy design, implementation, monitoring and evaluation.

Expected indicators priority axis 1:

- Percentage of employees who successfully passed the training
- Percentage of employees fully supported by up to date IT system.
- Total number of young persons (< 27 years) in employment 30 months after the completion of the first employment support programme activity; 60% women, 30% ethnic communities
- Strengthened and enhanced capacities for implementation, monitoring and evaluation of the employment policies
- Strengthened and enhanced capacities in relation to social dialogue
- Percentage of young persons in employment 6 months after completion of programmes on improvement of skills and employability (60% women; 30% ethnic communities)
- Successfully running businesses two years after the activity
- Employed people after completion of trainings, 60% women
- LI networked and fully operational
- Percentage of successfully running businesses one year after completion of the temporary administrative support

Expected indicators priority axis 2:

- 2 and 3 years VET schools introducing modern curricula according to labour market needs
- Continuing cooperation of the VET schools with business partners
- Multi-ethical schools introducing reformed curricula adaptable for a multi-ethical environment
- Percentage of children attending the next year of school from the assisted Roma families
- Coordinative body for Adult Education is set up and functioning
- Percentage of successfully developed and tested programmes
- Percentage of successful pilot programmes for literacy and fulfilment of elementary education
- Clearly defined learning outcomes associated with entrepreneurship education at ISCED levels 2 and 3, with curriculum adjustments and teacher capacities

Expected indicators priority axis 3:

- Increased efficiency of social services providers and improvement of social service delivery to beneficiaries

- The percentage of persons enhanced by gender and ethnicity
- Satisfactory evaluated training programmes

d) Financial indication

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

Financial indications – Component IV 'Human Resources Development'

<i>EMPLOYMENT</i>	40 % - 50 %
<i>EDUCATION AND TRAINING</i>	25 % - 35 %
<i>SOCIAL INCLUSION</i>	25 % - 35 %

2.4.3. Component V – Rural Development

a) Main areas of intervention, objectives and choices

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 and plant health, animal welfare, food quality 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.
- Priority axis 3: to contribute to the development of the rural economy with establishing the -micro and –small enterprises in rural areas.

Parallel to this activity, it should be considered to launch preparatory actions for training activities related to training systems by providing access to education for the existing and new proposed measures. These policy objectives are addressed by specific measures which are presented in this document and are to be further detailed in subsequent programming.

1.1. Horizontal issues:

Implementation of the IPARD programme requires well functioning and upgrading inspection services (in the field of public health, environmental protection, animal and plant health, animal welfare, occupational safety and food quality and safety). Such services must be able to control the respect of Community standards of projects supported under *component V* and to issue supporting documents required for the application of support. The country should speed up to finalise the registration of agricultural land and real estate cadastre including to set up suitable administrative structures to operate EU instruments related to rural development. Therefore, the necessary legislative framework must be adopted and subsequently amended accordingly, in order to be in line to the present EU legislation.

The country should start to develop an overall agri-environmental strategy to protect the environment and maintain the countryside. Parallel to this, the priority shall be given to develop a local development strategy which will include the local private - public partnership with a view to the promotion and revitalisations of rural communities and to an improvement in their quality of life.

Therefore, further extensions of administrative structure under the MAFWE and IPARD Agency for needs of preparation and implementation of additional measures are required. In addition, it is recommended that the country ensures the capacity of the strengthening advisory services to be able to assist the potential beneficiaries in applying for assistance and considers specific actions needed in order to facilitate the access to credits for beneficiaries.

The additional measures to be included in the programme will be defined for the last period of implementations MIPD through the negotiations between the Government and the Commission. Alternatively, it is recommended that some of these measures could be addressed by national schemes or schemes supported by other IFIs.

Considering the complexity of the implementation system of the IPARD it is recommended to continue efforts to improve the administration capacities in particular through constantly training of human resources as well as focusing on clearly defined activities.

Technical Assistance is granted for activities related to preparation, monitoring, evaluation, information and control activities which are necessary for the preparation of the foreseen measures i.e. agri-environmental measures and Leader measures. The elaboration of the existing rural activities should be a base for the further local rural development strategy.

1.2. Priority axes

The following priorities are to be implemented from the very beginning of programme implementation.

Priority axis 1:

Under priority axis 1 the potential key issues are addressed as follows:

- Investments in agricultural production and in processing and marketing of agricultural products to restructure and upgrade the sectors to Community standards, to improve their overall performance and increase their competitiveness. Moreover, the agricultural production and food processing sectors should be developed to deliver products in satisfactory quantities and quality for the target markets.
- Preparatory activities for measure: setting up the producer groups.

