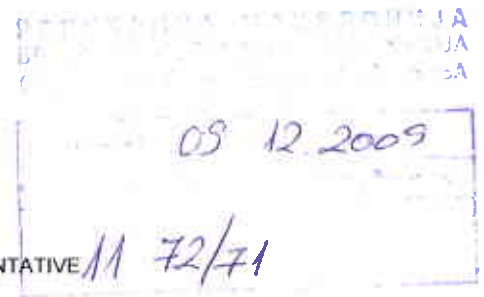




EUROPEAN UNION

OFFICE OF THE EUROPEAN UNION SPECIAL REPRESENTATIVE
DELEGATION OF THE EUROPEAN COMMISSION



Skopje, 04 December 2009

EF 2009/D/02406

Dear Deputy Prime Minister

I have the honour to acknowledge receipt of your letter dated 26th November 2009.

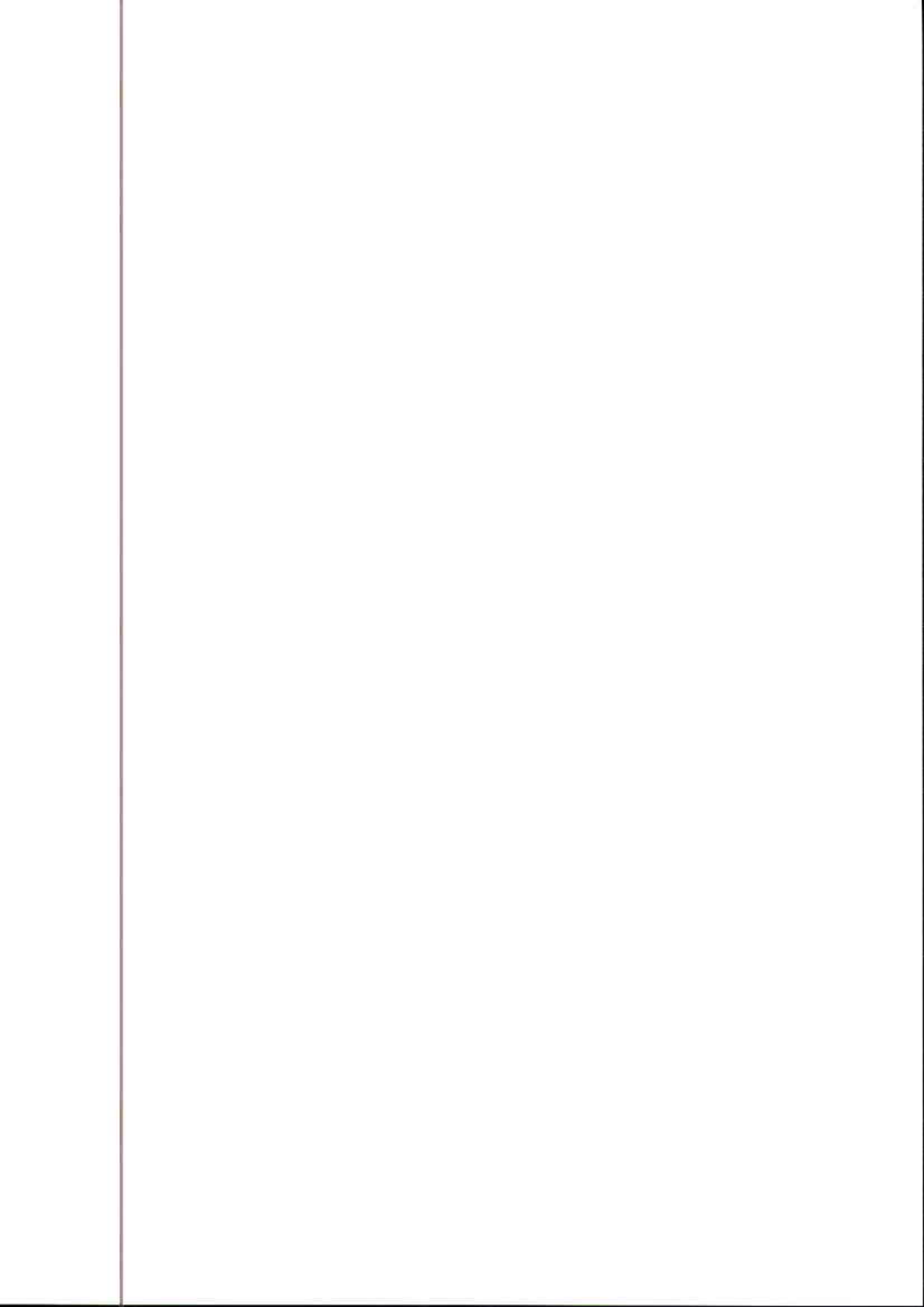
The European Commission notes that the Exchange of Letters between the European Commission and the Government of the former Yugoslav Republic of Macedonia, which constitutes the signature of the Financing Agreement concerning the IPA 2008 CBC Programme between the former Yugoslav Republic of Macedonia and Albania under the Instrument for Pre-accession Assistance (IPA), has been accomplished.

However, this Exchange of Letters cannot be interpreted as acceptance or recognition by the European Commission in whatever form or content of a denomination other than the former Yugoslav Republic of Macedonia.

Please accept, Minister, the assurance of my highest consideration,

Erwan FOUÉRE
Ambassador

H.E. Mr Vasko Naumovski
Deputy Prime Minister for European Affairs
Government of the former Yugoslav Republic of Macedonia



FINANCING AGREEMENT

BETWEEN

**THE GOVERNMENT OF THE FORMER YUGOSLAV
REPUBLIC OF MACEDONIA**

AND

**THE COMMISSION OF THE EUROPEAN
COMMUNITIES**

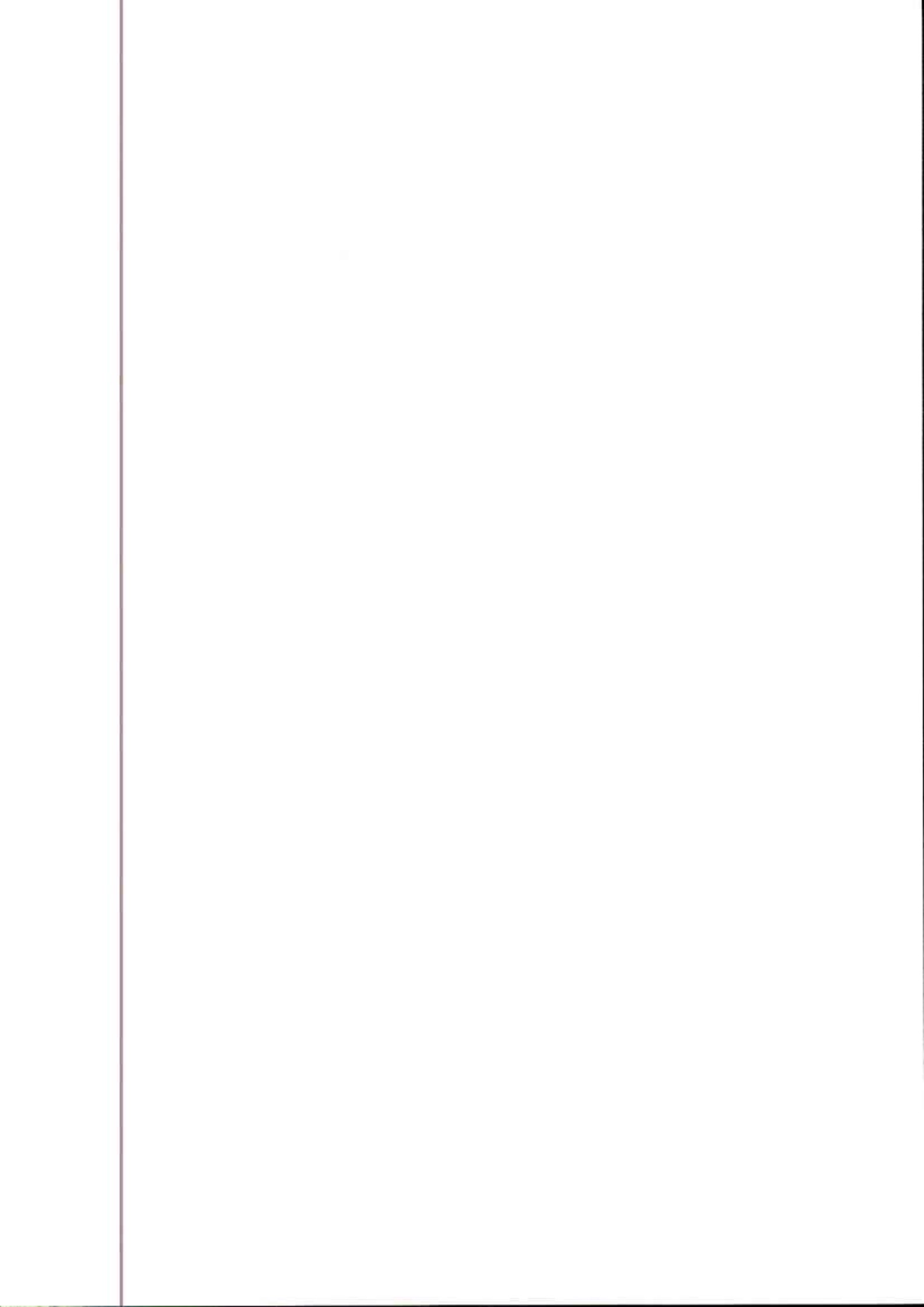
**CONCERNING THE CROSS-BORDER PROGRAMME
BETWEEN THE FORMER YUGOSLAV REPUBLIC OF
MACEDONIA AND ALBANIA**

FOR 2008

**UNDER THE INSTRUMENT FOR PRE-ACCESSION
ASSISTANCE COMPONENT II FOR CROSS-BORDER
COOPERATION**

December 2009

(Centralised Management)



FINANCING AGREEMENT

THE GOVERNMENT OF THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

and

THE COMMISSION OF THE EUROPEAN COMMUNITIES

hereafter jointly referred to as "the Parties", or individually as "the beneficiary country" in the case of the former Yugoslav Republic of Macedonia, or "the Commission", in the case of the Commission of the European Communities.

Whereas:

- (a) On 1 August 2006, the Council of the European Union adopted Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance (hereafter: the "IPA Framework Regulation"). With effect from 1 January 2007, this instrument constitutes the single legal basis for the provision of financial assistance to candidate countries (currently Croatia, the former Yugoslav Republic of Macedonia and Turkey) and potential candidate countries (Albania, Bosnia and Herzegovina, Montenegro, and Serbia, including Kosovo according to United Nation Security Council Resolution 1244) in their efforts to enhance political, economic and institutional reforms with a view to their eventually becoming members to the European Union.
- (b) On 12 June 2007, the Commission adopted Regulation (EC) No 718/2007 implementing the IPA Framework Regulation, detailing applicable management and control provisions (hereafter: the "IPA Implementing Regulation").
- (c) Community assistance under the instrument for pre-accession assistance should continue to support the beneficiary countries in their efforts to strengthen democratic institutions and the rule of law, reform public administration, carry out economic reforms, respect human as well as minority rights, promote gender equality, support the development of civil society and advance regional cooperation as well as reconciliation and reconstruction, and contribute to sustainable development and poverty reduction.

For potential candidate countries, Community assistance may also include some alignment with the *acquis communautaire*, as well as support for

investment projects, aiming in particular at building management capacity in the areas of regional, human resources and rural development.

- (d) The Parties have concluded on 30 October 2007 a Framework Agreement setting out the general rules for cooperation and implementation of the Community assistance under the Instrument for Pre-accession Assistance.
- (e) This cross border programme former Yugoslav Republic of Macedonia and Albania was implemented for the year 2007 by the financing Decision C(2007)5995 of 10 December 2007. A new financing decision needs to be adopted for the implementation in the year 2008
- (f) The Commission adopted on 7 August 2008 the Cross-border programme the former Yugoslav Republic of Macedonia - Albania under the IPA Cross-border Co-operation component for the year 2008 (hereafter: "the programme"). This programme is to be implemented by the Commission on a centralised basis.
- (g) It is necessary for the implementation of this programme that the Parties conclude a Financing Agreement to lay down the conditions for the delivery of Community assistance, the rules and procedures concerning disbursement related to such assistance and the terms on which the assistance will be managed,

HAVE AGREED ON THE FOLLOWING:

1 THE PROGRAMME

The Commission will contribute, by way of grant, to the financing of the following programme, which is set out in Annex A to this Agreement.

Programme number: 2008/019-919 (CRIS)

Title: Cross-border programme the former Yugoslav Republic of Macedonia- Albania under the IPA Cross-Border Co-operation component, for the year 2008

2 IMPLEMENTATION OF THE PROGRAMME

- (1) The programme shall be implemented by the Commission on a centralised basis, in the meaning of Article 53a of Council Regulation (EC Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities, as last modified by Regulation (EC, Euratom) 1995/2006 of 13 December 2006 (hereafter: "Financial Regulation").
- (2) The programme shall be implemented in accordance with the provisions of the Framework Agreement on the Rules for co-operation concerning EC Financial Assistance to the former Yugoslav Republic of Macedonia and the implementation of the Assistance under the Instrument for Pre-accession Assistance (IPA) concluded between the Parties on 30 October 2007 (hereafter: "the Framework Agreement"), which is set out in Annex B to this Agreement.

3 STRUCTURES AND AUTHORITIES WITH RESPONSIBILITIES

- (1) The Beneficiary shall designate a national IPA co-ordinator, in accordance with the Framework Agreement, who shall act as the representative of the Beneficiary vis-à-vis the Commission. He/she shall ensure that a close link is maintained between the Commission and the Beneficiary with regard both to the general accession process and to EU pre-accession assistance under IPA.
- (2) The national IPA co-ordinator shall also be responsible for co-ordinating the beneficiary country's participation in the relevant cross-border programmes as well as in the transnational, interregional or sea basins programmes under other Community instruments.
- (3) The beneficiary country shall establish an operating structure for the part of the programme concerning its territory. Its functions and responsibility are defined in the cross-border programme, to the exclusion of tendering, contracting and payments, which are the responsibility of the Commission.
- (4) The operating structure shall co-operate closely in the implementation of this programme with the operating structure(s) of Albania.