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 agricultural holdings and the food establishments to meet the EU environmental, hygiene, food quality and safety, plant and animal health 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, fruits, vegetables and wine sectors. 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 IPARD. Investments in agricultural holdings should target those holdings which are active in the most EU *acquis*-relevant sectors.

To achieve the priorities of pre-accession assistance, as set out in the IPARD programme, the measures to be implemented under the *priority axis I* shall be as follows: "Investments in agricultural holdings to restructure and to upgrade to Community standards", "Investments in processing and marketing agriculture and fishery products to restructure and to upgrade to Community standards" and "Support for the setting-up of producer groups" in order to strengthen the position on the market and food processing industry for the local agricultural producers.

Priority Axis 2:

Under priority axis 2 the preparatory activities for the implementation of the agri-environmental measure should start already in 2009 to prepare for their implementation after 2009. The framework of those measures shall target the activities as follows:

As regards agri-environmental measures:

- carry out studies to prepare the framework of the measure, including the elaboration of the measure with defined selection of actions and pilot areas.
- Development of practical experience on the agricultural actions to improve the environment and to maintain countryside through the national schemes or donors.

As regards preparation for the implementation of the Leader measure:

- Preparation of the local rural development strategies for rural areas should be initiated.
- Preparation of the institutional framework for the Leader measure including the elaboration of the sub-measures with defined selection of actions with the objective of finalising the measure in the IPARD programme will be initiated.

In the period leading up to the conferral of management and implementation of the Leader measure the above mentioned activities will be supported, as regard the first indent under the IPARD Technical Assistance measure. In respect of the second indent support to the capacity building may be provided under Component I if necessary.

Considering the activities for the preparation of future establishment of a national rural development network, the works should start in an early stage of the programme implementation.

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 to help rural population to build up economic activities (on and off farm) creating additional income sources and employment opportunities in rural areas.
- Preparatory actions in view to carry out studies to prepare the framework for the introduction of training activities in the program. This should include the elaboration of a training strategy for potential beneficiaries under the programme.

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*. As a result of SWOT analyses under the IPARD programme identified the vocational sector as a weakness. Successful implementation of the programme depends on the availability of training activities in the rural areas. With actions of preparation for the vocational training activities should be considered to support the educational level of potential beneficiaries under programme especially targeting two main groups: farmers and agricultural holders, to provide significant training requirements under the programme.

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. In deep sector analysis for rural infrastructure in rural areas should be carried out to identify the weaknesses and to prepare the framework of the measure.

b) Programmes to be implemented

The funds from the Instrument for Pre-Accession Assistance (IPA) for the rural development Component V for period 2007-2013 will be implemented through the IPARD programme, adopted by the Commission Decision on 25 February 2008 (C/2008/677). The programme 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 relatively small projects. It shall be implemented during the second part of the financial period (from 2010 to 2013). Consequently, assistance will be implemented by the beneficiary country in the framework of a system which is fully decentralised management and with ex-post control by the Commission. The managing authority is 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 was established in 2008 in order to monitor the implementation of assistance under the programme.

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 as farmers, food processing and marketing enterprises, co-operatives and producer groups.

c) Expected results and measurable indicators

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 products through improved and rationalised processing and marketing of products;

- Increased added value and competitiveness of agricultural products by improving their quality compliance with EU food quality, health, food safety and environmental standards;
- Improved competitiveness of the food processing industry in selected sectors;
- Improvement of horizontal and vertical cooperation between the producer organisations and food processing industry.
- 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 2:

Specific objectives for *priority axis 2* will be identified along the negotiations to take place in 2008. For the preparations of those measures an in-depth sector analysis must be carried out. The expected result for the Axis 2 should be as follows:

- Finalisation of the preparations actions for the additional measures i.e agri-environmental measure and Leader at the end of 2009.
- Implementation additional measure after 2009.

Specific indicators to assess output, results and impact of assistance will be defined at programme level and will be covered by an ex – ante evaluation. The ex ante-evaluation will be carried out in parallel with the elaboration of the local rural development programme.

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.
- Improved development of crafts and marketing of craft production.

d) Financial indications

- **Priority axis 1:** Between 50 to 80% of the overall allocation under the rural development component should be allocated to the sustainable adaptation of the agricultural sector and the related implementation of the *acquis*.
- **Priority axis 2:** Between 0% and 4 % of the overall allocation under the rural development component to launch preparatory actions for implementation of agri-environmental measures and the "Leader-approach".
- **Priority axis 3:** Between 20 to 50% of the overall allocation under the rural development component should be allocated to the sustainable development of rural areas.