- (5) The operating structures of the participating countries shall set up a joint technical secretariat to assist the operating structures and the joint monitoring committee referred to in Article 142 of the IPA Implementing Regulation in carrying out their respective duties.

The joint technical secretariat may have antennae established in each participating country.

4 FUNDING

The funding for the implementation of this Agreement shall be as follows:

- (a) The Community contribution for the year 2008 is fixed at a maximum of EUR 1 000 000 for the part of the programme concerning the former Yugoslav Republic of Macedonia, as detailed in Appendix A1 of Annex A to this Agreement. However, payment of the Community contribution by the Commission shall be made within the limits of the funds available.
- (b) The cost of the structures and authorities put in place by the beneficiary country for the implementation of this programme shall be borne by the Beneficiary with the exception of the costs referred to in Article 94(1)(f) of the IPA Implementing Regulation, as detailed in Annex A to this Agreement.

5 CONTRACTING DEADLINE

- (1) The individual contracts and agreements which implement this Agreement shall be concluded no later than two years from the date of conclusion of this Agreement.
- (2) In duly justified cases, this contracting deadline may be extended before its end date to a maximum of three years from the date of conclusion of this Agreement.
- (3) Any funds for which no contract has been concluded before the contracting deadline shall be cancelled.

6 DEADLINE FOR THE EXECUTION OF CONTRACTS

- (1) The contracts must be executed within a maximum of 2 years from the end date of contracting.
- (2) The deadline for the execution of contracts may be extended before its end date in duly justified cases.

7 DISBURSEMENT DEADLINE

- (1) Disbursement of funds must be made no later than one year after the final date for the execution of contracts.
- (2) The deadline for disbursement of funds may be extended before its end date in duly justified cases.

8 TREATMENT OF RECEIPTS

- (1) Receipts for the purposes of IPA include revenue earned by an operation, during the period of its co-financing, from sales, rentals, service enrolment/fees or other equivalent receipts with the exception of:
 - (a) receipts generated through the economic lifetime of the co-financed investments in the case of investments in firms;
 - (b) receipts generated within the framework of a financial engineering measure, including venture capital and loan funds, guarantee funds, leasing;
 - (c) where applicable, contributions from the private sector to the co-financing of operations, which shall be shown alongside public contribution in the financing tables of the programme.
- (2) Receipts as defined in paragraph 1 above represent income which shall be deducted from the amount of eligible expenditure for the operation concerned. No later than the closure of the programme, such receipts shall be deducted from the relevant operation's eligibility expenditure in their entirety or pro-rata, depending on whether they were generated entirely or only in part by the co-financed operation.

9 ELIGIBILITY OF EXPENDITURE

- (1) Expenditure under the programme in Annex A shall be eligible for Community contribution if it has actually been incurred after the signature of this Agreement.
- (2) The following expenditure shall not be eligible for Community contribution under the programme in Annex A:
 - (a) taxes, including value added taxes;
 - (b) customs and import duties, or any other charges;
 - (c) purchase, rent or leasing of land and existing buildings;
 - (d) fines, financial penalties and expenses of litigation;
 - (e) operating costs;
 - (f) second hand equipment;
 - (g) bank charges, costs of guarantees and similar charges;
 - (h) conversion costs, charges and exchange losses associated with any of the component specific euro accounts, as well as other purely financial expenses;
 - (i) contributions in kind;

- (j) interest on debt;
- (3) By way of derogation from paragraph 2 above, the following expenditure shall be eligible:
- (a) value added taxes, if the following conditions are fulfilled:
 - (i) they are not recoverable by any means,
 - (ii) it is established that they are borne by the final beneficiary, and
 - (iii) they are clearly identified in the project proposal.
 - (b) charges for transnational financial transactions;
 - (c) where the implementation of an operation requires a separate account or accounts to be opened, the bank charges for opening and administering the accounts;
 - (d) legal consultancy fees, notarial fees, costs of technical or financial experts, and accountancy or audit costs, if they are directly linked to the co-financed operation and are necessary for its preparation or implementation;
 - (e) the cost of guarantees provided by a bank or other financial institutions, to the extent that the guarantees are required by national or Community legislation;
 - (f) overheads, provided they are based on real costs attributable to the implementation of the operation concerned. Flat-rates based on average costs may not exceed 25% of those direct costs of an operation that can affect the level of overheads. The calculation shall be properly documented and periodically reviewed;
 - (g) the purchase of land for an amount up to 10% of the eligible expenditure of the operation concerned.
- (4) In addition to the technical assistance for the cross-border programme referred to in Article 94 of the IPA Implementing Regulation, the following expenditure paid by public authorities in the preparation or implementation of an operation shall be eligible:
- (a) the costs of professional services provided by a public authority other than the final beneficiary in the preparation or implementation of an operation;
 - (b) the costs of the provision of services relating to the preparation and implementation of an operation provided by a public authority that is itself the final beneficiary and which is executing an operation for its own account without recourse to other outside service providers if they

are additional costs and relate either to expenditure actually and directly paid for the co-financed operation.

The public authority concerned shall either invoice the costs referred to in point (a) of this paragraph to the final beneficiary or certify those costs on the basis of documents of equivalent probative value which permit the identification of real costs paid by that authority for that operation.

The costs referred to in point (b) of this paragraph must be certified by means of documents which permit the identification of real costs paid by the public authority concerned for that operation.

- (5) Without prejudice to the provisions of paragraphs 1 to 4, further rules on eligibility of expenditure may be laid down in the cross-border programme in Annex A to this Agreement.

10 RETENTION OF DOCUMENTS

- (1) All documents relating to the programme in Annex A shall be kept for at least five years from the date on which the European Parliament grants discharge for the budgetary year to which the document relate.
- (2) In the case that the programme in Annex A is not definitely closed within the deadline set in paragraph 1 above, the documents relating to it shall be kept until the end of the year following that in which the programme in Annex A is closed.

11 ROADMAP FOR DECENTRALISATION WITHOUT EX-ANTE CONTROLS

- (1) The beneficiary country shall establish a detailed roadmap with indicative benchmarks and time limits to achieve decentralisation with *ex ante* controls by the Commission. In addition, the beneficiary country shall establish an indicative roadmap to achieve decentralisation without *ex ante* controls by the Commission.
- (2) The Commission shall monitor the implementation of the roadmaps mentioned in paragraph 1, and shall take due account of the results achieved by the beneficiary country in this context, in particular in the provision of assistance. The roadmap to achieve decentralization without *ex ante* controls may refer to a phased waiver of different types of ex-ante control.
- (3) The beneficiary country shall keep the Commission regularly updated with the progress made in the implementation of this roadmap.

12 INTERPRETATION

- (1) Subject to any express provision to the contrary in this Agreement, the terms used in this Agreement shall bear the same meaning as attributed to them in the IPA Framework Regulation and the IPA Implementing Regulation.

- (2) Subject to any express provision to the contrary in this Agreement, references to this Agreement are references to such Agreement as amended, supplemented or replaced from time to time.
- (3) Any references to Council or Commission Regulations are made to the version of those regulations as indicated. If required, modifications of these regulations shall be transposed into this Agreement by means of amendments.
- (4) Headings in this Agreement have no legal significance and do not affect its interpretation.

13 PARTIAL INVALIDITY AND UNINTENTIONAL GAPS

- (1) If a provision of this Agreement is or becomes invalid or if this Agreement contains unintentional gaps, this will not affect the validity of the other provisions of this Agreement. The Parties will replace any invalid provision by a valid provision which comes as close as possible to the purpose of and intent of the invalid provision.
- (2) The Parties will fill any unintentional gap by a provision which best suits the purpose and intent of this Agreement, in compliance with the IPA Framework Regulation and the IPA Implementing Regulation.

14 REVIEW AND AMENDMENTS

- (1) The implementation of this Agreement will be subject to periodic reviews at times arranged between the Parties.
- (2) Any amendment agreed to by the Parties will be in writing and will form part of this Agreement. Such amendment shall come into effect on the determined by the Parties.

15 TERMINATION

- (1) Without prejudice to paragraph 2, this Agreement shall terminate eight years after its signature. This termination shall not preclude the possibility for the Commission making financial corrections in accordance with Article 56 of the IPA Implementing Regulation.
- (2) This Agreement may be terminated by either Party by giving written notice to the other Party. Such termination shall take effect six calendar months from the date of the written notice.

16 SETTLEMENT OF DIFFERENCES

- (1) Differences arising out of the interpretation, operation and implementation of this Agreement, at any and all levels of participation, will be settled amicably through consultation between the Parties.

- (2) In default of amicable settlement, either Party may refer the matter to arbitration in accordance with the Permanent Court of Arbitration Optional Rules for Arbitration Involving International Organisations and States in force at the date of this Agreement.
- (3) The language to be used in the arbitration proceedings shall be English. The appointing authority shall be the Secretary General of the Permanent Court of Arbitration following a written request submitted by either Party. The Arbitrator's decision shall be binding on all Parties and there shall be no appeal.

17 NOTICES

- (1) Any communication in connection with this Agreement shall be made in writing and in the English language. Each communication must be signed and must be supplied as an original document or by fax.
- (2) Any communication in connection with this Agreement must be sent to the following addresses:

For the Commission:

Mr Erwan Fouere
Head of Delegation
EC Delegation to the former Yugoslav Republic of Macedonia
Mito Hadzivasilev Jasmin 52v
1000 Skopje

For the Beneficiary Country

Dr Vasko Naumovski
Deputy Prime Minister for European Affairs
Government Building
Ilindenska bb
1000 Skopje

18 NUMBER OF ORIGINALS

This Agreement is drawn up in duplicate in the English language.

19 ANNEXES

The Annexes A, B and C shall form an integral part of this Agreement.

20 ENTRY INTO FORCE

This Agreement shall enter into force on the date of signature. Should the Parties sign on different dates, this Agreement shall enter into force on the date of signature by the second of the two Parties.

Signed, for and on behalf of the former Yugoslav Republic of Macedonia, at Skopje on

by.....

Dr Vasko Naumovski
Deputy Prime Minister for European Affairs

Signed, for and on behalf of the Commission, at Skopje on

by.....

Mr Erwan Fouere
Head of Delegation

**ANNEX A CROSS-BORDER PROGRAMME THE FORMER YUGOSLAV
REPUBLIC OF MACEDONIA – ALBANIA UNDER THE IPA
CROSS-BORDER CO-OPERATION COMPONENT, FOR THE
YEAR 2008**

APPENDIX A1: Financing proposal for the year 2008 of the Cross-Border Programme: the former Yugoslav Republic of Macedonia-Albania, as adopted by Commission Decision C(2008) 4482.

APPENDIX A2: Cross-border programme 2007-2013 IPA CBC the former Yugoslav Republic of Macedonia- Republic of Albania, as adopted by Commission Decision C (2007)5995.

**ANNEX B FRAMEWORK AGREEMENT BETWEEN THE COMMISSION
OF THE EUROPEAN COMMUNITIES AND THE
GOVERNMENT OF THE FORMER YUGOSLAV REPUBLIC
OF MACEDONIA DATED 30 OCTOBER 2007**

ANNEX C REPORTING

- (1) The operating structures of the beneficiary countries participating in a cross-border programme shall send the Commission and the respective national IPA co-ordinators an annual report and a final report on the implementation of the cross-border programme after examination by the joint monitoring committee.

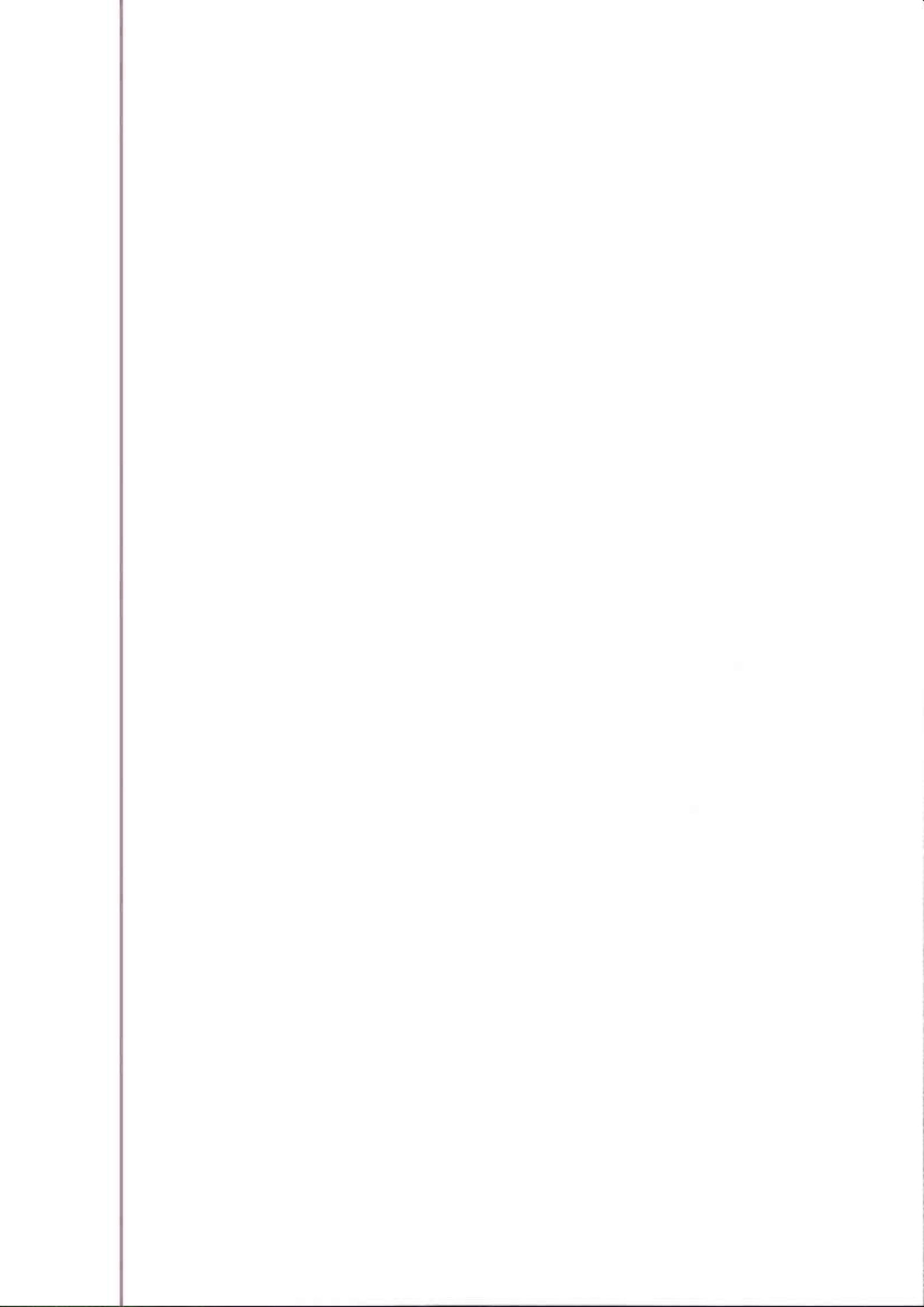
The annual report shall be submitted by 30 June each year and for the first time in the second year following the adoption of the cross-border programme.