The table below lists the indicative financial weight for major area of intervention for *Component V "Rural Development"*

<i>PRIORITY AXIS 1</i>	50 % - 80 %
<i>PRIORITY AXIS 2*</i>	0 % - 4 %
<i>PRIORITY AXIS 3</i>	20 % - 50 %

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

ANNEX 1

Indicative allocations to main areas of intervention for the period 2009-2011

INDICATIVE ALLOCATIONS TO MAIN AREAS OF INTERVENTION	
The Republic of Macedonia	
Component I (Transition Assistance and Institution Building)	
Political criteria	30 % - 45 %
Socio-Economic criteria	10 % - 25 %
Ability to assume the obligations of Membership	30 % - 45 %
Supporting programmes	5 % - 15 %
Component II (Cross-Border Co-operation)	
CBC with Bulgaria	24 %
CBC with Greece	26 %
CBC with neighbouring CCs/PCCs and participation in ERDF transnational programmes	50 %
Component III (Regional Development)	
Environment	35 % - 45 %
Transport	35 % - 45 %
Competitiveness	20 % - 30 %
Component IV (Human Resources Development)	
Employment	40 % - 50 %
Education and training	25 % - 35 %
Social inclusion	25 % - 35 %
Component V (Rural Development)	
Priority 1	50 % - 80 %

Priority 2 (not foreseen for the present MIPD)	0 % - 4 %
Priority 3	20 % - 50 %

ANNEX 2

OVERVIEW OF EC ASSISTANCE ¹²

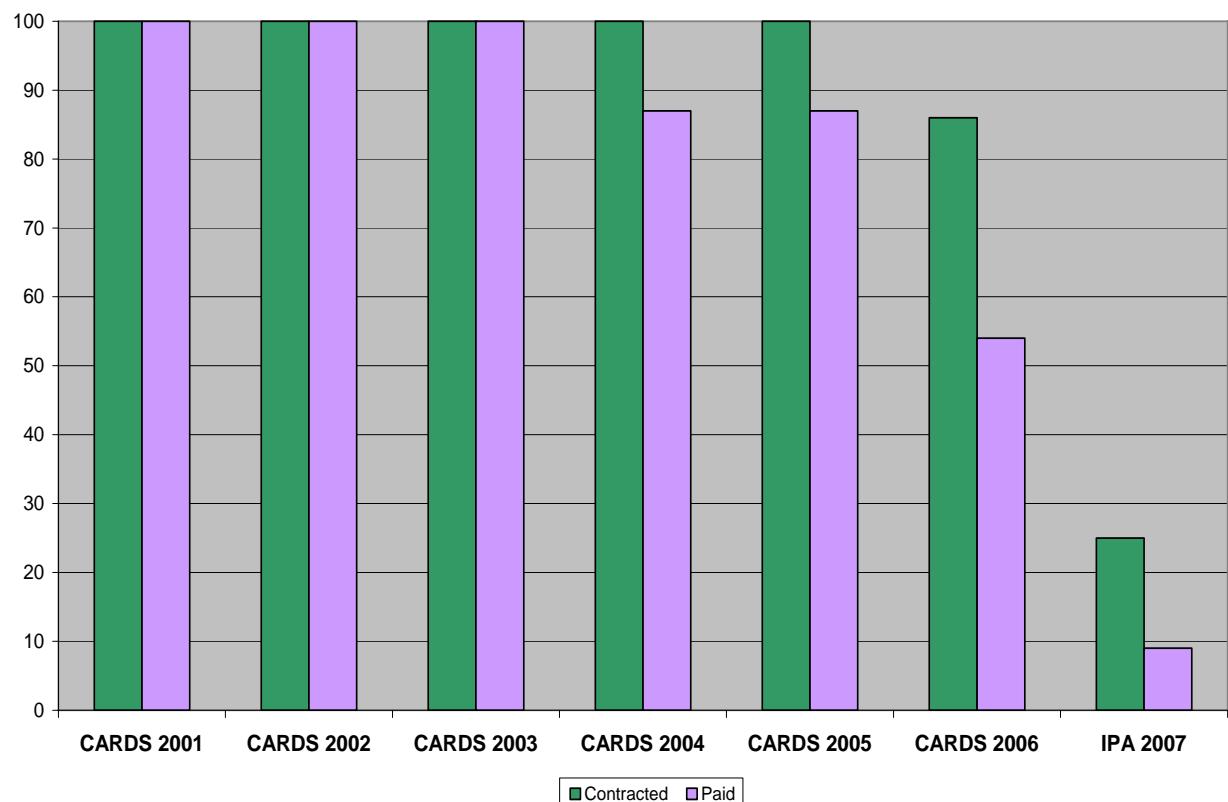
		EC assistance 2001-2007	IPA 2008	TOTAL
Good Governance		70.1	5.2	75.3
<i>of which</i> Public Administration		20	1.6	21.6
Decentralisation		55.1	1.35	56.45
Justice and Home Affairs		83.2	1.6	84.8
of which	Judiciary	12.7	1.6	14.3
	Police	32.6	0	32.6
Border management and customs		41.5	9.45	50.95
Internal Market and investment climate		35.3	6.1	41.4
Employment and Social Policy		11.38	4.2	15.58
Education		25.82	5.3	31.12
Transport		18.9	8.61	27.51
Environment		12.2	6.79	18.99
Rural development		7.3	12	19.3
Community Programmes		2.8	2	4.8
Others		19.8	3.522	23.322
Emergency Assistance (2001)		31.9	0	31.9