The final report shall be submitted at the latest 6 months after the closure of the cross-border programme.

- (2) The reports referred to in paragraph 1 shall include the following information:
- (a) the progress made in implementing the cross-border programme and priorities in relation to their specific, verifiable targets, with a quantification, wherever and whenever they lend themselves to quantification, using the indicators referred to in Article 94(1)(d) of the IPA Implementing Regulation at the level of the priority axis;
 - (b) the steps taken by the operating structures and/or the joint monitoring committee to ensure the quality and effectiveness of implementation, in particular:
 - monitoring and evaluation measures, including data collection arrangements,
 - a summary of any significant problems encountered in implementing the cross-border programme and any measures taken;
 - the use made of technical assistance;
 - (c) the measures taken to provide information on and publicise the cross-border programme.

Where appropriate, the information referred to in points (a) to (c) of this paragraph may be provided in summary form.

Information referred to in point (b) need not be included if there has been no significant modification since the previous report.



ANNEX
FINANCING PROPOSAL FOR THE YEAR 2008 OF THE CROSS-BORDER
PROGRAMME: THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA –
ALBANIA

1. IDENTIFICATION

Beneficiaries	the former Yugoslav Republic of Macedonia and Albania
CRIS number	the former Yugoslav Republic of Macedonia 2008/019-919 Albania 2008/019-920
Year	2008
Cost	the former Yugoslav Republic of Macedonia: EUR 1.0 million Albania: EUR 750 000 Total value of IPA contribution: EUR 1.75 million
Operating structures	In the former Yugoslav Republic of Macedonia: the Ministry of Local Self Government In Albania: the Ministry of European Integration
Implementing Authorities	For the former Yugoslav Republic of Macedonia: European Commission For Albania: European Commission
Final date for concluding the Financing Agreements	at the latest by 31 December 2009
Final date for contracting	2 years following the date of conclusion of the Financing Agreement. No deadline for audit and evaluation projects covered by this Financing Agreement, as referred to in Article 166(2) of the Financial Regulation These dates apply also to the national co-financing.
Final date for execution	2 years following the end date for contracting. These dates apply also to the national co-financing.
Sector Code	16110, 41010, 15050
Budget lines concerned	22.020401
Programming Task Manager	For the former Yugoslav Republic of Macedonia: Unit

	ELARG.B2 For Albania: Unit ELARG.C1
Implementation Task Manager	For Albania: Operational Sections, Delegation of the European Commission in Albania For the former Yugoslav Republic of Macedonia: Delegation of the European Commission in Skopje

2. SUMMARY

2.1. Introduction

2.1.1. *Link with MIPD*

The programme's strategic reference are the Multi-Annual Indicative Planning Documents (MIPD) 2007-2009. As the MIPD of the former Yugoslav Republic of Macedonia outlines, given the candidate status of the country, cross-border cooperation is aimed inter-alia at familiarizing future member states with rules and procedures governing the European Territorial Cooperation objective under Structural Funds. It, most of all, concentrates on creating closer links between border regions, supporting joint environmental protection activities and improving the potentials for tourism. These are the main priorities and objectives that have prevailed in the preparation of the CBC with Neighbouring Western Balkan countries. In the MIPDs 2007-2009, the allocations of CBC funds to the Western Balkans, including the funds dedicated to participation in ERDF transnational programmes, were pooled under one heading. The beneficiary countries were requested to decide how they intended to allocate the funds at each border. As in 2007, in 2008, due to the impossibility to define a cross-border strategy between Kosovo under UNSCR 1244 and its neighbours, the former Yugoslav Republic of Macedonia has decided to reallocate the funds that were initially planned for this border in 2008 to the Integrated Border Management under Component I.

2.1.2. *Programming process*

The programming process took place in the period between December 2006 and May 2007 and was supported in both countries by the Cross-border Institution Building project (CIBB). It was coordinated in each country by the respective cross-border coordinators (Ministry of Local Self Government in the former Yugoslav Republic of Macedonia and Ministry of European Integration in Albania).

In December 2006/January 2007 each country established an Operating Team (OT) in charge of preparing the cross-border programme. The OT in the former Yugoslav Republic of Macedonia consisted of 11 bodies (ministries in line, state agencies and representative of the final beneficiaries) and of 6 bodies in Albania. The Joint Programming Committee, consisting of members of the OT, was established in January 2007.

Two bilateral meetings were held in order to define the action plan and a common methodology for the analysis of the cross-border region (in Tirana on 18 December and in Belgrade on 6 February).

The different stages of the cross-border programme (situation and SWOT analyses, objectives and strategy, implementing provisions) were presented to the OT and commented during meetings organized almost every month in each country. These meetings were also attended by representatives from the EC (EAR, EC Delegations). During this period, the Joint Programming Committee met twice, once in Ohrid on 12 April (approval of the eligible

region and presentation of the situation and SWOT analyses) and once in Korca on 23 May (approval of the final draft document).

On 11 May a workshop was organized in Kicevo, former Yugoslav Republic of Macedonia, in order to present the draft cross-border programme to the final beneficiaries and to discuss the strategy.

2.1.3. List of eligible areas

The eligible area in the former Yugoslav Republic of Macedonia includes three statistical regions corresponding to NUTS III classification: Pelagonia, Southwest and Polog.

The eligible area in Albania includes three administrative regions corresponding to NUTS III classification: Dibra, Elbasan and Korca Regions.

The territory of the eligible areas is almost the same in each country and the population is also well balanced. However, the analysis of the cross-border region revealed great differences between the two countries and even more between the southern and the northern part of the region: the demographic features and the economic trends are different and sometimes contradictory. These discrepancies were taken into account when defining the programme strategy.