¹² The amount under IPA 2008 are calculated without the CBC allocations for 2007 and 2008, following the MIFF distribution.

Total allocations		415.3	66.12	481.422
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ANNEX 3

Contracting and Disbursement Rates under ongoing Programmes



ANNEX 4

CROSS CUTTING ISSUES

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

- **Civil Society** development and dialogue, based on the principle of partnership, will be supported by the European Initiative for Human Rights and Democracy and the IPA financial framework. Civil Society is understood as defined in the Communication from the Commission on Civil Society Dialogue between the EU and Candidate Countries (COM(2005) 290 final); thus it includes the employer's organisations, trade unions, associations of local self-governments as well as any other non-governmental organisation. Ensuring that those groups' concerns are duly taken into account in the European integration agenda and enhancing their policy dialogue with the authorities will be mainstreamed in assistance programmes. 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 coherence with the European Principles for the Environment. Legal and institutional harmonization with the environmental *acquis communautaire* and the activities of environmental NGOs will be supported under Component I; the development of the approximation strategy for the sector, which could involve IFIs and the private sector could also be supported under Component I; and Components II and III will co-finance environmental investment projects. In particular environmental impact assessments are required for any projects likely to have a significant impact on the environment (as per the EU Directive on EIA).
- **Equal opportunities and non-discrimination** will be respected as regarding gender as well as minorities at the programming and implementation stage, particularly in relation to socio-economic support programmes. Potential measures to address gender issues include: under Component I, harmonisation of the national legal framework with the gender equality *acquis communautaire* and support to state institutions and NGOs dealing with gender issues; under Component III, support to women entrepreneurs; under Component IV, vocational training for women and promotion of female employment; and under Component V, improvement of employment conditions for women in agriculture.
- 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. To this aim, particular attention should be put in the prevention of corrupt practices, mainly through the promotion of the active involvement of civil society as well raising political and public awareness.

ANNEX 5

LIST OF ABBREVIATIONS

CADSES	Central, Adriatic, Danubian and South Eastern European Space
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CBC	Cross-border cooperation
CEDEFOP	European Centre for the Development of Vocational Training
CPVO	Community Plant Variety Office
DIS	Decentralised Implementation System
EASA	European Aviation Safety Agency
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECDC	European Centre of Disease Prevention and Control
EIB	European Investment Bank
EMCDDA	European Centre for Drugs and Drugs Addiction
EMEA	European Medicines Agency
EFSA	European Food Safety Agency
EMSA	European Maritime Safety Agency
ERDF	European Regional and Development Fund
ESF	European Social Fund
EU-OSHA	European Agency for Safety and Health at Work
EUROFUND	European Foundation for the Improvement of Living and Working Conditions
IA	Interim Agreement
IFI	International Financial Institutions
IPA	Instrument of Pre-accession Assistance
IPARD	Instrument for Pre-Accession Assistance for Rural Development
KfW	Kreditanstalt fur Wiederaufbau
MIFF	Multi-annual Indicative Financial Framework
MIPD	Multi-annual Indicative Planning Document
NGO	Non-Governmental Organisation
NUTS	Nomenclature of Territorial Units for Statistics
PHARE	Poland and Hungary Aid for Reconstruction of the Economies

SAA	Stabilisation and Association Agreement
SEETO	South East Europe Transport Observatory
SME	Small and Medium-sized Enterprises
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VET	Vocational Education and Training
WTO	World Trade Organisation