2.2. Global objective(s) of the programme

The global objective of the programme is "Promoting sustainable development in the cross-border area". Joint actions and cross-border projects implemented within the programme should have an impact on the social and economic situation of the population, improve the joint management and valorisation of human, natural and cultural resources and strengthen the image and the cohesion of the cross-border region and sub-regions.

Three specific objectives have been defined:

2.2.1. Specific objective 1

To support the establishment of joint actions and strategies aiming at protecting and valorising the natural resources of the region.

2.2.2. Specific objective 2

To foster sustainable economic development of the region.

2.2.3. Specific objective 3

It is a transversal objective: to develop long term partnerships and networking between civil society organizations (NGOs, sport organizations, etc), professional organizations (i.e. Chambers of Commerce, entrepreneurs and farmers' organizations) and decentralized institutions, particularly schools and faculties, including research and development units.

2.3. Priority axis, the related measures and their specific aspects concerning the implementation of the 2008 budget

2.3.1. Priority 1: Fostering cross-border economic, environmental and social development.

This priority is a response to the different and sometimes contrasted situations and needs to be identified within the cross-border region. The protection and management of natural resources are considered to be a major cross-border issue in the southern part (Ohrid and Prespa lakes), and the social issues related to poverty and unemployment are considered to be of high priority in the north. Priority one tries to reconcile those two approaches. It also tries to give space to the economic actors, particularly, but not exclusively, in the tourism sector, which takes into account the current low level of business cooperation at the border. More generally,

this priority should allow the definition and implementation of people-to-people actions and thus fostering the cross-border cooperation on the level of communities and civil society.

Measure 1: Economic development with an emphasis on tourism related areas.

Tourism is one of the main economic potentials of the region and in some areas it is already developed, almost as an industry. This measure intends to support the development of small infrastructures, good practices and strategic plans in order to extend tourism activities to the whole cross-border region. Specific attention is given to the transfer of know-how from the former Yugoslav Republic of Macedonia to Albania where the tourism industry is still at an early stage. The measure gives a priority to alternative types of tourism (rural and family tourism, eco-tourism, etc) to be developed in parallel to more classical practices. More generally, the measure aims at fostering all sectors of the economy that contribute to building a strong and specific identity of the cross-border region. This includes the promotion and the protection (branding, better access to the market) of the traditional food and agro-food products, as well as handicrafts. As a transversal objective and in order to give the business community the possibility to participate in the cross-border programme, the measure also aims at facilitating the trans-boundary business cooperation (i.e. organization of fairs, consumers' studies, etc.).

Measure 2: Sustainable environmental development with an emphasis on protection, promotion and management of natural resources and ecosystems.

This measure intends to build on the cross-border dynamic launched in the environmental sector during the last years. It supports the current efforts of the local and national authorities in establishing joint environmental policies and pilot programmes and involves the civil society in the process. It takes into account the crucial importance of sustainable management of the natural resources for the economic development of the region.

– **Measure 3: Social cohesion and cultural exchange through people-to-people and institution-to-institution actions.**

Based on the fact that the cross-border cooperation is still at a low level, the third measure is specifically intended to promote people-to-people and institution-to-institution (such as schools, universities, research centres) operations. The priority sectors are the valorisation of the unique historical and cultural heritage and all types of operations that support the social integration of the marginalized groups, unemployed, rural youth, women labour force, etc. This measure also aims at encouraging joint research and educational activities.

All activities related to Priority 1 will be implemented by means of grants. The essential selection and award criteria for the award of grants as laid down in the practical guide (PRAG) to contract procedures for EC external aid should apply. The detailed selection and award criteria for the award of grants will be laid down in Call for proposals–Application Pack (Guidelines for applicants).

Tentative Timetable and indicative amount of the call for proposals for Priority 1: Fostering cross-border economic, environmental and social development.

For the budget 2008, the proposition is to launch two calls for proposals, each one including the three measures. The first call for proposals is considered as a “pilot call”. It focuses on small grants and should familiarise the final beneficiaries with CBC procedures and with the axis of the programme. The second call for proposal will have a larger budget and will include “big grants” (max. EUR 200 000).

Call for proposal	Launch	Signature of	Project	Indicative	Indicative	Indicative
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(priority 1)	date	contracts	completion	amount IPA	amount National	amount TOTAL
CIP 1: (all three measures; small grants €20-50,000)	August 2009	January 2010	January 2011	551,250	97,352	648,602
CIP 2: (all three measures; small grants €20-50,000 and big grants €50-200,000)	January 2009	June 2009	June 2010	1,023,750	180,798	1,204,548
TOTAL				1,575,000	278,150	1,853,150

2.3.2. Priority 2: Technical Assistance

TA funds (10% of the Community contribution) will be used to support the activities of the Operating Structures and the Joint Monitoring Committee. The TA funds can be used to cover the costs of management and implementation of the programme in each participating country. These may include, inter alia, the following costs:

Support to the Operating Structures and the Joint Monitoring Committee;

- Establishment and functioning of the Joint Technical Secretariat and its antennae, including cost of staff with the exclusion of salaries of public officials;
- Expenses for participation in different meetings related to the implementation of the programme;
- Administrative and operational costs, including the costs of preparation, monitoring and evaluation of programmes, appraisal and selection of operations, the organisation of meetings related to the programme, translation, information and publicity costs.

According to article 90(2) of Regulation (EC) No 718/2007 (IPA Implementing Regulation) the TA priority, as any priority of the CBC programmes, requires 15% co-financing from national funds.

Considering that the relevant national authorities that is the two National Operating Structures for CBC enjoy a *de facto* monopoly situation (in the sense of Art. 168, paragraph 1, subparagraph c of the Implementing rules to the Financial Regulation) for the implementation of the cross-border programme, individual direct grant agreements without call for proposals for the amount provided under the TA priority shall be established between the Commission (EC Delegations) and the respective national authorities.

Subcontracting of the activities covered by the direct grant agreement (e.g. TA, evaluation, publicity, etc.) is possible in line with Article 120 (1) of the Financial Regulation and Article 184 (1) of the Implementing rules to the Financial Regulation.

The direct grant agreements can be signed as soon as the Financing Agreements are concluded (1st semester 2009).

2.4. Overview of past and on-going CBC experience, including lessons learned and donor co-ordination

So far, the cross-border initiatives in the eligible area have mainly been targeting environmental issues and have been particularly concentrated in the southern part. Although the region already has a lead in establishing a joint management of trans-boundary natural resources, the overall cross-border cooperation is still at a low level.

The cross-border cooperation dynamic between the former Yugoslav Republic of Macedonia and Albania was initiated in 1997-1999 by the Pharc multi-country programme CREDO, which aimed at promoting good neighbour relation, social stability and economic development in the border region. The programme provided funds for the implementation of cross-border projects in the area of environment, NGO collaboration and local administrations.

Although the Euro-region Prespa-Ohrid is not yet legally established in all participating countries, it is a major step towards integrated regional development in the southern part of the cross-border region. Supported by the European Council, East-West Institute and some other partners, the establishment of the Euro-region is undoubtedly encouraging the partnership relations between the two countries. Within the frame of the Euro-region project, East-West institute already launched two small calls for proposals for cross-border cooperation projects (in 2004 and 2006), thus participating in building the capacities of the beneficiaries.

The Lake Ohrid Conservation Project is often considered to be a model of integrated management of trans-boundary water resources. In 2004, the governments of the two countries signed an agreement for "the protection and sustainable development of Lake Ohrid and its watershed". The existing joint structures, as well as the bilateral agreement, provide a good frame for further cross-border initiatives.

Supported by UNDP and still at a starting phase, the Trans-boundary Prespa Park Project includes the former Yugoslav Republic of Macedonia, Albania and Greece. It is another pioneer cross-border initiative in the area of natural resources management.

The Regional Environmental Centre (REC) supports a cross-border initiative between Debar in the former Yugoslav Republic of Macedonia and Peshkopia in Albania. The project trains local decision makers and relevant experts to identify and prepare environmental investment projects and to create professional financing applications. Priority problems concern water supply and collection and discharge of wastewater.

The Inter-church Organisation for Development Cooperation (ICCO - Netherlands) supports regional cross-border cooperation and networking of civil society in the northern part of the cross-border region. This programme aims at improving the cross-boundary cooperation by increasing the cooperation between the local authorities and civil society organisations and by increasing the organizational capacities of the relevant civil society organizations.

An OSCE initiative tries to facilitate partnerships and identification of cross-border projects in the northern part of the cross-border region.

2.4.1. *Lessons learned*

Most of the cross-border initiatives started only recently, making it somewhat premature to define "lessons learned". However, the following points can be highlighted:

- Most of the presently implemented projects are focused on environment protection issues. These projects reflect the priorities defined by the national and regional

institutions, providing for a sound embedding in local and national development priorities. However, it is important to strongly associate civil society and private sector in programme development. Despite some bias towards the 'formal government' policies in the present projects, they do provide a good frame for the development of civil society and NGOs partnerships across the border.

The small calls for proposals for cross-border actions already launched showed a low capacity in project preparation of most of the final beneficiaries. This could impede the implementation of the programme, particularly in the northern part where almost no initiative has been implemented so far (with the exception of the axis Debar-Peshkopia). Specific training of potential applicants will be essential throughout the programme.

- A few municipalities, mainly located in the south, have had a leading role in the past and current cross-border initiatives. These municipalities should have a key role when implementing the programme (transfer of know-how, etc.).
- Establishing operational and sustainable cross-border partnerships will be a challenge for most of the beneficiaries. Specific support will certainly be required in order to facilitate the communication and the establishment of viable cross-border partnerships.

2.4.2. Donor's coordination

During the previous IPA committees, the Member States clearly indicated their wish that their embassies as well as the local branches of the IFIs and the civil society be consulted on the IPA programming documents. These consultations were already carried out in the former Yugoslav Republic of Macedonia during the drafting process of the MIPD 2007-2009.

After the draft CBC programme was submitted to the Commission, the EC delegations circulated it to the Member States embassies and local branches of IFIs in the capitals of the countries. The comments received have been taken into account in finalising the cross-border programme.

2.5. Horizontal issues

2.5.1. Equal opportunities and non-discrimination

Abiding by the legal obligations in both countries, the programme will ensure equal access to the programme's activities by all different groups in society. In particular, measure three will foster social cohesion and cultural exchange through people-to-people and institution-to-institution actions through support to the social integration of the marginalized groups, unemployed, rural youth, women labour force, etc.

2.5.2. Support to minority and vulnerable groups

The measure three of priority one aims at developing and implementing programmes for social integration of vulnerable groups such as unemployed, rural youth and women labour force. Most of the cultural actions to be implemented under this measure aim at valorising the multiethnic feature of the region, considered as an asset for the economic and social development. Participation of the minorities and vulnerable groups in the cross-border activities will therefore be highly encouraged.

2.5.3. Environmental protection

The measure two of priority one is entirely dedicated to environmental protection. The aim of the proposed activities will be to raise awareness on environmental issues and to encourage

the private sectors and small municipalities to participate more actively in the dynamic already launched at the institutional level.

2.5.4. *Good governance, with particular attention to fight against corruption.*

Especially through measure one, but also relevant in the other measures, support will be provided to the development of inter alia good practices and strategic plans, ..., transfer of know-how as well as facilitation of trans-boundary cooperation. In addition, measure two will stimulate cooperation between different national and municipal authorities to establish joint environmental policies and pilot programmes, while the inclusion of the civil society in these activities will be further enhanced.

2.6. **Conditions**

The NIPAC in the former Yugoslav Republic of Macedonia has designated the Ministry of Local Self Government as CBC coordinator. The Ministry has, therefore, assumed the role of Operating Structure. Under its authority, a first shadow "Joint Monitoring Committee" was convened in December 2007 with the participation of the Ministry of European Integration of Albania. Rules of procedures for the structures to set up for the implementation of the CBC were discussed.

2.7. **Benchmarks**

	N(1) (2009)	N+1 (2010) (cumulative)	N+2 (2011) (cumulative)
Number of direct grant agreement in the former Yugoslav Republic of Macedonia	1		
Number of direct grant agreement in Albania	1		
Number of joint calls for proposals launched	2		
Contracting Rate (%) in the former Yugoslav Republic of Macedonia	10 % (2)	100 % cum	
Contracting Rate (%) in Albania	10 % (2)	100 % cum	

(1) n being the date of conclusion of the Financing agreement

(2) In 2008 the TA (EUR 206,250) will be implemented through a direct agreement. This is explained in the CBC Programme itself

2.8 Roadmap for the decentralisation of the management of EU funds without ex ante controls by the Commission

A roadmap with indicative benchmarks and time limits to achieve decentralisation without ex ante controls by the Commission will be developed once the Commission has conferred the management powers to the national authorities.

Concerning the indicative roadmap for decentralisation with ex-ante control (DIS), the situation is the following:

In the case of the former Yugoslav Republic of Macedonia, the establishment of the management and control system was decided by the Government in December 2006. The National Fund (NF) and the Central Contracting and Financing Unit (CFCU) were established and the Programme Authorising Officer (PAO), the Competent Accrediting Officer (CAO) and the Senior Programme Officers (SPOs) have been nominated. As a first step, in 2005 a gap assessment related to the decentralisation of the management of EU funds was initiated and the results have been presented to the Commission. An update of the gap assessment to comply with the new IPA Implementing Regulation has been prepared in the first half 2007 and, subsequently, the National Authorities have submitted a Gap assessment report. In a subsequent step, gap plugging has been done during the second half 2007/beginning of 2008. After a self assessment exercise performed by the National Authorities until April 2008 to verify that the system is functioning and complying with the IPA regulation, the compliance assessment phase carried out by an external auditor took place in June 2008. Depending on eventual findings the NAO would then have to start to compile the application package. The Macedonian action plan foresees to submit the application for the conferral of management before the end of 2008

In Albania, the Council of Ministers adopted in September 2007 a Decision on setting up the structures, authorities and responsibilities for IPA implementation under Decentralised Implementation System (DIS). In November 2007, the Ministry of Finance transmitted a proposal for the functioning of the Central Financing and Contracting Unit (CFCU) to DG Elarg which provided comments and advice on this draft proposal. SIGMA will assist the Albanian authorities in the DIS accreditation process until the implementation of a Technical Assistance project under IPA 2007 starts.

3. BUDGET FOR 2008

3.1. Indicative 2008 financial table for the former Yugoslav Republic of Macedonia

	EU – IPA assistance		National Contribution		Total (IPA plus National Contribution)	
	EUR	%	EUR	(%)	EUR	(%)
Priority axis 1	900 000	85	159 000	15	1 059 000	90
Priority axis 2	100 000	85	18 000	15	118 000	10
TOTAL	1 000 000	85	177 000	15	1 177 000	100%

3.2. Indicative 2008 financial table for Albania

	EU – IPA assistance		National Contribution		Total (IPA plus National Contribution)	
	EUR	%	EUR	(%)	EUR	(%)
Priority axis 1	675 000	85	119 150	15	794 150	90
Priority axis 2	5 000	85	13 250	15	88 250	10
TOTAL	750 000	85	132 400	15	882 400	100%

3.3. Principle of co-financing applying to the projects funded under the programme

The Community contribution has been calculated in relation to the eligible expenditure, which for the cross border programme between the former Yugoslav Republic of Macedonia and Albania is based on the total expenditure, as agreed by the participating countries and laid down in the cross-border programme.

The provisions of Article 90 of the IPA Implementing Regulation apply.

4. IMPLEMENTATION ARRANGEMENTS

Both countries will be managing the programme according to the centralised management¹ model. The programme implementing provisions are based on the principle of both beneficiary countries being equal partners and with both beneficiary countries having an equal role in the cross-border cooperation management structures. The joint management of the programme will ensure local ownership, wider involvement, better planning and will create the base for genuine cross-border activities.

4.1. Method of Implementation

This programme shall be implemented on a centralised basis by the European Commission in accordance with Article 53a of the Financial Regulation² and the corresponding provisions of the Implementing Rules³.

In the event of centralised management the role of the Commission in the selection of operations under a cross-border programme among beneficiary countries is specified in Article 140 of the IPA Implementing Regulation.

4.2. General rules for Procurement and grant award procedures

Procurement shall follow the provisions of Part Two, Title IV of the Financial Regulation and Part Two, Title III, Chapter 3 of its Implementing Rules as well as the rules and procedures for service, supply and works contracts financed from the general budget of the European Communities for the purposes of cooperation with third countries adopted by the Commission on 24 May 2007 (C(2007)2034).

Grant award procedures shall follow the provisions of Part One, Title VI of the Financial Regulation and Part One, Title VI of its Implementing Rules.

Where appropriate, the Contracting Authorities shall also use the standard templates and models facilitating the application of the above rules provided for in the "Practical Guide to contract procedures for EC external actions" ("Practical Guide") as published on the EuropeAid website⁴ at the date of the initiation of the procurement or grant award procedure.

¹ For both countries the objective is decentralised management. The former Yugoslav Republic of Macedonia is in the process of preparing the accreditation of the management structures. This process is expected to be completed in 2008 and the country will then shift to decentralised management. A similar course of action also started in Albania.

² OJ L 248, 16.9.2002, p.1. Regulation as amended by Regulation (EC, Euratom) No 1995/2006 (OJ L 390, 30.12.2006, p.1).

³ OJ L 357, 31.12.2002, p. 1 Regulation as last amended by Regulation (EC, Euratom) N° 478/2007 (OJ L 111, 28.04.2007, p.13)

⁴ current address:

http://ec.europa.eu/europeaid/work/procedures/implementation/practical_guide/index_en.htm

4.3. Environmental Impact Assessment and Nature Conservation (where appropriate)

All investments shall be carried out in compliance with the relevant Community environmental legislation and ensuring application of the European principles for the Environment⁵.

The procedures for environmental impact assessment as set down in the EIA-directive⁶ fully apply to all investment projects under IPA. If the EIA-directive has not yet been fully transposed, the procedures should be similar to the ones established in the above-mentioned directive."

If a project is likely to affect sites of nature conservation importance, an appropriate nature conservation assessment shall be made, equivalent to that provided for in Article 6 of the Habitats Directive must be documented⁷.

5. MONITORING AND EVALUATION

5.1. Monitoring

The implementation of the cross-border programme will be monitored by the joint monitoring committee referred to in Article 142 of the IPA Implementing Regulation, established by the participating beneficiary countries, which include representatives of the Commission.

In the former Yugoslav Republic of Macedonia and in Albania, the Commission may undertake any actions it deems necessary to monitor the programme concerned.

5.2. Evaluation

Programmes shall be subject to evaluations in accordance with Article 141 of the IPA Implementing Regulation, with an aim to improve the quality, effectiveness and consistency of the assistance from Community funds and the strategy and implementation of the cross-border programmes.

6. AUDIT, FINANCIAL CONTROL, ANTIFRAUD MEASURES

The accounts and operations of all parties involved in the implementation of this programme, as well as all contracts and agreements implementing this programme, are subject to, on the one hand, the supervision and financial control by the Commission (including the European Anti-fraud Office), which may carry out checks at its discretion, either by itself or through an outside auditor and, on the other hand, audits by the European Court of Auditors. This includes measures such as ex-ante verification of tendering and contracting carried out by the Delegations in the Beneficiary Countries.

⁵ See <http://www.eib.org/in/locentre/epw/>

⁶ Council Directive 85/337/EEC of 27 June 1985 on the assessment of the effects of certain public and private projects on the environment (OJ L 175, 5.7.1985, p. 40. Directive as last amended by Directive 2003/35/EC, OJ L 156, 25.6.2003, p. 17.

⁷ Council Directive 92/43/EEC of 21 May 1992 on the conservation of natural habitats and of wild fauna and flora (OJ L206, 22.7.1992). Directive as last amended by Regulation (EC) No 1882/2003 (OJ L284, 31.10.2003, p. 1)

In order to ensure the efficient protection of the financial interests of the Community, the Commission (including the European Anti-Fraud Office) may conduct on-the-spot checks and inspections in accordance with the procedures foreseen in Council Regulation (EC, Euratom) 2185/96⁸.

The controls and audits described above are applicable to all contractors, subcontractors and grant beneficiaries who have received Community funds.

7. LIMITED CHANGES

Limited changes in the implementation of this programme affecting essential elements listed under Article 90 of the Implementing Rules to the Financial Regulation, which are of an indicative nature⁹, may be undertaken by the Commission's authorising officer by delegation (AOD), or by the Commission's authorising officer by sub-delegation (AOSD), in line with the delegation of powers conferred upon him by the AOD, in accordance with the principles of sound financial management without an amending financing decision being necessary.

⁸ Council Regulation (EC, Euratom) 2185/96 of 11 November 1996, OJ L 292; 15.11.1996; p. 2.

⁹ These essential elements of an indicative nature are, for grants, the indicative amount of the call for proposals and, for procurement, the indicative number and type of contracts envisaged and the indicative time frame for launching the procurement procedures.